

Marshall's Notes for his Advanced Course in Political Economy, c.1871

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Editorial Introduction

In his first years lecturing for the Cambridge Moral Sciences the young Alfred Marshall offered two separate courses on political economy: 'ordinary', and 'advanced'. In a letter of 1879 to Herbert Foxwell, he wrote of these lectures:

For some years I used to begin my elementary course with two quotations one from Mill's *Logic* & another from Kants *Kritik* to the effect it is a mistake to spend time at the beginning of a science on inquiries into definitions & method. Then at the beginning of the advanced course when men had gone through Mill once, I used to jaw away for several hours about them.¹

¹ Whitaker, J. K. (1996), *The Correspondence of Alfred Marshall, Economist*, 3vols., Cambridge: Cambridge University Press; Vol. I: 120. John Whitaker, observes that it "would be hazardous to guess just which passages Marshall had in mind" (see pp. 120 and 121, n. 3). With regard to the quotation from Kant, however, a clue may perhaps be found in the fact that in his 'loose leaved book' of the late 1860s Marshall transcribed the following passage from the introduction to the *Critique of Pure Reason*: "It is indeed the common fate of human reason in speculation to finish the imposing edifice of thought as rapidly as possible, & then for the first time to begin to examine whether the foundation is a solid one or no Arrived at this point all sorts of excuses are sought after in order to console us for its want of stability or rather indeed to enable us to dispense altogether with so late & dangerous an investigation." (M 4/1: f.231).

Transcribed below are the folios contained in a folder of early lecture notes, presently located in the Marshall Archive and classified as M 4/19. As can be seen below, the first folio of this folder contains the instruction: “Quote briefly Mill. Kant.” Hence, it might be inferred that these are lecture notes that Marshall used for his “elementary course”. The contents of the folder as a whole, however, point unambiguously to a different conclusion, for they evidently provide such notes as would allow the young Marshall to “jaw away for several hours” about definitions and methods. In other words, it would seem that on commencing his advanced course Marshall returned to his original two quotations before commencing his ‘advanced’ excursion into problematic and contentious issues concerning the method of and appropriate definitions within the science of political economy (departing, that is to say, from the relative safety of J. S. Mill’s *Principles of Political Economy*, which had formed the basic text book of the ‘ordinary’ lectures).

In presenting our transcription of these advanced class lecture notes we have taken the liberty of occasionally rearranging the order of the folios as presently ordered in the archive folder in order to bring together subjects that seem to belong together, and on this basis classifying the material into the subsections listed above. Implicit to such a practice is our conviction that the order in which the folios have been numbered by the archivist does not always correspond to the order in which Marshall himself would have most likely arranged the folios. Put another way, we are convinced that over time the order of the folios came to be to some extent muddled up. Because we have retained the archivists’ numerical classification on the top right of each folio (f.1, f.2, etc), however, the critical reader will be able to reconstruct the ordering of the material as found in the archive folder.

Our transcription utilises the following conventions:

Italics - manuscript word or phrase is underlined

<triangular brackets> - word or phrase is crossed out; only such crossings out as are still legible have been recorded

asterisks - word or phrase written above the line

underlining – letter or word is illegible

When reference to books is given in the footnotes, books owned by Marshall and currently located in the Marshall Library are marked by [ML], books owned by Marshall and currently located in the Cambridge University Library are marked [UL] (note that not all of Marshall’s personal library has been preserved).

Part I

(A) Definitions of Political Economy

f.1

Definitions of P.E.

i Quote Whewell Nov Org p 278 : & headings of succeeding articles.² Special need for conservatism on the part of a science which wants to be listened to by men who have no technical acquaintance with it.

ii Quote briefly Mill. Kant.

iii History of P. E.
originally a science of material welfare strictly

iv Shall P.E. be narrowed to catallactics:
if yes: then decide all questions of definition in narrower sense in so far as they relate to wealth for the sake of consumption : but not <necessarily> possible to carry out this plan with regard to *a* personal faculties *b* business connections &c ...

v P.E. cannot conveniently be narrowed to catallactics.

vi P.E. should include discussion of (i) natural wealth (& be combined *with* allusions to other sources of enjoyment)

should include discussion of (ii) material capital
(iii) mental capital
(iv) organization capital

Note distinction between mental wealth that is valuable because of the pleasure it gives directly, & that which is valuable as capital: these can be distinguished not separated
parallel case that of physicians carriage

f.2

² See William Whewell's *Novum Organon Renovatum: being the second part of the Philosophy of the Inductive Sciences* (3rd edition, London: John W. Parker and Son, 1858). Page 278 falls within Book IV, 'Of the Language of Science', and marks the commencement of the discussion of Aphorisms III – VII, i.e. the language of science "relative to the Application of Common Words" (Aphorisms I and II were 'Relative to the Ancient Period' and the 'Modern Period' respectively). Aphorism III (on p. 278) is as follows: "*In framing scientific terms, the appropriation of old words is preferable to the invention of new ones*". The aphorism derives from Bacon, and Whewell proceeds to quote Bacon's statement to the effect that, whilst differing in conception and notion from the ancients, he is nevertheless concerned to "retain the ancient terms, though I sometimes alter the uses and definitions". Science, Whewell goes on to explain, "when she thus adopts terms which are in common use, always limits and fixes their meaning in a technical manner." He then introduces the next four aphorisms as rules to be attended to in "the application of this Third Aphorism". The next four aphorisms are as follows: IV, "*When common words are appropriated as technical terms, their meaning and relations in common use should be retained as far as can conveniently be done*"; V, "*When common words are appropriated as technical terms, their meaning may be modified, and must be rigorously fixed*"; VI, "*When common words are appropriated as technical terms, this must be done so that they are not ambiguous in their application*"; VII, "*It is better to form new words as technical terms, than to employ ones in which the last three Aphorisms cannot be complied with*".

Am

P.E.
Def of

P.E. treats of some of the laws according to which the well-being of man is affected by the physical intellectual ethical & social conditions by which he is surrounded.

It pays special attention to that side of his wellbeing to which the possession of wealth directly contributes. It declines to follow changes in his other circumstances which are not directly consequent on or directly conducive to important changes in his material possessions.

It thus avails itself only of such results of physical & mental sciences as are the common property of the world.

It avoids as far as possible the use of propositions, the truth of which is <only> admitted only by a portion of the scientific

f.3

2

P.^E Am

P.E.
Def of

world. Of course it cannot do this entirely. Those fundamental propositions even which are most peculiarly its own are liable to be from time to time called in question: but it endeavours to narrow the range of enquiry as far as possible to the points which most immediately & vitally concern the material well-being of man. These are:-

in physical science, the productiveness of land & the physical energies of man

- mental – the knowledge on which the arts of production are directly dependent & the aptitude of workers for learning to practice those arts

-ethical & social} – the habits of order, application, honesty & domesticity

Further it must consider how far the possession of a certain amount of wealth & of a certain amount of leisure are necessary conditions for the development

f.4

3

Am

P.E.
Def of

of mans higher faculties: but it must carry this investigation only so far as can be done without entering on complicated discussions with regard to subjects not distinctly its own.

Every science starts by assuming or building up from first principles (α), deduces consequences from these <&> *simply & in* combination (β), & applying to <practice> particular cases the conclusions so arrived at tests them by seeing how far they give

results corresponding to fact & corrects them accordingly (γ) & of course formulates particular propositions which may be useful to the arts allied with it.

Sciences are called inductive or deductive according as α <or> γ are prominent or β . [It is obvious the last step of γ completed a stage of the science or some portion of it

f.5

4 Am

P.E.
Def of

Thus γ is the α of a new stage & so on]

In regard to some questions the chief work of the economist is β , with regard to others & γ . P.E. is neither inductive nor deductive but always both & in turns prominently the one & prominently the other.

f.6

Induction or deduction

P. Econ
Q₁
Method of

Q₁ . 1

Is P.E. a deductive science?

See Cliffe Leslie on P.E. of A Smith Fortnightly for Nov: 1870 550 Criticism of Buckles account of it as deductive.³

Two schools one deductive the other inductive originated from A Smith on the deductive side he insists on ye law of Nature. Natural price, natural liberty & so on natural progress of opulence.

Paragraph 4 of the article must be given in extenso.⁴

f.7

Pol. Econ

³ T. E. C. Leslie, 'The Political Economy of Adam Smith', *Fortnightly Review*, 8, November 1870, 549-563.

⁴ The fourth paragraph of Cliffe Leslie's essay is as follows: "'The Wealth of Nations,' says Mr. Buckle, 'is entirely deductive. Smith generalises the laws of wealth, not from the phenomena of wealth, but from the phenomena of selfishness. He makes men naturally selfish; he represents them as pursuing wealth for sordid objects, and for the narrowest personal pleasures.'" [*History of Civilization in England*, i. 228; ii.449] This description is not misapplied to a political economy of later days, which has guided Mr. Buckle's interpretation of the system of Adam Smith; but with respect to that system itself, it involves two fundamental misconceptions. Selfishness was not the fundamental principle of Adam Smith's theory; and his method, though combining throughout a vein of unsound *à priori* speculation, was in a large measure inductive. The investigation which establishes this will be found also to exhibit the connection between his economic system and the chief problems pressing for solution in his time; the methods which the philosophy of the age provided for their solution; and the history and phenomena of the economic world in which he lived, and from which his ideas, his inductions, and his verifications were drawn."

Def:

Every science obtains premises, <reasons> formulates them as hypotheses, deduces conclusions from them; seeks instances of the partial application of its hypotheses, applies its reasonings to these instances, tests the accuracy of its reasonings & the *comparative* importance of those conditions of which <it> in formulating its hypotheses <to> & of those conditions which it has left to be regarded as disturbing causes.

Its <is> *processes are* therefore primarily, but in some cases almost imperceptibly inductive, afterwards deduction afterwards again induction & so on. If the greater part of the students attention is taken up with induction but especially

f.8

Pol Econ
<Prod>
Definition

with the primary <inductions> *inductions* the science is conveniently called inductive: if chiefly with the second stage it is rightly called deductive.

