John Stuart Mill’s Theories of Wealth and Income Distribution

Hans E. Jensen

The University of Tennessee, Knoxville, USA

Abstract Although he was much influenced by David Ricardo when he wrote the classical part of his Principles, John Stuart Mill was not a Ricardian when he penned his theories of wealth and distribution. They are based on a triple foundation. First, a belief that economics is a moral discipline. Second a theory of custom-driven human behavior. Third, an empirically formed conviction that the institutions of state, education and business cooperate to structure the distribution of income. On the basis of these presuppositions, Mill formulated 1) an institutional theory of the formation of human and non-human wealth and 2) an even more institutional theory of distribution demonstrating how the aforementioned institutions malignantly skew the distribution of income to the advantage of the propertied classes and to the extreme disadvantage of the working class. As a social economist, Mill recommended institutional reforms designed to eradicate the poverty of the working class.

Keywords: capitalism, classes, distribution, education, institutions, poverty, reforms, utility, wealth

INTRODUCTION

John Stuart Mill claimed that he wrote his Principles of Political Economy of 1848 (Mill 1965a and 1965b) in order to replace Adam Smith’s Wealth of Nations (Smith 1981). Mill felt that a new work was needed because the “Wealth of Nations’ is in many parts obsolete, and in all, imperfect.” He endeavored, therefore, to combine Smith’s “practical mode of treating his subject with the increased knowledge since acquired of its theory.” Mill was confident that he had succeeded in producing a book that is “embodying all the abstract science in the completest form yet attained” (Mill 1965a: xciii; and 1963: 708).
This form has its origins in the economics of David Ricardo, which was one of those intellectual diets that Mill was forced-fed by his father, James Mill, when he took the teenaged John Stuart “through a complete course of (Ricardian) political economy.” The approach of economists had changed since the days of Ricardo, however. Thus Mill censured the “English political economists” of his time for failing to heed Ricardo’s implicit admonition to improve on Smith’s work (Mill 1981: 31; and 1967a: 225). Improvements by his successors were all the more urgent, said Ricardo, because such repair would require “abilities . . . of a far superior cast to any possessed” by Ricardo himself (Ricardo 1951: 6).

Hence Mill decided to complete Ricardo’s unfinished work; an effort that is embodied in Mill’s Principles. This involved a disentanglement and analysis of two economic phenomena which the “common run of political economists confuse . . . together,” namely the “laws of the production of Wealth . . . and the modes of its Distribution” (Mill 1981: 255). By the former, Mill understood those “laws and conditions of the production of wealth” that “partake of the character of physical truths.” We “cannot alter the ultimate properties either of matter or mind,” said Mill, we “can only employ those properties more or less successfully, to bring about events in which we are interested.” It is “not so with the Distribution of Wealth,” he asserted. That is a “matter of human institutions solely. The things once there, mankind, individually and collectively, can do with them as they like.” Given this orientation of Mill, the “laws of Production and Distribution . . . are the subjects of . . . [his] treatise” on political economy (Mill 1965a: 199, 21). In view of this Millian approach, I proceed as follows. In the next section, I discuss Mill’s theory of wealth. This is followed by a precis of his theory of distribution. I close with a conclusion.

WEALTH

In this section, I endeavor 1) to inquire into Mill’s theory of behavior as it relates to the production, acquisition, and use of wealth, 2) to narrate his account of the origins and nature of wealth, and 3) to provide an abstract of his description of the pursuit of wealth in capitalist society.

1 Thus I deal only with two aspects of Mill’s writings on economics. For a comprehensive, neoclassical interpretation of the entire corpus of Mill’s economics, see Hollander (1985). For an interpretation of Mill’s methods that is critical of Hollander’s approach, see Hirsch (1992). For a further exposition of Hollander’s views on Mill’s methods, see Hollander and Pearth (1999).
Behavior

In accordance with his conception of the laws of production, Mill took it “for granted that the physical part of the process [of production] takes place somehow.” He then “inquired what are the phenomena of mind which are concerned in the production and distribution of those . . . objects [that are] demanded by the wants of mankind.” Mill identified these phenomena as “laws of the human mind” (Mill 1967a: 318; emphasis in original). It seems that he conceived of such laws as bundles of behavioral propensities that govern decision making on the part of key players in the economic game. Thus he observed that these propensities are shaped by “customs” and “habits” that are rooted in “traditions.” That is so, because customs are “evidence of what their experience has taught” people about their existence in capitalist society (Mill 1977: 262; 1967a: 380; and 1977: 262). Interestingly, Mill argued that experience is actually gained in, and “moulded” by, concealed customs to which he affixed the label of “institutions.” This kind of molding is facilitated by what he called “the extraordinary pliability of human nature” (Mill 1967a: 380; and 1981: 187).

