

THE
PHYSIOLOGY OF INDUSTRY:

BEING AN EXPOSURE OF
CERTAIN FALLACIES IN EXISTING THEORIES
OF ECONOMICS.

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AND

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PREFACE.

THE theory of Political Economy, as it left the hands of Mill some forty years ago, has received many vigorous assaults, and few economists can now be found who would consent to accept it as their creed ; but, strangely enough, while essential links in the argument have been destroyed, the main practical conclusion to which it leads is still regarded as a truth which no one must question. This conclusion is stated by Mill in these words, 'saving enriches and spending impoverishes the community along with the individual,' and it may be generally defined as an assertion that the effective love of money is the root of all economic good. Not merely does it enrich the thrifty individual himself, but it raises wages, gives work to the unemployed, and scatters blessings on every side. From the daily papers to

the latest economic treatise, from the pulpit to the House of Commons, this conclusion is reiterated and re-stated till it appears positively impious to question it. Yet the educated world, supported by the majority of economic thinkers, up to the publication of Ricardo's work strenuously denied this doctrine, and its ultimate acceptance was exclusively due to their inability to meet the now exploded wages-fund doctrine. That the conclusion should have survived the argument on which it logically stood, can be explained on no other hypothesis than the commanding authority of the great men who asserted it. Economic critics have ventured to attack the theory in detail, but they have shrunk appalled from touching its main conclusions. Our purpose is to show that these conclusions are not tenable, that an undue exercise of the habit of saving is possible, and that such undue exercise impoverishes the Community, throws labourers out of work, drives down wages, and spreads that gloom and prostration through the commercial world which is known as Depression in Trade ; that, in short, the effective love of money is the root of all economic evil. Having thus stated the conclusions to which our argument leads, it appears

desirable to give a brief outline of its course, and to note the more important points at which it conflicts with currently accepted dogmas.

The object of production is to provide 'utilities and conveniences' for consumers, and the process is a continuous one from the first handling of the raw material to the moment when it is finally consumed as a utility or a convenience. The only use of Capital being to aid the production of these utilities and conveniences, the total used will necessarily vary with the total of utilities and conveniences daily or weekly consumed. Now saving, while it increases the existing aggregate of Capital, simultaneously reduces the quantity of utilities and conveniences consumed; any undue exercise of this habit must, therefore, cause an accumulation of Capital in excess of that which is required for use, and this excess will exist in the form of general over-production.

Examining the terms Demand and Supply, and extending Professor Cairnes' argument on this subject, we reach a law of price which enables us to relate our theory to existing commercial phenomena, and to identify Depression in Trade with a general fall in the rate of incomes; this latter with a decrease in the

quantity of the use of the Requisites of Production demanded relatively to the quantity available for use ; and this, again, with insufficiency in the quantity of utilities and conveniences demanded, an insufficiency which we show can only arise from the unduly saving habits of the Community. We are thus brought to the conclusion that the basis on which all economic teaching since Adam Smith has stood, viz., that the quantity annually produced is determined by the aggregates of Natural Agents, Capital, and Labour available, is erroneous, and that, on the contrary, the quantity produced, while it can never exceed the limits imposed by these aggregates, may be, and actually is, reduced far below this maximum by the check that undue saving and the consequent accumulation of over-supply exerts on production ; *i.e.*, that in the normal state of modern industrial Communities, consumption limits production and not production consumption. We illustrate the effect of this check, step by step, by the commercial phenomena of the years immediately succeeding 1870.

We then trace the economic laws determining the distribution of the annual income amongst Natural Agent, Labour, and Capital owners, and show that the

present rate of wages would be considerably higher were it not for the undue thrift of the richer members of the Community, and the consequent continuous and persistent over-supply.

Our first point of divergence from the orthodox school is thus to be found in our refutation of the doctrine that saving does not reduce the aggregate consumed, but merely varies the consumers. We show this doctrine to be founded on the wages-fund theory, and we demonstrate that it is not tenable and must be replaced by the simple formula—

Production — Saving = Consumption ;

i.e., the aggregate of Production being given every increase in saving diminishes by its exact total the aggregate consumed.

Showing that the use of Natural Agents, Labour, and Capital, creates utilities and conveniences, we are able to prove that the money paid for these utilities and conveniences is paid for the use of the Natural Agents, Labour, and Capital concerned, and that the quantity of such use demanded is determined by the quantity of these utilities and conveniences consumed. We are, in consequence, at issue with that school of economists who assert that "Demand for Commodities"

(utilities and conveniences) "is not Demand for Labour."

Reaching our main conclusion, that the undue saving of individuals impoverishes the Community, simultaneously lowering Rent, Profit, or Interest and Wages, we contradict the generally accepted dogmas that the saving of the individual must always and necessarily enrich the Community, that the individual seeking his own advantage necessarily works for that of the Community, and that wages can only rise at the expense of profit, or profit at the expense of wages, or both at the expense of rent.

