



Introduction to classical political economy

What is Classical Political Economy?

- "**Classical Political Economy**" refers to a school of thought, primarily British, beginning with the publication of *The Wealth of Nations* (1776) by Adam Smith and ending with the *Principles of Political Economy* (1848) by John Stuart Mill.
- The three most famous representatives of this school are Adam Smith (1723-1790), David Ricardo (1772-1823) and Thomas Robert Malthus (1766-1834).

What is Classical Political Economy?

- **A misleading label** : may suggest a homogeneous school of thought and theoretical corpus. :
- However, there were multiple disagreements among the main “classical” authors:
 - **Ricardo vs. Smith**: Different analyses of value, distribution, and of the tendency of the profit rate to fall.
 - **Ricardo vs. Malthus**: Deep disagreement on overproduction crises.
 - **Smith, Ricardo, and Malthus defended different class interests**: Ricardo advocates the interests of capitalists, Malthus the interests of landowners and Smith the interests of workers.

What is Classical Political Economy?

- **Marx's Influence.** Karl Marx played a role in reinforcing the impression of a unified classical school. In his *Contribution to the Critique of Political Economy* (1859) and *Capital* (1867), he introduced the term “**classical political economy**”,
- Marx actually distinguishes between:
 - “**Vulgar economics**” (e.g., J.B. Say)
 - “**Scientific**” or “**classical economics**”, primarily referring to Ricardian economics.

What is Classical Political Economy?

- Despite this heterogeneity, the “classical” economists converge on the subject they study and the aim of their analysis
- CPE : **a science of wealth and social relations aiming to determine the conditions for capitalist accumulation.**

Outline

- 1.1 A science of wealth...
- 1.2. ... and social relations...
- 1.3. ... aiming to determine the conditions for capitalist accumulation

1.1 A science of wealth...

- What is meant by "wealth"?
- Wealth vs. Value

1.1 A science of wealth ...

- The classical economists' main objective is to explain how a nation's wealth could grow.

⇒ see the complete title of Adam Smith's work : ***An Inquiry into the Nature and Causes of the Wealth of Nations*** (1776)

⇒ 2 issues (at least) :

- i. What constitutes wealth? (what is its nature?)
- ii. How can it be increased? (what are its causes?)

1.1 A science of wealth ...

- «Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to **provide a plentiful revenue or subsistence for the people** (...) and secondly, to supply the state or commonwealth with a revenue sufficient for the publick services. It proposes to enrich both the people and the sovereign. » (Smith, WN, Book IV, introduction)

1.1 A science of wealth ...

- "**Political economy (...) proposes to enrich both the people and the sovereign"**
- Comment 1 : For the classics, "wealth" means **material wealth, and not monetary wealth**. The wealth of a nation consists in the abundance of useful commodities, not in the stocks of precious metals held in the kingdom's treasury. :

«Every man is rich or poor according to the degree in which he can afford to enjoy **the necessities, conveniences, and amusements of human life.**»
(Smith, WN, book 1, chap. 5)

1.1 A science of wealth ...

- "Political economy (...) proposes to enrich both the people and the sovereign"
- **Wealth is material (or "real") = useful commodities**
- **A departure from mercantilism**, which, particularly in its Bullionist version, considered precious metals to be the essence of wealth.

The mercantile system

A term introduced by Mirabeau (*Philosophie Rurale*, 1763), then popularised by Smith in *The Wealth of Nations* (1776).

An *a posteriori* category: not a genuine school of thought or theoretical trend in itself (as with the 'classics')

Extends over a long period (from the early 16th to the mid-18th centuries) + national "particularities" (Spanish bullionism, French Colbertism, British commercialism)

Gathers writings by practitioners - merchants, manufacturers, civil servants, government advisors - rather than theorists.

It was a mercantilist, Antoine de Montchrestien, who wrote the first *Traité d'économie politique* (1615).

Common features

Celebrates the pursuit of interest and enrichment as ultimate ends of human activity.

Promotes the development of trade and the interests of merchants, identified with those of the sovereign and the State.

Preference for low levels of remuneration for the working classes (high levels = incentive to idleness).

Warlike conception of international relations (trade between nations = zero-sum game)

Trade and industrial policies combining state intervention in the economy and protectionism (goal: surplus trade balance)

1.1 A science of wealth ...

- "Political economy (...) proposes to enrich both **the people** and the sovereign"
- Comment 2 – **a second departure** from « mercantilism » :

Smith presents the improvement of the living conditions of the 'bulk of mankind', i.e. the workers, as a primary objective.