In connexion with economic enquiries there is an enormous amount of work of both kinds to be done. P.E. is called deductive or inductive according to the bent of peoples minds. I think it best to say it is both deductive & inductive & to call attention to the mutual interdependence of inductive & deductive processes in such a case.

f.9

Political Economy
Preliminary Definition

1 Roscher⁵

Güter nennen wir alles dasjenige was zur Befriedigung eines wahren^x menschlichen Bedürfnisses anerkannt brauchbar ist.⁶

^x Der Zusatz *wahr* scheidet nicht allein dasjenige was nur unvernünftige und unsittliche bedürfnisse befriedigen könnte vom Reiche der Güter aus sondern vindicirt auch gleich den grundbegriff der ganzen Volkswirtschaftslehre als einen Gegenstand ebenso wohl ethischer wie psychologischer Untersuchung.⁷ §1

⁵ W. Roscher, *Grundlagen der Nationalökonomie* (Stuttgart, 1854). Unless otherwise stated the following translations are taken from the 1878 translation by John Lalor entitled *Principles of Political Economy* (New York, Henry Holt & Co).

⁶ “Goods are anything which can be used for the satisfaction of any true or legitimate human needs and whose utility for this purpose is recognized.” We are indebted to Keith Tribe for pointing out that Lalor’s 1878 translation wrongly renders *Bedürfnisse* as ‘wants’ rather than ‘needs’.

⁷ “The qualification ‘true’ excludes from the circle of goods, not only all those things which might satisfy only irrational or immoral wants, but also vindicates the fundamental idea of the whole system of Political

I quote this note not as approving it. In fact it seems scarcely consistent with the position of Roscher himself on the subject of <Ide> Political Ideals

Unter *Wirtschaft* verstehen wir die planmässige Thatigkeit des Menschen um seinen Bedarf an äusseren Gütern zu befriedigen. Unser Buch handelt nur von wirtschaftlichen Gütern (zwecken oder Mitteln der Wirtschaft).⁸ §2

f.10

Pol. Econ.
Prelimin: Def:

2 Roscher

Alle *wirtschaftlichen Güter* zerfallen in drei klassen. A Personen oder personliche Dienste. B Sachen sowohl unbewegliche als bewegliche. C. Verhältnisse zu Personen und⁹ Sachen (Res incorporales des römischen Rechts)¹⁰

and he gives many examples

Wirtschaftlicher Werth eines gutes ist die Bedeutung welche dasselbe für das Zweckbewusstsein des wirtschaftenden Menschen hat¹¹

As to the supposed contradiction between gebrauchs - & Tausch-werth¹² he aptly remarks – one pound of gold alone is not worth so much as one pound of iron. But one pound of gold will satisfy a much greater portion of a mans whole demand for gold than one pound of iron will: and thus <he is willing to give> after he, (or the people

f.11

Pol Eco.
Prel Def

3 Roscher

Economy, as a subject of moral as well as of psychological investigation.” (Marshall here reproduces Roscher’s note to the word *wahren* - ‘true’.)

⁸ “By economy, we mean the systematized activity of man, to satisfy his need of external goods. This treatise is concerned only with economic goods (ends or means of economy).”

⁹ Marshall writes ‘und’ where Roscher’s text has ‘oder’.

¹⁰ From §3. “All economic goods are divided into three classes: A. Persons or personal services. B. Things, both moveable and immovable. C. Relations to persons and things (The *res incorporales* of the Roman law).”

¹¹ From §4. “The economic value of goods is the importance they possess for the purpose of man, considered as engaged in economy.”

¹² “The supposed contradiction, that is, between value in use and value in exchange.”

who do his work for him), have enough iron to satisfy the more pressing practical necessities he is willing to give more for a pound of gold than for many hundredweight of iron, at least I fancy this is Roschers position but he is not very clear §6

Vermögen ist die Summe aller wirthschaftlichen Güter welche sich im Eigenthum einer physischen oder juristischen Person befinden.¹³ §7

The signs of National wealth are

- A. Eine behagliche menschen würdige Lage auch der niederen klassen¹⁴
- B. Ein grosser freiwillig aufwand zur Befriedigung feinerer Bedürfnisse¹⁵
- C. Eine grosse Menge werthvoller Gebäude und bleibender Bodenverbesserungen¹⁶
- E. Häufige Darlehen an fremde Völker¹⁷

§10

f.12

J. S. Mill¹⁸

P.E.

Def:

Political Economy considers mankind as occupied solely in acquiring and consuming wealth; and aims at shewing what is the course of action into which mankind living in a state of society would be impelled if that motive except in the degree in which it is checked by the two perpetual counter motives – aversion to labour and desire of the present enjoyment of costly indulgences – were absolute ruler of all their actions.¹⁹

assumptions

f.13

Mill

Pol: Econ:
Comte attacks on

¹³ “[Personal] Wealth is the aggregate of economic goods owned by a physical or legal person.” We are indebted to Keith Tribe for pointing out that Lalor’s 1878 translation wrongly renders *Vermögen* as ‘resources’ rather than as ‘(personal) wealth’.

¹⁴ “When even the lower classes are comfortable in a condition worthy of human beings.”

¹⁵ “When a considerable outlay is voluntarily made to the satisfaction of the more refined wants.”

¹⁶ “A large number of valuable buildings and permanent improvements”.

¹⁷ “Frequent loans to foreign nations.” Note that Marshall omits Roscher’s D – the frequent occurrence of heavy commercial payments.

¹⁸ Written in pencil.

¹⁹ This passage is probably copied from essay V, ‘On the Definition of Political Economy; and on the Method of Investigation Proper To It’, of J. S. Mill’s *Essays on some Unsettled Questions of Political Economy* (London: Longmans, Green, Reader, and Dryer Co., 1844). Note, however, that the same passage also appears in Mill’s *System of Logic*, Book VI, chapter 9, §3.

On the whole question [of P.E] he [Comte] has but one remark of any value & that he misapplies; namely that the study of the condition of natural wealth as a detached subject is unphilosophical because all the different aspects of social phenomena acting & reacting on one another they cannot be rightly understood apart: w^h by no means proves that the material & industrial phenomena of society are not even by themselves susceptible of useful generalisation but only that their generalisation must necessarily be relative to a given form of civilisation & a given state of social advancement

f.14

2 (Mill)

Pol: Econ:
Comte attack on

.... If a Pol: Economist is deficient in general knowledge he will exaggerate the importance & universality of the limited class of truths w^h he knows....

The principal error of narrowness which they [Pol: Economists] are frequently chargeable is that of regarding not any economical doctrine, but their present experience of mankind, and of universal validity; mistaking temporary or local phases of human character for human nature itself; having no faith in the wonderful pliability of the human mind; deeming it impossible, in spite of the strongest evidence that the earth

f.15

3 (Mill)

Pol: Econ:
Comte's attacks on

can produce beings of a different type from that which is familiar to them in their own age or even perhaps in their own country. The only security against this narrowness is a liberal mental cultivation & all that it proves is that a person is not likely to be a good political economist who is nothing else.

Mill on Comte²⁰ pp 80-3

(B) The Scope of Political Economy

f. 82

A Smith

Pol:Econ

²⁰ J. S. Mill, *Auguste Comte and Positivism* (2nd edition, 1866) [UL]. In the Marshall Library there is a first edition of 1865, but the pagination given suggests that Marshall was using the second edition.

“Pol: Econ: considered as a branch of the science of <the> a statesman or legislator proposes two distinct objects: first to provide a plentiful revenue or subsistence for the people or more properly to enable them to enable them²¹ to provide such a revenue or subsistence for themselves & secondly to <provide> supply the state or commonwealth with a revenue sufficient for the public purposes.”

W of N IV I p 187

on w^h M^cCulloch remarks.

Pol Econ is now most commonly defined

“The science of the laws w^h regulate the production distribution & consumption of those articles or products that have exchangeable value<s> & are at the same time necessary useful or agreeable to man.”

f.84

Ricardo

Pol:Econ
The Scope of

In different stages of society the proportion of the whole produce of the earth which will be allotted to each of these classes of the community under the <heads> names of rent, profit & wages will be essentially different depending mainly on the actual fertility of the soil on the accumulation of capital & population & on the skill ingenuity & instruments employed in agriculture. To determine the laws w^h regulate this distribution is the principal problem in Pol Econ.

Preface to Prin:

f.85

(Mill)

Pol:Econ
The Scope of

In so far as the economical condition of nations turns upon the state of physical knowledge it is a subject for the physical sciences & the arts founded upon them. But in so far as the causes are moral or psychological dependent upon institutions & social relations or on the principles of human nature their investigation belongs not to physical but to moral & social science, & <it> is the object of what is called Political Economy.

... of the conditions of the production of wealth some are physical depending on the properties of matter, & on the amount of knowledge of those properties <produced> possessed at a particular place & time. These P.E. does not investigate, but assumes ...

²¹ Sic.

Combining with these facts of outward nature other truths relating to human nature it endeavours to trace the secondary or derivative laws by which the production of wealth is determined; in which must lie the explanation of the diversities of riches & poverty in the present & past & the ground of whatever increase in wealth is reserved for the future.

Pol Econ Prelim Remarks

f.86

J S. Mill.

Pol:Econ
The Scope of

“The science which treats of the production & distribution of wealth so far as they depend on the laws of human nature”:- or thus: “The science relating to the moral or psychological laws of the production & distribution of wealth.” Essays p 133

Conf at length pp 137*8* – 140 ending:-

The science which traces the laws of such of the phenomena of society as arise from the combined operation of mankind for the production of wealth in so far as those phenomena are not modified by the pursuit of any other object.’²²

f. 83

(Cairnes)

Pol:Econ
The Scope of

Cairnes: -

The science w^h accepting as ultimate facts the principles of human nature & the physical laws of external nature investigates the laws of the production & distribution of wealth which result from their combined operation. or:-

The science which traces the phenomena of the production & distribution of wealth up to their causes in the principles of human nature & in the laws & events of the external world.”

p 122

The science w^h investigates the laws of the production & distribution of wealth w^h <arise> result from the principles of human nature as they operate under the actual circumstances of the external world ... Those mental principles & physical conditions are taken by the P. Economist as ultimate facts, as the premises of his reasoning beyond w^h he is not concerned to trace the causes of the phenomena of wealth.²³

²² All quotations are from Essay V of Mill’s *Essays on Some Unsettled Questions of Political Economy*.

²³ J. E. Cairnes, *The Character and Logical Method of Political Economy* (London: Macmillan & Co., 1861).

f.18

Bastiat

*Pol: Econ:
The scope of*

Society could not present combinations so complicated & in which civil & penal laws have so little part unless it obeyed the laws of a mechanism wonderfully ingenious. The study of that mechanism is the business of Political Economy.

