Malthus and the Theory of Gluts

Reading worksheet / October 13, 2026 01 HL ch. 4, pp. 83–89

Instructor copy. Suggested answers; accept equivalent explanations.

A1 Two recessions Malthus lived through

Lecture

Before Malthus, nobody had a theory of a general depression. Fill in the table from lecture.

	South Sea Bubble	Post-Napoleonic depression
Year(s)	**1720**	**1815–1820**
Trigger	Speculative mania in South Sea Company shares, government-backed, collapsed when trade profits failed to appear.	End of war: demobilized soldiers, cheap European imports, Corn Laws raising food prices, return to gold and deflation.
Who got hurt	Investors, including aristocrats and government members; capital dried up for years.	Agricultural and textile workers; mass unemployment, poverty, unrest (Peterloo, 1819).

A2 Two periods, two Malthuses

HL pp. 71, 83

Malthus's first period (1790s) produced the **population** theory. From 1814 his chief concern shifted to the **Corn** Laws and the struggle between **landlords** and **capitalists** . The theory of gluts belongs to this second period and appears in his ***Principles of Political Economy*** (1820).

A3 The callback to Smith

HL p. 83

Smith said competition pushes market price toward natural price. Malthus disagreed. He wrote that "the worth of a commodity . . . is its **market** price, not its **natural** price" (p. 83).

Why does that disagreement matter for a theory of depressions? One or two sentences.

If market prices can sit below natural prices for a long time, goods go unsold and producers cannot cover costs. That is a general glut, which Smith's framework rules out.

A4 Vantage point

HL p. 79; lecture

Smith and Ricardo looked at the economy from the side of **production** . Malthus looked from the side of **exchange** — the circulation of money and commodities. HL say this is why he could see gluts that the others could not.

Keep in view. Malthus is the first classical economist to say that an entire economy can produce more than it can sell. Everything on the next two pages is his attempt to explain why.

The mechanism

Effectual demand, the three classes, and the gap — 02 HL pp. 83–86

B1 Effectual demand

HL p. 83

For every commodity to be sold at its natural value, there must be an **effectual** money demand equal to that value. Each period, total **costs** of production equal total **income** paid out, so all three classes together must be *willing and able* to **spend** it all. In modern terms (HL p. 83): aggregate supply equals aggregate demand only if **investment** equals **saving** .

B2 Who spends what

HL p. 85; lecture

Fill in how each class earns and spends.

Class	Income	Spending habit
Laborers	**wages**	Spend everything on subsistence; nothing left to save.
Capitalists	**profits**	Save and accumulate; consume little (p. 85).
Landlords	**rent**	Gentlemen of leisure; spend it all, servants included.

Which class is the problem, and why?

Capitalists: they save faster than the national capital can grow (p. 85), so part of income is never spent.

B3 Causes of a general glut

Lecture; HL pp. 85–86

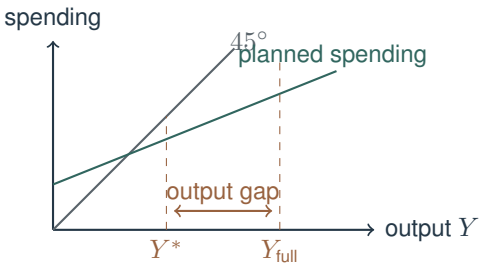
Match each cause from lecture to its mechanism.

Insufficient labor	Capital outgrows the labor force; new workers take “sixteen or eighteen years” (p. 85).
Technical innovation	Labor-saving capital displaces workers faster than new markets appear (p. 86).
Excessive profits	An unsustainable rate of accumulation — HL’s “ultimate cause” (p. 86).

B4 The Keynes sidebar — draw it

Lecture

$Y = C + I + G + NX$ is effectual demand. Draw the $45°$ line and planned spending *below* it at full employment; mark the gap.



Keep in view. Costs are income. If one class saves what it cannot invest, the money stops circulating and goods sit unsold. That is a glut.

The cure, the critic, the contradiction

Landlords, Ricardo's fire, and the fallacy of composition — 03 HL pp. 87–89

C1 Malthus's solution

HL p. 87; lecture

Malthus wrote: "There must therefore be a considerable class of persons who have both the *will* and power to **consume** more material wealth than they **produce** . . . In this class the **landlords** no doubt stand preeminent" (p. 87).

His policy device for getting income to that class was the **Corn** Laws. The landlords would then hire **unproductive** workers (servants) who consume without producing.

C2 Why not raise wages instead? — circle T or F

HL p. 88 — according to Malthus

Claim	T / F
(a) Higher wages would close the demand gap just as well as higher rents.	F
(b) No one employs capital merely for the demand created by his own workers.	T
(c) Higher wages raise costs, lower profits, and destroy the motive to accumulate.	T
(d) Higher rents also raise costs and lower profits by exactly the same logic.	T (HL, p. 88)

HL say the asymmetry between (c) and (d) shows that **class loyalty**, rather than pure logic, determined Malthus's conclusion (p. 88).

C3 Ricardo's fire in the warehouse

HL p. 88

Ricardo replied that a body of unproductive laborers is "just as necessary and as useful with a view to future production, as a **fire**, which should consume in the manufacturer's warehouse the goods which those unproductive labourers would otherwise consume" (p. 88).

State Ricardo's objection in your own words, then say what he is missing.

Ricardo: paying people to consume without producing adds nothing to profit or future output; it is destruction, like a fire. What he misses: if the goods would otherwise go unsold, that "fire" is what lets the capitalist cover costs and keep producing.

C4 The contradiction

HL p. 89

Each capitalist wants his *own* costs **low** and every *other* capitalist's wages and rents **high**. But all capitalists' costs together *are* the **income** that buys their products. HL: "a contradiction between the needs of any capitalist, taken **individually**, and the needs of all capitalists, taken **collectively**" (p. 89). Modern name for this error: the **fallacy of composition**.

C5 Reflection

Think forward — five or six sentences on the back of this sheet

In 2020–21 the U.S. government sent direct payments to households. Is that Malthus's "class with the will and power to consume," or Ricardo's fire in the warehouse? Pick a side.

Keep in view. HL's verdict (p. 89): Malthus saw the aggregate-demand horn, Ricardo the individual-profit horn, and "no such solution was or is possible" until Keynes. Next: Ricardo's own model, where the enemy is the landlord.