In the mercantilist vision, the "people" were merely a means of enriching both the sovereign and **the merchant (= capitalist) class**.

1.1 A science of wealth ...

- "Political economy (...) proposes to **enrich** both the people and the sovereign"
- Comment 3 - A distinction must be made between '**wealth**' and '**value**':

Wealth = **useful commodities** that satisfy human needs.

Value (**exchange value**) = the proportion in which a commodity can be exchanged for another (**a purchasing power**).

1.1 A science of wealth ...

- “Wealth” vs. “value” :

Wealth = useful commodities that satisfy human needs.

Value (exchange value) = the proportion in which a commodity can be exchanged for another (a purchasing power).

- Ricardo (*Principles of Political Economy and Taxation*, 1817) :
 - **wealth** depends on **abundance**;
 - **value** depends on the **difficulty or facility of production**.

1.1 A science of wealth ...

- “wealth” and “value” according to Ricardo :

“The labour of a million of men in manufactures, **will always produce the same value, but will not always produce the same riches**. By the invention of machinery, by improvements in skill, by a better division of labour (...) a million of men **may produce double, or treble the amount of riches**, of “necessaries, conveniences, and amusements,” in one state of society, that they could produce in another, **but they will not on that account add anything to value**; for everything rises or falls in value (...) in proportion to the quantity of labour employed on its production.”

“**By constantly increasing the facility of production, we constantly diminish the value of some of the commodities** before produced, though by the same means we not only add to the national riches, but also to the power of future production”

1.2. ... and of social relations

- Social classes
- Production & distribution, two essential mechanisms
- The impact of distribution on production

1.2. ... and of social relations

- **Social classes**
- The ‘classics’ point of view is not that of microeconomics, whose approach is based on **methodological individualism** and consists of staging elementary decision-making units: isolated individuals, households or firms, sometimes referred to as ‘agents’.
- Classical analysis, by contrast, is conducted in terms of **social classes**, i.e. social groups whose members share common characteristics and interests.
- These classes are defined according to their **position in the production process**.

1.2. ... and of social relations

- 3 classes, 3 resources, 3 kinds of incomes :

Classes	Resources ("factors of production")	Incomes
Workers	Labour	Wage
Capitalists	Capital	Profit
Landowners	Land	Rent

