The Malthusian theory of economic development:

Thomas Robert Malthus, with whose name the famous Malthusian theory of population is associated showed more appreciation than most of his contemporaries of the importance of distinct and systematic theory of growth. One of the leading economists of the classical school, Malthus made some significant contributions to the understanding of the subject of growth. These focused on the demand aspect of capital accumulation, population, growth nexus, and the underdeveloped state of some countries. His ideas about economic development are found in Book II entitled "The progress of wealth" of his "Principles of political economy" published in 1820.

Concept of development:

Malthus did not regard the process of economic development as automatic. Rather, it requires consistent efforts on the part of the people. He did not conceive of any movement towards the stationary state but emphasized that the economy reached the slump many times before attaining the optimum level of development. Thus for him the process of development was one of ups and downs of economic activities rather than smooth.

Malthus was concerned with the progress of wealth of a country. By progress of wealth, he meant economic development which could be achieved by increasing the wealth of the country. The wealth of the country depends partly upon the quantity of produce obtained by its labour, and partly upon the valuation of this product. But, "wealth of the country does not always increase in proportion to the increase in value, because an increase in value may sometimes take place under an actual diminution of commodities".

Population growth and economic development:

In his principles of political economy Malthus was more realistic in his analysis of population growth in the context of economic development than in his essay of population. According to him, population growth by itself is not sufficient to bring about economic development. Rather, it is the result of the development process. As Malthus wrote: "An increase of population cannot take place without proportionate increase of wealth". As the rate of capital accumulation increases, the demand for labour also increases. This encourages population growth. But mere population growth does not increase wealth. Population growth increases wealth only if it increases effective demand, and, it is increase in effective demand which leads to increase in wealth.

Role of production and distribution:

Malthus regarded production and distribution as, "the two grand elements of wealth". If they are combined in right proportions, they can increase the wealth of a country in a short time. But, if they are taken separately or combined in undue proportions, they may take many thousands years to increase wealth. So, Malthus emphasizes maximum production and optimum allocation of resources for increasing the wealth of a country during the short run.

Factors in economic development:

Malthus defined the problem of economic development on to explaining the difference between potential gross national product (power of producing riches) and actual gross national product (actual riches). But the principal problem is one of achieving a high level of potential gross national product.

According to Malthus, the size of potential gross national product depends upon land, labour, capital and organisation. When these four factors are employed in right proportions they maximize production in the two major sectors of the economy- the agricultural and industrial sector. It is the accumulation of capital, the fertility of the soil, and technological progress that lead to increase in both agricultural and industrial production. Besides this, Malthus also emphasized the importance of non-economic factors in economic development," which come under the head of politics and morals". They are security of property, good constitution and excellent laws properly administered and hard working and regular habits general rectitude of character.

Process of capital accumulation:

Of all the factors it is the accumulation of capital which is the most important determinant of economic development. The source of capital accumulation is higher profits. Profits come from savings of capitalists, not from workers, because workers are too poor to save. If capitalists save more and spend less on consumer goods in order to have larger profits, economic growth will be retarded. In fact, Malthus suggested a concept of the 'optimum propensity to save'. To Malthus this means, "Savings from the stock which might have been destined for immediate consumption and adding to that which is to yield a profit". Thus he concludes that, "Saving pushed to excess would destroy the motive to production".

Deficiency of effective demand:

This view of Malthus is based on his denial of Say's law of market and deficiency of effective demand. Malthus does not agree with Say that there cannot be general over-production or glut in the market. According to him, it is not at all true that commodities are always exchanged for commodities. In fact, the great mass of commodities is exchanged directly for labour rather than for commodities. Since workers, who are consumers, receive less than the value of the product they produce, they cannot buy all commodities. Thus there is an excess supply of commodities in the market in relation to the demand. This gap between supply and demand cannot be filled even by the demand of capitalists. Capitalists believe in parsimony (extreme care in spending) and "deprive themselves of their usual conveniences and luxuries to save from their revenue and add to their capital". By being, parsimonious, they employ more productive workers who are consumers, and, in turn, are not able to buy all commodities they produce. Thus there is general over-production and glut of commodities in the market due to the deficiency of effective demand or under-consumption. This leads to fall in prices, profits, saving, investment and capital accumulation.

Economic stagnation:

Malthus believed that the supply of labour is inelastic in the short-run. He wrote, "from the nature of population, an increase of labourers cannot be brought into the market in consequence of a particular demand. But the supply of capital can be increased faster than the increase of labour. The increasing competition in the labour market leads to rise in wages which do not increase effective demand because workers prefer leisure to increased consumption. So there may be general glut or over supply of goods in the market. It consequently leads to fall in prices, saving, investment and profits. It restricts both the power and motive of capital accumulation. It is, thus, the under consumption or glut that leads to economic stagnation.

