

Ricardo on Poverty and Poor Relief: a Comparison with Malthus's View

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ABSTRACT: Ricardo's main subject was the distribution of the national product under the process of economic development, but he did not neglect the problem of poverty. He accepted the conclusion of Malthus on the effects of the Poor Laws to increase poverty instead of reducing it, and the necessity of the repeal of the Poor Laws.

But he emphasized the necessity of gradual abolition of them. He expressed his basic view on poverty in his *Principles*, but he showed his view on the subject more in detail and more specifically in his correspondence with Huches Trower on savings banks. He recognized the important use of savings banks to inculcate in the minds of the labourers prudence, spirit of independence, and forethought which he regarded essential conditions for the repeal of the Poor Laws and improvement of the living conditions of the labourers. Charity must provide for the poverty which might remain after the repeal of the Poor Laws. In fact, Ricardo was very active in voluntary activities contributing to the establishment and management of savings banks and also he ran schools for children of the poor. Poverty was not a minor problem for Ricardo. We examine in detail his correspondence with Trower on savings banks and make a comparison of his view on poverty with that of Malthus and point out some important differences, which reflect the difference between the economic theories they had in mind.

1. Introduction

The industrial revolution began in the latter half of the 18th century England, and since then England made a rapid economic development. It may seem to be paradoxical that an increase of poverty was involved in that process. Certainly, the war with the Revolutionary France may have contributed to the growth of poverty during that period. Nevertheless, it cannot be denied that the economic development itself was a cause of the increase of poverty. In England, from the 16th century there had been the Poor Laws by which the English society provided relief to the poor. The poor rates and the expenditures for the poor relief increased at an incredibly high rate from the late 18th century to the 1810s, during which period the amount of poor rates became quasi 5 times

larger¹. In the face of this rapid growth of the poor rates and expenditures for the poor relief, political economists of the time sought to search for the solution to preventing the growth of the poor rates. The economists had a fear that the poor rates might absorb the whole economic surplus.

It is true that David Ricardo was interested primarily in the distribution of the national product among the classes of society in the process of economic growth, but he did not overlook the problem of poverty. As he wrote very little about the problem of poverty in his published writings, little is known about Ricardo's ideas on the problem of poverty, but he discussed it considerably in his correspondence with his friend Huches Trower² concerning the savings banks during the period from 1816 to 1817, when the Rose's bill for savings banks was presented and read in the Parliament and passed it³, from which we can know more about his ideas on the Poor Laws and poverty. He was very active in practice in the voluntary activities to reduce poverty; he participated in the establishment and management of three banks for savings for labourers. He also maintained two schools for children of the poor people by his own money.

Poynter (1969) said, 'Ricardo himself did not give more than perfunctory theoretical attention to the question of poor relief; it was not one of the major issues in his debate with Malthus.' (p.239) It is true that poor relief was not the major issue in the controversy with Malthus, but it was a major issue discussed with Trower. They had an intense debate on the problem of savings banks, which was closely related with poverty and its remedies. In what follows, we will examine the discussion between Ricardo and Trower over the savings banks in the correspondence which reveals more specifically Ricardo's view on poverty.

Probably due to the paucity of Ricardo's published writings on poverty, there have been only a few studies on Ricardo's ideas on poverty and poor relief. For example, we can find studies such as Poynter(J.R.)(1969), Cowherd (Raymond G.)(1977), Kanth(Rajani Kannepalli)(1986), Henderson(John P.)(1984)(1997). Almost all of these studies examined Ricardo's arguments in his *Principles of Political Economy* only, but Ricardo also expressed his ideas more in detail on the subject under consideration in his correspondence with Trower on savings banks. Among the few studies the only exception that examined Ricardo's participation in the establishment and management of savings banks is Henderson (1985, 1997). However, Henderson treated very briefly their correspondence on savings banks.

In what follows, I will consider Ricardo's view on poverty and its relief, and in particular, I will examine in detail the correspondence exchanged between Ricardo and Trower on savings banks. Thus, the object of this study is to clarify what Ricardo thought about poverty and poor relief; and

¹ Poynter(1969)

² Huches Trower(1777-1833). He was a stockbroker. He participated in the Bullion Controversy and had an intense debate with Ricardo in the correspondence about savings banks. Ricardo, VI, pp. xxiii-iv.

³ George Rose(1774-1818). He was MP. He supported property tax, and contributed to establish the legal foundations of savings banks and friendly societies(DNB). On the savings banks, he wrote a pamphlet (Rose1817).

after that, I will try to compare it with Malthus's view on the subject of poverty, and I will point out some differences between them.

In the section 2, we will give an illustration of the economic situation in which the controversy on poverty took place in England from the end of the 18th century to the first half of the 19th century; in addition, we will have a look at the current thoughts on poverty. In the section 3, as a preliminary step to the comparison of Ricardo's view on the subject with that of Malthus, I will explain Malthus's ideas on poverty and poor relief taking up his *Essay on Population* and *Principles of Political Economy*. Then in the section 4, we will examine in detail Ricardo's arguments on the subject. In the section 5, we will clarify differences between them on the subject, and we also try to draw out characteristics of Ricardo's view on poverty. In the section 6, some concluding remarks will be given.

2. The Background

In barbarous stages of human society, the weak who could not maintain themselves (the aged, the sick, orphaned children, etc.) and had not anyone who could take care of them were often merely abandoned, because the society with the low level of productivity could not afford to support them. But once a society reached the productivity level capable to produce a surplus with which it could sustain all the members of society including the weak who could not earn the living, generally speaking, any civilized society has maintained the weak people in some way or other. For example, able family members used to work for the rest of the family; if the weak had not family members or relatives who could look after them, they were necessarily obliged to depend on the society. Therefore, the civilized societies have been expected to afford the weak the means to live with.

In advanced countries there were some public or private institutions to provide relief to the poor. From the very early times England had specific laws for the purpose of the poor relief with which she systematically treated the poor. It was a unique relief system of the poor by the special laws usually called Poor Laws. The English Poor Laws appeared towards the end of the 16th century during the reign of Elizabeth I. The Elizabethan Poor Laws which took a systematic shape in 1601, stipulated that; firstly, children without family or relatives capable of taking care of them should be apprenticed; secondly, able-bodied adult men or women out of employment should be offered jobs or materials to work on; thirdly, those not capable to work and earn the living should be given public relief; and fourthly, the poor able-bodied unwilling to work should be punished as criminals⁴. The Elizabethan Poor Laws remained to be the basic law till the New Poor Law was enacted in

⁴ About the Elizabethan Poor Laws, for example, see Nicholls (1904) and Webb(1927). For the general history of the English Poor Laws, for example, see Brundage(2002), and for a more detailed history of the Poor Laws there are Nicholls(1904) and Webb(1927). Bruce(1961) is a history from the old Poor Laws to the welfare state of the 20th century in England. For the history of the ideas of poverty in England see Himmerfarb(1984).

1834⁵, and the poor law administration was carried out on the grounds of the Elizabethan Poor Laws. The administration unit of poor relief was parish, within which the poor rates were assessed, collected, and expended for the relief of the poor settled in the parish. The overseers of the poor were nominated from the substantial independent householders of the parish by the select vestry of the parish and set to the task by the justice of the peace of the district. The overseers of the poor took charge of the burden of assessment, collection of the poor rates and of taking care of the poor without emoluments for one year in rotation. In the early times, as a rule, the relief was to be given the poor taken into workhouses, but as parishes were generally very small with the population size of from 200 to about 800 residents, it was difficult to put into practice the principle of indoor relief. Therefore, very often outdoor relief was given, because it was usually less costly than that in workhouses. As each parish was in charge of the relief of the poor staying therein, there often occurred conflicts between parishes as to which parish had the responsibility to take care of the poor people in need of relief. In 1662 the Law of Settlement was enacted to resolve disputes between parishes. The Law of Settlement worked to restrict transfer of people beyond the parish boundaries in which they had settlement. Adam Smith denounced cruelty of the English Law of Settlement in his *Wealth of Nations* ⁶.

In many cases, the relief was given within the workhouses, into which the paupers were obliged to enter. In the 18th century, there appeared the Knatchbull's Act, which stipulated the rule of indoor relief (that is, each parish could make it a rule to maintain recipients of relief in workhouses). But during the 18th century the practice of giving outdoor relief spread throughout the country. The Gilbert's Act in 1795 formally gave sanction to the outdoor relief and the practice of making up for the wages of a labourer if they were short of the minimum level for the maintenance of him and his family according to the size, composition of the family and the price of bread. The latter practice was called Speenhamland System⁷.

From the mid 18th century to the early 19th century the population of England (and Wales) increased very rapidly; in the year 1750 the English population was about 6 millions, and it went over 9 millions in 1800, reaching 12 millions in 1821⁸. Over the same period, the price of wheat had a tendency to rise. The price of wheat fluctuated between the lowest 34s.8d. a quarter and the highest 54s.9d. from 1776 to 1794, and never reached 60s.. But in 1795 the annual average of the wheat price rose sharply to 75s.2d., due to the failures of crop in the previous consecutive two years. In 1795, after the harvest the price of wheat went up beyond 100s. at a time, and in March 1796, it got to the very high level of 124s. a quarter. Again in 1799, the crop was not good due to the bad

⁵ For the details of the enactment and implementation of the New Poor Law, see Brundage (1978).

⁶ Smith(1976), *Wealth of Nations*, I, p.157. But Smith said nothing about the Poor Laws.

⁷ Cf. Polanyi(1957). Polanyi regarded this practice as having counterbalancing effect against the pressure on the people resulting from the transformation of traditional society into market society in which we live today.

⁸ See Mitchell(B.R.) & Deane(Phyllis)(1971).

weather of that year, and in the next year 1800 the wheat price became over 100s., reaching 134s.8d. in July. After 1800, the wheat price was higher than 100s. in 1810, 1812, and 1813⁹.

The expenditures for poor relief showed a very rapid increase during the period between the late 18th century and the end of the 1810s. In 1776 it was about £ 1.5 million, in 1802-03 £ 4 millions, in 1812-13 £ 6.7 millions, and in 1818 it reached the very high level of £ 8 millions¹⁰. Certainly, a part of the growth of the expenditures was caused by the growth of population and the rise of food prices, but lax practice of outdoor relief was also another important factor, at least so regarded at that time, for the growth of the poor relief expenditures.