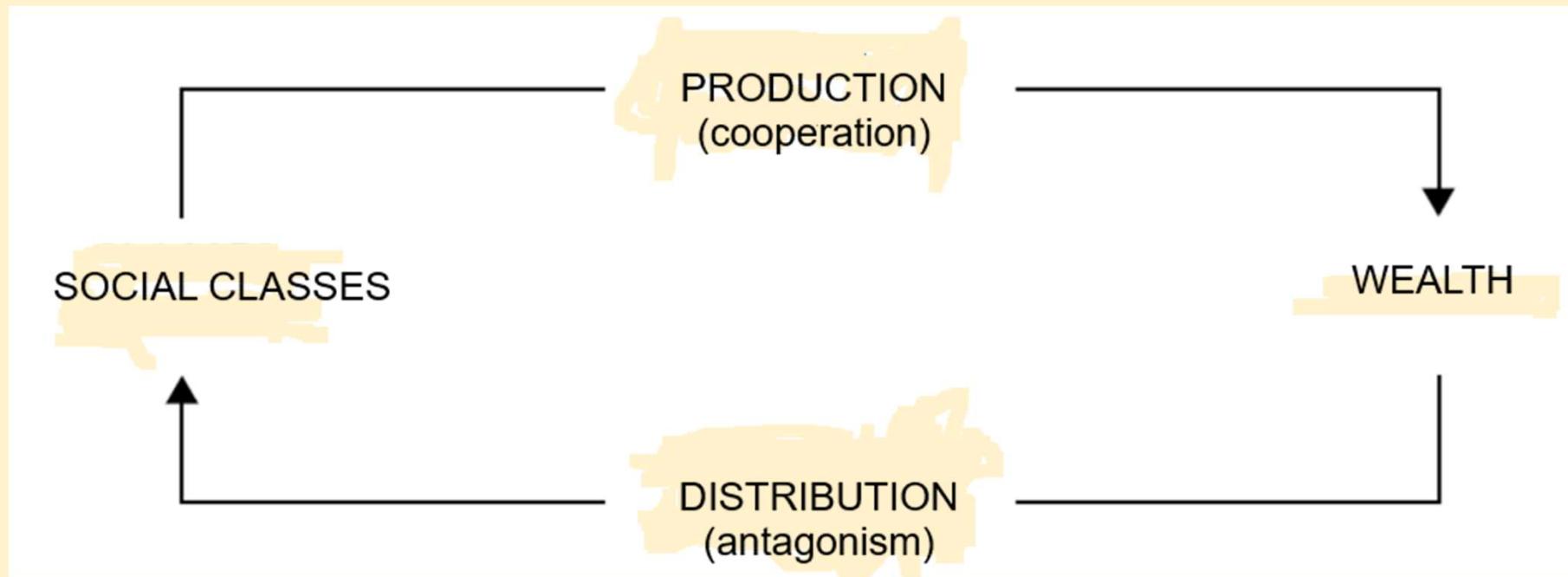
1.2. ... and of social relations

-  Any analysis in terms of social classes implies an **antagonistic conception of social relations**.
- Smith : capitalist employers and workers have diametrically opposite interests.
- Ricardo seeks to show - against Malthus - that the interests of landowners are at odds with those of capitalists and of society as a whole.
- Marx : class struggle.

1.2. ... and of social relations

-  Any analysis in terms of social classes implies an **antagonistic conception of social relations**.
- It is precisely with regard to the **distribution of the wealth** produced that the classes come into conflict.
- Imagine a cake whose ingredients are labour, capital and land. **Each class participates in its production**, providing the ingredient it possesses.
- While the classes are forced **to cooperate in producing** the largest possible cake, they are **opposed to each other when it comes to sharing** the cake.

1.2. ... and of social relations



1.2. ... and of social relations

- **Production and distribution** are thus the two **essential mechanisms** of the economic system envisioned by the classics.
- The analysis of **production** is crucial, since it is the activity that **multiplies the wealth** of society.
⇒ cf. Smith's interest in the **division of labour**.
- But the analysis of **distribution** is, in the classical context, just as important. Ricardo describes it in the preface to his *Principles* as the “principal problem in political economy”.

“To determine the laws which regulate this distribution, is the principal problem in Political Economy” (Ricardo 1817, *Principles*, preface)

1.2. ... and of social relations

- A central idea of the “classics” is that **today's distribution has a considerable influence on the future production of wealth** :
- “According to the **different proportions** in which [*the produce*] is annually divided between [*the industrious and the idle*], **its ordinary or average value must either annually increase, or diminish, or continue the same** from one year to another.”
(Smith, WN, book I, chap. VI. See tutorial booklet, section 1)

1.2. ... and of social relations

- A central idea of the classics is that **today's distribution has a considerable influence on the future production of wealth** :
- The **rate of profit** in the economy must be sufficient to **incite capitalists to invest**, otherwise the mass production typical of 'commercial' - i.e. capitalist - societies would not be possible.
- At the same time, the **wages** paid to workers must **enable them to survive and support their offspring**, without whom labour - the **source of all wealth** - would be lacking in the future..

1.2. ... and of social relations

- The aim of the analysis is to determine and maintain **the distribution system that results in the nation's opulence**, i.e. the maximum production of wealth..
- Such opulence is based on the reproduction of an **unequal social order**, in which workers individually receive the meagre portion of the product :

« for the classics, material inequality is economically efficient if not morally justified. » (Dubœuf 1999, p. 13)

1.3. ... aiming to determine the conditions for capitalist accumulation

- Reproduction & accumulation
- Capital as an avance

1.3. ... aiming to determine the conditions for capitalist accumulation

- The **physiocrats**, the French economists who preceded the classics, based their analysis on the notion of **reproduction** :
 - annual reproduction of the nation's wealth
 - reproduction of the advances made by the 'productive class', i.e. agricultural producers ("farmers") → Quesnay's *Tableau économique*
- The classics, who seek to theorise a **process of continuous enrichment**, put the emphasis on **accumulation**, and more specifically on the accumulation of **capital**.

Physiocracy (the « agricultural system » according to Smith)

A **homogeneous school of thought**, the first in the history of the discipline

Mid 18th century in France: a group of thinkers (the 'economists', including Mirabeau) gather around François Quesnay (1694-1774), a former doctor and surgeon.

Quesnay publishes the articles « Fermier » and « Grains » of the *Encyclopédie* (1756-57), the *Maximes générales du gouvernement économique d'un royaume agricole* (1767) and the *Tableau économique* (1758)

Common features

Belief in a natural and providential order based on **private property**, the protection of particular interests and the **freedom of trade**

Primacy of agriculture, the only sector generating a **net product or surplus**.

