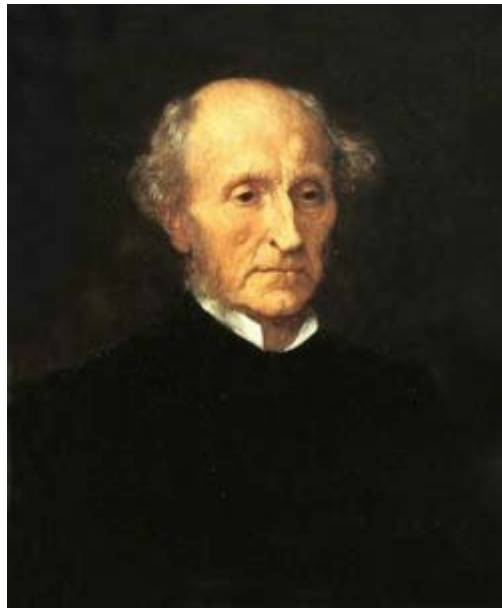


John Stuart Mill

1806-1873



J. S. Mill

- Biographical Details
 - Education by his father James Mill in Greek, Latin, geometry, algebra, logic and political economy (age 3-13)
 - Worked for the East India Company 1823-1858
 - Edited Bentham's papers 1821-24
 - *A System of Logic* 1843
 - *Principles of Political Economy* 1848
 - *On Liberty* 1859
 - *Utilitarianism* 1863
 - *The Subjection of Women* 1869

John Stuart Mill

- Intellectual Influences
 - Utilitarian Philosophy
 - Ricardian Economics
 - influence of romantic ideals—
cultivation of “internal culture”
 - Later influence of Harriet Taylor
- Arrived at a modified utilitarianism that made provision for cultivation of higher feelings and more egalitarian social arrangements

Principles of Political Economy

- Sections on production, distribution, exchange, progress and government
- Basic analytical model is Ricardian but with more elaboration and breadth and more Smithian in method
- Basic distinction between laws of production and laws of distribution—more egalitarian social arrangements

Production-Labour

- Agents of Production—Labour, Capital, and Land
- Labour
 - Distinction between direct and indirect labour
 - Indirect labour includes production of raw materials, tools, buildings, transportation, and skill and knowledge (human capital)
 - Productive and unproductive labour
 - Productive labour produces wealth (tangible goods or human capital)
 - Unproductive labour produces services that cannot be accumulated

Production-Capital

- Capital
 - Accumulated stock from the products of labour applied previously (indirect labour)
 - Buildings, machinery, stocks of raw materials, stocks of finished goods, stocks of money or goods for the support of labour
 - Stocks of goods or money for the employer's own consumption are not a part of capital

Production-Capital

- Fundamental Propositions concerning capital
 - Industry is limited by capital
 - Capital is the result of saving
 - Although the result of saving it is consumed -- spent on fixed capital or used to support labour
 - The demand for labour is the capital expended on it (the wage fund) and *not* the demand for commodities
- Circulating and fixed capital
 - Introduction of machinery

Productivity of Factors

- Natural Advantages of Soil and climate
- Skill and knowledge, including machinery
- Division of labor
- Scale of production
 - Increasing returns to scale
 - Take division of labour further
 - Use more specialized machinery
 - Possibility of natural monopoly
 - Use of joint-stock companies

Laws of Increase-Labour

- Labour
 - Power of population to increase is indefinite
 - Constrained by lack of subsistence
 - Or constrained by foresight, by fear of want
 - Subsistence level at which population remains constant is a “habitual standard”
 - Habitual standard might be raised with progress of civilization

Laws of Increase-Capital and Land

- Capital
 - Increased by saving and thrift
 - Depends not just on interest rate but on the “effective desire of accumulation”
 - Where the effective desire is high have capital accumulation even at low interest rates
- Land
 - Law of increase of production from land
 - Diminishing returns the “universal law of agricultural industry