Harmonies²⁴ p 21

Pol. Econ is founded on the assumption that society is nothing else than association voluntary & progressive

Ib p 31

f.19

*Pol Econ
The scope of*

John Morley (in Fr May 69) quotes from Littré a comparison between Pol: Econ: & the science of the alimentary system of the human body.²⁵

²⁴ F. Bastiat, *Harmonies of Political Economy*, translated by Stirling, P.J. (London, 1860) [ML, but inscribed "Mary Paley, Cambridge, 1872"].

²⁵ J. Morley ('Editor'), 'Mr. Lecky's First Chapter', *Fortnightly Review*, 5, May 1869, pp. 518-38. Morley's article is an assault upon W. Lecky's *History of European Morals from Augustus to Charlemagne* (1869). In the passage referred to by Marshall (page 530), Morley first quotes Lecky's assertion that "The whole tendency of political economy and philosophical history which reveal the physiology of societies, is to show that the happiness and welfare of mankind are evolved much more from our selfish than what are termed our virtuous acts." Morley then comments: "Now political economy, as it happens, does not profess to disclose with reference to society laws analogous to those which physiology discloses with reference to the animal organism. Physiology is concerned with the laws of all the functions of the organism. Political economy, on the contrary, is only concerned with a single special set of facts in a society – these which correspond, as M. Littré has suggested, to the facts of nutrition in the animal. Again, political economy, in a spirit of entire neutrality towards the wider moral question as to the proper sphere and limits of self-interest, simply postulates self-interest as a condition of the matter with which the science is conversant." It is to be noted that in precisely the passage from his book on Comte that Marshall quotes in these notes (f.13-5), J. S. Mill had written in a footnote: "M. Littré, though a warm admirer, and accepting the position of a disciple of M. Comte, is singularly free from his errors, makes the equally ingenious and just remark, that Political Economy corresponds in social science to the theory of the nutritive functions in biology, which M. Comte, with all good physiologists, thinks it not only permissible but a great and fundamental improvement to treat, in the first place, separately, as the necessary basis of the higher branches of the science: although the nutritive functions can no more be withdrawn *in fact* from the

“To make Utility the basis of Value would be to let in the whole of Psychology into Pol: Econ: which is the very thing we are so careful to exclude. It would be an error in the mental or subjective department of the subject, of a similar nature to what it would be in the external or objective department to admit the whole process of manufactures & agriculture.”

MaCleod Dict²⁶ p 366

f.17

Pol Econ
The scope of

Its relation & subordination to Pol: <Econ> Phil: clearly put & illustrated by Price²⁷
Prelim: lect pp 13-

(C) Methods &c of Political Economy

f.78

Method &c of P.E.

f.76

(Whately)

Wealth
Individual app: to national

Rich *man* has a great temptation to pride.

influence of the animal and human attributes, than the economical phenomena of society from that of the political and moral.” (*Auguste Comte and Positivism*, p. 82).

²⁶ H. D. Macleod, *A Dictionary of Political Economy: Biographical, Bibliographical, Historical and Practical*, vol. 1 (London: Longman, Brown, Longmans and Roberts, 1863).

²⁷ B. Price, *Principles of Currency, Six Lectures Delivered at Oxford* (Oxford and London 1869) [ML]. Price writes: “Political Economy is infested with an incessant tendency to commingle with general politics”, and he further comments that writers in the science “never seem quite able to escape the impression that Political Economy is a branch of politics. It is a branch of politics in the same sense as the administration of war or of justice, and in no other. Politics is the master science, and Political Economy nothing more than a subordinate... Its conclusions are not final, nor supreme... The function of the economist is solely to report on the matters within his cognisance to the statesman; but it is the statesman, and the statesman alone, whose prerogative it is to judge of their application” (pp. 13-4).

Rich *man* often weak & effeminate

rich *nation* in general vigorous

Rich *man* often idle

“a rich *nation* on the contrary is always an industrious nation” & almost always more industrious than poor ones.²⁸

f.77

Mill - Ricardo

Wealth

Wealth may be defined all useful or agreeable things which possess exchangeable value; or in other words all useful or agreeable things except those which can be obtained in the quantity desired without labour or sacrifice

P.E. Prel Rem 6

Endorsed by M^cCulloch W of N. p. 1

In the wealth of mankind nothing is excluded which does not of itself answer some purpose of utility or pleasure. To an individual anything is wealth which though useless in itself enables him to claim from others a part of their stock of things useful or pleasant.
Ib 5

It should be born in mind that this definition is qualitative not quantitative. If we require a quantitative definition we must perhaps fall back on Ricardo's method of exposition q.v.

Wealth – The material objects useful or agreeable to man which have required some portion of human exertion to appropriate or produce²⁹

Malthus Definition

f.87

²⁸ From 'Lecture II' of Richard Whately's *Introductory Lectures on Political Economy* (2nd edition, London: B. Fellowes, 1832).

²⁹ See Definition 1 ('Wealth') of Chapter II of T. R. Malthus' *Definitions in Political Economy* (London: John Murray, 1827). Note that in his *Principles*, Malthus amended his earlier definition and now defined wealth "to be the material objects, necessary, useful, or agreeable to man, which are voluntarily appropriated by individuals or nations." In the *Principles* he notes of his earlier definition: "there is some objection to the introduction of the term industry or labour into the definition, because an object might be considered as wealth which has had no labour employed upon it." See Malthus' *The Principles of Political Economy considered with a view to their practical application* (2nd edition, London: William Pickering, 1836; reprinted by the International Economic Circle, 1936), p. 33 and note pp. 33-4.

“Previously to the publication of the Wealth of Nations it was generally concluded that the price of <nat> commodities depended upon their scarcity or abundance, or as *it* was more commonly expressed on the proportion which their supply bore to the demand. But Smith has shewn that as regards the great bulk of commodities this principle holds only for very limited periods & that at an average their market price corresponds with their necessary price or with the cost of their production. ... He erred in estimating the elements which enter into & form this natural or necessary price.”

M^cCulloch’s Intro to W of N. xlviii

f.88

Roscher

Pol: Econ:
The methods of

1. “One cannot overlook the fact that Nat Econ in its more general portions presents many resemblances to mathematics. It swarms, just as this does, with abstractions. &c <And he says that> Every *social* science <that concerns> presents two chief questions

What is? & what ought (acc to theory) to be. In Nat Econ these are often confused, but when not we see a sharp distinction between the realistic physiological or historical, & the idealistic method.³⁰

By this latter he seems to mean the art of Politics & demands as a necessary qualification the formation of a clear ideal of what the best economy would be. Moreover this would be nothing fixed, but vary for different peoples & times. This “Pulsfühlen der Zeit” demands talents of a very different order from those of a student; & he quotes the younger Pitt’s saying that he <felt> *saw* his way by instinct rather than in a distinct & formal manner which he could describe for others. Accordingly

f.89

Roscher

Pol: Econ:
The methods of

he altogether abandons the attempt to form such ideals “Was wir statt dessen versuchen ist die einfache Schilderung, zuerst der wirtschaftlichen Natur und Bedürfnisse des Volkes; zweitens der Gesetze und Anstalten *regulations& weleche zur Befriedigung der

³⁰ From Roscher’s introduction (1854), §22.

letzteren bestimmt sind; endlich des grössern oder geringern Erfolges, den sie gehabt haben. <Also gleichsam die Anatomie und Physiologie der Volkswirtschaft>³¹

p 47

And in §29 he discusses his position relatively to practice: it is not to be practical : but to form practical men.

f.79

Am

Art v: Science

An art <must be> may be regard a limited sphere of action, but within that sphere it must be complete as far as <the> action is concerned: as far as knowledge of relations not required for the special action it may be fragmentary, with science the case is the reverse of this. Thus a cwt of water weights as much as a cwt of lead. But the shipbuilder may not substitute the one for the other as ballast. On the other hand he is not concerned to know, as the mechanician is that the former of these masses would if put into a vacuum be heavier than the latter. So, as observed by Whately (lect p 20) <one> £10⁰⁰ worth of jewels are of the same value as £1000 worth of instructive books. But the legislator may consider one more important than the other. On the other hand some of the *specialised* function of government can be carried on

f.80

2

Am

Art v: Science

without an accurate knowledge of the theory of values. But as the characteristic of the theory of wealth is that though very often not the most important element, it is always an element in political questions, some knowledge of the science is required for almost all forms of political art. [In exactly the same <way> sense is Pol Econ a branch of Politics as the administration of war or of justice. See Price's Prelim³² lect p 13]

On the different kinds of classifications required for an art & a science conf Baxter on Taxation³³ pp 19 &c

³¹ From Roscher (1854) §26. "Our aim is simply to describe man's economic nature and economic wants, to investigate the laws and the character of the institutions which are adapted to the satisfaction of these wants, and the greater or less amount of success by which they have been attended. <Our task is, therefore, so to speak, the anatomy and physiology of social or national economy>."

³² B. Price, *Principles of Currency*; see note 27 above.

³³ R. D. Baxter, *The Taxation of the United Kingdom. Partly read before the Statistical Society of London* (London: Macmillan, 1869) [ML]. Baxter writes: "Taxes are defined in the works of political economists

f.81

Art v Science

Mill Logic VI ch XII §5

An art or a body of art consists of the rules together with as much of the speculation proposition as comprises the justification of those rules. <The complete art of any matter> ... Art in general consists of the truths of science arranged in the most convenient order for practice, instead of in the order which is most convenient for thought.

Science groups & arranges its truths so as to enable us to take in at one view as much as possible of the general order of the Universe. Art though it must assume the same general laws follows them only into as much of their detailed consequences as have led to the formation of rules of conduct; & brings together from parts of the field of science most remote from one

one³⁴ another, the truths relating to the production of the different & heterogeneous conditions necessary to each effect which the exigencies of practical life require to be produced.

f.20

(Maine)

Pol: Econ:
contracts v. <in relation to> legislation

It is certain that the science of Pol Econ: the only department of moral enquiry which has made any considerable progress in our day would fail to correspond with the facts of life if it were not true that Imperative Law had abandoned the largest part of the field which it had once occupied & had left men to settle rules of conduct for themselves with a liberty never allowed to them till recently. The bias indeed of most persons trained in Pol: Econ: is to consider the general truth on which their science reposes as entitled to become universal & when they apply it as an art their efforts are ordinarily directed to enlarging the province of Contract & curtailing that of <positive law> Imperative Law,

with scientific accuracy – taxes on rent, taxes on land, taxes on profits, taxes on wages, taxes on income, taxes on commodities, taxes on contracts, taxes on communication, law taxes, and local rates. But, though admirable for philosophical purposes, such a classification is too intricate and subtle for a practical treatise, where it is necessary to present some clear and broad outline which may readily impress itself upon the memory” (pp. 19-20). He goes on to describe more practical divisions, such as indirect and direct, and on receipts and on outgoings.

