COMMODITIES *VERSUS* LABOUR.

IN the works of most Political Economists the element of time is allowed to remain very much in the background, and this partial oversight gives rise to the possibility of much misunderstanding, especially with reference to the important doctrine that a demand for commodities does not constitute a demand for labour.

The wealth of a country at any epoch consists of fixed capital, that is to say of commodities such as houses and machinery, which take a long time to wear out or be used up; and of commodities such as food and clothes, which are consumed quickly; along with the latter one may class raw materials, which require more or less work to be done on them, before they can come into use. There is, however, no hard and fast line between the one class and the other,—they blend into one another, so that it may be said that all the wealth of a community consists of commodities which are destined to be consumed with greater or less rapidity.

It is clear that no internal changes in distribution can produce any change in the total wealth of a country; for a community possesses what may be termed, in analogy with the physical sciences, a certain amount of "Potential Energy" in the shape of wealth. It was formerly maintained that the luxurious expenditure of the spendthrift benefited the working-classes as much as, or more than, the investment of the prudent. The "conservation of energy" shows at a glance the fallacy of this view; since all that the spendthrift consumes is subtracted from the potential energy of the country. At any given time, then, the action of individuals can only influence slightly the manner in which the commodities constituting wealth shall be consumed. Each commodity, already in existence, is adapted to the wants of a particular class in the community, and will therefore be almost exclusively used by that class; and the action of individuals can only have its effect in changing to some extent the rate at which the consumption shall take place. With respect to the necessaries of life, this rate of consumption does not admit of much variation, since a man can clearly only vary within narrow limits the amount of bread he eats, of clothes he wears out, and of wear and tear which he puts on houses and machinery. But he can greatly vary the rate of his consumption of luxuries.

The action of individuals has also great influence on the course of production; it may, at will, direct industry into various branches. Production is not an instantaneous process, but takes place in cycles, —thus a year is the cycle for corn—and as a rough rule, those products which have taken long to make take long to consume. The cycles into which industry is directed, may be either long or short; and thus, after the lapse of one or more cycles requisite for the production of the chief necessaries of life, individual action may have considerably increased or diminished the wealth of the country available for the support of labourers. Thus, supposing irrigation-works are instituted in the place of a cultivation of corn or a breeding of sheep, it is clear that labourers must suffer for many years from a less supply of corn or meat. If, however, the alternative has been between the irrigation-works and the making of some article of luxury, there will have been no loss of necessaries to the labourers, who will further reap an ultimate benefit. In the former case the labourers will have suffered an equal immediate loss, whether the works are ultimately productive (as in the case of irrigation) or not.

Individual action may then affect the prosperity of labourers in two distinct ways:—First, by the direction of labour into productive or unproductive branches of industry, as is pointed out with great clearness in all works on Political Economy; and secondly, by its direction into branches of long or short cycle of production. The prosperity will, of course, be the greater, the longer the cycle of consumption,—that is to say, the more the period is postponed at which fresh labour is requisite to replace the products consumed.

It appears to me that Political Economists have been led into a method of exposition which has given rise to a good deal of misconception, by a want of attention to this cyclic nature of production and consumption; and by a partial oversight of the element of time. Mr. Jevons is the only writer whose works I have read, who appears fully alive to the importance of this element, and this seems due to his mathematical way of looking at the subject.