Measures to promote economic development:

Malthus made several policy recommendations to promote economic development. The main recommendations are as follows:

1. Balanced growth:

According to Malthus, the economy of a country is divided into two main sectors, that is, industrial sector and agricultural sector. It is the technological progress which can lead to rapid economic development in both economic development starts with capital investment in agricultural sector. The investment in agriculture continues till all the cultivable land is brought under agriculture and the agricultural sector starts yielding profits. However, soon the law of diminishing returns begins to apply and there is sharp decline in profits and there is an increase in unemployment. In order to avert this situation, Malthus suggested introduction of land reforms in agriculture. Lands reforms confer ownership rights on the actual tillers of the soil, which is an incentive to raise output. But this is a temporary measure. In order to put a break on the operation of the law of diminishing returns, Malthus suggested heavy capital expenditure and rapid technological progress in industrial sector. In this way, most of the population will be absorbed in industrial sector. The cost of living of workers on the land will be reduced permitting reduction in their wage rates. It will also lead to increased profits. In this way, Malthus favored balanced growth of both the sectors. If any of the two sectors fail to grow for whatever reasons the other sector also finds it difficult to expand. In the words of Malthus, economic development means the balanced growth of both the sectors.

2. Raising effective demand:

According to Malthus, technological progress alone cannot lead to economic development of a country unless effective demand increases. Thus, an increase in effective demand is essential. The limited effective demand in less developed countries prevent their economic development. Malthus suggested the following measures for increasing effective demand:

a. Equitable distribution of wealth and landed property:

According to Malthus, "Thirty or forty proprietors with income averaging between one thousand and five thousand a year would create a much more effective demand for wheat, bread, good meat and manufactured products than a single proprietor possessing hundred thousand a year". Thus, Malthus believed that moderately rich people can raise effective demand more than one millionaire among the poor masses. In this way, Malthus favored equitable distribution of wealth and landed property for increasing effective demand. It will also increase production.

b. Expansion of the internal and external trade:

Another important measure of increasing effective demand is the expansion of internal and external trade. According to Malthus, "it is the internal and external trade that increases wants and desire to consume which are absolutely necessary to keep up market prices of commodities and prevent the fall of profits".

Expansion of the internal and external value of products and widens the scope of the market.

c. Maintenance of unproductive consumers:

Another measure of increasing effective demand is the maintenance of unproductive consumers. Unproductive consumers are those persons who do not produce material objects. It is the under-consumption which leads to gluts and economic stagnation. Production depends on consumption, if consumption increases, production would also increase, which leads to increase in effective demand.

d. Public works schemes:

Malthus emphasized the need for public works schemes for removing unemployment and increasing the effective demand. Malthus pointed out, "the employment of the poor people on roads and public works and a tendency among landlords and persons of property to build, to improve and beautify their grounds and to employ workmen and menial servants are the means to remedy the evils arising from that disturbance in the balance of produce and consumption".

However, Malthus himself noted two weaknesses of this measure. Firstly, it might prevent workers from gradually accommodating themselves to a reduced demand. In this connection he suggested that this weakness can be removed by giving low wages to workers. Secondly, it would lead to increase in taxes so as to finance public works. It would affect the private investment adversely, that is, it would reduce private investment. But this weakness was in fact the advantage of public works because it would not have the tendency to diminish capital employed to productive labour.

3. Keep the population under control:

According to Malthus population tends to grow faster than food production. Food production increases in arithmetical progress (1,2,3,4,5,6,7,………so on) while the population has a universal tendency to grow in geometrical progression (1,2,4,8,16,32,64………so on). Population has a tendency to double itself every 25 years. Food production and population growth are affected by independent factors. Food production is influenced by the law of diminishing returns. In the race between food production and population growth, the food production is thus is left far behind. There arises, therefore, disequilibrium between food production and population growth. This disequilibrium adversely affects the economic development of a country.

Due to the disequilibrium or the imbalance between food production and population growth, the increasing population cannot be maintained at the existing level. There arises starvation and undernourishment on a large scale. Famines, epidemics, floods, earthquakes, wars, and other natural calamities take a heavy toll of human life. Malthus referred to these calamities as "positive checks". These positive checks take away the excessive population and restore the equilibrium between food production and population growth. The positive checks are also called the "natural checks". Since they are applied by nature only when man fails to check the excessive growth of population through his own efforts. Man could avert the positive checks by resorting to what Malthus called "preventive checks". The preventive checks are man-made checks and consist of artificial devices, such as, celibacy, late marriages, moral restraints, etc., to keep the population down to reasonable levels. If man applies the preventive checks, the equilibrium between food supply and population will be maintained and there will be no need for nature to apply its own checks. Preventive checks are thus, better than positive checks which take such a heavy toll of human life. Thus, for economic development it is essential that the growth of population is kept under control.