Mill distinguished, however, between human nature and “human character.” By human nature he understood an “ensemble” of inborn proclivities, such as “instincts” (Mill 1969: 393, 374, 399; emphasis in original). The term human nature “stands as a general designation for those parts of our mental and moral constitution which are . . . innate, in contra-distinction to those which are acquired.” It is by means of the latter that character is formed. Mill put it in this way: “A person whose desires and impulses are his own—are the expression of his own nature, as it has been developed and modified by his own culture—is said to have a character” (Mill 1969: 399; and 1977: 265; emphasis added). Mill postulated that this concept of character creation provides a key to an understanding of how behavior is molded in capitalist society. Thus technological advance—in the form, say, of the “introduction of [productive] processes requiring expensive machinery”—propels the “economical progress of society” (Mill 1965a: 133; and 1965b: 752). By virtue of being exposed to, and learning from, this process, people’s natural instinct for survival is modified in such a manner that one of its important manifestations in the human character takes the form of a yearning for wealth. But what is wealth and from whence did it come?

2 As explained below, Mill likewise used the concepts of custom and character as analytical tools in his inquiry into the manner in which wealth is pursued and in his examination of the nature and causes of the distribution of income.
Nature and Origins of Wealth

Mill commenced his search for an answer to this question by making “an important distinction in the meaning of the word wealth, as applied to the possessions of an individual, and to those of a nation.” 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 and pleasant.” Consider “for instance, a mortgage of a thousand pounds on a landed estate,” said Mill. This “is wealth to the person to whom it brings in a revenue.” But it “is not wealth to the country; if the engagement were annulled, the country would be neither poorer nor richer” because the cancellation would leave unaltered the size and composition of the country’s “stock of things useful or pleasant” (Mill 1965a: 8). Hence, said Mill, national wealth “may be defined, [as] all useful or agreeable things which possess exchangeable value” because they are scarce. He hastened to add, however, that this definition is incomplete because “it leaves in uncertainty . . . whether what are called immaterial products are to be considered as wealth: whether, for example, the skill of a workman, or any other natural or acquired power of body and mind, shall be called wealth, or not” (Mill 1965a: 10).

The French economist Jean-Baptiste Say impelled Mill to search for a more complete and inclusive definition of national wealth (Mill 1965a: 46). According to Say, the expenditure of labor power results in the “creation, not of matter, but of utility; and this . . . [he] call[ed] production of wealth” (Say 1964: 62; emphasis in original). Elaborating on Say’s concept of utility, Mill averred that “the utilities produced by labour are of three kinds. They are, First, utilities fixed and embodied in outward objects.” Second, they are “utilities fixed and embodied in human beings.” Third, they are “utilities not fixed or embodied in any object, but consisting in a mere service rendered” which, in the words of Smith, “perishes in the very instant of its production” (Mill 1965a: 46, 47; Smith 1981: 331).

Mill argued further that in order to qualify as wealth, any thing, material or immaterial, must meet two criteria. In the first place, its utilities must be the creations of “productive labour,” i.e., labor “which is employed in creating permanent utilities, whether embodied in human beings, or in any other animate or inanimate objects.” Second, the article in question must be “susceptible of accumulation.” This is an essential feature of wealth because wealth is a source of “enjoyment” that, as just said, contains permanent utilities. “Sources of enjoyment may [therefore] be accumulated and stored up; enjoyment itself cannot” (Mill 1965a: 49, 48; and 1967a: 284).

As mentioned above, the articles in which the first type of utilities is
embedded consist of “material things.” Consequently, such inanimate objects are by definition created by productive labor. Moreover, by virtue of their very “materiality,” these items are capable of being accumulated. The “outward objects” in which the said utilities are embedded must, therefore, be reckoned part of the national wealth (Mill 1965a: 46, 49, 46). Services, on the other hand, cannot be viewed as a portion of wealth. “Utilities of the third class, consisting in pleasures which only exist while being enjoyed, and services which only exist while being performed,” are, of course, devoid of any “permanence.” The impermanence of services is proof that their utilities have not been produced by productive labor. And their immaterialness renders services unsusceptible of accumulation. Consequently, services “cannot be spoken of as wealth” (Mill 1965a: 48, 49, 48). But what about the second type of utilities and their embodiment in human beings?