In that part of Mr. Mill's book (p. 99, vol. i.) in which he treats of the doctrine that a "demand for commodities is not a demand for labour," he maintains a thesis which may be made to appear at direct variance with what may be called "Economical Conservation of Energy." This section was long a stumbling-block to me, and others, with whom I have discussed the question, have acknowledged a like difficulty. The confusion is, I fancy, to a great extent due to the fact that Mill is probably here tacitly combating the particular economical heresy above referred to, with respect to the effect of the expenditure of the spendthrift. He illustrates the theorem by supposing the existence of a man (whom I will call the capitalist, for shortness), who has the alternative of employing his income in directly paying labourers to dig him an artificial lake, build him a summer-house, &c., or of buying some luxurious commodity, such as velvet. He then maintains that the capitalist has it in his power to determine, by the course he pursues, whether a greater or less sum shall reach the labouring classes; he thus apparently maintains that by a sort of juggle the potential energy of the country is capable of increase or diminution. Mill says that from the choice of the first alternative (the direct employment of labour) a greater sum reaches the hands of labourers than from the choice of the second,—a sum greater by exactly the amount, which in the first case the capitalist pays directly to the labourers. Mill expressly guards against the supposition that a change of demand takes place suddenly, and supposes that full notice is given of the manner in which our capitalist intends to employ his fund,—so that if he determines for the lake, the velvet is not produced. I propose now to show that Mill's illustration, if examined according to its apparently natural interpretation, contradicts the doctrine that a demand for commodities is not a demand for labour.

Suppose that a capitalist and a manufacturer have each a fund represented by an equal quantity of commodities, adapted for the support of labourers; then, since they cannot consume them personally, and since no hoarding is supposed to take place, these commodities will both, in any case, reach the hands of the labourers. The mode in which they will reach the labourers will be as follows: Supposing that the capitalist chooses to have the artificial lake, he will employ his commodities in feeding the labourers who dig for him. The manufacturer, on the other hand, finding no demand for velvet, will direct his commodities to the production of something for which there is a demand. If this industry is productive, the labourers will ultimately reap the benefit at a later date. Thus the commodities both of the capitalist and of the manufacturer reach the hands of the labourers.

Secondly, suppose that the capitalist settles to barter his commodities for velvet; then the manufacturer uses *his* commodities in feeding the weavers whilst the velvet is being made. But pending the completion of the velvet, the capitalist does not by hypothesis hoard his commodities, and must therefore employ them in the production of something of the same cycle as velvet-making, and which will restore to him at least an equal value of commodities at the end of such cycle. Practically the capitalist invests his money, and at the end of the period sells out, and has a fund equal to that which he had at the beginning. But in our illustration the capitalist will find himself at the end of the velvet cycle, not in the possession of the commodities which he had initially, for these have been consumed, but in the possession of some commodity, which he will be able to barter with some third person for the precise articles, which the manufacturer is desirous of receiving for his velvet. During this process the initial commodities of the manufacturer have been consumed by the velvet weavers, and the initial commodities of the capitalist by the labourers in that industry, which he has selected for his interim investment. Thus, in this second case also, both sets of commodities reach the hands of the labourers. It is indifferent whether or not the capitalist invests his commodities in the interim in a productive industry, for in either case at the end of the cycle he will have in his possession some commodity, which he may barter with some third person for the precise articles required as the price of the velvet; if the investment has been in a productive industry, it is so much the better for the community in the future, but it does not affect the immediately present prosperity.

According to a straightforward interpretation, the truth of the illustration ought not to depend upon credit; for if we suppose the capitalist to order the velvet with a mere prospect of having sufficient to pay for it by the time it is finished, he would, having nothing by him, be unable to exercise his option, and to have the lake dug, even if he wished to do so.

Thus, notwithstanding that the supposition which I have made appears perfectly legitimate, it leads to a result directly at variance with the doctrine under discussion. I take it, however, that Mill's real idea is, that if the capitalist settles to have the lake he will employ labourers for a certain time, but if he settles to buy the velvet, he gets it at once; so that in the second case the cycle of production has taken place before the determination of the capitalist, and in the first case it takes place afterwards. To illustrate this view, suppose that the manufacturer possesses commodities as before, but that the capitalist merely knows that at the end of a certain period he will have in his possession a similar value of commodities. Now suppose that the capitalist thinks that, when this period arrives, he would like to have some velvet, and orders it accordingly from the manufacturer. Let us fix our attention on two successive cycles. During the first cycle the manufacturer feeds his weavers with his commodities, and at its end the capitalist transfers to the manufacturer the commodities which he has by then acquired. During the next cycle the manufacturer employs these commodities in making more velvet, if there is a continuing demand, and if there is not, he employs them in some industry where there is a demand. Thus, during the first cycle the manufacturer's commodities go to the labourers, and during the second the capitalist's.