Critical appraisal:

Malthus is regarded as a predecessor of Keynes. Keynes has rightly "claimed Robert Malthus as the first of the Cambridge economists. It was Malthus who condemned Say's law of markets and laid emphasis upon the role of effective demand in the process of economic development. He brought out the factors which accelerate and retard economic growth. He pointed out the contribution of technological progress equitable distribution of wealth and landed property, internal and external trade, maintenance of unproductive consumption, balanced growth, public works schemes and good administration etc. these measures have come to be recognized as the main planks of modern economic growth.

However, despite these virtues, Malthusian theory of economic development has certain weaknesses and thus, is subject to the following criticisms:

1. Unproductive consumers retard economic progress:

Malthus has suggested that unproductive consumers try to overcome under consumption and increase effective demand. As a matter of fact, such a measure retards economic progress. This remedy is tantamount to giving doles to workers and deliberately supporting idle, lazy and inefficient persons. Actually, such a measure slows down the rate of capital accumulation.

2. Negative view of capital accumulation:

Malthus has taken negative view of capital accumulation. Capital accumulation leads inherently to secular stagnation is not correct. Really speaking, capital accumulation does not lead to a reduction in demand for consumer goods and decrease in profits. The fact is that when capital accumulation increases, the share of wages, profits and aggregate national income increases and all these factors increase demand for consumer goods.

3. Secular stagnation not inherent in capital accumulation:

According to Malthus, the process of capital accumulation leads inherently to secular stagnation. However, it is a wrong conception for Malthus, there is a possibility of a permanent under-consumption of all commodities. But the fact is that under-consumption is not a permanent phenomenon but a temporary one. Hence, secular stagnation is not inherent in capital accumulation.

4. Exchange of commodities for commodities:

Malthus does not agree with Say's argument that commodities are not exchanged for commodities but they are exchanged for labour. In fact, labour is not a correct measure of commodities. In fact, commodities are measured by real tangible prices and not by labour.

5. Wrong saving base:

According to Malthus, it is only landlords who save. However, it is one-sided. The fact is that main source of savings in society is the wage earners and not profit earners.

6. Increase of population retards economic development:

According to Malthus, increase in population is always harmful and retards economic development. But this view has been criticized by modern economists.
Actually we can divide the countries of the world into two categories on the basis of population:

1. Over-populated countries
2. under populated countries

Increase of population is harmful for an over populated country, which will retard economic development. But increase in population is not harmful in an under populated country. Increase in population in an under populated country actually stimulates the rate of its economic growth, raises the income per capita of the people and stimulates economic development.

Conclusion:

In conclusion, one can say that, in his 'theory of economic growth' Malthus has laid emphasis on under consumption or the deficiency of effective demand which leads to gluts in the economy, which is the main cause of underdevelopment. For rapid economic development, Malthus suggested maximizing production both in agricultural and industrial sectors of the economy, and therefore, state should emphasize technical progress, equitable distribution of wealth and land, expansion of internal and foreign trade, increase in consumption of consumer goods and in employment opportunities through public works schemes and also control on the population growth. It has also to take into account the consideration of non-economic factors f economic development for enhancing the growth of the economy. Thus Malthus has made valuable contribution in the field of economic growth and development.

<u>Malthusian theory and its applicability to underdeveloped countries:</u>

Malthus who has done the pioneer work in the field of economic development has mentioned the factors of economic development and the causes of backwardness of an underdeveloped country in his principles of political economy'. He pointed out the various reasons of economic backwardness of the underdeveloped countries like Spain, Portugal, Hungary, Asia, Africa and Latin American countries. In view of applicability, his theory of economic growth is more relevant to poor countries of today than the theories of other classical economists. According to Malthus, the under-developed countries are dual economies, where the agricultural sector retards the development of the industrial sector, because the former operates subject to the law of increasing returns. His division and analysis of an underdeveloped economy is rather realistic. Similarly, his analytical approach to study the causes of poverty in the poor economies is also highly realistic. Similarly, his analytical approach to study the causes of poverty in the poor economies is also highly realistic even in the modern times. His explanation regarding the relation between population growth and economic development is also applicable to the present-day poor economies.

But it is a fact worth nothing that the Malthusian theory of economic development has also certain aspects which are not applicable to underdeveloped countries. Firstly, his concept of 'under-consumption' is not applicable to underdeveloped countries. Secondly, Malthus's view that the deficiency of effective demand was due to parsimony of capitalists, and its remedy was 'unproductive consumption' both on the part of capitalists and workers are not applicable to the underdeveloped and poor countries.