In the background of the controversy on the Poor Laws and poverty from the late 18th century to the early 19th century, there was an extremely rapid increase of the outlays for the poor relief and the increase of the poor rates of the same degree. As early as 1786, Joseph Townsend¹¹, took a very negative attitude to the Poor Laws for he had the view that they had a tendency to encourage the increase of population and poverty, emphasizing their harmful effects on morals of the lower classes of society in his *A Dissertation on the Poor Laws: By a Well-Wisher to Mankind*. Townsend's book was reprinted in 1817 in the rise of abolitionist movement of the Poor Laws at that time. Also Edmund Burke, declaring himself a faithful disciple of Adam Smith, denounced the Poor Laws, especially the practice of allowance system in his *Thoughts and Details on Scarcity* in 1795 (Burke 1800). One of the fundamental principles of his social thought was the principle of prescription. On this principle he justified the existence of aristocracy, but he did not apply the same principle to the Poor Laws.

However, we can also find arguments in favour of the Poor Laws during the same period. A most systematic defense of the Poor Laws can be found in William Paley's *The Principles of Moral and Political Philosophy* (2 vols., 1787). William Paley was a well known clergyman and Christian philosopher in the late 18th century England. He lectured moral philosophy at Cambridge University. His book was widely used as textbook in universities and gave a considerable influence on the upper classes of society, namely, the landlords who dominated the Parliament and played the central role in the landed society of the period. He affirmed the necessity of public relief of the poor, on the grounds that the poor had the right to be maintained given by the natural laws because God willed that all the members of society including the poor should be assured the existence. In his view, God admitted the private properties on the condition that all the members of society should be given the means to subsist. He insisted that charity was a moral obligation for everyone, but at the same time he admitted the necessity of legal relief because the poor could not care for themselves while the rich could, and the poor could be assured the means to subsist only by law. Therefore,

⁹ Smart(1910) vol. I, p. 332, and Banres(1961), pp.77-8.

¹⁰ Poynter (1969), p.19, 281.

¹¹ Joseph Townsend (). Clergyman. DNB

they must be relieved by the law¹². We may say that he represented the paternalistic attitude to the poor of the upper classes in that age¹³.

Jeremy Bentham's position on poor relief was a unique one different from the above two contrasting positions. In the 1790s Jeremy Bentham studied the problem of poor relief and wrote many articles on the administration of poor relief, but most of them were not published at the time. But a substantial amount of manuscripts written by Bentham on poverty and poor relief have now been published in *Writings on the Poor Laws*, vol.1 edited by M.Quinn(2001). Bentham got interested in the problem of poor relief when the then Prime Minister Pitt presented a bill to the Parliament to reform the Poor Laws in 1796 which Bentham commented on¹⁴. He approved the necessity of some form of public relief but at the same time he severely criticized the existing system of poor relief for its inefficiency, and designing a plan of unique system of relief he tried to persuade the government to adopt his plan, but failed¹⁵. His ideas concerning the poor relief had a substantial influence on the New Poor Law of 1834¹⁶. Therefore, we will illustrate his ideas on poor relief somewhat in detail.

The first important characteristic of Bentham's idea on poverty is his distinction between poverty and indigence; according to Bentham, poverty is 'the state of everyone who, in order to obtain subsistence, is forced to have recourse to labour'; and indigence is 'the state of him who, being destitute of property(or at least destitute of the species of property necessary to the immediate satisfaction of the particular want by which he happens to be pressed), is at the same time either unable to labour, or unable, even for labour, to procure the supply of which he happens thus to be in want' (Bentham2001, p.3) In Bentham's definition, the poverty is a normal and general state of people and need not be relieved. It is only the indigence that must be taken care of in some way in society.

Bentham justified the public relief of the indigent people as follows. In his view, the aims of the civil law are subsistence, security, abundance, and equality, among which subsistence and security have priority over the other two¹⁷. Private properties are the foundation of civil society, and the acquisition of wealth should be left to the spontaneous will and activities of individuals. But if its consequence is an excessive inequality of the distribution of wealth which cannot warrant the existence for all the members of society, that degree of inequality may jeopardize subsistence (existence) of some members and the security of the private properties; that is, that degree of

¹² Paley (1787), vol. I., p.241, 246. See also Horne (Thomas A.)(1985). William Paley(1743-1805). He graduated from Christ's College, Cambridge as a senior wrangler. He became archdeacon of Carlisle. (DNB)

¹³ On the paternalism in England, for example, see Roberts(1979).

¹⁴ Bentham (1797).

¹⁵ Poynter(1969), p. 142. Poynter examined in detail the Bentham's manuscripts on poor relief in Bentham Papers kept at University College, London.

¹⁶ On his influence on the New Poor Law, see Brundage(2002).

¹⁷ On this point see Bentham, *The Theory of Legislation*.

inequality contradicts the first two aims of the civil law which are more important than abundance and equality. In fact, he says, 'In a civilized political community, it is neither consistent with common humanity, nor public security, that any individual should, for want of any of the necessities of life, be left to perish outright.' (p.10) Charity contributes to the relief of indigence, but it cannot assure the necessary relief for all the indigent. As private charity cannot provide a necessary means of subsistence for all, the objects of relief necessarily must be selected, and the selection may be capricious and not fair. For these reasons, the public relief cannot be got rid of: 'No private fund, that is no fund, depending on the un compulsory contributions of individuals, can, to any sufficient degree of certainty, be so much as kept up to any certain standard, as adjusted to precedent demand, much less predetermined to encrease in exactly the same degree, and at exactly the same time, with every encrease in the demand. ... *No fund therefore, but a public fund, can ever be permanently adequate to the purpose.*' (p.11, emphasis added)

But in Bentham's view, the existing system of poor relief was too much deficient, being administered on local basis and too much deficient. Obviously the existing Poor Laws needed to be reformed entirely. He worked out a plan of efficient relief system based on large scale establishments, in which the indigent should be housed and set to some work according to the ability of each inmate. He emphasized that relief of indigence must be efficient and economical. To realize such a system of relief, he insists, it must be a system based on large scale establishments, only in which the indigent should be given relief. His ideal system was to establish 500 large scale workhouses (or he called industry houses) all over the country, and the workhouses should be managed by the National Charity Company, which was thought to make a contract with the government for the management of workhouses¹⁸. Thus, Bentham designed a centralized relief system with large scale workhouses, by which he believed to be able to realize efficiency and self-sufficiency of poor relief.

Bentham proposed that large scale industry houses (or workhouses) should be established all over the country, in which the indigent should be housed divided according to their condition and ability with which they must do some work. In Bentham's system everyone must work according to his ability. Bentham divided abilities of man in four degrees: that is, utter inability, inadequate ability, adequate ability and extra-ability. Extra-ability is 'the natural and general state of man.' (pp. 5-6) The extra-ability produces a surplus, with which indigence can be relieved. The resources for relief are in the hands of the rich, but they are produced by independent labourers. 'Maintenance afforded at the public charge to indigent individuals, in consideration of their inability, or supposed inability, to provide, by their own labour, for their own maintenance, is therefore afforded at the expense partly of those who labour for themselves, partly of those whose property is derived from

¹⁸ Bentham(2001), p. 144n. Poynter(1969), pp.130-1. For details on the National Charity Company see also Bahmueller(1981).

the labour of those who labour for themselves.’(p.39) If the condition of those individuals supported by public charge should be rendered more eligible (comfortable) than those independent labourers whose labour provides the fund for relief, the incentive to labour of the labourers will be weakened and production of the surplus to maintain the indigent will be diminished. And some of the independent labourers may even become dependent on the public charge. Therefore, the condition of those indigent individuals supported in the large scale establishments must be less eligible than the lowest condition of independent labourers. Relief given to the indigent should be limited to the necessary goods only. (This idea of less eligibility was incorporated in the New Poor Law of 1834.) Bentham writes;

‘If the condition of individuals, maintained without property of their own, by the labour of others, were rendered more eligible than that of persons maintained by their own labour, then, in proportion as the existence of this state of things were ascertained, individuals destitute of property would be continually withdrawing themselves from the class of persons maintained by their own labour, to the class of persons maintained by the labour of others. ... The supplies afforded to persons maintained on the score of indigence, at the public charge, ought not to extend to any species of article, not included in the list of the absolute necessities of life.’ (pp.39-40)

If establishments are large, the small number of establishments will be sufficient, and it will be easier to find competent managers for them. Bentham sought to establish large scale establishments which were managed efficiently and approached the state of economic independence as far as possible, utilizing labour of those kept within. In his plan, education was very important to inculcate the spirit of industry and to raise ability of those maintained, particularly of children. In essence, Bentham wished to establish a system of relief which could support itself and inculcate in the minds of labourers spirit of industry and independence.

Thomas Robert Malthus was a representative figure of abolitionist position of the Poor Laws. Malthus’s view on the problem of poverty expressed in his *An Essay on the Principle of Population* gave a predominant influence on the reforms of poor relief before the New Poor Law of 1834¹⁹. David Ricardo basically agreed with Malthus’s view on the subject, although there were some important differences between them. Therefore, we have to examine Malthus’s view on the problem of poverty and poor relief somewhat in detail in the next section before we proceed to see Ricardo’s view on the subject of poverty²⁰.

¹⁹ Malthus’s view on poverty gave influence on the reforms by Sturges-Bourne(William). Malthus’s view gave influence on the report of the Select Committee of the House of Commons chaired by Sturges-Bourne of 1817. Sturges-Bourne proposed the reforms of the vestry of parish, and were enacted the Parish Vestry Act in 1818 and the Select Vestry Act in 1819. William Sturges-Bourne(1769-1845). He graduated from Christ Church College, Oxford. MP. (DNB)

²⁰ We have examined in detail Malthus’s view on poverty and its relief in Watarai(1997).

3. Malthus's View on Poverty

As is well known, Thomas Robert Malthus's first *Essay on Population* was primarily written in order to refute Godwin's plan of an egalitarian society on the grounds of the principle of population. We can see what he intended in the first *Essay* from the full title of the work, *An Essay on the Principle of Population, as it affects the future improvement of society, with remarks on the speculations of Mr. Godwin, M. Condorcet, and other writers* (1798). Malthus's criticism of Godwin's utopian vision can be placed in the line of Burke's critical examination of the French Revolution. Godwin's idea of egalitarian society was a reflection of the buoyant atmosphere excited by the revolution in France. Burke's and Malthus's arguments provided countervailing effects against that mood. But any egalitarian society actually did not exist at the time in England. Therefore, we may say that Malthus's critique of Godwin was not very important from the point of view of its influence on the politics of the time. However, his criticism of the Poor Laws had a great impact on the policies of the state and the general attitudes of the people towards poverty. The problem of poverty became Malthus's most important theme from the second edition of the *Essay on Population* (1803) onward, and he changed the title of the work to *An Essay on the Principle of Population; or, A View of its Past and Present Effects on Human Happiness; with an inquiry into our Prospects respecting the Future Removal or Mitigation of the Evils which it Occasions*. This title was to be retained until its last 6th edition published in 1826.