In Mill’s estimation, these utilities are “permanent” and so is their “product” which is agentival in “affording [that] enjoyment” which is the very essence of the said utilities. The product in question is “skill.” Skills are, therefore, sources of enjoyment, although they may be so only indirectly (Mill 1965a: 48; 1967a: 284; and 1965a: 49). For example, the skill “of the workman who made . . . [a] musical instrument” is an indirect source of enjoyment because it enables its possessor to produce an “instrument [that] is a permanent and [direct] source of enjoyment . . . and therefore admits of being accumulated.” Thus the instrument maker “is a productive labourer” (Mill 1967a: 284, 285). “But,” said Mill, “the skill of the musician is a permanent source of enjoyment, as well as the instrument which he plays upon.” Although “skill is not a material object, but a quality of an object, viz., of the hands and mind of the performer; nevertheless skill possesses exchangeable value, is acquired by [productive] labour . . . and is capable of being stored and accumulated. Skill, therefore, must be considered as wealth; and the labour . . . employed in acquiring skill . . . must be considered to be productively employed” (Mill 1967a: 285; emphasis in original). To this “class belongs the labour of all concerned in education; not only schoolmasters, tutors, and professors” but “governments . . . moralists, and clergymen . . . so far as they aim successfully at the improvement of the people.” Also “physicians” and “teachers of bodily exercises” as far as they are “instrumental in preserving life and physical or mental efficiency.” In short, Mill included in national wealth the skillful “labour bestowed by any persons, throughout life, in improving the knowledge or cultivating the bodily or mental faculties of themselves and others” (Mill 1965a: 47). As Smith had put it, such skills and “talents, as they make a part of” an individual’s “fortune [or wealth], so do they likewise of that of the society to which he belongs” (Smith 1981: 282). Consequently, Mill rendered the following final and inclusive definition of national wealth: “The
wealth of a country consists of the sum total of the permanent sources of enjoyment, whether material or immaterial contained in it; and labour . . . which tends to augment or to keep up these permanent sources, should, we conceive, be termed productive” (Mill 1967a: 284).

Characteristic Pursuit of Wealth

Mill’s theory of the institutional transmutation of human nature into human character constitutes the mold in which he cast his inquiry into the nature and origins of the mode in which wealth is pursued in capitalist society. Thus as he saw it, wealth is sought exclusively by members of the propertied classes. Their character has been molded institutionally in such a manner that they have only one desire: “to possess wealth.” The “capitalists,” as Mill christened the wealth seekers, attempt to satisfy their desire for wealth through “saving” from a “fund” that is available to them in the form of “the surplus of the produce of “their labor force “after supplying the necessaries of life to all concerned in the production [of output]: (including those employed in replacing the materials, and keeping the fixed capital in repair).” The sole “motive to saving consists in the prospect of deriving an income from [investments] of savings.” Such gains grow according to the law of compound interest: “capital, employed in production, is capable of not only reproducing itself but yielding an increase. The greater the profit that can be made from capital, the stronger is the motive for its [further] accumulation” and so on almost ad infinitum (Mill 1967a: 321; 1981: 257; and 1965a: 160, 161).

This phenomenon elicited from Mill the following exclamation tinged with criticism: “The rapidity with which [wealth institutionalized as] property has accumulated and is accumulating . . . in this island, is obvious to every one.” Unable to find sufficiently profitable outlets at home, the “capital of the industrious [sic] classes overflows into foreign countries.” Mill surmised that the “amount of capital annually exported from Great Britain alone, surpasses probably the whole wealth of the most flourishing commercial republics of antiquity” (Mill 1977: 124). It appears that Mill attempted to account for the flight of capital by a special twist of his refutation of the Malthusian doctrine that the “phenomenon of over-supply” causes “depressed conditions of all classes” (Mill 1965b: 570). Mill’s argument may be explicated interpretatively as follows.