Again, suppose that the capitalist thinks that, when the period arrives, he would like to dig an artificial lake. Then, during the first of the two cycles, on which our attention is fixed, the manufacturer employs his commodities in some industry other than velvet-making, in which there is a demand; and during the second cycle the capitalist is feeding the agricultural labourers. Thus equally with the first case, do two sets of commodities reach the labourers in two successive cycles respectively. It is clear, however, that if during the first of our two cycles, the manufacturer had employed his commodities in some productive industry, that during the second cycle there would be *two* funds available for the support of labour, viz., that generated by the productive investment of the manufacturer, and the fund of the capitalist. Now this I take to be Mill's meaning, and if it is so, I entirely agree with him. Mill is, as I believe, here combating the belief before referred to, that the spendthrift benefits the working classes as much as the prudent investor. He therefore has before him throughout this illustration, the image of the spendthrift capitalist, who would consume his luxuries entirely on himself, and of the prudent manufacturer who would engage such of his funds as were liberated from the manufacture of luxuries, in making necessaries for the support of labour. Thus he assumes that the manufacturer on finding his capital free, would direct it towards the increase of the labour-supporting power of the country. There is nothing, however, in the illustration which goes to show that he would not hold that a greater sum would also reach the labourers, if the investment by the manufacturer of his free capital had been in an unproductive industry. In fact, to say that the demand for commodities is not a demand for labour, seems an involved and misleading way of explaining the increased amount which would fall to the labourers,—since it is in reality merely due to the fact that the industries into which the manufacturer would direct his fund, would increase the supply of such commodities as are usually in demand amongst the labouring classes. The whole distinction between the two alternatives then, lies in this,—that a man may consume an article of luxury entirely himself, whereas he cannot do so with any equal value of commodities which ordinarily go to the support of labour.

It appears to me that my second supposition (that the capitalist has only a prospect of a fund) is not the one which any unsuspecting reader would make. Moreover, if the capitalist's prospect arises from his having invested his money at some previous period, we virtually return to my first supposition, since at the beginning of our two cycles both capitalist and manufacturer may each be held to have had a fund, and the capitalist to have invested his until the velvet was made. If, however, the capitalist expects his money from such a source as a royalty for coal, there appears to be a real distinction between the two suppositions, since the royalty does not arise from any previous investment by the capitalist.

I now proceed to a consideration of some of the remarks, which occur in Mill's argument. He begins by saying that the demand for commodities merely determines the direction of labour, and that a demand without capital is ineffective, since it merely amounts to a desire on the part of the would-be purchaser. Without a demand also, capital will not be employed in the manufacture of the commodity (velvet) in question, but will be employed to make something for which there is a demand. And here, I conceive, follows the tacit assumption, that the commodities for which there is such a demand will, on the average, be those required by the labouring classes. He then guards himself against the idea that he is speaking of a sudden cessation of demand after the velvet is actually made. He says, "I apprehend, that if by demand for labour be meant the demand by which wages are raised or the number of labourers in employment increased, demand for commodities does not constitute demand for labour. I conceive that a person who buys commodities and *consumes them himself*, does no good to the labouring classes." I am here quite in accord with him, but maintain that the words which I have put in italics, have not been kept sufficiently prominent in his illustration. He adds that a consumer may expend his income either in buying services or commodities; that he may employ labourers to dig an artificial lake, or that he may buy velvet. In either case, however, what the capitalist really buys is surely a service, and he consumes the artificial lake on himself, exactly in the same sense as he would consume the velvet. But the distinction really lies in the fact, that the capitalist will consume the velvet entirely personally, whereas, when he digs the lake, he buys commodities which he consumes through his *employés*. Again, "the consumer does not with his own funds pay to the weavers and lace-makers their day's wages. He buys the finished commodity, which has been produced by labour and capital, the labour not being paid, nor the capital furnished by him, but by the manufacturer." It is here, as I maintain, that he first puts the element of time into the background. If we suppose the capitalist and manufacturer each to start with an equal value of commodities, he neglects that during the velvet cycle the capitalist will have invested his capital in some other industry. And if we suppose that the manufacturer starts with a fund of commodities, and the capitalist with the prospect of attaining an equal fund at a future epoch, he neglects that during the second of the two cycles, on which our attention was fixed, the capitalist's fund will in any case reach the labourer's.