³⁴ Sic. The remainder of this sentence is written on the back of folio 81.

f.21

3

Maine

Pol: Econ:
contracts v: legislation

except so far as law is necessary to enforce the performance of contracts.

The impulse given by thinkers who are under the influence of these ideas is beginning to be very strongly felt in the Western world. Legislation has nearly confessed its inability to keep pace with the activity of man in discovery, in invention, & in the manipulation of accumulated wealth; & the law even of the least advanced communities tends more & more to become a mere surface stratum having under it an ever-changing assemblage of contractual rules with which it rarely interferes except to compel compliance with a few fundamental principles or unless it be called in to punish the violation of good faith.

Anc: Law³⁵ Ch IX p 306

(D) Lecture Notes

f.95

2nd lect

P.E. lect

Recapitulation. Spoken of ends spoken of method. use of history.

//

Every science partially ded & partially ind.

//

Art v: science

// P.E. made its début as an art.

//

P.E. deduction but certain assumptions

one neglect custom ie competition holds full sway : Three classes assumed. capitalists landlords laborers this practically assuming competition

//

P.E. critical not constructive another way of saying knowledge insufficient for prediction sufficient for guidance: another way also of saying P.E. only partial.

f.96

Pol: Econ:
Lect on: adv:

³⁵ H. S. Maine, Ancient Law: its connection with the early history of society, and its relation to modern ideas, 3rd edition (London, 1866) [ML].

1. Moral Sciences: meaning of words separately scarcely convey at first meaning of the two together.

Yet on exam: the term found appropriate

the relation of the four branches Mental Phil: Logic Ethical Phil & Pol: Phil:
Difficulty about books no Phil: of Hist: Position of Pol Econ: critical. P.E.
will scarcely answer any social question, but scarcely any social question can receive an
answer independent of P.E.

The movement of the working classes makes the P.E. side of questions every day more important:

Criticisms on P.E. proceed from those for whom an increase of wealth has no
<social> other than a physical meaning. It is **in general** a matter of little importance to
any one particular the owner whether he has £10⁰⁰ or £1000 a year. But the cry every
one should have the physical prerequisites for the full development of his energies is
becoming every day more prominent. Endless schemes have been started to accomplish
this end. They must all be tried at an Economical Tribune as well of course at others.

f.97

2.

1

Pol: Econ:
Lect on: adv:

History used to be biographies of <monarchs> important men: The hist of Phil: used
to be concerned with the details of thoughts of leading Phil: The world is getting to see
that it has not time for either of them. But it has time it must make time for a history of
general movements.

For moral science students a general idea of the growth of economical ideas is of
double value.

The Ancients

Schäffle <p 134> quotes the socialistic criticism of economic Hist.³⁶

p 134 The Greek Roman & Medieval society have the common characteristic that
particular individuals, castes, callings & nationalities are privileged. The idea of the
moral personal *per se* dignity of all was not recognised in theory let alone practice.

³⁶ A. G. F. Schäffle, *Kapitalismus und Socialismus*, (Tübingen, 1870) [ML].

but still slavery was not so bad a state as that of our <proletari> undeveloped laborers. European capitalists have given a cheap counsel to the American slave holders since in thickly populated lands hunger is a better taskmaster than the lash. Liberalism & free credit were shut out from Sparta: but in

f.98

2.

2

Pol: Econ:
Lect on: adv:

Athens & Rome they made a chasm which as now conducts rapidly to Cesarism.

Still Capitalism was not quite there even in <Crassus> *Plinys* time. See Bast: Sch:³⁷ p 166 Sum quidem *prope* totus in praediis, aliquid tamen foenere.³⁸ Crassus' property 7.100 tal: = £1,500,000. But his silver mines farms houses including slaves occupied with them were nothing in comparison as regards value to his house slaves so many & so excellent were they, lecturers, secretaries, silver testers, overseers waiters, &c.

McCulloch treats the dislike of the Greeks & Romans to Commerce as a baseless prejudice.³⁹ In Rau I pp 34 – a fairer judgment.⁴⁰ What Plato says part of an ideal system – must be taken with it & shews nothing (tell the story about Lord North & the opposition member whose opinions were useless because they were his own). Aristotle & Xenophon more trustworthy <they>

“To the Greek philosophers property appeared desirable only as a means to a noble & beneficent life. the unlimited striving for wealth which arose from the pursuit of pleasure they regarded as immoral since there is a limit to our *real* wants with regard to external goods. This was the reason of the preference to agriculture from its supposed superior physical & moral training.” Read fr Cicero Rau 36

f.99

4.

Pol: Econ:
Lect on: adv:

³⁷ F. Lassalle, *Herr Bastiat-Schulze von Delitzsch, der ökonomische Julian, oder: Capital und Arbeit* (Berlin: R. Schlingmann, 1864).

³⁸ Pliny, *Epistles*, 3.19. “Practically all [my money] is in land, but I do have some with interest” (translation: Rachel Stroumsa).

³⁹ Marshall probably has in mind McCulloch's ‘Introductory Discourse’ to Smith's *Wealth of Nations*, where the dislike of commerce and manufacturing of the Greeks and Romans is twice referred to as a “prejudice”. But he may also have been thinking of the sections on ‘Grecian’ and ‘Roman Commerce’ in the ‘Sketch of the History of Commerce’ in McCulloch's *Treatises and Essays on money, exchange, interest, the letting of land, absenteeism, the history of commerce, manufactures, etc.; with accounts of the lives and writings of Quesnay, Adam Smith, and Ricardo* (2nd edition, Edinburgh, 1869) [ML].

⁴⁰ We have (so far) been unable to identify to which work of Rau this refers.

Lassalle on absence of capitalism in feudal times.

Spain middle of 16th cent: (see *P.E. Spain*) causes often entangled. Still that her P.E. system was one cause of her ruin undoubted. But main cause was indolence.

P.E. in France: Birago

We must turn to Venice. P.E. in Venice⁴¹

<Tr: Twiss:⁴² p 57 says “Venice had established her greatness by the early freedom of her commercial & industrial institutions & by that very greatness she had been>

(E) Fragment of Reading List

f.16

Political Economy

Books on Special Points (cont)⁴³

Kebbel on the Agricultural Laborer
Fawcett. Position of British Labourer
Fawcett. Pauperism.
Bonamy Price. Principles of Currency
Babbage Economy of Manufactures [out of print]
Carl Marx das Kapital
Schäffle Capitalismus und Socialismus

⁴¹ “*P.E. Spain*”, “*P.E. in France*”, and “P.E. in Venice” are all references to what must be some of Marshall’s earliest historical notes. None of the three has so far been located. The reference to “P.E. in Venice” also appears in the essay on the history of civilization (M 4/12: f.70).

⁴² T. Twiss, *View of the Progress of Political Economy in Europe since the sixteenth century. A course of lectures delivered before the University of Oxford in Michaelmas Term, 1846, and Lent Term, 1847* (London: Longman, Brown, Green, and Longmans, 1847).

⁴³ T. E. Kebbel, *The Agricultural Labourer. A short summary of his position, partly based on the report of her majesty’s commissioners appointed to inquire into the employment of women and children in agriculture; and republished in part from the ‘Pall Mall Gazette’ and the ‘Cornhill Magazine’* (London, 1870) [ML]; H. Fawcett, *The economic position of the British labourer* (Cambridge, London: Macmillan & Co., 1865) [SJCL]; H. Fawcett, *Pauperism: its causes and remedies* (London and New York: Macmillan & Co., 1871) [ML]; B. Price, *Principles of Currency* (Oxford and London 1869) [ML]; C. Babbage, *On the Economy of Machinery and Manufactures* (London, 1832) [ML; but inscribed with Mary Paley’s name]; K. Marx, *Das Kapital* (Hamburg, 1867) [UL]; A. G. F. Schäffle, *Kapitalismus und Socialismus* (Tübingen, 1870) [ML].

Books connected with P.E.⁴⁴

* Maine Ancient Law

--- Village Communities

Nasse -----

Systems of Land Tenure Cobden Club

Brentano History of Guilds & Trade Unions

Lewis Methods of reasoning & observing in Politics

Part II

(F) Productive & Unproductive Labour

f.22

(Adam Smith)

*Productive
& Unproductive Labour*

“There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former as it produces a value may be called productive, the latter unproductive labour. Thus the labourer of the manufacturer adds generally to the labour of the materials which he <acts> works upon the value of his own maintenance & of his masters profit. The labour of a menial servant on the contrary adds to the labour of nothing⁴⁵

..... The labour of the manufacturer fixes & realises itself in some particular subject or vendible commodity which lasts for some time at least after that labour is past. It is as it were a certain gratuity of labour stocked & stored up to be employed, if necessary, upon some other occasion. The labour

f.23

2

(Adam Smith)

⁴⁴ H. S. Maine, *Ancient Law: its connection with the early history of society, and its relation to modern ideas*, 3rd edition (London, 1866) [ML]; H. S. Maine, *Village-communities in the East and West: Six lectures delivered at Oxford* (London, 1871) [SJCL]; E. Nasse, *On the Agricultural Community of the Middle Ages, and Inclosures of the sixteenth century in England* (translated by Ouvry, H.A., London, 1871) [ML]; *Systems of Land Tenure in Various Countries, A series of essays published under the sanction of the Cobden Club* (London, 1870) [ML]; L. Brentano, *On the History and Development of Guilds, and the Origin of Trade-Unions* (London: Trübner & Co, 1870) [SJCL]; G. C. Lewis, *A treatise on the methods of observation and reasoning in politics* (London: J. W. Parker and Son, 1852).

⁴⁵ Marshall substitutes ‘labour’ for ‘value’. Smith’s text reads: “Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance and of his master’s profit. The labour of a menial servant, on the contrary, adds to the value of nothing.”

Mc Culloch

Productive

of the menial servant on the contrary does not fix itself in any particular subject or vendible commodity.”