The exporters of capital prefer foreign to domestic investment because returns on the former exceed with a wide margin those on the latter. The disappointing domestic yields are caused by insufficient aggregate demand at home for domestically produced goods. Hence if the exported capital funds were
invested in domestic enterprises, the resultant increase of output would depress domestically generated yields still further. The rational capitalists are fully aware of this situation and forge their investment policy accordingly. Mill hinted at the prevalence of such perceptions when he observed that with “respect to knowledge and intelligence, it is a truism of the age, that the masses . . . of the middle . . . classes, are treading upon the heels of their [social] superiors” in the aristocracy (Mill 1977: 125). By favoring foreign over domestic investment, the exporters of capital fuel a process in which a “general over-supply [at home], or excess of all commodities above the[ir] [domestic] demand . . . [is] an impossibility.” Thus the enlightened capitalists ensure by their actions that the Malthusian “theory of general over-production implies an absurdity” as far as the domestic economy is concerned (Mill 1965b: 572, 574).

Mill was convinced that it was the existing extremely unequal “Distribution of Wealth” and income that was the cause of the lack of aggregate demand and thereby of the economic misery that engulfed the working class (Mill 1965a: 199). In order to identify the means for a solution of these intertwined problems, Mill decided to undertake an inquiry into the nature and causes of distribution.

**DISTRIBUTION**

As Mill saw it, the distribution of national income is a function of the way in which fault lines, as it were, are drawn institutionally in capitalism to mark the configuration of a distinct and rigid class structure. Thus observing a la Ricardo (Ricardo 1951: 5) that the “industrial community may be considered as divided into landowners, capitalists, and productive labourers.” Mill asserted that each of “these classes, as such, obtains a share of the [national] produce: no other person or class obtains anything, except by concession from them. The remainder of the community is, in fact, supported at their expense.” Hence Mill declared dogmatically that these “three classes . . . are considered in [his] political economy as making up the whole community” (Mill 1965a: 235).

After he had established the institutional framework for his investigation, Mill proceeded to “inquire, according to what laws the [national] produce distributes itself among these three classes.” His query revealed that the division “is the result of two determining agencies: Competition, and Custom.” He viewed competition, not as a pliant and passive managerial response to price signals, but as an entrepreneurial act that is performed vigorously in “the active spirit of rivalry” (Mill 1965a: 235, 239, 243). Mill’s introduction of custom as a co-determinant of distribution is still another instance of his use of this concept as an analytical tool. Thus he emphasized that customs are such a powerful force
in the human character that they infiltrate nearly all areas in which distributional decisions are made. As indicated below, even the most animated and vigorous rivalrous competition may not be immune to the eroding effects of customs.

In accordance with his assertion that workers, capitalists and landlords are the only classes with a claim on national income, Mill discussed distribution under three headings: “Of Wages,” “Of Profits,” and “Of Rent” (Mill 1965a: 337, 400, 416). Because of his firm belief that the institutions of capitalism deliberately skew the distribution of national income to the advantage of the receivers of profits and rent and to the disadvantage to the earners of wages, I consider Mill’s discussion of profits and rent before I deal with his discourse on wages.

**Profits**

According to Mill, the origin and source of profits are found in that which he termed the “gross profits” of business enterprises. He conceived of this type of returns as a tripartition of “interest, insurance, and wages of superintendence.” By superintendence, Mill understood the “management” of a firm by its “undertaker,” or entrepreneur. This agent provides insurance for the assets of his firm. Consequently, in addition to entrepreneurial wages, “indemnity for risk” is a portion of gross profits that accrues to the undertaker (Mill 1965a: 401, 400, 401; emphasis deleted). The remainder of gross profits is interest or net “profits of the capitalist” who provided the undertaker in question with investable funds. Mill used the terms interest and (net) profit interchangeably because he was persuaded that the return on loanable funds “is measured by the current rate of interest on the best security” (Mill 1965a: 400, 400–401).

It is implied in Mill’s discussion that the capitalists’ quest for profit, or interest, developed in an historical process. In this process, evolving institutions carved an identifiable subclass of money-lending capitalists from an original community of property owners in which “the same person [used to] own the capital and conduct the business” in which it was invested (Mill 1981: 402). The more the capitalists became alienated from entrepreneurship, the more waned their propensity to seek gain through investment in, and operation of, their own businesses.

Thus speaking in the vein of Nassau W. Senior (Senior 1951: 185), Mill asserted that a situation had emerged in nineteenth-century capitalism in which “the profits of the capitalist are properly . . . the remuneration of abstinence. They are what he gains by forbearing to consume his capital for his own uses, and allowing it to be consumed by productive labourers” in the employ of those undertakers to whom the capitalist advances his savings (Mill 1965a: 400). Thus Mill based his study of distribution on the assumption that there is a functional
divide between the practitioners of abstinence and the performers of superintendence. Nevertheless, the members of these two subcultures interact in such a manner that they exploit the working classes. Mill was therefore relentless in his criticism of those institutions, which, in his opinion, caused an obscene maldistribution of income.