In Chapter VII. we examine the contention of the currency school, that Depression in Trade is due either to insufficiency in the quantity of gold in existence, or to an increase in the cost of producing it, and we show that this theory is absolutely untenable. In the last chapter we glance briefly at some of the practical conclusions to which our theory leads, and note how effectual combination amongst labourers would enable them to very materially improve their position, a theoretic conclusion which has received some slight practical illustration by the recent action taken by labour combinations in various parts of this

country. We also note that the charge of commercial imbecility, so freely launched by orthodox economists against our American cousins and other Protectionist Communities, can no longer be maintained by any of the Free trade arguments hitherto adduced, since all these are based on the assumption that over-supply is impossible.

In order to render our main argument easier to follow we have carefully excised minor qualifications, reservations, and explanations, and though this doubtless exposes us to misconstruction and adverse criticism on minor details, we think this disadvantage more than balanced by the greater clearness with which it enables us to present our theory as a whole.

With the same object in view, we have placed, after the table of contents, a series of definitions which will enable our readers to easily and at once ascertain the exact meaning which is to be attributed to the terms employed.

Contents.

CHAPTER I.

SCOPE OF PRODUCTION.

	PAGE
What is Production?	1
Consumption the cause of all commercial activity	6
Distribution	9
Objects of Political Economy	10
Commodities	15

CHAPTER II.

QUANTITATIVE RELATION OF WEALTH TO CONSUMPTION.

Definition of Wealth	20
Quantitative relation between aggregate of wealth and consumption	23
Definition of Capital	33
The limits to Saving	37
Refutation of the theory of the possibility of infinite saving	37

CHAPTER III.

THE PHYSIOLOGY OF PRODUCTION.—THE LAW OF SUPPLY AND DEMAND.

Supply and Demand—	
in relation to individuals and the community	56
Purchasing power	58
Demand for commodities cannot diminish capital	61
— causes the production of new forms of wealth	63

	PAGE
Labourers not subsisted out of capital, but out of the value they create	71
Capital exists continuously	76
The individual can consume his capital, the community cannot	78
Demand for capital explained	79
The law of price	80
Quantitative relation of consumption and capital, how maintained	82
Incomes received as the price of the use of a requisite of production	88
Demand for commodities distributed as income to producers	90
Depression in Trade identified with insufficient consumption	96
and with excessive thrift	98

CHAPTER IV.

OVER-PRODUCTION AND ECONOMIC CHECKS.

Alleged power of production to force consumption	100
The object of saving is to increase capital	104
The individual by saving can avoid future labour	106
The community cannot	108
No practical limit to the effective thrift of the individual	111
Limit to the effective thrift of the community	112
A fall in general prices cannot increase consumption	117
A fall in money incomes necessarily coincident with a fall in prices	121
A fall in profit will not increase consumption	130
— will limit production	131

CHAPTER V.

EXPANSION AND CONTRACTION OF TRADE.

The economic effects of the Franco-German War	133
on saving	134
on the distribution of the ultimate product between makers and traders	136

	PAGE
Commercial crisis	142
General effects of under-consumption	143
Competition in retail trade	145
Effect upon the number of retailers	154
Importance of fluctuations in wholesale prices relatively to retail	159
Effect on Wages of this fluctuation	161

CHAPTER VI.

THE LAW OF THE LIMITING REQUISITE.

The Interests of Labour, Capital and Natural Agents not antagonistic	164
The law of distribution	166
Advantage possessed by the Limiting Requisite	171
Natural Agents, Capital, Labour, considered respectively as the Limiting Requisite	173
In the absence of under-consumption, Labour would be the Limiting Requisite	178
Labourers the chief sufferers from under-consumption	182

CHAPTER VII.

SCARCITY OF GOLD AS AN ECONOMIC FACTOR.

The arguments of the currency school	186
The origin of Purchasing Power	187
The use of money	188
Scarcity of gold currency measured by Bank rate of discount	190
Scarcity of gold currency not the cause of low prices	192
Cost of production of gold does not determine price levels	194
but is determined by price levels	195
Prices determined exclusively by the quantity of Purchasing Power exerted	197
Entry of gold into circulation	198
Extent of its effect on prices	201

CHAPTER VIII.

PRACTICAL CONSIDERATIONS.

	PAGE
Limitations imposed by the scope of our inquiry	202
Incidence of taxation	203
The basis of the Free Trade argument	205
how modified by the theory of under-consumption	207
illustrated by figures	208
The interests of the labourers	209
Methods by which labourers may mitigate the worst effects of under-consumption	211