W of N⁴⁶ II, III

McCulloch remarks “Even if it were true (and Smith himself admitted that it is not) that wealth consists only of material & vendible products his definition would, notwithstanding, be essentially defective” He first defends all forms of governmental work well enough. But he goes on somewhat amusingly

“With respect to menial servants the case is equally clear. A manufacturer merchant or Banker who is making a large sum by his business is also paying perhaps a large sum to his servants; now suppose he tries to save this sum... by turning his servants adrift & becoming coachman footman cook & washerwoman for himself; and if he <he> do this, it is

f.24

3

Mc Culloch

Productive

pretty obvious that instead of increasing his gains he will soon reduce himself to a <miserable> *wretched* pittance.” His own account is that “All sorts of labour should be regarded as productive which occasion whether directly or indirectly the production of greater value than was expended in carrying them on, or even if they only occasion the production of the same amount.”

See *Capital*

f.25

4

(J S Mill)

Productive

While considering that according to that definition w^h is most conducive to the ends of classification “we should regard labour as productive which is employed in creating permanent utilities, whether embodied in human beings or in any other animate or inanimate objects” but “in order to do the least possible violence to usage” he will “when speaking of wealth understand by it only what is called material wealth, & by productive labour only those kinds of exertion which produce utilities embodied in *material*

⁴⁶ A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, with notes by J. R. McCulloch (5th edition, London: Ward, Lock, 1871) [UL].

objects.” but “he will not refuse the appellation productive to labour which yields no material product as its direct result, provided that an increase of material product is its ultimate consequence.” Thus he includes labour expended in the acquisition of manufacturing skill & the labour of offices of government.⁴⁷

f.26

5

(J S Mill)

Productive

“Unproductive may be as useful as productive labour; it may be more useful even <if> in point of permanent advantage. In any case society or mankind grows no richer by it, but poorer”⁴⁸

“The distinction of Productive & Unproductive is applicable to consumption as well as to labour. Whoever contributes nothing directly or indirectly to production is an unproductive consumer. The only productive consumers are productive labourers, the labour of direction being of course included as well as that of execution. But the consumption even of productive labourers is not all productive consumption. That alone is productive consumption which goes to maintain the productive powers of the community, either those residing in its soil, in its materials, in the number & efficiency of its <efforts of> instruments of production, or in its people.”⁴⁹

f.27

Productive

“Sterile” is applied to labor which though not foolish for the undertaker of it does not add to wealth of society

Thus in Mun
Quesnay
Adam Smith

in different ways

e.g. distinction between material & immaterial wealth is just as arbitrary as that between money & other wealth

And just as from a precise definition of money as wealth the mercantilists got to deny that people need look after any other kind of wealth or might even sacrifice national bullion to it, so now people say such a course (eg of national education) would make men but be ruinous to the national wealth.

⁴⁷ See J. S. Mill, *Principles of Political Economy* (2 Volumes, London, 1865) [UL], Book I, Chapter III, §3.

⁴⁸ See Mill’s *Principles*, I, III, §4.

⁴⁹ See Mill’s *Principles*, I, III, §5.

distinction of physiocrats

Same colour for <their> increasing taxes of trader, & every other partial monopolists

f.28

Productive

Notes

<P> Sterile = that which *does not* add<s> to the wealth of the community. (Need not be foolish as regards individual) Hence Sterile has different senses according to different senses of wealth.

- i. money sterile: land alone
- ii. argite,⁵⁰ money does not. a sort of anticipation of physiocrats
- iii. mercantile position.
Importers injurious
Artisans sterile
Exporters productive
- iv. Artisans & all traders sterile
Agriculture productive

Growth of doctrine of freedom through mercantilists & agriculturalists.

(G) Value

f.29

1 *Value*

(Adam Smith)

Value

“The word value, it is to be observed has two different meanings & sometimes expresses the utility of some particular object, & sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called *value in use* the other *value in exchange*.”

A Smith W. of N. I ch IV

The value of any commodity to the person who possesses it & who means not to use or consume it himself but to exchange it for other commodities is equal to the quantity of labour which it enables him to purchase or command. Labour therefore is the real measure of the exchangeable <mes> value of all commodities. The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil & trouble of acquiring it.

Ib ch V

⁵⁰ Word unclear.

f.30

2 *Value* Cont: (Adam Smith) *Value*

“Labour alone therefore never varying in its own value is alone the ultimate & real standard by which all commodities can at all times & places be estimated & compared. It is their *real price*, money is their *nominal price* only.

But though equal quantities of labour are always of equal value to the labourer, yet to the person who employs him they appear to be sometimes of greater & sometimes of smaller value. He purchases them sometimes with a greater & sometimes with a smaller amount of goods, & to him the price of labour seems to vary like that of other things. It appears to him dear in the one case & cheap in the other. In reality however it is the goods which are cheap in the one case & dear in the other.

In this popular sense therefore labour like commodities may be said to have a real & a <pop> nominal price. Its real price may be said to consist in the quantity of the necessaries & conveniences of life which are given for it; its nominal price is the quantity of money.”

Ib

f.31

3 *Value* Cont: Adam Smith

“Equal quantities of labour will at distant times be purchased more nearly with equal quantities of corn, the subsistence of the labourer, than with equal quantities of gold & silver or perhaps of any other commodity. Equal quantities of corn therefore will at distant times be more nearly of the same *real* value, <than a> or enable the possessor to purchase or command the same quantities of the labour of other people more nearly than equal quantities of any other commodity.”

Wealth of Nations I ch V

*Conf p 8 of Value*⁵¹

In Ch VI he goes on to <di> lay down the doctrine that the value of commodities in an advanced state of society varies acc: to the variations of rent profit & wages. And this as M^cCulloch says in a note is “fundamentally erroneous. These variations” M^cC. goes on “merely affect the distribution of commodities or the proportions in which they are divided among landlords, capitalists & labourers & have nothing to do with their value, or with their power to exchange for or buy ea: other & labour.

f.32

⁵¹ Written in pencil in margin.

When the price of every commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour & the profits of the stock employed in raising preparing & bringing it to the market according to their natural* rates, the commodity is then sold for what may be called its *natural price*.

W. of N. I Ch VII

* *natural* he had previously defined in this use as “ordinary or average in a particular society or neighborhood”

M^cCulloch assents to the ‘principle laid down in this chapter that the market price of commodities is perpetually gravitating towards & cannot generally speaking ever diverge considerably from this natural price or cost of production.’

f.33

5 *Value* Cont: (Ricardo) *Value*

“Adam Smith who so accurately defined the original sources of exchangeable value, & who was bound in consistency to maintain that all things become more or less valuable in proportion as more or less labour was spent on their production, has himself erected another standard measure of value & speaks of things being more or less valuable in proportion as they will exchange for more or less of this standard measure. Sometimes he speaks of corn at other times of labour as a standard measure; not the quantity of labour bestowed on the production of any object, but the quantity which it can command in the market: as if these were two equivalent expressions If this indeed were true, ... either might accurately measure the value of other things The first is, under many circumstances, an invariable standard indicating correctly the variation of other things, the latter is subject to as many variations

f.34

6 (Ricardo) *Value*
Cont:

as the commodities compared with it. Adam Smith after most ably shewing the insufficiency of a variable medium, such as gold & silver for the purpose of determining the varying value of other things, has himself, by fixing on corn & labour chosen a medium no less variable.”

*Ric. Pol: Econ.*⁵² Ch I sect I

He goes on to substantiate this last position. His position is this. Let A, B, C, D, E, F... be commodities in the broadest sense of the term. If the relative value of one (A) to the

⁵² D. Ricardo, *On the Principles of Political Economy*. (London, 1817) [UL; also in UL a 3rd edition from 1821].

rest changes, while among themselves their relative values are constant, then the value of A has varied. Whereas if A happened to be the corn & the labour you could purchase, Smith & Malthus would say that A had remained constant & that the rest had changed. Ricardo appears to be right: but I don't see the use of his position.

See Mill end of Chap XV of book III

f.35

7

(Ricardo)

Value

In Ch I §2 he discusses the <different> “estimation in which different kinds of labour are held.” “If a days labour of a working jeweller be more valuable than a days labour of a common labourer, it has long ago been adjusted & placed in its proper position in the scale of value” (& he quotes from the W. of N. bk I ch X) “It is adjusted however not by any accurate measure, but by the haggling & bargaining of the market.”

Thus Ricardo's position is not as has been said entirely independent of the principle of supply & demand.

In § 3, 4, 5 he explains that the labour employed in producing any commodity includes a share of that required for the machines &c – the fixed *Capital* (q.v.) w^h are used: ‘by the unequal durability of capital & by the unequal rapidity with which it is returned to its employer’

f.36

8

(Ricardo)

Value

*I § 5*⁵³

<On the> He insists very strongly that the value & the price of commodities are unaffected by changes in wages. But he assumes (i) that these changes affect all classes of labour in the same ratio & (ii) that the value of gold depends solely upon its cost of production. He finds that those commodities which are produced chiefly by labour with
 less}
 more} fixed capital or with capital of
 less}
 more} durability than the medium in which price is estimated will
 rise}
 fall} as wages &
 fall}
 rise} as wages fall 

⁵³ Written in pencil.

“May not gold be considered as produced with such proportions of the two kinds of capital as approach nearest to the average quantity employed in the production of most commodities?”

“To facilitate then the object of this enquiry though I fully allow that money made of gold is subject to most of the variations of other things, I shall suppose to be invariable”

f.37

9 (J.S. Mill) *Value*

He adds nothing to the substance of the preceding, but expresses a few things more clearly.

“The *temporary or market* value of a thing depends on demand & supply. ... The demand however varies with the value ... & the value always adjusts itself in such a manner that the demand is equal to the supply.”

“The *{permanent or}* *natural* value of some things is a scarcity {or monopoly} value: but most things naturally exchange for one another in the ratio of their cost of production or at what may be called their *cost* value.”

“The *cost* value of a thing means the cost value of the most costly portion of it.”

“The market value of every thing always tends to return to its natural value; & the oscillations compensate for one another so that on the average commodities exchange at about their natural value.”⁵⁴

f.38

10 (Bastiat) *Value*

“L’*utilité* (la propriété qu’ont certaines actes our certaines choses de nous servir) est composée: une partie est due à l’action de la nature, une autre à l’action de l’homme.”

“La coopération de la nature est essentiellement *gratuite*; la coopération de l’homme, intellectuelle ou matérielle, échangée ou non, collective ou solitaire est essentiellement *onéreuse*.” Et comme ce qui est *gratuite* ne saurait avoir de valeur puisque l’idée de *valeur* implique celle d’acquisition à titre *onéreux*, il ensuit que la notion de Valeur sera encore mal conçue si on l’étend en tout ou partie aux dons ou à la cooperation de la nature au lieu de la restreindre exclusivement a la cooperation humaine.”⁵⁵

⁵⁴ Mill’s *Principles* III, VI, §1.

