THE PHYSIOLOGY OF INDUSTRY: BEING AN EXPOSURE OF CERTAIN FALLACIES IN EXISTING THEORIES OF ECONOMICS

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The physiology of industry: being an exposure of certain fallacies in existing theories of economics by A. F. Mummery & J. A. Hobson

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BY A. F. MUMMERY

AND

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PREFACE.

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

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

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

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

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

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

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

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

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

$$\text{Production} - \text{Saving} = \text{Consumption};$$

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

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