The capitalist, as before stated, is assumed at one time to purchase velvet, and at another to dig an artificial lake, and the comparison is then made between the effect on the labourers of the two operations. I quite agree with Mill when he says that "there is nothing in the consumer's change of purpose which makes the capital of the country greater than it otherwise was." In fact it is with the apparent neglect of this principle that I charge him.

He says further, "There was capital in existence to do one of two things,—to make the velvet, or to produce the necessaries for the journeyman bricklayer, but not to do both. It was at the option of the consumer which of the two should happen; and if he chooses the velvet they go without the necessaries." Considering this on the assumption that both manufacturer and capitalist start with an equal fund, I object to the word prôduce. Production is not instantaneous, and if the consumer intends to employ the bricklayers or labourers, their necessaries must be already in existence; if they are not so, the bricklayers cannot begin work until one cycle later in time than the velvet weavers, because their necessaries have to be produced. But to institute a fair comparison the operations should be simultaneous. Therefore for the word "produce" we should read "buy," and then the two alternatives would be seen to be on the same footing. The capitalist has it merely in his power to determine whether it shall be weavers or labourers who consume his fund. Thus by a confusion of cycles and by a neglect of the tacit assumptions involved, it would appear that the capitalist, by a mere exertion of his will, can determine the existence of a double or single fund of commodities.

On the assumption that the manufacturer starts with a fund, and the capitalist with a future prospect of a like fund, let us consider it in the following light:—The manufacturer finding that there will be no demand for velvet, employs his fund in making the necessaries for the bricklayers, which the capitalist buys when he comes into his fund. Then, as I before pointed out, there is certainly an increased quantity of commodities available for the support of labour, but it is merely due to the fact that our manufacturer has chosen to invest his fund in a productive industry instead of in an unproductive one, and that therefore the "potential energy" of the country is of course increased. And this I take to be Mill's real meaning; but he has not guarded himself against the possibility of my first assumption. The result can hardly be said to be due to "a demand for commodities not being a demand for labour," but merely to the inherent difference between the manufacturer's productive and the capitalist's unproductive consumption of these commodities. The same remarks will also apply to the following sentences: "The very sum which the consumer now employs in buying velvet formerly passed into the hands of journeymen bricklayers, who expended it in food and necessaries . . . The labour and capital therefore which formerly produced necessaries for the use of these bricklayers are deprived of their market, and must look out for other employment; and they find it in making velvet for the new demand." On the supposition that the capitalist chooses the lake, he says that there were two funds where before there was only one. Yes, but the second of the two funds arises from the fact that the manufacturer would invest his fund in the production of commodities, which he could not, or at least would not, consume personally. In another place he says, that in the purchase of the velvet, the fund of the capitalist "only served as a wheel in the machinery;" but the commodities constituting this fund must be either consumed at once, or not so consumed; if consumed at once they serve as something more than a wheel in the machinery; and if not so consumed, they are hoarded, which is excluded *ex hypothesi*.

In the latter part of this section Mr. Mill might be held to change his ground, for he makes the whole difference to lie in the distinction between productive and unproductive labour, as indeed is the fact. It is surely unnecessary to envelope such an obvious distinction in a form, which has apparently so little to do with it, as a statement that "a demand for commodities is not a demand for labour."

Professor Fawcett gives several very clear illustrations of our doctrine in his Political Economy, but, as it seems to me, in his final illustration on p. 27, he falls into precisely the same mistake of exposition as that which I am here attempting to point out.