Although the problem of poverty was not yet the main subject, already in the first *Essay on Population* Malthus showed almost all his fundamental ideas concerning poverty. As the first step, we will examine the first edition of the *Essay on Population* from the point of view of poverty and poor relief.

According to Malthus, the Poor Laws have the following two effects. Firstly, *the Poor Laws encourage the increase of population without increasing food production at the same time*. As he says, 'Their first obvious tendency is to increase population without increasing the food for its support.' (Malthus 1798, p.83). Secondly, *the Poor Laws will operate to augment the consumption of food by the poor maintained by the poor rates, while they depress the state of independent labourers*.

As to the first effect, we can distinguish two fundamental propositions. The first one is the proposition that *the Poor Laws have a tendency to increase population by weakening the preventive checks*, because the Poor Laws deprive the lower classes of their fear that they may become unable to maintain their own families in future; the second proposition means that *the Poor Laws do not increase the food production by weakening the incentive to work of the labouring classes*. With regards to the first proposition (not effect), Malthus says that the preventive checks operate in every

class of society, but the Poor Laws tend to weaken their effects at least in the lower orders by depriving them of their spirit of independence. 'The love of independence is a sentiment that surely none would wish to be erased from the breast of man: though the parish law of England, it must be confessed, is a system of all others the most calculated gradually to weaken this sentiment, and in the end, may eradicate it completely' (pp. 67-8). If deprived the spirit of independence, early marriages among the lower classes will be encouraged.

Next, as to the second proposition, Malthus maintains that *the Poor Laws transfer income from the rich to the poor without increasing the supply of means of subsistence*. Malthus regards the fear of starvation as the spur to labour in the lower classes. Without the fear of starvation, the incentive of the labourers to work will be so much weakened that they may work less, producing less. In Malthus's opinion, this transfer of income makes the poor have an illusion that their real incomes have increased and they will increase their demand for food, but, in reality, this transfer of income merely raises the food price, because it increases the demand for food without increasing its supply.

But this transfer of income from the rich to the poor may possibly increase the food production, because it increases the demand for food which usually tends to increase the supply. Malthus does not deny the possibility of increase of food production, but he regards only a minimum effect of increase of food production, maintaining that the rate of increase of food production will be smaller than that of the increase of population. 'It will be said, perhaps, that the increased number of purchasers in every article, would give a spur to productive industry, and that the whole produce of the island would be increased. This might in some degree be the case. But the spur which these fancied riches would give to population, would be more than counterbalancing it, and the increased produce would be to be divided among a more than proportionably increased number of people.' (p.77) Thus, Malthus insists that even if there may be some increase of food production, its rate of increase will be lower than the rate of increase of population. Malthus even hints at the possibility of decrease of production.

Malthus further emphasizes that there is an essential difference between food and manufactured goods. While the production of manufactured goods increases with the increase of demand, in case of food the supply does not increase with the demand. Therefore, in the short run, Malthus assumes that the food supply is fixed despite the increase of the demand. As we will see below, while manufactured goods can be augmented with increase of demand as their materials are supplied almost indefinitely, the food supply cannot be increased with ease due to the fact that diminishing returns operate at the advanced stage of cultivation. In fact, he says;

'It should be remembered always, that there is an essential difference between food, and those wrought commodities, the raw materials of which are in great plenty. A demand for these last will not fail to create them in as great a quantity as they are wanted. The demand for food has by no means the same creative power. ... we see how slowly it is answered in all those countries that

have been long occupied.’ (pp. 90-1)

It seems to be Malthus’s firm conviction that the food supply cannot increase in proportion to the increase of demand, because he reiterates it when he criticizes the Poor Laws.

As to the second effect (not proposition) of the Poor Laws, Malthus explains as follows. The dependent poor will get more means to purchase as the result of the transfer of income by the Poor Laws and they will increase the demand for food, but the supply of food does not increase in proportion to it, which will make the price of food rise²¹. The rise of food price will lower the real rate of wages, and the independent labourers will be made poorer (p.84). As we have seen above, the demand for food will increase due to the effect of the Poor Laws to increase population and the transfer of income effect, which will accelerate the decline of the rate of real wages and impoverishment of independent labourers. Thus, ‘I feel no doubt whatever, that the parish laws of England have contributed to raise the price of provisions, and to lower the real price of labour. They have therefore contributed to impoverish that class of people whose only possession is their labour.’(p.86)

Because of the two effects above mentioned, *Malthus concludes that the Poor Laws may be said to increase poverty instead of reducing it*. ‘They may be said therefore in some measure to create the poor which they maintain.’(p.83)

Besides the Poor Laws, there was the Law of Settlement which impeded the labour mobility between parishes. The Law of Settlement operated to hinder labourers’ moving to places where there was more demand for their labour; therefore the law depressed the wages and impoverished them. Thus, the Poor Laws and the Law of Settlement together lowered the rate of real wages and aggravated the distress of the labourers.

As in Malthus’s view the cause of poverty of the lower classes is so deep-rooted in the principle of population that the poverty cannot be eradicated completely, he proposes measures to mitigate or reduce poverty. The first measure which he proposes for the mitigation is the abolition of the existing Poor Laws and the Law of Settlement. Secondly, he proposes to increase agricultural production giving prizes to the development of fresh arable lands and encouraging advancements of agricultural methods. This emphasis on agriculture is derived from his notion of a sort of wages fund consisting merely of food over the consumption of landlords (and capitalists) who employ labourers²². Thirdly, he proposes to establish county (not parish) workhouses for extreme poverty maintained by taxes collected nationally, in which people will be supported in case of emergencies on temporary basis. Parishes are too small to maintain workhouses. He maintains that the treatment

²¹ Malthus(1800) explained the rise of price of provisions in 1800 enhanced by the increase of poor relief, observing the existence of cumulative effect between the price of provisions and the outdoor relief (allowance for the poor).

²² Malthus, *Essay*, 1 st ed, p.206. Here Malthus refers only to the landlords, but obviously the consumption of capitalists also must be taken into consideration.

which people are provided in the county workhouses should not be so liberal as to increase population and they should work if they are able-bodied²³

Malthus opposes public relief except as temporary aids in cases of emergencies in county workhouses. In the first edition of the *Essay on Population*, he opposes private charity as well, because it also has the tendency to increase population without increasing food production in the same way as the Poor Laws under certain conditions. He criticizes private charity also because private charity may give rise to subordination of those who receive alms to those who give them. As the surplus income of the rich is not sufficient for all in want, they must select those to whom to give the alms (pp.291-2).

In the second *Essay on Population*, Malthus comes to propose complete abolition of public relief, and he proposes a specific process for the repeal of the Poor Laws. His proposal is that the relief to the children who will be born after a date fixed by law should be ceased, and that in the end the Poor Laws should be abolished. 'To this end I should propose a regulation to be made, declaring that no child born from any marriage, taking place after the expiration of a year from the date of the law; and no illegitimate child born two years from the same date, should ever be entitled to parish assistance.' (Malthus 1803, p.538). After the abolition of the Poor Laws there may remain poverty, which must necessarily be taken care of by the private charity, but he stresses that the private charity should not be something on which people think to be able to depend always, so that it should not be liberal and constant²⁴.

In the second *Essay on Population*, he introduces moral restraint as an only permanent remedy for the poverty among the lower classes. Malthus regards the moral restraint as the only permanently effective remedy²⁵, and he says, 'This prudential restraint, if it were generally adopted, by narrowing the supply of labour in the market, would, in the natural course of things, soon raise its price.' (Malthus 1803, p.495) Governments cannot reduce poverty in a direct way, but, he maintains, can contribute to the spread of the moral restraint among the poor by providing education to the lower classes, establishing the rights of property and equal laws, and giving the some possibility of participation of lower classes in politics, even though he does not approve the universal franchise. The security of property would excite industry and prudence of the people; equal laws and the participation in politics will generate self-respect, prudence and the spirit of independence among the labourers. Thus, in Malthus's view, the security of property and the participation in politics of the labourers have the tendency to improve the living conditions of the lower orders. In fact, in the third edition of the *Essay* he says as follows;

²³ Malthus, *Essay*, 1 st ed., pp.97-8.

²⁴ Malthus, *Essay*, 2nd ed., Book IV, ch. XI, in particular p.565.

²⁵ The moral restraint is said to have been introduced as a concession to the criticism by Godwin. But it is not important from the point of view of population, because it can be regarded as a sort of preventive check. However, moral restraint is very important for the problem of poverty.

‘The first grand requisite to the growth of prudential habits is the perfect security of property, and the next perhaps is that respectability and importance which is given to the lower classes by equal laws, and the possession of some influence in the framing of them. ... If however the representative system, by securing to the lower classes of society a more equal and liberal mode of treatment from their superiors, gives to each individual a greater fear of personal degradation, it is evident that it will powerfully cooperate with the security of property in animating the exertions of industry, and in generating habits of prudence, and thus more powerfully tend to increase the riches and prosperity of the lower classes of the community, than if the same laws had existed under a despotism’ (Malthus 1806, 2, pp.389-90)

Malthus also emphasizes beneficial effects of education in spreading the moral restraint among the lower classes of society. He points out the reciprocity of the benefits of education; that is, ‘... education is one of those advantages, which not only may share without interfering with each other, but the raising of one person may actually contribute to the raising of others.’ (p.474) Malthus refers to Scotland as an example which shows beneficial effects of education (p.496), and he deplores the state of education of the lower classes in England (p.418). He goes on to say that education should cooperate with ‘good government’ to improve conditions of the lower classes of society. ‘Good government’ probably here means the security of property, equal laws and participation in politics of the lower classes. The ‘good government’ in this sense contributes to the formation of ‘the prudential habits and personal respectability of the lower classes of society.’ (p.423) If it is combined with education, it will intensify the good effects of education.