Among these, he selected the institution of the state as the most blameworthy. Inasmuch as he argued that powerful economic institutions depended on it for their existence and survival, Mill seems to have viewed the state as a superinstitution. Thus in Mill’s universe, the state was the protector of the capitalists’ institution-given right to profit. Acting at the behest of the capitalists and other powerful constituents, the state has “heaped impediments upon some, to give advantage to others” and thereby “purposely fostered inequalities, and prevented all from starting fair in the race” (Mill 1965a: 207). According to Mill, the state had vested educational institutions with two intertwined responsibilities in order to ensure the continuity of this institutional practice.

First, the universities were given the task of providing an unceasing supply of ideologically correct candidates for vital positions in government, church and business. The state was able to make the faculties of the “‘venerable institutions’” of higher education, or rather indoctrination, assume this duty because it controlled appointments and held the purse from which “emoluments” flowed into the coffers of academics. Hence the members of the university “hierarchy” made it their “business, the business for which they . . . [were] paid,” to “uphold certain political as well as religious opinions,” namely those of the “ruling powers of the state” (Mill 1981: 429; and 1988b: 350). Thus the universities pursued with vigor their assignment to inculcate in their students those political and ideological views that were cherished by the power elite. The graduates of the ancient universities were, therefore, well prepared for employment in, and by, those institutions that were instrumental in perpetuating the existing maldistribution of income. All of this might come to naught, however, if the masses of the underclass should achieve anything approaching success in potential attempts at throwing off their fetters.

The state devised a second educational strategy in order to prevent such a calamity from occurring. According to Mill, the “elementary schools for children of the working classes” were given the task of ensuring that the poor would continue to accept docilely their dismal station in life. It was very easy for the state to force the public schools to assume this role. It did so simply by failing malignantly to allocate sufficient funds for the operations of what Mill identified contemptuously as “places called schools” (Mill 1982: 200; emphasis in original). These places were therefore understaffed. Moreover, the few teachers who were actually employed were completely “unfit for their work.”
The pupils were therefore so “wretchedly ill-taught” that they “did not . . . even learn to read.” And, said Mill with disgust, no attempt was “made to communicate ideas, or to call forth the mental faculties” of the children” (Mill 1988c: 322; and 1982: 200).

Consequently, the masses were reduced to an “uncultivated herd” of gullible individuals who accepted without demurring their miserable existence as they were exhorted to do by the properly educated expostulators in the business, university and “ecclesiastical establishments” (Mill 1981: 239; and 1988b: 348–349). State officials and the members of the propertied classes could thus rest assured that the maldistribution of income, and the institutional causes thereof, would not be threatened by what Thomas Robert Malthus called the “tumultuous proceedings” of the poor (Malthus 1890: 542).

Mill’s inquiry into the functions of state and educational institutions constitutes a fundamental and integral part of his theory of income distribution. But the commercial sector was not the only sphere of the economy that generated a deplorable maldistribution. This type of distribution was made still more pronounced and durable by the functioning of the feudalesque institution of landlordism. Hence Mill continued his investigation of distribution by examining the nature, sources and socioeconomic consequences of rent.

Rent

According to Mill, “rent of land” is a “price paid for a natural agency” that is scarce or “sparingly supplied,” as he put it (Mill 1965a: 29). His inquiry into the nature and origin of this type of claim on national income is dichotomous. One part consists of his interpretative explanation of the genesis and contemporary incarnation of the institution of landed property. An institutional analysis of the nature and causes of rent constitutes the second part of Mill’s discourse on rent.