The same line of argument appears in McCulloch's "Political Economy" (p. 355). The following is an abstract of the passage. A demand for labour always differs in a less or greater degree from a demand for commodities—the extent of the difference depending principally on the description of the commodities for which there is a demand. If a sum be expended on commodities wholly produced by labour, its influence will, in so far, be nearly the same as if it were directly expended upon labour. The influence of an increased demand for commodities over the wages and condition of the labouring class depends materially on their nature, and the uses to which they may be applied. Suppose that A buys articles that can neither be used as food nor as capital in industrial undertakings, and that B buys articles that may be and are intended to be so used, it is evident that their means of employing labour will henceforth be different. A has his vases, gems, &c., but the possession does not give him the power of supporting a solitary individual; B, on the contrary, has it plainly in his power to employ an additional number of work-people. The expenditure of the latter must, therefore, have a different effect upon wages, and be more beneficial to the labouring classes than that of the former. It therefore results that any circumstance that should tend to change a preference for products of the fine arts, &c., and increase the demand for gardeners, grooms, footmen, and other servants, would add proportionally to the employment of the labouring classes.

The doctrine is here stated with far greater lucidity than it is by Mill. Until we come to the passage on the effect on wages the argument depends entirely on the difference in effect of the purchase of commodities, such as a man can consume personally, and of such as he can only consume through his *employés*. That which I hold to be the omission is glided over so imperceptibly, that it is difficult to detect. The transition at first sight seems perfectly legitimate from the change in the powers of A and B for the employment of labourers, to the effect on wages, that is to say to the change in this power in the whole community. It easily escapes notice that a change in the power of A and B does not necessitate a corresponding change in that of the community at large.

McCulloch says that B's expenditure has a different effect upon wages to that of A, and this would no doubt be true if A's fund was absolutely destroyed, because he has exchanged it for gems, &c. But in considering this question we must look at the whole community as one farm and manufacture, and trace what becomes of A's and B's funds after their respective purchases. To clear the case from the effects of the intervention of money, let us suppose that A and B each possess commodities capable of supporting labourers, and that A barters his for gems and that B retains them himself. Then A's and B's individual powers of employing labour are from that moment changed, but the total power of the whole community is unaltered; for whereas before the barter the dealer in gems had only the gems, and therefore no power of employing labour, after the barter he has commodities which enable him to employ labour: so that the dealer's power is augmented in exactly the same degree as that of A is diminished; and it is the total labour-supporting power of the whole community which determines the wages of labour. The omission appears to lie in the following point. If the dealer had notice that A would not buy the gems, as was his habit, he would not manufacture them, but would turn his capital to account in some other industry, and if that industry were productive, the labour-supporting power of the whole community would be augmented at the end of the cycle of production. The tacit assumption is therefore involved, that the investment of the dealer would be of the nature pointed out. The increment of power would not then depend on a demand for commodities not being a demand for labour, but merely on the distinction between productive and unproductive industry.

Thus either form of the argument may be made to appear equally fallacious, when the assumptions involved are overlooked.

I hope that I have shown, then, that the doctrine that "a demand for commodities is not a demand for labour," is, when baldly stated, extremely misleading, and in some of its possible, and indeed most straightforward interpretations, absolutely wrong. The proposition might with advantage be modified thus:—"Any demand for commodities which has the effect of directing industry away from the production of necessaries towards that of luxuries, diminishes the labour-supporting power of the community; but any demand which has the opposite effect increases such labour-supporting power." And this should be supplemented by the following: "A person does good to the labouring classes not by what he consumes himself, but only by his abstinence from consumption." I apprehend that these two statements contain all that is intended to be conveyed by the doctrine under discussion; and although I have been compelled by my criticism to have recourse to somewhat complicated considerations, these propositions contain a truth which must be obvious to anyone who has paid even the slightest attention to Political Economy. Any indistinctness of ideas, on a point which lies at the threshold of the science, must have a most injurious effect on the power of grasping all that follows. The careful consideration of the subject, which the analysis of Mill's argument has necessitated, has certainly cleared away from my mind the misconceptions and haziness of ideas which previously enveloped the point; and I trust that I may have discussed this subject with sufficient clearness to produce a like result in the minds of my readers.

GEORGE H. DARWIN.