

# Classical Political Economy

Political Economy in the New Millennium

Week 2

University of Wollongong

# Agenda

- What is political economy?
- Before classical political economy
  - Mercantilism
  - The Physiocrats
- Locke, Property and ‘Agrarian Capitalism’
- The Classical Turning Point
  - Smith, Ricardo and Malthus

# Questions

- What is the source of growth/wealth?
- Where do the poor/paupers come from?
- What should we do with the poor?
- Where do prices come from?
- Where does profit come from?
- How are goods/services distributed?
- Is there a justification for inequality?
- How do we understand machines and the production process?
- Are there internal contradictions to capitalism?

# What is Political Economy?

- Competing definitions, but I like this one:
  - A body of knowledge concerned with studying and illuminating how the political and the economic are not two separate or distinct spheres of activity but interlinked, interconnected and interdependent.
- Its origins can be traced to the 1600s but some argue that it originates in the moral philosophy of the 18<sup>th</sup> century.
- The main narrative:
  - Classical Political Economists: NO! exploitation
  - Marx and other radicals: YES! Exploitation
  - Neoclassicals: NO! exploitation

# Before Classical Political Economy

- **Mercantilism (1400s to early 1800s)**
  - Coined in 1763 by a French noble – Victor de Riqueti
  - Wealth comes from (long-distance) trade
  - Use of state power to ensure:
    - Local markets and protection of foreign sources of supply – importance of tariffs – heavy taxes on imports.
    - Aim: positive balance of trade with surplus exports.
    - Why?: More money comes into the country this way.
- **Physiocrats (mid to late 1700s)**
  - Contra mercantilism
  - Comes from Greek: ‘government of nature’
  - The source of national wealth is productive agricultural/land work.
  - Deficiency: thought only agricultural labour was valuable (produced surplus) – production and services were ‘consumption’ and therefore did not add to national income.

# Locke, Property and Agrarian Capitalism

- Locke begins his career as an Oxford don before entering the employ of the Earl of Shaftsbury – an improving landlord with colonial investments in the ‘new world’.
- *Two Treatises of Government* published in 1690
- Primarily an attack on absolutist monarchy and a call for limited, constitutional, and parliamentary government.
  - And the key here is to ask ‘why limited’?
- But we also get a unique theory of property and a justification for endless accumulation.

## Locke, Property and Agrarian Capitalism

- The scope and pace of enclosures are debated, but they appear to accelerate in the 1500s in England.
  - This creates social unrest as ever more families are expropriated from their customary and common right to land – the primary source of subsistence.
- By the time Locke is writing new social property relations based on agrarian capitalism are more and more common.
  - Landlord, capitalist tenant farmer, wage-labourer.
    - Surveys of productive soil/land
    - Competitive market ‘rents’ for leaseholds
    - Discourse of ‘improvement’

# Locke's Theory of Property

- God has given the world as a 'commons' to all
- Every 'man' has a property in their own labour
- But – in this 'state of nature' by mixing labour with nature – individual private property comes into existence.
  - Limited by two criteria
    - Cannot allow property to spoil
    - Must not take too much so as to leave others without
- But this is overturned by money/accumulation
  - Money – as it represents wealth, doesn't spoil
  - Improvement of land and money and commerce adds more to the community than enclosing land

# Locke's Theory of Property

- We get with Locke two major things worthy of notice when it comes to a new concept of property:
  - The first philosophical justification for unlimited accumulation founded on private property.
    - Even the labour of others that produce wealth, so long as it is commanded by a master, is actually the master's wealth.
      - This is taken for granted.
  - We get one of the first formulations that labour is the source of improvement/property/value.
    - It is not necessarily a labour theory of value but a labour theory of property – but there is no blood, fire or exploitation in Locke.

# The Classical Turning Point

- Classical political economy can be understood as an attempt to understand the developing transformations of early industrial (read: carbon) capitalism.
- It will largely challenge the prevailing mercantilist view.
- It will introduce new analytical categories in an attempt to theorize the economic structure/process of the time – but these categories (however flawed) will impact upon later thinkers.
  - To some extent, all major thinking in modern political economy can be viewed as an engagement – explicit or implicit with the categories first laid out by the classics.

# The Classical Turning Point: Smith

- Adam Smith (1723-1790)
  - Educated at Glasgow and Oxford
  - Professor of logic, then moral philosophy at Glasgow.
- *The Theory of Moral Sentiments* (1759)
  - Human conduct is motivated by: self-love, sympathy, the desire to be free, a sense of propriety, a habit of labour, and the propensity to truck, barter and trade.
- *An Inquiry into the Wealth of Nations* (1776)
  - First systematic political economy that argues for a competitive 'laissez-fair' market economy and against the privileges of mercantile wealth.

# *An Inquiry into the Wealth of Nations (1776)*

- Smith's original accumulation: the fairy tale.
  - How does it come to be that some own capital or what Smith called 'stock' and others laboured for them?
- Social division of labour allows for greater productivity (but now market dependence)
  - Smith is at the cusp of agrarian capitalism and industrial capitalism.
  - Wealth cannot be got by foreign trade/exchange alone, it must be based on the production of use-values.
- Labour theory of value confronts a factor theory of value:
  - Land, capital/stock, labour.
  - In Smith, there is a harmony of interests despite the obvious existence of classes.
  - There is also no exploitation as other factors are 'productive' just as labour is.

# *An Inquiry into the Wealth of Nations* (1776)

- Government intervention in human affairs is largely harmful but...three roles are important:
- Defence against foreign aggression.
- Administration of justice
- Maintenance of public works that no individual or group would provide because of inadequate profit.

# The Classical Turning Point: Ricardo

- David Ricardo (1772-1823)
  - Stockbroker, landed proprietor and member of Parliament in Britain.
  - Writing 50 years after Smith and builds on Smith's original work.
  - *The Principles of Political Economy and Taxation* (1817).
- Main achievement:
  - Theory of value and distribution
  - 'To determine the laws which regulate this distribution (of the national product to rent, profit, and wages) is the principle problem in Political Economy'.

# The Classical Turning Point: Malthus

- Thomas Robert Malthus (1766 – 1834)
  - English scholar and Anglican Clergyman
- Reacting to Condorcet and Godwin who claimed that the perfectibility of the human race was inevitable (reason / equality).
- Essay on the Principle of Population as it Affect the Future Improvement of Society (1798)
  - Limits to growth before ‘the limits to growth’
  - Population outstrips the ability of the land to provide subsistence for everyone.
  - Positive checks: war, famine, drought.
  - Preventive checks: moral restraint, the delay of marriage etc...