It may be said that the same effect as that given by the moral restraint can be derived from combinations of labourers. But Malthus points out that combinations among labourers are illegal, and besides, he maintains that combinations among labourers are not effectual in improving the conditions of the labourers as a whole, because there is a fixed quantity of fund for maintaining labourers in any society at a given time, and therefore, if one part of labourers combined get more of it the other part will get less, or (and) may be got rid of completely from employment.

‘But such combinations are not only illegal, but irrational and ineffectual; and if the supply of workmen in any particular branch of trade be such as would naturally lower wages, *the keeping them up forcibly must have the effect of throwing so many out of employment*, as to make the expense of their support fully equal to the gain acquired by the higher wages, and thus render these higher wages in reference to the whole body perfectly futile.’ (Malthus 1817, 3, pp.370-1, emphasis added)

In the first *Essay on Population*, Malthus shows a strong agriculturalist stance with which he estimates agriculture high and undervalues (even deprecates) manufactures because Malthus thinks that the fund for the maintenance of labour consists of food only. He regards manufacturing industries as unwholesome (Malthus 1798, p, 100) and the demand for their products is unstable

because of capriciousness of the tastes for them. He criticizes Adam Smith who represents 'every increase of the revenue of stock of a society as an increase in the funds for the maintenance of labour' (p.303). Here Malthus means that Smith, including manufactured goods in his definition of wealth, regards the increase of wealth as increase of the happiness of people. The agriculturalist bias in Malthus remains unchanged till the fourth edition of the *Essay on Population*. But in the fifth edition of the *Essay*, he changes idea and admits that both agriculture and manufacture are necessary to increase the happiness of labourers. The reason of the change of idea may be that he comes to recognize the following fact; that is, 'The comforts of the lower classes of society do not depend solely upon food, nor even upon strict necessities; and they cannot be considered as in a good state unless they have the command of some conveniences and even luxuries.' (Malthus, 1817,3, pp.10-1). He represents an ideal economy which best promotes happiness of labourers as one consisting of agriculture and manufacture neither of which is not much prevailing over the other (2, p.420). And Malthus defends the Corn Laws which restrict the importation of corn and contribute to approach the independent supply of food of the nation (2, p.476), which, in his view, is necessary to keep the economy near the ideal state of the economy (2, p.47)

In the fifth edition of the *Essay on Population*, Malthus also introduces the idea of general gluts, that is, over-production of all kinds of goods in all the markets at the same time. In consequence of this idea of general gluts, Malthus comes to recognize the efficacy of employing labourers in public works (construction and repair of roads, for example) as a temporary remedy for poverty in the short run in the depressed state of economy caused by excessive saving (saving is always equal to investment in Malthus's theory). Malthus had controversy with David Ricardo about the possibility of general gluts already in the year 1814²⁶. And he presents the idea (not theory) for the first time in public in the fifth edition of the *Essay*. Later the idea of general gluts comes to be developed into a theory in the *Principles of Political Economy* (1st ed., 1820; 2nd ed., 1836).

Malthus's theory of general gluts can simply be stated as follows²⁷. He introduces the distinction of productive labourers and unproductive labourers in the sense of Adam Smith. According to Adam Smith's definition of the term, productive labourers are the labourers who produce material products for markets and unproductive labourers are labourers which do not produce such products (for example, domestic servants, soldiers, civil servants, dancers, university professors, and etc.). If there is excessive saving, the increase of demand for productive labourers exceeds the increase of the supply of labour given by the natural growth of population, and a part of the unproductive labourers will be changed into productive labourers; that is, a part of domestic servants, for example, will become agricultural labourers or manufacturing labourers working in farms or factories to produce material goods destined for the markets. In this case, the expenditures for

²⁶ See, for example, the letter from Malthus to Ricardo on 11 September 1814 and the reply of Ricardo on 16 September 1814. Ricardo VI, pp.130-5.

²⁷ For details see our formulation of Malthus's theory of general gluts in Watari(1988).

consumption by the labourers as a whole does not change or increase only by the amount of reduction of consumption of material goods by the landlords and capitalists (here we assume for simplicity that the labourers do not save), but the expenditures for consumption by the landlords and capitalists are reduced by the amount which is saved and invested. At the same time, production of all material goods is increased by the increase of productive labourers. Prices of goods will decline compared with the rate of money wages, which *means diminution of the effective demand in Malthus's definition of the term*, and the rate of profits will go down to the point at which the capitalists stop expanding production and employing more labour, and a part of labourers will be without employment (1st ed., pp.352-3; 2nd ed., p.314). This state of economy, Malthus calls general gluts, because the supply of every good is in excess of the demand at the same time.

Malthus explains his theory of general gluts as follows, that is, when there is excessive saving;

'In the case supposed there would evidently be *an unusual quantity of commodities of all kinds in the market, owing to the unproductive labourers of the country having been converted, by the accumulation of capital, into productive labourers*; while the number of labourers altogether being the same, and the power and will to purchase for consumption among landlords and capitalists being by supposition diminished, commodities would necessarily fall in value, compared with labour, so as to lower profits almost to nothing, and to check for a time further production. But this is precisely what is meant by the term *glut*, which in this case, is evidently *general* not partial.' (1st ed., p.354; 2nd ed., p.316, emphasis added)

In the above passage, 'the case supposed' obviously means the case in which the saving (= investment) is so much excessive that the demand for labour exceeds the supply to the extent that the natural growth of population cannot make up for the difference between the demand and the supply of labour.

The theory which Malthus has in mind in the above explanation is evidently different from the theory of effective demand which J.M. Keynes developed in the 1930s, in that it assumes that saving is always equal to investment. We may say that Malthus established his own theory different from that of Keynes but consistent in its own way. Malthus's problem was unemployment and he advocated public works as a remedy for it in the short run. Therefore, it is very possible that one may think to have found a Keynesian type theory in Malthus if one reads inadvertently the following passage, for example;

'In the process of saving, if all that was lost by the capitalists was gained by the labourer, the check to the progress of wealth would be but temporary, as stated by Mr. Ricardo; and the consequences need not be apprehended. But *if the conversion of revenue into capital pushed beyond a certain point must, by diminishing the effectual demand for produce*, throw the labouring classes out of employment, it is obvious that the adoption of parsimonious habits in too great a degree may be accompanied by the most distressing effects at first, and by a marked depression of wealth and

population permanently.’ (1st ed., p 369; 2nd ed., 326, emphasis added)

In the above passage, the term ‘effectual demand’ is used, but Malthus also uses another term ‘effective demand’ in the same sense²⁸. If one reads the above passage through the glasses of the Keynesian theory of effective demand, one may believe that Malthus has a sort of theory very similar to that of Keynes’s effective demand theory. But we should keep in mind that Malthus maintains in this passage that the excessive saving, that is, the excessive investment diminishes the effective demand (effectual demand), because in Malthus’s theory saving is always equal to investment. In Keynes’s theory, an increase of investment augments (not diminishes) the ‘effective demand’ in Keynes’s definition of the term. The effective or effectual demand in Malthus’s sense is money price measured in money cost, especially in labour cost in money. Effective demand in Keynes’s definition is the proceeds of sales which entrepreneurs expect when they decide the amount of employment of labour²⁹. Malthus’s definition of effective demand is quite different from that of Keynes and also from that of Smith³⁰.

Despite its appearance, this passage clearly shows that Malthus has his own theory quite different from that of Keynes. For Malthus, when the capitalists and landlords diminish their consumption spending, the capitalists increase the investment spending by the same amount, and by the increase of investment in all the sectors the production of every product increases at the same time with the result of the diminution of effectual (or effective) demand in Malthus’s sense. Therefore, it may be said that Malthus established his theory of general gluts upon the assumption of the so called ‘Treasury View’. It may be interesting to remark that Malthus recommended the public works as remedy for the poverty in the short run on the assumption of the ‘Treasury View’ which Keynes criticized later in the 1930s.

For Malthus, general gluts are possible not only theoretically, but also their possibility of occurrence is not small. General gluts are caused by excessive saving (=investment), but their probability to occur is enhanced because people are inculcated by political economists the idea that saving always does good to the society and those who save are benefactors of mankind since the *Wealth of Nations* of Adam Smith³¹ and often save excessively.

In short, Malthus insisted the necessity of abolishing of the Poor Laws on the grounds of his principle of population, and proposed measures to reduce poverty in the framework of the market economy of which the most important was the spread of moral restraint among the lower classes of society. He admitted that public works might be efficacious in reducing poverty caused by general

²⁸ Malthus uses ‘effective demand’ in the 1st edition, for example, at the pages 348, 389, 399, 442, 448, 488, and in the 2nd edition at pages 313, 341, 349, 395.

²⁹ Keynes(1936), ch. 3.

³⁰ Smith defines effectual demand as the quantity of a good purchased at the natural price. See Smith(1976), *Wealth of Nations*, I, p.73.

³¹ Malthus, *Principles*, 1st ed., pp.517-8; 2nd ed., p.434.

gluts in the short run, and the theory which supported this remedy in the short run was Malthus's theory of general gluts. But we must keep in mind the fact that Malthus opposed public works except as a temporary remedy in the depressed state of economy.

4. Ricardo on Poverty and Poor Relief

As we have seen above, Ricardo wrote very little about poverty in his published writings. But Ricardo was very active in voluntary activities for the poor people, and left substantial arguments concerning poverty in his private correspondence with Hutches Trower about savings banks which fortunately survives today. Banks of savings came to be established in the 1810s in Scotland and subsequently spread to England. He was also interested in the education of children of the poor. He established and maintained by his own money two schools for children of the poor³², and he was a member of a society for the promotion of elementary education³³. Certainly, Ricardo appreciated the good effect of education in reducing poverty, but he wrote almost nothing about education neither in his published works nor in his correspondence, in consequence of which we can know almost nothing about his view on the education.

4.1 Ricardo on Poverty in the *Principles*

Let us begin with examining his arguments about poverty in his *Principles of Political Economy, and Taxation* (1817), in the chapter 5 of which we can find his basic ideas on poverty. In the chapter 5, Ricardo explains how wage rates are determined in the market economy, and after that he continues as follows;

‘These then are the laws by which wages are regulated, and by which the happiness of by far the greatest part of every community is governed. Like all other contracts, wages should be left to the *fair and free competition* of the market, and should never be controlled by the interference of the legislature.’ (Ricardo I, p.105, emphasis added)

But actually there were interferences by the legislature, in consequence of which the competition about wages was not ‘fair and free’. The greatest interference by the legislature was probably by the

³² Ricardo to Mill on 9 November 1817, Ricardo VII, p.206, Ricardo to Mill on 7 October 1823, Ricardo IX, pp.328-9.