As he saw it, the contemporary manifestation of landed property took the form of “a natural monopoly” because “the arrangements of society” had awarded the collectivity of landlords “exclusive power over . . . [a] natural agent . . . which neither they nor any one else have produced.” Hence the “reason why landowners are able to require rent for their land, is that it is a commodity which many want, and which no one can obtain but from them” (Mill 1965a: 416; emphasis in original). In Mill’s opinion, this institutional arrangement began to take shape before and “during the reign of Edward the Confessor” (1042–1066). Provincial “princes,” who “were virtually independent” of the “acknowledged monarch of their common country,” laid the foundation for the collective monopoly that the landlords enjoyed at the time of Mill (Mill 1985: 25). The
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said princes did so when they granted “fiefs” to barons and knights. A fief was “basically an economic concept” that was concretized as a manor or an “estate.” Significantly, evolving customs vested “heritability” in those estates that were held in fee by the vassal barons and knights prior to the Norman Conquest of 1066 (Bloch 1964: 190, 167, 190). In the course of several centuries after the Conquest, the “unjust” and “aristocratic institutions” of “primogeniture and entails” regularized and ritualized the transfer of landed property from generation to generation. According to Mill, the landlords resorted to these institutions in order to keep the “immoveable [sic] property” of land “together in large masses” (Mill 1965a: 230; 1965b: 889; 1981: 239; and 1965b: 888).

In spite of the fact that primogeniture and entail stood “sufficiently condemned by the general principles of justice,” Mill declared that “the influence of feudality . . . [was] still felt in the laws” of inheritance in nineteenth-century Britain. (Mill 1965b: 892, 888). Thus these custom-based ancient institutions were still so powerful at the midpoint of the nineteenth century that they rendered the centuries-old monopoly on land fully operational. This was, at least, Mill’s firm conviction. It was in order to ascertain the distributional impact of this monopoly that Mill embarked on a formal analysis of rent and its determination.

Mill’s theory of rent is cast in a mold that he constructed from institutional elements. Hence he postulated that rental payments were determined partly by the institution of competition and partly by institutionalized customs. The former operated on the demand side because fertile land was an income-producing resource which “exist[ed] in less quantity than the [quantity] demand[ed]” by profit-hungry rural capitalists (Mill 1965a: 417; emphasis deleted). Competition was conspicuous by its absence on the supply side, however. The reason was that the landowners acted collectively in a manner that had monopoloid consequences. The landlords did not collude formally and actually. They were “too numerous to combine” in a cartel-like organization. Instead, and just as effectively, their individual behavior qua landowners had been conditioned uniformly by “traditions and customs” that were shaped by the “customary circumstances” of the subculture of their class (Mill 1965a: 416; and 1977: 262). Hence when each landowner decided upon the minimum rent that he would accept for a given piece of real estate, his decision, like that of his peers, was “determined by the usage of the country.” From Mill’s point of view, this wont was equivalent to the Medieval “custom of the manor” (Mill 1965a: 240; Bloch 1964: 248).

In spite of his virtually institutionalist approach to the study of rent, Mill observed incongruously that Ricardo’s theory of differential rent (Ricardo 1951: 67–84) “is the most important proposition in political economy” (Mill 1965a: 501).
174). Why did Mill refer so reverently to the Ricardian law of agriculture? A law that he strove to overturn by means of his own institutional theory! It seems that Mill’s apparent approbation of the classical theory of rent was simply a slip of the tongue. It illustrates how difficult it is for an innovator to erase from his mind what he was taught in youth and articulated in maturity. It is therefore all the more remarkable that Mill was able to demonstrate that it was the institution-given power of the landlords that made it possible for them to join the commercial interests in a successful effort to siphon off a disproportionately large share of national income—to the detriment of the working classes. Hence when he turned his attention to wages, Mill’s “sympathies went wholly to the laborer,” as Joseph A. Schumpeter put it in a reference to Adam Smith (Schumpeter 1949: 353).

Wages

Mill expressed his sympathy thus: All the contemporary “sufferings and injustice” endured by the working classes are attributable to the fact that the “produce of labour . . . [is] apportioned as we now see it, almost in an inverse ratio to the labour.” The “largest portions [go] to those who have never worked at all, the next largest to those whose work is almost nominal, and so in a descending scale, the remuneration dwindling as the work grows harder and most disagreeable.” The “most fatiguing and exhausting bodily labour cannot [therefore] count with certainty on being able to earn even the necessaries of life” (Mill 1965a: 207). His inquiry into the causes of this phenomenon seemed to reveal that “[c]ompetition . . . must be regarded . . . as the principal regulator of wages, and custom . . . only as a modifying circumstance.” In other words, wages “depend mainly upon the demand and supply of labour; or . . . on the proportion between population and capital.” By population, Mill meant the number of “those who work for hire” in productive employments. And by capital he understood only that portion thereof “which is expended in exchange for . . . productive labour” (Mill 1965a: 337, 338). Again following Smith and Ricardo (Smith 1981: 337. Ricardo 1951: 337), Mill used the term “wages-fund” for this component of capital (Mill 1965a: 337). 3