⁵⁵ F. Bastiat, *Harmonies Économiques*, (2^{me} edition, Paris, Guillaumin et C^{ie}, 1851), p. 117. The translations which follow in these notes are taken from Hayden Boyers translation, *Economic Harmonies* (Princeton, 1964). “Utility (the ability of certain acts or things to serve us), is composite, one part of it being due to the action of Nature, the other part to the action of man.” “Nature’s contribution is essentially *gratuitous*; man’s contribution, whether intellectual or physical, exchanged or not exchanged, collective or individual, is essentially *onerous*”. And since what is gratuitous cannot have value, the notion of *value* implying acquisition through *effort*, it follows that value too will be misunderstood if we extend its meaning to include, in whole or in part, those things that are received as gifts from Nature, instead of

“Je dis donc: *La Valeur, c’est le Rapport de deux Services échangés*⁵⁶

f.39

11

(Bastiat)

Value

“La vérité est que l’utilité produite par la Nature est *gratuite* partant *commune*, ainsi que celle produite par les instruments de travail. Elle est gratuite et commune à une condition; c’est de se donner la peine c’est de se rendre à soi-même le service de la recueillir, ou si l’on donne cette peine si l’on demande ce service à autrui, de céder en retour un service *équivalent*. C’est dans ces services comparés qu’est la valeur, et nullement dans l’utilité naturelle.”⁵⁷

“Vous dites que les instruments de travail produisent de la Valeur; vous vous trompez c’est de l’Utilité & de l’Utilité gratuite qu’il faut dire. Quant à de la Valeur ils en produisent si peu qu’ils l’anéantissent de plus en plus.”⁵⁸

Habituons-nous donc à distinguer l’Utilité de la Valeur. Il n’y a de science économique qu’à ce prix. ... Le rapport d’Utilité est avec le Besoin et la Satisfaction. Le rapport de la Valeur est avec l’Effort. L’Utilité est le bien qui fait cesser le besoin par la Satisfaction. La Valeur est le mal, car elle naît de l’obstacle

f.40

11½

(Bastiat)

Value

J’aurais bien mal exposé la théorie de la *valeur* si le lecteur <qu> ne comprenait pas que celui qui cède un capital ne s’en fait payer que la *valeur* c’est à dire le service rendu à son occasion c’est-à-dire la peine prise par le cedant combinée avec la peine épargnée au cessionnaire⁵⁹

restricting its meaning to the human contribution only.” (Boyers 1964: 102).

⁵⁶ Bastiat 1851: 118. “I therefore say: Value is the relationship existing between two services that have been exchanged.” (Boyers 1964: 103).

⁵⁷ Bastiat 1851: 152. “The truth is that the utility produced by Nature is *free of charge*, and therefore *common to all*, just like the utility produced by the tools of production. It is free of charge and common to all on one condition: that we take the pains, that we perform the service, of helping ourselves to it, or if we ask someone else to take the pains or perform the service for us, that we render him an equivalent service in return. The value resides in the comparative services, and not at all in the natural utility.” (Boyers 1964: 138).

⁵⁸ Bastiat 1851: 153. “You say that tools of production produce value. [You are wrong.] You should rather say that it is utility, and gratuitous utility, that they produce; as for value, far from producing any, they progressively destroy it.” (Boyers 1964: 139).

f.41

12

(Bastiat)

Value

qui s'interpose entre le besoin et la satisfaction.⁶⁰

Je m'estimerais heureux si... je parviens à établir cette vérité rassurante: *propriété légitime de la valeur*, et cette autre vérité consolante: *communauté progressive de l'utilité*.⁶¹

“Après tout si l'on persiste à voir dans l'Utilité le fondement de la Valeur, je le veux bien; main qu'il soit bein entendu qu'il ne s'agit que⁶² de cette utlité qui est dans les choses et les phénomènes par la dispensation de la Providence ou la puissance de l'art, mais de l'utilité des services humains comparés et échangés.”⁶³

“La rareté donne souvent lieu à des rémunérations considérables; et c'est pourquoi je refusais d'admettre tout à l'heure avec les Economistes Anglaise que la valuer fût proportionnelle au le travail. Il faut tenir compte de la parcimonie avec laquelle la nature nous a traités à certains egards. Le mot *service* embrasse tous⁶⁴ ces idées et nuances d'idées.”⁶⁵

f.42

13

(Bastiat)

Value

⁵⁹ Bastiat 1851: 192 (chapter on 'Capital'). “I have explained the theory of value very badly if the reader has not comprehended that the one who surrenders a certain amount of capital demands payment for its value only, that is, for the service he put into producing it, the pains he took, plus the effort saved the recipient.” (Boyers 1964: 178).

⁶⁰ Bastiat 1851: 153-4. “Let us, then, learn to distinguish between utility and value. An understanding of the science of economic comes only at this price... Utility is related to want and satisfaction. Value is related to effort. Utility is the good that terminates want with satisfaction. Value is the evil, for it is born of the obstacle that intervenes between want and satisfaction”. (Boyers 1964: 139-40).

⁶¹ Bastiat 1851: 154. “I should consider myself fortunate if... I should succeed in gaining acceptance for this reassuring truth: *Private ownership of value is legitimate*; and this other comforting truth: *Utility tends constantly to become the gratuitous and common possession of all*.” (Boyers: 140).

⁶² Marshall writes ‘que’ where Bastiat’s text has ‘pas’.

⁶³ Bastiat 1851: 155. “After all, if anyone persists in attributing the basis of value to utility, I have no quarrel with him, but let it be well understood that we do not mean that utility which is in things and phenomena by the gift of Providence or the power of science, but the utility of human services compared and exchanged.” (Boyers 141).

⁶⁴ Marshall writes ‘tous’ where Bastiat’s text has ‘toutes’.

⁶⁵ Bastiat 1851: 156. “Scarcity often occasions very high remunerations; and that is why I refused to agree a little earlier in this work with the English economists’ position that value is in direct proportion to labour. We must take into account Nature’s miserliness toward us in certain respects. The word ‘service’ embraces all these meanings and shades of meaning.” (Boyers: 142).

And further on he says – “Une foule de circonstances extérieures influent sur la valeur sans être la valeur même: - Le mot *Service* tient compte de toutes ces circonstances dans la mesure convenable.”⁶⁶

That is instead of *describing* the distinction between market value & cost value & their relation to one another he gives one brief phrase “La valeur résulte de l’appréciation de deux services comparés” & he says the words here employed are very elastic & can be stretched so as to include any particular case. He takes as his choice effort exerted or service rendered. In short he says nothing that Mill *or Ricardo* does not <but> & what he does say is unsystematic. <He gains perhaps a slight advantage over Ricardo on account of his obstinate consistency with regard to such cases as that of the diamond.>

f.43

14

(Bastiat)

Value

He takes as his basis for *comparing two social states* the position of the unskilled labourers. There is much to be said for this in spite of its involving the great fallacy “Toutes les rémunérations s’échelonnent et se graduent à partir de cette base, elles augmentent avec toutes les circonstances qui ajoutent à son mérite.”⁶⁷

“Si donc on veut comparer deux états sociaux il ne faut pas recourir à une *mesure de la valeur* par deux motifs aussi logiques l’un que l’autre: d’abord parce qu’il n’y en a pas; encore⁶⁸ parce qu’elle ferait à l’interrogation une réponse trompeuse; négligeant un élément considérable et progressif du bien-être humain: l’utilité gratuite. Ce qu’il faut faire, c’est <au contraire> se demander... Quel est le bien-être que peut se procurer par l’échange le simple journalier”.⁶⁹

f.44

15

(M^c Cleod)

Value

He makes a great raid on Mill & Ricardo. But according to him (Dict vol I p 55) ‘We have the whole subject summed up in the following two laws.

⁶⁶ Bastiat 1851: 157. “Many outside circumstances influence value without becoming value themselves. The word ‘service’ takes all these circumstances into account in their proper measure” (Boyers: 143-4).

⁶⁷ Bastiat 1851: 160. “All wages are scaled and graded with this as a base: when circumstances are favourable to day labour, the rate of other wages increase also.” (Boyer: 147).

⁶⁸ Marshall writes ‘encore’ where Bastiat’s text has ‘ensuite’.

⁶⁹ Bastiat 1851: 160. “If, then, we want to compare two societies, we must not turn to a *measure of value*, for two most logical reasons: first, because none exists; second, because if one did exist, it would give us only a wrong answer to our question, an answer that would ignore an important factor contributing to progress in human well-being: gratuitous utility. What we must do, <on the contrary> is ask... How much comfort and well-being can the ordinary day labourer obtain in exchange for his services?” (Boyer: 147).

1. The relation between supply & demand is universally the only regulator of value
2. In such cases as production can be increased without limit people learn to adjust the supply to the demand so that the <cos> value of the article will nearly agree with its cost of production.”

It is equally true that the demand adapts itself to the supply. In fact the advantage that M^cCleod obtains is that we can give as his main definition one w^h <has a> is universally valid when explained by the other. Mill’s main definition <has> gives in the cases to which it does apply a mode of estimating from limited data the value of anything: but it does not apply in all cases.

It seems possible to combine the advantages of the two methods. M^cCulloch is not so clear as Mill. Fawcett repeats Mill. Rogers is loose.

(H) Capital

f.59

1

Capital

(Adam Smith)

<W> When a man possesses stock sufficient to maintain him for months or years, he naturally endeavours to derive a revenue from the greater part of it This part ... is called his *Capital*. The other is that which supplies his immediate consumption.

Wealth of N. II. Ch I

M^cCulloch in a note says

The grounds on which D^r Smith has divided the stock of a country into capital & revenue seem to be unsatisfactory & to lead to erroneous conclusions. The capital of a nation really comprises all those portions of the produce of industry existing in it that may be *directly* employed either to support human existence or to facilitate production.”

M^cCleod quoting the passage says

“Thus Adam Smith fully shews that he considers capital to be an economic element employed in a particular way & his description certainly implies the necessity of anterior accumulation.”⁷⁰

Further on he quotes M^cCulloch’s note

⁷⁰ Dictionary: 326 (art Capital).