³³ *Ricardo Papers*. Ricardo was a member of the board of the Lancasterian Society for the promotion of the Lancaster's method of elementary education. See Binns(1908), p.73. We find an interesting letter from Lancaster to Ricardo asking a donation of money in the name of a third person. Lancaster(1778-1838). He was the originator of the Lancasterian method of elementary education. He became a Quaker. His method of elementary education attracted the interest of the King and the royal family, and was founded the Royal Lancasterian Society(later British and Foreign School Society) for the purpose of spreading his method of education. (DNB)

Poor Laws. In Ricardo's view, 'The clear and direct tendency of the poor laws, is in direct opposition to these obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor.' (pp. 105-6) The phrase 'these obvious principles' here means the laws of determination of the wage rate which have been explained.

As we have seen above, according to Malthus, the Poor Laws paradoxically increase the poverty which they intend to reduce, by encouraging the population growth and diminishing the food production at the same time because of its tendency to remove preventive check and the fear of starvation from of the lower classes of society. Ricardo accepts the basic conclusion of Malthus's analysis of the effects of the Poor Laws. In fact, he says, 'This pernicious tendency of these laws is no longer a mystery, since it has been fully developed by the able hand of Mr. Malthus.' (p.106) And the Poor Laws 'have rendered restraint superfluous, and have invited imprudence, by offering it a portion of the wages of prudence and industry' (p.107).

Ricardo admits that the Poor Laws increase poverty instead of reducing it by removing prudence and spirit of industry from the labouring classes. Ricardo has a very firm conviction that the Poor Laws have a pernicious influence on the society, as the following passage shows. 'The principle of gravitation is not more certain than the tendency of such laws [the Poor Laws] to change wealth and power into misery and weakness; to call away exertions of labour from every object, except that of providing mere subsistence; to confound all intellectual distinction; to busy the mind continually in supplying the body's wants; until at last all classes should be infected with a plague of universal poverty.' (p.108)

Ricardo expresses his concern that if the Poor Laws should continue to exist as they are the poor rates may absorb all the net revenue (or surplus) of the society³⁴. 'Whilst the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, *till it has absorbed all the net revenue of the country*, or at least so much of it as the state shall leave to us, after satisfying its own never failing demands for the public expenditure.' (p.106, emphasis added) But actually the poor rates have not yet absorbed all the net revenue of the society. *Ricardo observes that it owes much to the present system of poor relief administered in small regional communities of parishes*. In the small society of parish, contributors of the poor rates can watch how they are expended for the poor. Ricardo opposes a plan which proposes to unite parishes and makes a national system of poor relief³⁵. He believes that the poor rates which are levied from the users of visible properties within the parish fall on profits by raising prices of raw products, by which the rate of profits will fall (pp. 257-8). The fall of the rate of profits caused by the poor rates will lower the rate of capital accumulation, which retards the

³⁴ However, this concern was not Ricardo's only, but to a certain degree it was a common recognition at that time.

³⁵ Ricardo I, *Principles*, pp.107-8.

development of the economy and the growth of labour employment; the decline of the growth rate of employment will diminish the real rate of wages of labourers.

If the Poor Laws have pernicious effects on the happiness of the labouring classes, they should be abolished. The necessity to abolish the existing Poor Laws is Ricardo's firm conviction, as he also points out that 'Every friend to the poor must ardently wish for their abolition,' (p.106) and that 'No scheme for the amendment of the poor laws merits the least attention, which has not their abolition for its ultimate object.' (p.107) But the Poor Laws have already existed for centuries, and the habits of people have been formed under these laws. For this reason, Ricardo stresses the necessity of very gradual steps to be taken for their repeal.

'Unfortunately, however, they have been so long established, and the habits of the poor have been so formed upon their operation, that *to eradicate them with safety from our political system, requires the most cautious and skilful management.* It is agreed by all who are most friendly to a repeal of these laws, that if it be desirable to prevent the most overwhelming distress to those for whose benefit they were erroneously enacted, *their abolition should be effected by the most gradual steps.*' (p.106, emphasis added)

But how they can be repealed by 'the most gradual steps'? Ricardo proposes to limit gradually the range of application of the laws inculcating prudent habits and spirit of independence in the minds of the lower classes of society³⁶; that is,

'The nature of the evil points out the remedy. *By gradually contracting the sphere of the poor laws; by impressing on the poor the value of independence, by teaching them that they must look not to systematic or casual charity, but to their own exertions for support, that prudence and forethought are neither unnecessary nor unprofitable virtues, we shall by degrees approach a sounder and more healthful state.*' (p.107, emphasis added)

For Ricardo, 'a sounder and more healthful state' must mean the competitive labour market in which the rate of wages is determined by free and fair bargaining processes between employers and labourers. He believes that in the long run the happiness of labouring classes cannot be increased unless they acquire habits of prudence and spirit of independence and regulate the growth rate of labour force. 'It is a truth which admits not a doubt, that the comforts and well-being of the poor cannot be permanently secured *without some regard on their part, or some effort on the part of the legislature,* to regulate the increase of their numbers, and to render less frequent among them early and improvident marriages. The operation of the system of poor relief has been directly contrary to this.' (I, pp. 106-7, emphasis added)

In the 'sounder and more healthful state' without the Poor Laws in which the labouring classes get

³⁶ Cf. Schumpeter(1954), pp.472-3. Schumpeter criticized Ricardo as having applied to the practice the conclusions derived from the highly abstract theory without taking into account complexities and frictions of the real world, and called this way of application of theory 'Ricardian Vice'. We have here one of clear evidences that contradicts the so called 'Ricardian vice'.

wages above the subsistence level and can be independent³⁷, as we will see below. He reiterates the necessity of gradual limitation of the application of the Poor Laws in the correspondence as well.

4.2 Ricardo on Savings Banks

Next, we proceed to examine Ricardo's arguments about poverty in the correspondence on the savings banks. Ricardo expressed his view on poverty and the Poor Laws more specifically and more in detail in the correspondence exchanged with his friend Huches Trower on the savings banks. As pointed out above, almost none of the commentators on Ricardo touched upon the controversy between Ricardo and Trower on savings banks³⁸.

In the early 19th century Britain there were no institutions which accepted small deposits of the lower classes of society. Therefore, even if they had a surplus income to save, people of the lower classes did not save and dissipated the surplus income, because their houses were not safely built against robberies and they could not keep savings at home. The savings banks were established and managed by the people of higher ranks voluntarily for bettering the daily living conditions of the lower classes. There had been friendly societies already from the latter 18th century, but friendly societies could not contribute to improve the daily living conditions of the labourers, because they were institutions of mutual insurance among labourers providing for emergencies such as accidents, sickness, deaths, and etc³⁹.

The first savings bank was established in the small parish of Ruthwell in Scotland by Henry Duncan in 1810⁴⁰. This savings bank received small deposits of the lower classes and returned them adding interests to them when the depositors demanded to get back the deposits. This bank, however, had a character of a charitable institution to improve the morals of lower classes, intended to excite prudence of the labourers, by giving prizes to those who saved regularly and punishing those who failed to save. This character of the savings bank established by Henry Duncan had weakened its character as a business. A savings bank with more business-like nature was founded in Edinburgh by J. H. Forbes in 1813 (Edinburgh Bank for Savings)⁴¹.

Thus, savings banks were established in Scotland earlier than in England. The reason is because at that time in Scotland there were three chartered banks (Royal Bank, Bank of Scotland, British Linen Company) which received the deposits of savings banks paying the interest of 5 per cent per

³⁷ On the level of the wage rate before the stationary state, see Watarai (1988)

³⁸ We examined in detail the correspondence about on savings banks in Watarai (2000).

³⁹ Friendly societies appeared and spread in the latter half of the 18th century, because they were not prohibited by the combination laws. On the friendly societies see Gosden(1993).

⁴⁰ Cf. Duncan(1815). Henry Duncan(1774-1846). He was clergyman of the Church of Scotland. He contributed to the establishments and spread of savings banks. (DNB)

⁴¹ Cf. Forbes(1815). John Hay Forbes(1776-1854) was magistrate of Scotland. He was an ardent Episcopalian, and contributed much to the Church of Scotland. (DNB)

ann. with guarantee of the fund. Thus, the savings banks in Scotland could run the deposits they received from the labouring classes under favourable and safe conditions. On the contrary, in England the banks did not pay interests to the deposits they received and they did not accept small deposits of the lower classes. Therefore, in England it was impossible to establish savings banks based on the Scottish scheme. But, on 17 January 1815 a savings bank was established at Bath by John Haygarth with a different scheme of running the fund (Bath Provident Institution)⁴². This bank received the deposits from the labourers and when the amount of deposits of one depositor reached a fixed amount it invested them in public bonds by the name of the depositor; in this case, the depositor took the risk involved in the investment. David Ricardo participated in the establishment and management of the Provident Institution for the Western Part of the Metropolis (Westminster Bank for Savings) which was instituted on 1 January 1816, adopting the same scheme of Bath Provident Institution⁴³. After the establishment of Bath Provident Institution, savings banks spread in England as well, especially after the passing of the Rose's act in July 1807, an act giving legal sanction to savings banks guaranteeing a fixed rate of interest and the deposits which the Bank of England invested in public bonds, and the number of savings banks increased very rapidly all over England and Scotland⁴⁴.

The controversy on savings banks between Ricardo and Trower took place in 1816, and continued until after the passing of the Rose's Act in July 1817. They agreed on the usefulness of savings banks to improve the morals and living conditions of the labouring classes and ultimately to repeal the Poor Laws. But they differed in some important points concerning savings banks. We will examine the controversy between Ricardo and Trower on saving banks selecting several issues, and try to make clearer Ricardo's view on poverty.