Consequences of the Laws of Production

- Constraints on the increase of production
 - Capital accumulation
 - Diminishing returns in Agriculture
- Condition of the people will depend on whether population is increasing faster than “progress of improvement” or “improvement” than population
- If population increasing faster can import food or encourage emigration of population

Distribution

- Laws of Distribution are of human institution
- In this respect the laws of property are of prime importance
- Private property did not owe its existence to calculations of utility
- Do considerations of utility lead to private property or to some scheme of common ownership and collective agency?
- Alternatives to individual ownership are systems of complete equality or systems that rely on some principle of just distribution

Distribution

- Complete equality—Robert Owen, Communism
- Principle of just distribution—St. Simonism, Fourierism, Socialism
- Communist Schemes
 - Problem of lack of individual incentive, but problem of incentives also exists for hired labour
 - Lack of constraint on population growth, but public opinion would oppose self indulgence at the expense of the community
 - Problem of allocation of occupations, difficult but not insuperable

Distribution

- Communist Schemes
 - If the choice was between communism and the existing system (in which income is apportioned almost in an inverse ratio to labour), then choose communism
 - But system of private property does not have to be as it is
 - Private property is in principle supposed to provide one with the fruits of one's own efforts—not of the efforts of others
 - With universal education and limitation on numbers poverty could be eliminated from a system of private property

Distribution

- Communist Schemes
 - Ultimate issue may be one of individual freedom and diversity of opinion that are the “mainspring of mental and moral progress”
- Socialist Schemes
 - Free from the usual objections to communism involving incentives
 - Problem of deciding on distribution, has to be by authority
 - Possibility of experiments with such schemes
- *Later Chapters on Socialism (1879)*

Distribution

- System of private property likely to continue
- Improvements to the existing system
 - Limitation of inheritance
 - Limitation of right of property in land. State may expropriate land if it pays compensation
 - No property rights in other persons—no slavery
 - No basis for exclusive monopoly rights or property rights in public trusts
 - Tenancy laws

Wages

- Wage Fund Doctrine
 - Wage rate determined by capital and population
 - Subsistence wage a sociological or “moral” minimum not a physiological minimum
 - Role of education and advance of civilization
 - Role of emigration and of colonies
- Different Employments
 - Non-competing groups

Mill's "Recantation" of the Wage Fund

- In a Review of an article by W. T. Thornton "On Labour" 1869
 - Size of wage fund not pre-determined
 - Wage fund continually being advanced and replaced
 - Wage fund could be increased by Capitalists taking less profit
 - "According to the wages he has to pay, the employer has more or less for his own use"
 - Provides a role for trade unions
- Mill retained the wage fund doctrine in later editions of the *Principles*, but Mill's recantation is seen as the beginning of the end of the wage fund doctrine

Rent and Profit

- Rent
 - Ricardian rent theory
- Profit
 - Profit a reward for abstinence, as saving involves abstaining from current consumption

Exchange

- Market Price
 - Demand and supply
- Natural Price
 - Cost of production (wages and profit, but not including rent which is an intra-marginal surplus)
 - Cost of production of the “most costly portion” of the supply
- Cases where cost of production does not apply
 - Resort to demand and supply
 - Joint products
 - International exchange

Progress

- Progress—capital accumulation and technological change
- Costs of production in manufacturing tend to fall
- Costs of production in agriculture tend to rise due to diminishing returns
- Relative price of food must rise
- Ricardian model of long run trend to a stationary state
- Mitigated but not avoided by technological improvement in agriculture
- Stationary state not necessarily a bad thing

Government

- Necessary Functions
 - Protection of person and property
 - Justice system
- Optional Functions
 - Public goods
 - Education and information
 - Protection of children
 - Health and safety standards
 - Regulation of natural monopoly
 - Poor relief
 - Colonies
- Presumption of laissez-faire but intervention if a social benefit can be demonstrated (based on utility)