(Adam Smith)

& says

From this it evidently appears that M^cCulloch means by Capital simply the quantity of things already existing upon which labour has been employed. He allows that his definition differs entirely from that of Adam Smith, & we have no hesitation whatever in rejecting it.”⁷¹

Further on Smith says

There are two different ways in which a capital may be employed so as to yield a revenue or profit to its employer

First. It may be employed in raising manufacturing or purchasing goods, & selling them again at a profit. The capital employed in this manner yields no revenue or profit to its employer while it either continues in his possession or remains in the same shape..... His capital is continually going from him in one shape & returning to him in another & it is only by means of such circulation or successive exchanges that it can

(Adam Smith)

yield him any profit. Such capital therefore may very properly be called *circulating capitals*.

Secondly It may be employed in the improvement of land, in the purchase of useful machines & instruments of trade or in suchlike things as yield a revenue or profit without changing masters or circulating any further. Such capitals may therefore very properly be called *fixed capitals*”

Under the head of the fixed capitals he includes

“The acquired & useful abilities of all the inhabitants or members of the society. The acquisition of such talents by the maintenance of the acquirer during his education study or apprenticeship always costs a real expense which is a capital fixed & realised as it were in his person.” p. 172⁷²

M^cCleod says of this paragraph that

“It is deserving of especial notice, because it has been almost universally supposed that Adam Smith confines wealth to material

⁷¹ Dict 330 (art Capital).

⁷² Page number added later in pencil (possibly: ‘p. 122’).

f.62

4

Capital

Adam Smith

objects. J. B. Say & Malthus both thought so. ... The confusion has arisen from Adam Smith's self contradiction. For under labour he classes all labour as unproductive which does not fix & realise itself in some material vendible commodity. This passage quite contradicts the one just quoted & it is the one on labour which writers have chiefly regarded."⁷³

Adam Smith says: -

Every fixed capital is both derived from & requires to be continually supported by a circulating capital."

On this M^c Cleod remarks:-

This doctrine has been repeated in different varieties of form by nearly every economist since Adam Smith Mr Mill has been led to adopt it as one of the fundamental propositions (the third) respecting capital. ... If I have an estate in <London> the heart of London which produces me an annual income

f.63

5

Capital

(Adam Smith)

how do the qualities of that land wear out or how are they reproduced? It is true that there is a very considerable portion of Capital to which this proposition may be applied, but there is also Capital to the amount of thousands of millions to which it is wholly inapplicable & consequently as a general & fundamental theorem it must be wholly rejected"⁷⁴

Quoting with approval Adam Smith's distinction between fixed & circulating capital M^c Cleod says:-

It is clearly to be understood that it is according to the method in which any article of Capital is used & not according to its nature that it receives the name of fixed or circulating The same article may be *floating* Capital in the hands of one man, & *fixed* Capital in the hands of the next possessor if the first produces it for the purpose of selling

⁷³ Dict 360 (art Capital).

⁷⁴ Dict 363 (art Capital).

it & the second purchases it for the purpose of deriving an income from its use If an upholsterer lets out furniture for him it becomes capital as much as a railway”⁷⁵

f.64
5½

Capital

Adam Smith

“Though all capitals are destined for the <prod> maintenance of productive labour only, yet the quantity of that labour which equal capitals are capable of putting in motion varies extremely according to the diversity of their employment; as does likewise the value which that employment adds to the annual produce of the land & labour of the country.

A capital may be employed in four different ways: either 1st in producing the rude produce annually required for the consumption of the <country> society; or 2^{ndly} in preparing that *rude* produce for <the> immediate use & consumption; or 3^{rdly} in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or lastly in dividing <small> *particular* portions of either into such small portions as suit the occasional demands of those who want them.”

W of N II. V

For his theory of rent founded on the superior producti<ion>*veness* of agricultural labour see *Rent*.⁷⁶

f.65
6

Capital

(Ricardo)

“Capital is that part of the wealth of a country which is employed in production & consists of food, clothing, tools, raw materials, machinery, &c necessary to give effect to labour”

Ric: Pol: Econ Ch V p57

“According is capital is rapidly perishable & requires to be frequently reproduced, or is of slow consumption it is classed under the heads of circulating or of fixed capital” (and in a note) “a division not essential and in which the line of demarcation cannot be accurately drawn.”

⁷⁵ Dict 361 (art Capital).

⁷⁶ This refers to Marshall’s notes on Book I, chapter XI of the Wealth of Nations. These notes, which have been published in Whitaker 1975, II, 253 – 255, may be found together with Marshall’s early notes on the Physiocrats in a separate item in this issue of the *Marshall Studies Bulletin*.

.... “It is also to be observed that circulating capital may circulate or be returned to its employer in very unequal times. The wheat bought by a farmer to sow is comparatively a fixed capital to the wheat purchased by a baker to make into loaves.”

Ib I. IV p 21

M^cCleod calls attention to the fact that this is a distinction of <to> a totally different character from that of Adam Smith & condemns it as ‘violation of the law of continuity.’⁷⁷ With regard to the first definition he says “What is wealth? What is production? Of these we may gather that wealth means material things exclusively, but what production means we have not been able to gather from the whole of Ricardo’s work.”⁷⁸

f.66

7

Capital

(J S Mill)

Besides the primary & universal requisites of production, labour & natural agents, there is another requisite <beyond> *without* which no productive operations beyond the rude & scanty beginnings of primitive industry are possible: namely a stock previously accumulated of the products of former labour. This accumulated stock of the produce of former labour is termed *Capital*..... What capital does for production is to afford the shelter protection tools & materials which the work requires; & to feed & otherwise maintain the labourers during the process. These are the services which present labour requires from past, & from the produce of past labour. Whatever things are destined for this use – destined to supply productive labour with these various prerequisites – are Capital

.... Each capitalist has money which he pays to his workpeople & so enables them to supply themselves with food & clothing: he has also finished goods in his warehouses by the sale of which he obtains more money to employ in the same manner as well as to replenish his stock of materials

f.67

8

Capital

J S Mill

to keep his buildings & machinery in repair & to replace them when worn out.

⁷⁷ Dict 362 (art Capital).

⁷⁸ Dict 328 (art Capital).

His money & finished goods are not however wholly capital, for he does not wholly devote them to these purposes..... What then is <it> his capital? Precisely that part of his possessions which is to constitute his fund for carrying on fresh production The distinction then between Capital & not-Capital does not lie in the kind of <the> commodities but in the mind of the capitalist – in his will to employ them for one purpose rather than another; & all property however ill adapted in itself for the use of labourers is a part of capital so soon as it, or the value to be received from it, is set apart for productive reinvestment.”

P.E. I. IV. 1

This last position he supports by shewing that such a determination will lead to the importation or anyhow ultimately to the production of those commodities which are required by labourers. So far well: but he does not seem to have been very careful not to count these commodities as productive capital twice over.

f.68
9

Capital

J S Mill

Ye fundamental propositions respecting:-

I “Industry is limited by Capital.”

He first employs this in a most hopelessly confused attack upon governmental encouragement of industry by means of Protection. But further on he explains away much of its apparent meaning “Because industry is limited by capital we are not however to infer that it always reaches that limit..... There are many persons maintained from existing capital who produce nothing or who might produce much more than they do.” Exactly so: & therefore, as increased labour would increase capital, the proposition appears to be devoid of content. <to say>

II “Capital is the result of saving”

Here of course the use of the word is still narrow

III “Although saved & the result of saving capital is nevertheless consumed. (see under Capital Ad: Smith)

IV “What supports & employs productive labour is the capital employed in setting it to work, & not the <pro> demand

f.69
10

Capital

J S Mill

of purchasers for the produce of labour when completed. Demand for commodities is not demand for labour.”

When I first read Mills book I wrote a note from w^h I extract “If it be required to ‘create additional employment’ (see p 40) ie to increase either the number or the energy of the labourers, this may be done as well by the prospect of additional funds as by the application of money. In fact credit is money – neither credit nor money will directly supply capital ie food & machines. But the first must be assumed to be in existence, & as to the machines, part of the additional labour must be spent in constructing them.”

This is the view w^h I have just discovered M^cCleod takes on the subject. But he is in the habit of talking about the *creation* of credit: & this seems to me to be objectionable.

f.70
11

Capital

J S Mill

Of the capital engaged in the production of any commodity there is a part which after being once used exists no longer as capital; is no longer capable of rendering service to production, or at least not the same service nor to the same sort of production. Capital which in this manner fulfills the whole of its office in the production in which it is engaged, by a single use, is called *Circulating Capital* It does its work not by being kept but by changing hands.

Another large portion of capital however consists in instruments of production of a more or less permanent character which produce their effect not by being parted with but by being kept; & the efficacy of which is not exhausted by a single use Capital which exists in any of these durable shapes & the return to which is spread over a period of corresponding duration is called *Fixed Capital*⁷⁹

f.71
12

Capital

J S Mill M^cCleod

Thus his definition is not as bald as Ricardo’s. He seems to have read Ad: Smith just before writing this, but not to have noticed that, as M^cCleod says, “It is improper to apply

⁷⁹ See Mill’s *Principles*, I, VI, §1.

the terms either of floating or of fixed capital to any object whatever be its nature unless we know the intention of its owner in using it.”⁸⁰

f.72
13

Capital

M^cCleod

“Capital is an economic element devoted to the purposes of profit.”⁸¹

“Property the subject matter of Pol: Econ: comprehends,

1. Rights to the use & enjoyment of existing material products <such as>
2. Rights to the use & enjoyment of immaterial products, such as services of all sorts which perish in the using.
3. Rights to the use & enjoyment of products of all sorts which have no present existence, but will only come into existence at some future time, such as the future produce of the land, the future produce⁸² of trading of all sorts either by public companies or by private persons, which includes shares in all public companies, copyrights, good wills of business & commercial credit; also all personal annuities & the

f.73
14

Capital

M^c Cleod

public funds. Although these products are future the *Rights* to them are *present* & may be accumulated & transferred by sale or exchange in exactly the same manner, & they may pass from person to person just like any material products”⁸³

Dict Art Capital

The fundamental idea of Capital is the store of accumulated labour which its owner has not yet spent in purchasing commodities. It does not represent commodities in any way whatever, but only the power <of practice> its owner has of purchasing what he wants (p 66) Capital then in its most extended & general sense, which is the proper one to be employed in Pol Econ: may be said to be anything which a man can trade with, or which he can turn to the purposes of profit, or which helps him to gain an income.