Effects of savings banks and the repeal of the Poor Laws:

As we have seen above, in the *Principles* Ricardo emphasized the pernicious effects of the Poor Laws which tended to increase poverty. He expressed concern that the poor rates might absorb all the net revenue (surplus) of the country. For Ricardo, the repeal of the Poor Laws was absolutely needed, but at the same time he recognized the importance of very gradual and careful steps for the repeal, because the existing Poor Laws had been so deep-rooted in the mind of people that they could not admit rapid changes. Ricardo expressed these ideas also in the correspondence exchanged with Trower during the same period in which he wrote and published the *Principles*. With regard to the necessity of the very gradual abolition of the Poor Laws, in the correspondence he was more

⁴² Haygarth(1816). John Haygarth(1740-1827). He was educated at St. John's College, Cambridge. Physician. He was a fellow of the Royal Societies of London and Edinburgh. (DNB)

⁴³ See Hume(Joseph). Ricardo also contributed to establish two other savings banks. See Henderson(1984), p.69.

⁴⁴ While the number of savings banks was 57 in 1817, 119 savings banks appeared in 1818. Cf. Horne(H.O.)(1947), pp.80-1..

specific about the steps to be taken to proceed to the ultimate repeal. We should take note that he regarded savings banks as an important measure for the repeal of the Poor Laws.

Trower asks Ricardo's opinion about the usefulness of savings banks in his letter to Ricardo on 19 January 1816. He says in the letter that in his view savings banks are very useful means to improve the material conditions and morals of the poor if they were run by good management, and might replace charity institutions such as friendly societies (Trower to Ricardo, on 19 January 1816, VII, p.12). Ricardo agrees with Trower on the usefulness of savings banks to inculcate in the minds of the poor people prudence and forethought, and thus to contribute to prevent excessive population growth which he regards as the cause of distress of the lower classes of society, as we can see in the following passage;

'Their[of the savings banks] general diffusion in all parts of the kingdom will be of great service, if the rich and well informed will continue to bestow some attention on them. *They will tend to introduce economy and forethought amongst the poor, which may in time check the propensity to a too abundant population,* the great source from whence all the miseries of the poor flow in so profuse a stream.' (Ricardo to Trower, 9 May 1816, VII, p.26, emphasis added)

They regard savings banks useful to improve the morals of the poor, behind which there is recognition of the harmful influences of the Poor Laws on the poor. Ricardo repeatedly pointed out the evil effects of the Poor Laws and the necessity of gradual limitation of their application to the cases of absolute need. For example he says, 'The ill effects of the poor laws then I suppose to be admitted and their abolition to be desirable the question then is how is it to be effected? Can it be by any other means than by gradually limiting their application, by encouraging the poor man to depend on his own exertions only? Is not this to be done *by refusing all relief in the first instance to any but those whose necessities absolutely require it— to administer it to them in the most sparing manner, and lastly to abolish the poor laws altogether?*' (Ricardo to Trower, 27 January 1817, VII, p.124-5, emphasis added)

He emphasizes repeatedly the necessity of gradual abolition of the Poor Laws in the correspondence. He also expresses the concern that all the net revenue of the country might be absorbed by the poor rates: 'The rates are a yawning gulph in which all that is valuable will be ultimately swallowed.' (Ricardo to Trower, 24 February 1817, VII, p.135) The following passage of his letter to Trower reveals succinctly Ricardo's view on poverty and its relief. He here specifies the steps to be taken for the gradual abolition of the Poor laws as limiting the relief to 'the aged and infirm under some circumstances, children'.

'I would gladly compound for such a change in the Poor Laws as should restore them to what appears to have been the original intention in framing them; namely, *the relieving only the aged and infirm and under some circumstances, children.* Any change would be an improvement which had not a tendency to increase the evil which it proposes to remedy. *The present plan creates objects of*

distress, and these must necessarily go on increasing in a geometrical ratio. No man in his sober senses would wish for any sudden alteration of the present plan. The great object should be to teach the labouring classes that they must themselves provide for those casualties to which they are exposed from occasional variations in the demand for particular manufactured goods, and *which should not be the subject of legislation.*' (Ricardo to Trower, 26 January 1818, VII, p.248, emphasis added)

In this passage, we find an idea which has not been stated clearly; that is, the labouring classes must prepare themselves for misfortunes that may be caused by changes in demand for manufactures into which the state should not interfere. This view probably means that unemployment caused by variations in trades should not be relieved by the state. Showing this view, he, it seems, had in mind the use of savings banks.

Check by depositors of the management of the fund:

According to Ricardo, savings banks were excellent institutions, which would contribute to improve the material conditions and morals of the poor people, but at the same time he pointed out that there were some aspects one should pay attention to. One of them was that the poor people who had deposits in such institutions must have control over the management of their savings, because there might appear speculative merchants with little credit and small property who might undertake to establish savings banks to make profits. Such institutions established by speculative merchants would have high risks of failure and a sort of fraud might be committed. Ricardo emphasizes that such a control must be sanctioned by the legislature.

'You ask my opinion of the saving Banks. I think them excellent institutions and calculated to improve the condition and morals of the poor, provided they are properly managed. *My fear is that though they will at first be established by gentlemen of great respectability and fortune,—as they spread, they will at last be undertaken by speculative tradesmen, as a business from which to derive profit. The poor should have some check on the employment of the funds,* or the same evils will arise as from the indefinite multiplication of country banks. *This check should be afforded by the legislature, or there will be no security against the failure of the undertakers.* The poor have no means of discovering the wealth and respectability of the parties who open these banks.' (Ricardo to Trower, 4 February 1816, VII, p.16, emphasis added)

Trower opposes the control exercised by the depositors of the savings banks over the management of the fund deposited. Trower emphasizes that the management of the fund should be left in the hands of the experts of finance, because the depositors are not usually well-informed about banking. But he adds that the directors of savings banks should be elected by the depositors.

'All authority exercised by any Committee is to proceed from the Depositors, by whom such power is to be delegated. ... These Institutions are established for the express purpose of doing

what the poor are unable to do for themselves—to *take care of their money*. It is essential therefore they should have no power of interference in its management.’ (Trower to Ricardo, 24 May 1816, VII, p.33, emphasis original)

Here we can see that Trower has a more optimistic view of experts of finance than Ricardo.

The non-exclusion clause:

The most controversial clause of the Rose’s bill was one which stipulated that depositors up to £ 30 in savings banks should not be denied the public relief (Poynter 1969, p.293). Also between Ricardo and Trower the most discussed was this clause, on which the two had quite opposite views. In what follows, we will call this clause the non-exclusion clause. While Trower thinks that this non-exclusion clause is an essential condition for the success of savings banks, Ricardo contends that this clause should be omitted from the bill for the repeal of the Poor Laws.

‘I had a long letter from Elwin⁴⁵ on the subject of the clause in Roses[sic] Bill relating to the great question of extending Parish Relief to Depositors. ... the sanctioning of that measure is essential to the success of Provident Ins. No poor man in his senses will have anything to do with them, unless it be so provided. ... I am satisfied too, that there will be but few cases requiring such relief. Those whose prudent habits lead them to lay by, from time to time, a portion of their earnings are not likely to become burdensome on the parish. But unforeseen accidents, or misfortunes, may drive a man to that necessity, and whenever so circumstanced he ought to share the assistance of his parish in common with his neighbours. Relief is not denied to a man having a cow, or a pig, or a cabbage garden. ... I say it is *worth while* to favor the Depositor, in order to induce the poor generally to adopt those habits of prudence and economy from which we hope to derive the most important consequences. ... If the clause is lost, farewell to Provident institutions.’ (Trower to Ricardo, 20 August 1816, VII, pp.63-4, emphasis original)

As we see from the above letter, Trower supports the non-exclusion clause, because he thinks that without it the incentive to save of the poor people will not be excited. He repeats the necessity of this clause, and emphasizes that the relief to the depositors of savings banks should be sanctioned by the law; if not, he continues, ‘Besides, this question of relief *must be determined somewhere*, if by the Magistrates, without parliamentary sanction, it will most likely be settled differently in different parts of the Country, in which case the poor will be left in doubt on the subject, and will not therefore run the risk of becoming depositors; whereas the sanction of Parliament will enable the Magistrates to consider, that *by the general* rule they are authorized to grant relief, and their withholding it will depend upon the circumstances of the *particular case in question*.—’(Trower to Ricardo, 19 November 1816, VII, pp.96-7, emphasis original) Trower repeats his argument for the necessity of the non-exclusion clause, because without it the labourers

⁴⁵ Elwin was a member of the management board of the Bath Provident Institution. See Haygarth(1816).

will not dare to become depositors of savings banks, having fear that unforeseen misfortunes might happen on them. Ricardo rejects this reasoning observing that there will be no people who would save with fear of life in workhouse⁴⁶. If this clause is maintained, Ricardo observes, the people of lower classes will not get the spirit of independence and habits of prudence, for which the repeal of the Poor Laws will become more difficult and take more time. He further points out that if the Poor Laws exist the real rate of wages will remain depressed and not rise. Thus, if the Poor Laws remain, the general conditions of labouring classes do not improve, and the savings of the labourers will not increase. In consequence, savings banks cannot be expected to be successful.

‘If the poor rates are to be resorted to not only by those who are have no other means of subsisting, but by those who are possessed of property, instead of limiting their [of the Poor Laws] application you would extend it; instead of repressing population you would still further encourage it, and would place at a greater distance the ultimate effect which we have in view.’ (Ricardo to Trower, 27 January 1817, VII, p.125, emphasis added)

Ricardo and Trower agree about the necessity of abolishing the Poor Laws, but they differ on the course to be taken to reach the ultimate aim. In Trower’s view, the non-exclusion clause of the Rose’s bill is necessary for savings banks to get a sufficient number of depositors for their success, and the success of savings banks will improve the conditions and morals of the lower classes. If the conditions and morals of the lower classes of society are improved, the obstacles to the repeal of the Poor Laws would be reduced⁴⁷. On the other hand, Ricardo observes, it is essential that first of all people should get habits of prudence and the spirit of independence for the abolition of the Poor Laws; the non-exclusion clause of the bill will lead people further away from prudence and spirit of independence. If the clause should be omitted from the bill, it would lead the people to depend themselves and acquire good habits of prudence and spirit of independence. If people get these good habits and incentive to save, their economic state will be ameliorated, and it will become easier to repeal the Poor Laws, which in turn contributes to raise the real rate of wages further. Thus, Ricardo emphasizes that the omission of the clause is essential for the people to acquire good habits. He insists, ‘You will accomplish this object most surely if you take security for the permanence of a man’s good habits. Exclude the clause he will know that to preserve his treasure he must be saving and prudent; insert it he will surely know that he may indulge in a week or month’s dissipation without infringing on it. I am not so sanguine as many as to the excellent effects which are to follow from these Banks unless we at the same time raise the general rate of wages by confining the operation of the poor laws to cases of extreme necessity.’ (Ricardo to Trower, 24 February 1817, VII, p.134)

Behind the above reasoning of Ricardo, it seems that there is the following way of thinking; that

⁴⁶ Ricardo, VII, p.126 (Ricardo to Trower, 27 January 1817).