Industry and commerce are 'sterile' sectors that produce no 'income' beyond the costs incurred in production.

Society is divided into **three orders**: the productive class (farmers and agricultural workers); the proprietary class (which includes the sovereign and the tithe holders); and the 'sterile' class (citizens engaged in activities apart from agriculture).

Promotion of **free trade and competition**, particularly in the grain trade: « *laissez faire et laissez passer* » (Vincent de Gournay)

1.3. ... aiming to determine the conditions for capitalist accumulation

- The classics, put the emphasis on accumulation, more specifically on the **accumulation of capital**.
- The **stock of available land is limited by the geographical extent of the nation** and therefore cannot, strictly speaking, increase.
- The **stock of available labour** corresponds to the population that is old enough to work.
It increases in line with **demographic growth**, which is stimulated by **economic growth**, and therefore by the **accumulation of capital**.

1.3. ... aiming to determine the conditions for capitalist accumulation

- The stock of available land is limited by the geographical extent of the nation and therefore **cannot, strictly speaking, increase**.
- The **stock of available labour** corresponds to the population that is old enough to work.
It increases in line with **demographic growth**, which is stimulated by **economic growth**, and therefore by the **accumulation of capital**.
- ⇒ Which brings us back to **capital, the decisive factor in the classical perspective**. But what do we mean by 'capital'?

1.3. ... aiming to determine the conditions for capitalist accumulation

- **Capital : a previously accumulated then advanced stock, enabling the production process to be implemented (Smith).**

It is generally divided into two categories :

- 1) **fixed capital**, which is used over **several production cycles**: tools, machines and buildings ;
- 2) **circulating capital**, which is **consumed in one production cycle**, and whose advance must be **renewed** at the start of each cycle: raw materials and, above all, the **wage fund** that ensures the workers' subsistence.



Capital therefore allows the implementation of labour.

1.3. ... aiming to determine the conditions for capitalist accumulation

- All in all, someone has to be able to make this kind of **advances** until the product is done and actually sold.
- This is why, despite the fact that the classics consider **labour to be the principal source of all wealth** ("labour was the first price, the original purchase-money that was paid for all things" wrote Smith), **capital, and its owner the capitalist, occupy a predominant place in their analysis.**
- Furthermore, capital is supposed to **foster improvements in the "productive power of labour"** (productivity), by stimulating technological innovation and the division of labour.

1.3. ... aiming to determine the conditions for capitalist accumulation

- The accumulation of capital depends, for a given period, on the **rate of profit** in the economy, i.e. the ratio between **the value of revenues and the value of capital advanced**.
- **The greater the profit, the greater the increase in the stock of capital**, the more it will be possible - a priori - to make advances in the next period and implement production.
- Conclusion : for the classics, **a nation that enriches itself is one that accumulates capital** and whose 'natural' (i.e. ordinary) **rate of profit is durably positive**.

The topic of value

- The '**exchange value**' of commodities (not to be confused with 'wealth', as we have seen) is another essential topic of classical analysis.
- It is divided into **two questions** that need to be distinguished :
 - i. **the measure of value**
 - ii. **the determination of value**

The topic of value

- The theme of 'exchange value' is divided into **two questions** that need to be distinguished:
 - i. **the issue of measuring value**
consists of identifying a **standard or yardstick, if possible invariable**, which enables the value of commodities to be measured (just as metre measures distances and degree measures temperatures) and to make comparisons.
 - ii. **The issue of determining – identifying the causes - of value**
focuses on explanation: **why** has the relative value of a given commodity risen (or fallen)? **What** makes commodities more or less valuable in given social circumstances?

The topic of value

- The theme of 'exchange value' is divided into **two questions** that need to be distinguished:
 - i. **the issue of measuring value**
 - ii. **the issue of determining – identifying the causes - of value**
- While the two questions may lead to a single answer, they are nonetheless **distinct**.
- **Measuring a phenomenon is not equivalent to explaining it.**
Example, the degree centigrade (or Fahrenheit) allows to measure and observe variations in temperature but is obviously not in itself the cause of global warming.
-  In this course, **we will focus on the issue of determining value.**

The topic of value

- End of the first part.
- Bibliography :
 - introduction & text 1, section 1 of the brochure (p. 4-7)
 - Dellemotte (2017), *Histoire des idées économiques*, Dunod, chap. 5 (pp. 81-91)
- Next week: Adam Smith on the **division of labour**.
- **In the meantime, read imperatively section 1 of the brochure.**