⁸⁰ Dict 361 (art Capital)

⁸¹ Dict 337 (art Capital)

⁸² Marshall writes ‘produce’ where in Macleod’s text is ‘profits’.

⁸³ Dict 358 (art Capital).

f.74
15*Capital*
*Fixed & circulating*M^cCleod

Capital may be employed in two ways. First it may be invested in objects which are meant to be sold, & then the whole of the original sum together with the excess of profit may be recovered in one operation. When employed in this way it or the objects in which it is invested is termed *floating* or *circulating* Capital because it goes away altogether from the owner. Secondly it may be invested in objects w^h are not meant to be sold & parted with, but which remain with the owner & yield him a profit by their use. When employed in this way it or the objects in which it is invested is termed *Fixed Capital*.⁸⁵

f.75
16*Capital*

(Bastiat)

L'homme isolé n'a de Capital que lorsqu'il a réuni des matériaux, des provisions et des instruments. Il n'en est pas de même de l'homme social. Il suffit à celui-ci d<e l>avoir rendu des *services*, et d'avoir ainsi la faculté de retirer de la société par l'appareil de l'échange des services équivalents.⁸⁶ ...

..... Les capitaux sont des instruments de travail. Les instruments de travail ont pour destination de faire concourir les forces gratuites de la nature Par la machine à vapeur on s'empare de l'élasticité des gaz..... &c. Or, confondant l'Utilité avec la Valeur on suppose que ces agents naturels ont une valeur qui leur est propre, et que par conséquent ceux qui s'en emparent s'en font payer l'usage, car valeur implique paiement.⁸⁷

⁸⁴ This is Macleod's *Elements of Political Economy* (London: Longman, Brown, Longmans and Roberts, 1858), chapter I, 'Definitions and Illustrations of the Terms used in Political Economy'.

⁸⁵ Macleod *Elements of Political Economy*: 76-7 (chapter I).

⁸⁶ Bastiat 1851: 192. "Man in isolation has capital only when he has collected materials, provisions and tools. Such is not the case with man in society. He needs only to have rendered *services* in order to have the means of receiving from society, through the mechanism of exchange, equivalent services." (Boyer: 178).

⁸⁷ Bastiat 1851: 201. "Capital goods are tools of production. Tools of production are designed to harness the gratuitous forces of nature. Through the steam engine we utilize the pressure of volatile gases.... etc. Now, confusing utility with value, they think of those natural resources as having an inherent payment of their own, and consequently assume that those who appropriate these resources receive payment for the

f.45

Capital
Fixed & Circulating⁸⁸

The distinction between fixed & circulating capital becomes prominent when

I the rapidity with which the supply of any commodity can accommodate itself to changes in demand is discussed. One of the <things> *conditions* on which this depends is the rapidity with which capital can be applied to or withdrawn from the production *of the commodity*: or as is sometimes said on comparative amount of fixed and circulating capital employed in it. In this, as in many analogous cases, the distinction between fixed & circulating capital has to be made somewhat arbitrarily: and two things which differ from one another with reference to this point very widely will both be called fixed capital

f.46

2

Capital
Fixed & Circulating

while one of them may differ not very widely from something which is classed under circulating capital. For instance if it were proposed to give up *the old work of* a cotton factory & apply the building to some new purpose *for* which steam was not wanted it would from this point of view be a matter of great importance whether the steam engines were movable, or <whe> were built into building. So in the case of a farm it would be of great importance from this point of view whether fixed capital sunk in a farm were in the form of drainage or of farm buildings of such a character that they could readily be applied to some other purpose. A definition framed to express this particular distinction would be <in many> different from one

f.47

3

Capital
Fixed & Circulating

framed for case

privilege of using them, for value implies payment.” (Boyers: 187-8).

⁸⁸ This and the next four folios transcribed in J. K. Whitaker, *The Early Economic Writings of Alfred Marshall 1870-1890*, volume 1, pp. 220 – 22.

II <in which> it is considered how the amount of capital employed being unchanged, the <nature> *character* of the things produced being unchanged, & the efficiency of the modes of production being unchanged, laborers are interested in the form which the capital employed assumes. In this connexion it is said that the greater the circulating capital the better for the laborer. But he is concerned only in that portion of the circulating capital which is employed as wages. For him there is no distinction between the capital employed <in building a barn & that employed> in producing the iron for a steam engine

f.48

4

Capital
Fixed & Circulating

& that employed in producing the food of a horse *who is to work for as many years as the steam engine would*. Fixed capital in the shape of cottages is very important to him.

III We may say that the produce of any manufacture must replace the value of the circulating capital consumed in making it, but not that of the fixed capital used

The fact is we cannot attempt to give a precise definition of fixed capital which shall always hold. We must regard it as a convenient abbreviation for some longer expression which must be supplied from the context. This is a disadvantage which can only be got over by the adoption of a more copious terminology. As a suggestion we might invent a word “wage-capital” to denote that capital which is to be expended in wages. We should

f.49

5

Capital
Fixed & Circulating

then no longer say ‘laborers are injured by the growth of fixed capital at the expense of circulating?’.

We may divide capital into “moveable” & “immovable” as it can or cannot easily be applied to some different process of production to that for which it was originally intended.

We thus leave only the third application of the phrase fixed capital, & for this Mill’s definition does well enough.

f.50

Prop IV

Capital

Demand for commodities is not demand for labor. That is <of> if Demand for commodities be interpreted to mean paying for them, *as is usually done*, after they are made; & demand for labor means paying for it before it is given, *as is usually done*, demand for *any particular* commodities is not demand for the labor with which these particular commodities were made; though it may be & in general is demand for the commodities which the manufacturer <of these commodities> *who then receives payment*⁸⁹ proceeds to

f.51

Prop IV

Capital

2

make <for 'stock'>.⁹⁰ <In fact> This proposition is aimed against the fallacy attacked indirectly in Prop I – the fallacy that <the> wage-capital can be increased by creating an artificial demand for some special commodities: such a demand being supposed not to carry with it any increase of capital as a whole or any diminution of that portion of it which is used <for> other *wise* <purposes> than as wage-capital.

Instances of the fallacy which Mill had in view can be found in the following statements: -

f.52

Prop IV

Capital

3

<A> The expenditure of “fashion” is a benefit to the working classes. If people changed the<ir> form of their dresses &c less often, there would be less employment for work people.

Foreign wares must be excluded from the home market, in order that there may be sufficient employment for native industries generally.

f.53

Capital

Capital

Prop IV

A manufacturer often employs capital in making payments to his workmen before the completion of the commodity on which they are at work (i). We will at present take the simple case in which these payments are made altogether at the beginning of the work *& the whole process of manufacture on one establishment*⁹¹ We shall of course suppose that the same number of labourers are to be employed for the same time

⁸⁹ Amendment made in pencil.

⁹⁰ The crossing through of ‘for stock’ is in pencil.

⁹¹ Added later in pencil.

& on the same terms by the capital of the consumer when he hires labourers as were employed by the equal capital of the manufacturer before: the effect of fixed capital we follow Mill in neglecting.

When the consumer gives up buying commodities (due notice thereof being given to the manufacturer)

f.54

Capital

<Cap> Prop IV

the above mentioned capital of the latter will be set free. But after doing so the consumer must allow that portion of his income which he has set aside for superfluities to accumulate until it is equal to that w^h the manu^f employed; i.e. for a period equal to that which the manufacturer of the goods occupied. During the period he will be unable directly or indirectly to hire labourers

(ii) But meanwhile the capital of the manufacturer which has been set free will <employ> *hire* labourers & he being a man of business is more likely than most not to employ it so that it will reproduce itself. Supposing him to do this their will eventually be a double fund for employing labourers. The creation of this second

f.55

Capital

Prop IV

fund is due to the consumer's having abstained for a time from unproductive consumption.

If on the other hand labourers are in the habit of being paid on the completion of the manufacture & of subsisting in the meanwhile on their own capital or on that advanced by retail shops no difference to labourers as a whole will be effected by the change of purpose of the consumer.

The cases in which the manufacturer advances the capital to his labourers gradually are in their effects exactly the same as the case in which he advances nothing to some of them & the whole of their provision <to> at the beginning to others; ie their results will be intermediate between those in the above cases already considered.

f.56

Capital
Mill's 4th propⁿ on

If a man buys £1000 worth of velvet he transfers the means of employing labourers to the manufacturers who can at once set to work to make more of this or some other commodity.

But suppose he only orders & pays for it <out> at the end of the year. If he puts by at once the money to pay for it, the corresponding capital finds its way indirectly into the hands of the manufacturers. If he spends on something else that money he has set in operation <lab> labour again; <But b> just as he would have if he had hired labourers himself. But inasmuch as he has ordered the velvet as well he has set another

f.57

2

Capital
Mill's 4th propⁿ on

batch of labourers to work; they being paid (perhaps out of the capital of the manufacturer; but more probably out of his credit w^h is increased by having received the order.

<In either case> At the most as many labourers are employed as would have been before. But in the latter case credit is run on, stock in hand is diminished, an extra amount of labour is required w^h (as the consumption is unproductive) has to be paid for by borrowed employment afterwards.

Mill says (p 498) “funds expended unproductively have no tendency to raise or keep up wages unless when expended in the direct purchase of labour.” I see no difference between the cases.

f.58

Capital

Used by French as effects of past labour
See Dictionnaire⁹²

Sargant divides Capital in French sense into <effe> capital & self-maintenance <direct> immediate and mediate. Fawcett is wrong in saying that wages must come out of capital in the English sense: they may be drawn from nearly the whole of the effects of past labour. S. <He> wrote in 67 and anticipated not only in substance but also in form what Mill says in his review of Thornton.⁹³

⁹² C. Coquelin, *Dictionnaire de l'économie politique, contenant l'exposition des principes de la science, l'opinion des écrivains qui ont le plus contribué à sa foundation et à ses progress...*, 2 volumes (Paris: Guillaumin et cie., 1854) [ML].

⁹³ See chapters one and two of W. L. Sargant, *Recent Political Economy* (London, 1867). Sargant distinguishes income employed as ‘Self-Maintenance’, which ensures a constant demand for labour each year; and income employed as Capital, which constantly adds to the demand for labour. He concludes his discussion of (Henry Fawcett’s rendering of) Mill’s 4th Proposition: “Saving, in fact, by adding to Capital

constantly increases the fund for the support of labourers... I cannot, however, see any precision, or perspicuity, in expressing this fact by the formula 'a demand for commodities is not a demand for labour'." (Sargant 1867: 45).