⁴⁷ Ricardo, VII, pp.128-9 (Trower to Ricardo, 9 February 1817).

is, according to Ricardo, people get good habits and good spirits only when they are actually put in the situation where they are obliged to do so; that is, people learn by experiencing. We also find this way of thinking in his discussions about the parliamentary reform. For James Mill, it is necessary that people should be educated before they are given the right to vote, because they should become wise enough to participate in the election of parliamentary members. On the contrary, Ricardo's view is that people must first be given the franchise; experiencing elections, people learn and become wise⁴⁸.

Depositors of savings banks:

The third problem discussed between Ricardo and Trower is, who makes deposits in savings banks under the existing Poor Laws. Ricardo and Trower express the same view on this question; that is, both of them acknowledge that under the existing Poor Laws those who can make deposits in savings banks are only single labourers. Though the current rate of wages is estimated to be barely sufficient to a married labourer and his family, it is more than necessary for a single labourer. According to Ricardo, the Poor Laws have the tendency to encourage the population growth and to depress wages to the barely necessary level for the single labourers (for the married labourers the allowance makes up for the insufficiency of wages), but the operation of the Poor Laws has not been complete in this effect. Therefore, single labourers have a surplus income which can be saved but is actually dissipated wastefully.

‘There are as you observe two classes of labourers, the single and the married. Notwithstanding that the tendency of the poor laws is to reduce the wages of these classes to the least possible amount on which single men can live, *yet this effect is not probably fully accomplished. If it were, neither the single man, who receives no relief from the parish, nor the married man who does, could probably become depositors, for they would have nothing to deposit.* We must suppose then that the single men receive more than their wants require. Our object is to encourage them to accumulate what they can save from their wages, and the question is what effect the insertion or omission of this clause will have on their minds.’ (Ricardo to Trower, 24 February 1817, VII, pp.133-4, emphasis added)

If the Poor Laws should be repealed, in Ricardo's view, the wages would rise and become more than necessary for the maintenance of a married labourer and his family, affording some surplus which could be saved. The rate of wages will be raised if labourers cease to depend on public relief after the repeal of the Poor Laws, because labourers can rely only on themselves and will acquire habits of prudence with which they regulate the growth rate of labour supply. Ricardo discusses this problem in a letter to Trower;

‘Is it not desirable that the poor laws should be done away, and the labouring classes should

⁴⁸ Milgate & Stimson(1991).

receive the recompense for their labour rather in the shape of wages than in that of bounty? If you answer in the affirmative then there is no way of preventing the single man from receiving more than is sufficient for his support, and I can see no reason to regret it. When the wages of a married man with a family are barely adequate to his own and his family's maintenance, the wages of the single man may be ample. All this I admit, but if it is a necessary consequence of the abolition of the poor laws it must be acquiesced in under the circumstances of an abolition. Even it were an evil, which I think it is not, it must be endured for the sake of the good which would accompany it.' (Ricardo to Trower, 27 January 1817, VII, p.124)

In the above passage, Ricardo may be understood to think that even after the repeal of the Poor Laws the rate of wages will not be above the subsistence level for a married man. But Ricardo insists that also the wages of a married labourer will be higher than the subsistence level of himself and his family after the repeal of the Poor Laws. This is evident from the following letter to Trower; 'A man's wages should, and would *on a really good system*, be sufficient not only to maintain himself and family when he is in full work, but also to enable him to lay up a provision in a Savings Bank for those extraordinary calls which you mention.' (Ricardo to Trower, 26 January 1818, VII, p.248, emphasis added)

'A really good system' probably means a competitive system in which there are no interferences of the state such as combination laws, the Poor Laws, the Corn Laws, the law of minimum wages and etc. If these state interferences are removed, also a married labourer will have a wage sufficient to maintain himself and his family and to have a surplus income to save. In the *Principles* Ricardo formulated his theory of economics on the assumption of competitive markets in which the normal level of wages is higher than subsistence level before the stationary state, which is the ultimate end of economic growth with zero rate of economic growth⁴⁹. But actually the average level of wages was very near to the subsistence level because of the state interferences including the Poor Laws which encouraged the growth of population and depressed the wage rate. He developed his theory at the high level of abstraction in which there were no obstacles to hinder the 'fair and free' competition.

Fixed rate of Interest and the guarantee of the deposits:

The fourth problem discussed between Ricardo and Trower is the guarantee of the fixed rate of interest and of the deposits in the Rose's bill. Trower basically supports this clause, because he thinks that the guarantee of deposits contributes to enhance the influence of savings banks on the

⁴⁹ This is the so called 'New View' of Ricardo's theory. For the 'New View' see Casarosa(1978). We have formulated Ricardo's theory incorporating the rate of wages above subsistence level and the money sector in Watarai(1983), in which the capitalists play the dominant role for the function of the economy. The formulation of the 'New View' has not incorporated this vision of the capitalist economy.

lower classes. But it will be difficult for savings banks to afford the guarantee. Therefore, for Trower it is desirable that the guarantee should be given by the government. At the same time he expresses some reservations on this guarantee. He is concerned that there may be some undesirable influences on the morals of the poor, as the depositors will not feel that the safety of the state depends on their own good behaviours as well (Trower to Ricardo, 7 May 1817, VII, p.152).

Ricardo has not any anxiety about the bad effects of the guarantee of the fund on the morals of the poor, but he has more fundamental concerns about the results that may come out of the fixed rate of interest and the guarantee of deposits. In Ricardo's view, if the amount of savings entrusted in the hands of the Commission of the Sinking Fund at the Bank of England is not great, the guarantee of deposits will be desirable to be given, and he agrees with limiting the maximum amount of deposit of one depositor up to £ 50 if it is necessary to prevent the total amount of savings from becoming too large. According to Ricardo, if the fixed rate of interest guaranteed exceeds the market rate of interest and the amount of deposits should become large, the state must pay the difference of the interest rates. And furthermore the guarantee of deposits may be a cause of a more serious problem; that is, if the deposits are withdrawn when the market price of public bonds is lower than it was at the time the deposits were turned into the public bonds, the state may be obliged to support an enormous burden, because the state must pay the difference of the prices multiplied by the amount of the deposits. This will present a great difficulty of financial operations in cases of national emergencies like wars. Ricardo concludes that the fixed rate of interest and the guarantee of deposits are too much favourable for savings banks. For Ricardo it is most important that savings banks should continue to exist as going concerns providing security to the deposits of the lower classes of society, thus exciting in them prudence and spirit of independence. We quote a somewhat long passage from Ricardo's letter to Trower on 9 May 1817, with which the controversy between them on savings banks, it seems, in substance, ended. The following long passage expresses very vividly Ricardo as a political economist in that he looked at the problem from the point of the whole economy, even though he wished for the development of savings banks for the labouring classes.

'It appears to me so desirable that the depositor should be secured in the receipt of the precise sum of money which he may originally deposit that notwithstanding there are great objections against limiting each man's deposit to £ 50, it should be agreed to, if on no other condition this advantage is to be obtained. ... I am very much surprised at Ministers sanctioning such a clause, for it cannot be doubted that if the amount of deposits should become very large, it will not only subject the country to a considerable tax, but may on the breaking out of a war very much embarrass the financial operations. Suppose that a sum as large as 3 millions of debentures should be issued by the Bank in return for deposits made by trustees, when 3 per ts. are at 85, Government would by purchasing 3 per ts. obtain only 3 1/2 pc. on 3 millions for which they would be paying to

the holders of debentures more than 4 1/2 pc, thus losing £ 30,000 per ann., and when 3 pc. ts fell to 60 they would be called upon for the payment of this sum of 3 millions at a very inconvenient time, as to obtain it they would lose the difference between 85 at which they bought, and 60 at which they would be forced to sell or £ 750,000. Now though I am a friend to these Institutions I do not think that they are deserving of these extraordinary bonuses, particularly as I am persuaded that this loss to the public would not act as any great encouragement to savings. The depositors whether they received 5, 4 or 3 pc. for their money would be of little importance in determining them to economical habits.' (Ricardo to Trower, 9 May 1817, VII, p.154)

Ricardo was much surprised, because the Rose's bill guaranteed a fixed rate of interest and the return of the deposits without limiting the amount of deposits of each depositor. Ricardo was concerned in particular that the burden to the state might become too much onerous with the growth of the amount of savings deposited if the market price of the public debts fell lower than the price with which the Bank of England received the deposits from the savings banks and turned them into public bonds entrusted to the Commission of the Sinking Fund. Further, the fixed rate of interest guaranteed by the bill was higher than the market rate. The rate of interest fixed by the bill was £ 4.11s.3d per £ 100, while the market rate of interest was £ 3.15s. per £ 100. And under the fixed rate of interest, if the market price of public bonds fell, the rate of interest on the savings would become actually even higher.

The Rose's bill passed the Parliament and became an Act in July 1817. The non-exclusion clause was omitted, but the Act included the guarantee of the fixed rate of interest and the return of deposits. After the passing of the bill, many savings banks were established⁵⁰. The state actually had to face situations Ricardo worried about. In 1828, Joseph Hume⁵¹ reported to the then Chancellor of the Exchequer Henry Goulburn that the amount of the extra interest in charge of the state was from £ 40,000 to £ 50,000, but this was, in fact, underestimated considerably. The total amount of the extra-interests paid by the state from 1818 to 1828 was £ 744,363, the annual average being £ 67,000. The fixed rate of interest was lowered and a limit was set to the maximum amount of the deposits of each depositor⁵².

6. Differences between Ricardo and Malthus on Poverty

Ricardo accepted the basic conclusion of the analysis of Malthus on the effects of the Poor Laws. The basic conclusion of Malthus on the Poor Laws and poverty was that the Poor Laws would

⁵⁰ The number of savings banks rapidly increased reaching 465 at the end of 1818. Horne(H.O.)(1947), pp.80-1.