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3 In 1869, Mill recanted the wages-fund doctrine in his review of William T. Thornton’s treatise On Labour. Its Wrongful Claims and Rightful Dues: Its Actual Present and Possible Future (Mill 1967b: 633–668). In spite of the fact that he declared here that “this doctrine is deprived of its scientific foundation, and must be thrown aside” (p. 646). Mill retained the doctrine in all editions of the Principles, including the seventh of 1871, which was the last one that he revised personally. For studies of Thornton’s work and its influence on Mill, see Ekelund (1997). Forget (1991 and 1992) and Kurer (1998).
In spite of his emphasis on competition as a determinant of wages, Mill seems to have conceded that some customs may lurk below the surface of market forces. In this regard, he was more explicit in his discussion of the supply of labor than he was in his examination of the demand for labor. His latter inquiry, which pertains to the short term, may be reconstructed interpretatively in the following manner.

A customarily accepted convention emerges intermittently in the business community. It provides the undertakers with a means for judging how much “wealth” can, “at any given instant,” be placed safely in “the wages fund” and hence “unconditionally devoted to the payment of wages.” Although “not regarded as unalterable,” the wages fund “is reasoned upon [by each undertaker] as at any given moment a predetermined amount.” The demand for labor will therefore remain unchanged as long as the convention endures. Given the supply of labor, the wage rate in question will likewise remain constant. If sooner or later, the conventionally determined demand for labor “exceeds the supply,” it will, like in the market for commodities, “drive up the price [of labor] to the point” where it begins to suppress gross profits below the customarily accepted minimum (Mill 1967b: 643, 636). When that happens, the convention collapses and the undertakers reduce their demand for labor by scaling down the size of their wages funds. Thus unadulterated market forces take control of the demand for labor and they continue to do so until a new convention emerges. Sooner or later this convention will also disintegrate and the cycle is repeated. It was the fickleness of conventions that moved Mill to declare that the “degree” to which customs affect the demand for labor is “comparatively slight” (Mill 1965a: 337).

As intimated above, Mill’s inquiry revealed that customs have a much stronger influence on the long-term supply of labor than it has on the short-term demand therefor. The customs in question are those that rob working-class adults of all “inducements not to marry” (Mill 1965a: 347; emphasis added). Following Malthus (Malthus 1959), Mill postulated that the “control,” which the relevant members of the working class exercised “over the animal power of multiplication,” was “extremely faint” at his time. Unless some means were found to alter this situation radically, “the evil of over-population” would be the predictable outcome (Mill 1965a: 354; and 1965b: 766).

In Mill’s scenario, the law of habitual population growth interacts fatefully with the institutional law of the “economical progress of society” (Mill 1965b: 752). As he portrayed the process, the undertakers’ desire for gross profits impels them to increase their demands for labor through the expenditures of intentionally expanded wages fund. Hence wages jump periodically because the rate at which the wages funds are spent exceeds temporarily that at which the
working population increases. More young people can now afford to marry and procreate. The resultant “increase of [the] numbers” in the labor force is soon “outstripping the increase of capital” in, and its disbursement from, the wages fund. Hence wages fall and “the condition of the classes who are at the bottom of society” is subject to severe “deterioration” (Mill 1965b: 753). The drop of wages enables the undertakers to reduce the size of their wages funds. This act soon becomes counter-productive, however. Hence encouraged by the lower labor costs, the entrepreneurs resume their accumulation of, and spending from, these funds. The demand for labor accelerates once again and wages commence another upward climb pursuant to which population and the labor supply increase. As a result, wage rates slide again and the stage is set for a reversal of their movement to be followed by those changes in population and the work force that are associated with rising wages. The outcome of these interacting forces is that there is a powerful long-term tendency for wages to gravitate toward an absolute minimum. As Mill put it, in the long term, the effective “rate of wages” tends to be established as “either the lowest on which the people can, or the lowest on which they will consent to live.” Although “they would gladly have more, [they] will live on that (as the fact proves) rather than restrain the instinct of multiplication” (Mill 1965a: 361).