⁵¹ Joseph Hume(1777-1855). He was an assistant surgeon of the marines of the East India Company. Later he became MP. He was engaged in the monetary and financial problems. (DNB)

⁵² Lewins, p.59 and Horne(H.O.)(1947), pp.100-4. See also Henderson(1984), pp.72-3.

increase poverty by encouraging the growth of population and at the same time weakening the incentive to work of the labourers and thus not increasing or diminishing the food production, with the result of augmenting the poverty instead of reducing it. Both of them insisted on the necessity of repealing the Poor Laws and thought that after the abolition of them the remaining poverty must be taken care of by private charity. Both of them stressed the importance of inculcating habits of prudence, industry and independence in the minds of poor people for which they agreed on the good effects of education of the lower classes. Both of them recognized the necessity of security of property, equal laws, and participation in politics of the lower classes to excite self-respect, independence and industry in the minds of labourers. However, we must point out that there were some important differences between their views on the Poor Laws and poverty.

Firstly, while Malthus maintained that the expenditures for the relief of the poor would not increase production of food in society, Ricardo repeated the idea that expenditures for relief of the poor would increase production of food because they would augment the demand for it which might encourage the production.

‘I remember mentioning to you, and I believe you told me that you had altered it in the following editions, that I thought you argued in some places as if the poor rates had no effect in increasing the quantity of food to be distributed—that *I thought you were bound to admit that the poor laws would increase the demand and consequently the supply*. This admission does not weaken the grand point to be proved.’ (Ricardo to Malthus, 2 January 1816, VII, pp.2-3, emphasis added)

Malthus published the 5th edition of the *Essay on Population* in 1817, but he did not change his idea of the fixity of the quantity of food in the face of increases of expenditures for the poor, and Ricardo again repeated his critique on this point in his letter to Malthus.

‘You do not always appear to me to admit that the tendency of the poor laws is to increase the quantity of food to be divided, but assume in some places that the same quantity is to be divided among a larger number.’ (Ricardo to Malthus, 21 October 1817, VII, p.202)

Secondly, they differed in their views on the effects of the combinations among the labourers on their standard of living. As we have seen above, Malthus had the concept of the fund for maintenance of labourers fixed at any given time in society, in consequence of which combinations among the labourers could not raise their average living standard on the whole. On the contrary, in Ricardo’s view combinations among the labourers would raise the rate of wages and improve their living conditions. ‘A combination among the workmen would increase the amount of money to be divided amongst the labouring class. These you will observe are slight objections and I make them that I may preserve my consistency. They would not be understood by the mass of readers but you who are acquainted with my *peculiar* views, if you please, they need be no explanation.’ (Ricardo to Malthus, 21 October 1817, VII, p.203, emphasis original)

In the above passage, ‘these’ indicates the points in which Ricardo differed from Malthus and includes the view on the effect of the combinations among labourers.

In Ricardo’s theory, if the rate of wages rises, the rate of profits falls. If the labourers restrict the supply of the labour in some way or other with the same demand for labour, the money rate of wages rises without raising the prices of the necessaries (if the rise of the wage rate is general, its effect will be felt by all the sectors of economy including the money sector, so that the prices in terms of money cannot rise) and the profit rate falls. The combinations among the labourers will contribute to the rise of the real wage rate. But actually the combination laws existed at the time which prohibited combinations among the labourers. Ricardo regarded the combination laws as oppressive and unjust to the labourers and at the same time they had no favourable effects for the employers. He wrote to McCulloch in reply to his question as follows;

‘I have never turned particularly my attention to the combination laws. From the little I do know of them they appear to me to be *unjust and oppressive to the working classes*, and of real little use to masters. In spite of these laws masters are frequently intimidated, and are obliged to comply with the unjust demands of their workmen. *The true remedy for combinations is perfect liberty on both sides, and adequate protection against violence and outrage*. Wages should be the result of a free compact, and the contracting parties should look to the law to protect them from force being employed on either side; competition would not, I think, fail to do all the rest.’ (Ricardo to McCulloch, 4 December 1820, VIII, p.316, emphasis added)

McCulloch had told Ricardo that the combination laws were useless to prevent the combinations among labourers. ‘For my part I look on them [the combination laws] as extremely pernicious—as totally incompetent to effect any good purpose—as rendering those combinations dangerous which would otherwise be harmless— and as tending to widen the breach, which is already by far too ample, between the labourers and the propertied classes.’ (McCulloch to Ricardo, 28 November 1820, VIII, p.313) In Ricardo’s view, the most important was to establish liberty and fairness in the bargaining processes between labourers and employers, for which combination laws were of no use. It was violence and force that should be prohibited, not the combinations among the labourers, and the liberty and fairness must be procured by the legislature. It should be emphasized that Ricardo did not regard combinations among labourers as interference with the competition if it was procured by law.

Thirdly, they differed on public works as remedy for poverty in the short run. As we have seen above, Malthus approved the usefulness of public works as a temporary remedy for poverty under general gluts, but Ricardo denied their beneficial effects, because he thought that the same amount as that of the expenditures for public works must be diminished elsewhere (the so called ‘Treasury View’). Ricardo stated his opposition to public works in his correspondence with Malthus;

‘I want to hear your opinion of the measures lately adopted for the relief of the poor. I am not one

of those who think that the raising of funds for the purpose of employing the poor is a very efficacious mode of relief, as *it diverts those funds from other employments which would be equally if not more productive to the community*. That part of the capital which employs the poor on the roads for example cannot fail to employ men somewhere and I believe every interference is prejudicial.’ (Ricardo to Malthus, 3 January 1817, VII, p, 116, emphasis added)

In the above passage, by ‘the measures lately adopted for the relief of the poor’ Ricardo meant the relief works carried on in various parts of the country in which the poor people were employed⁵³. Ricardo also showed the same negative attitude towards public works as remedy for poverty in his parliamentary speech.

‘But when he [Ricardo] heard honourable members talk of employing capital in the formation of roads and canals, they appeared to overlook the fact, that the capital thus employed must be withdrawn from some other quarter.’ (Ricardo V, p.32)

As we have observed above, Malthus admitted this proposition (‘Treasury View’), on the assumption of which his theory of general gluts was established and he proposed public works as a temporary remedy for unemployment, because public works would raise the proportion of unproductive labourers, which would stimulate the effective demand in Malthus’s sense). Ricardo did not incorporate unproductive labourers into his basic theory, and he did not admit efficacy of public works to reduce unemployment of labourers as a whole.

Fourthly, while Malthus proposed the protection of agriculture to maintain a substantial domestic agriculture from his point of view that a balanced economy of agriculture and manufactures should best promote the happiness of the labouring classes, Ricardo criticized the Corn Laws and he proposed to repeal them. In Ricardo’s view, if a country imports corn cheap from foreign countries, in the importing country the profit rate and the real rate of wages rise and probably the investment will increase augmenting the demand for labour, so that the free trade of corn improves the conditions of labouring classes⁵⁴. This difference reflects the difference of the courses of development they had in mind. While Malthus recommended a balanced course of development of the domestic economy, Ricardo pursued international division of labour.

Fifthly, though they agreed on the necessity to abolish the Poor Laws, they differed as to how to repeal the Poor Laws. Malthus as a first step proposed to stop providing relief to children to excite the sentiment of responsibility of parents to maintain their own children. Ricardo thought of restricting application of relief to cases of absolute necessity like the infirm, the aged, orphans and etc. Ricardo’s proposal seems to be more radical than that of Malthus. From the point of view of restricting the application of the Poor Laws he opposed the non-exclusion clause of the Rose’s bill, because it would, instead of reducing, extend the application to those people who had some

⁵³ Ricardo, VII, p.116, Sraffa’s note.

⁵⁴ Ricardo, *Essay on Profits* (1815). Ricardo maintains that the capitalists and labourers will be benefited by importing cheap corn. This view obviously contradicts the subsistence theory of wages.

property and retard the abolition of the Poor Laws.

7. Concluding Remarks

We have examined above the ideas on poverty of Malthus and Ricardo. Malthus and Ricardo wished to repeal the Poor Laws and public relief, but they had to admit that poverty could not be removed completely. Despite recognizing the impossibility of complete removal of poverty from the society, they wanted to abolish public relief. For them, abolition of the Poor Laws meant the removal of obstacles to the establishment of market society, which was thought to be necessary to promote the development of wealth and to increase the happiness of people in general including the lower orders. The poverty which may remain after the repeal of the Poor Laws must be taken care of by charity. And they sought to transform charity into something which should not foster spirit of dependence among the people who received it. They also admitted the importance of education and the participation in politics of the labouring classes, even though there was difference as to the degree of the participation of labourers they had in mind. While Ricardo recommended that the franchise should be given to all the substantial independent householders, Malthus did not support universal franchise⁵⁵.

Their idea of abolition of the Poor Laws was challenged by Edward Coplestone⁵⁶. He denied the tendency of the Poor Laws to encourage population growth and to increase poverty, and he emphasized the necessity of the Poor Laws, because he believed that poverty was inevitable and increased under the variation of value of money, which could not be avoided. When the value of money falls (prices rise), the rate of money wages will not rise *pari passu* with prices, and when the value of money rises (prices fall) employment of labourers will be reduced⁵⁷. Copleston's criticism seems to have had a considerable impact on them. Malthus appears to have weakened somewhat his abolitionist position of the poor laws⁵⁸. Ricardo paid serious attention to it, and carefully examined Copleston's *Second Letter to Robert Peel*⁵⁹, which treats especially the impact of change of money value on the condition of the labour classes and the effects of the Poor Laws.

There were some differences between their views on the poor relief, but Ricardo and Malthus agreed on the pernicious effects of the Poor Laws and the necessity of their repeal and they shared a common aim: it was the promotion of prudence, spirit of industry and independence of labourers in order to raise their living standards; in other words, they aimed to the formation of labourers with

⁵⁵ For Ricardo, see Milgate & Stimson(1991), for Malthus, *Essay* 3 rd ed.,

⁵⁶ Edward Copleston(1776-1849). He was the provost of Oriel College, Oxford, and later became the bishop of Llandaff. See Waterman (1991), pp:80-6.

⁵⁷ Copleston(1819a).

⁵⁸ Malthus(1963), p.142, James(1979), pp. 449-50, Waterman(1991), p.190, (2002), p.8.

⁵⁹ We can find a summary of the *Second Letter* written by Ricardo in *Ricardo Papers*.

the spirit and characters which could support the market society that was in the process of establishment at the time and not yet completed. And they thought that labourers with such characters would promote economic development, which would increase the happiness of labourers themselves in the setting of market society based on private property. In short, we may say that Ricardo was a radical reformer, and Malthus was a moderate reformer.

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