Thus whereas customs play only a small part in the formation of the demand for labor, they are the principal determinants of the supply of labor in the long term. Customs are therefore the direct cause of the working classes’ hugely disproportionate share of national income. But the state’s malignant neglect of the educational needs of the youth of the underclass is the real, although indirect, cause of maldistribution. Moreover, the customary behavior of business institutions contributes to the fateful course of wage rates in the long term. This way of accounting for the nature and institutional causes of the plight of the working classes enabled Mill to accomplish two feats. In the first place, he “undercut the foundations of the ‘dismal science’ of Malthus and Ricardo” (Dillard 1978: 4). Second, once completed, this tour de force provided Mill with the ingredients that he needed in order to write a recipe for public policies designed to eradicate poverty from the body economic.

**CONCLUSION**

Mill’s principal proposal was for the establishment of a state-supported system of “national education” for “all [children and youth], without distinction of sect” or social class. If it ever should become fully operational, Mill envisioned that “universal education” would create new abilities and novel types of behavior on the part of future descendants of the present underclass (Mill 1988a: 63; and
1965a: 208, emphasis in original). First, the females in these cohorts would gain “industrial and social independence” and thereby acquire “the same rights of citizenship with men.” Second, the attainment of sophistication and knowledge on the part of both sexes in these future groups of citizens would occasion “a great diminution of the evil of over-population.” Third, if things should work out as Mill visualized, the knowledge and know-how bestowed by education upon future workers would enable them to establish producers and consumers cooperatives. Male and female workers might then be “collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves” (Mill 1965b: 765; 1965a: 372–373; and 1965b: 765–766, 775).

Thus Mill had what Alfred Marshall called a “hopeful view of the possibilities” of the future (Marshall 1961: 48). The possibilities that Mill hoped for included the expectation that the efficiency of cooperative enterprises would become so superior to that of conventional firms that the capitalists would gradually transfer their investments from the capitalist sector to the cooperative sphere of the economy. Thus Mill surmised wistfully that the time might come when the “owners of capital would . . . at last, perhaps, even . . . exchange their capital for terminable annuities” issued by cooperative societies (Mill 1965b: 793). Mill’s vision of his hoped-for society of the future would be characterized by a “better distribution of property,” a “well-paid and affluent body of labourers,” and a “much larger body of persons than at present not only exempt from the coarser toils, but with sufficient leisure . . . to cultivate the graces of life.” In short, Mill envisioned that new institutions would mobilize ever growing scientific and technological means for “improving and elevating the common lot” (Mill 1965b: 755, 757).

It seems, however, that Mill was of the opinion that it was not yet time for all this. In his discussion of several “varieties of Socialism,” for example, he pointed out that it is “for experience to determine how far or how soon any one or more of the possible systems . . . will be fitted to substitute itself for the ‘organization of industry’ based on private ownership” of the means of production (Mill 1965a: 213, 214). As I read Mill’s exhortations to the socialists, I get the impression that he included his own quasi-socialistic prediction in the collection of those socialistic systems whose time had not yet come. Thus I find it plausible that he warned himself against assuming that his proposals for reform might rapidly move society in the direction that he desired. The following statement of his seems to bear that out: “In the meantime we may . . . affirm, that the political economist, for a considerable time to come, will be chiefly concerned with the condition of existence and progress belonging to a
society founded on private property . . . and that the object . . . is not the subversion of the system . . . but the improvement of it” (Mill 1965a: 214).

To paraphrase John Maynard Keynes, Mill nevertheless “hope[d] . . . that the day is not [too] far off” when we shall “be free, at last to discard . . . [a]ll kinds of social customs . . . affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves” (Keynes 1972: xviii, 329).

In spite of his occasional Ricardian lapses, Mill’s Keynesesque vision of an ideal society cannot be judged a Ricardian prognostication. Rather, it is a value-laden script for the casting of desirable characters, institutions and processes that fit a collectivist social economy. By virtue of being the author of this scenario, John Stuart Mill assumed the role of architect and practitioner of an early form of institutionalist social economics.

ACKNOWLEDGEMENTS

I should like to express my gratitude to Barry Clark and John E. Elliott for their perceptive and valuable suggestions for improvements of the first draft of this article. I am especially grateful that they called my attention to a number of contradictions, conflicts and illogical reasoning in the penultimate draft of the study. I revised the first part of the paper in accordance with Elliott’s recommendations and I excised some errors that he located throughout the paper. Moreover, I revised the section on rent and the conclusion in accordance with Clark’s constructive criticism of the original versions of these parts. I am, of course, solely responsible for any remaining errors and misinterpretations.

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