



John Stuart Mill Refutes . . .

## The Consumer Theory of Prosperity



AMONG THE MISTAKES [of the pre-classical writers] which were most pernicious in their direct consequences . . . was the immense importance attached to consumption. The great end of legislation in matters of national wealth . . . was to create consumers. . . This object, under the varying names of an extensive demand, a brisk circulation, a great expenditure of money, and sometimes *totidem verbis* a large consumption, was conceived to be the great condition of prosperity.

It is not necessary, in the present state of the science, to contest

These excerpts, selected by Henry Hazlitt for quotation in *The Failure of the "New Economics"* (Princeton: D. Van Nostrand, 1959) are from Mill's *Essays on Some Unsettled Questions of Political Economy* written in 1830.

this doctrine in the most flagrantly absurd of its forms or of its applications. The utility of a large government expenditure for the purpose of encouraging industry is no longer maintained. . . .

In opposition to these palpable absurdities, it was triumphantly established by political economists that consumption never needs encouragement. . . . The person who saves his income is no less a consumer than he who spends it: he consumes it in a different way; it supplies food and clothing to be consumed, tools and materials to be used, by productive laborers. Consumption, therefore, already takes place to the greatest extent which the amount of production admits of; but, of the two kinds

of consumption, reproductive and unproductive, the former alone adds to the national wealth, the latter impairs it. What is consumed for mere enjoyment is gone; what is consumed for reproduction leaves commodities of equal value, commonly with the addition of a profit. The usual effect of the attempts of government to encourage consumption is merely to prevent saving; that is, to promote unproductive consumption at the expense of reproductive, and diminish the national wealth by the very means which were intended to increase it.

What a country wants to make it richer is never consumption, but production. Where there is the latter, we may be sure that there is no want of the former. To produce, implies that the producer desires to consume; why else should he give himself useless labor? He may not wish to consume what he himself produces, but his motive for producing and selling is the desire to buy. Therefore, if the producers generally produce and sell more and more, they certainly also buy more and more.

### **Overfull Employment**

From what has been already said, it is obvious that periods of "brisk demand" are also the periods of greatest production: the national capital is never called into full employment but at those

periods. This, however, is no reason for desiring such times; it is not desirable that the whole capital of the country should be in full employment. For, the calculations of producers and traders being of necessity imperfect, there are always some commodities which are more or less in excess, as there are always some which are in deficiency. If, therefore, the whole truth were known, there would always be some classes of producers contracting, not extending, their operations. If *all* are endeavoring to extend them, it is a certain proof that some general delusion is afloat.

The commonest cause of such delusion is some general, or very extensive, rise of prices (whether caused by speculation or by the currency) which persuades all dealers that they are growing rich. And hence, an increase of production really takes place during the progress of depreciation, as long as the existence of depreciation is not suspected. . . . But when the delusion vanishes and the truth is disclosed, those whose commodities are relatively in excess must diminish their production or be ruined: and if during the high prices they have built mills and erected machinery, they will be likely to repent at leisure.

Unreasonable hopes and unreasonable fears alternately rule with

tyrannical sway over the minds of a majority of the mercantile public; general eagerness to buy and general reluctance to sell, succeed one another in a manner more or less marked, at brief intervals. Except during short periods of transition, there is almost always either great briskness of business or great stagnation; either the principal producers of almost all the leading articles of industry have as many orders as they can possibly execute, or the dealers in almost all commodities have their warehouses full of unsold goods.

### **General Superabundance**

In this last case, it is commonly said that there is a general superabundance; and as those economists who have contested the possibility of general superabundance would none of them deny the possibility or even the frequent occurrence of the phenomenon which we have just noticed, it would seem incumbent on them to show that the expression to which they object is not applicable to a state of things in which all or most commodities remain unsold, in the same sense in which there is said to be a superabundance of any one commodity when it remains in the warehouses of dealers for want of a market.

Whoever offers a commodity for sale desires to obtain a commodity

in exchange for it, and is therefore a buyer by the mere fact of his being a seller. The sellers and the buyers, for all commodities taken together, must, by the metaphysical necessity of the case, be an exact equipoise to each other; and if there be more sellers than buyers of one thing, there must be more buyers than sellers for another.

This argument is evidently founded on the supposition of a state of barter; and, on that supposition, it is perfectly incontestable. When two persons perform an act of barter, each of them is at once a seller and a buyer. He cannot sell without buying. Unless he chooses to buy some other person's commodity, he does not sell his own.

If, however, we suppose that money is used, these propositions cease to be exactly true. . . . Interchange by means of money is therefore, as has been often observed, ultimately nothing but barter. But there is this difference — that in the case of barter, the selling and the buying are simultaneously confounded in one operation; you sell what you have, and buy what you want, by one indivisible act, and you cannot do the one without doing the other.

Now the effect of the employment of money, and even the utility of it, is that it enables this

one act of interchange to be divided into two separate acts or operations; one of which may be performed now, and the other a year hence, or whenever it shall be most convenient. Although he who sells, really sells only to buy, he need not buy at the same moment when he sells; and he does not therefore necessarily add to the *immediate* demand for one commodity when he adds to the supply of another. The buying and selling being now separated, it may very well occur that there may be, at some given time, a very general inclination to sell with as little delay as possible, accompanied with an equally general inclination to defer all purchases as long as possible.

### **Monetary Manipulations**

This is always actually the case, in those periods which are described as periods of general excess. And no one, after sufficient explanation, will contest the possibility of general excess, in this sense of the word. The state of things which we have just described, and which is of no uncommon occurrence, amounts to it.

For when there is a general anxiety to sell, and a general disinclination to buy, commodities of all kinds remain for a long time unsold, and those which find an immediate market do so at a very

low price. . . . There is stagnation to those who are not obliged to sell, and distress to those who are. . . .

In order to render the argument for the impossibility of an excess of all commodities applicable to the case in which a circulating medium is employed, money must itself be considered as a commodity. It must, undoubtedly, be admitted that there cannot be an excess of all other commodities, and an excess of money at the same time.

But those who have, at periods such as we have described, affirmed that there was an excess of all commodities, never pretended that money was one of these commodities; they held that there was not an excess, but a deficiency of the circulating medium. What they called a general superabundance, was not a superabundance of commodities relatively to commodities, but a superabundance of all commodities relatively to money.

What it amounted to was, that persons in general, at that particular time, from a general expectation of being called upon to meet sudden demands, liked better to possess money than any other commodity. Money, consequently, was in request, and all other commodities were in comparative disrepute. In extreme cases, money is collected in masses, and hoarded; in

the milder cases, people merely defer parting with their money, or coming under any new engagements to part with it. But the result is, that all commodities fall in price, or become unsalable. . . .

It is, however, of the utmost importance to observe that excess of all commodities, in the only sense in which it is possible, means only a temporary fall in their value relatively to money. To suppose that the markets for all commodities could, in any other sense than this, be overstocked, involves the absurdity that commodities may fall in value relatively to themselves.

### ***The Myth of Oversaving***

The argument against the possibility of general overproduction is quite conclusive, so far as it applies to the doctrine that a country may accumulate capital too fast; that produce in general may, by increasing faster than the demand for it, reduce all producers to distress. This proposition, strange to say, was almost a received doctrine as lately as thirty years ago; and the merit of those who have exploded it is much greater than might be inferred from the extreme obviousness of its absurdity when it is stated in its native simplicity.

It is true that if all the wants of all the inhabitants of a country

were fully satisfied, no further capital could find useful employment; but, in that case, none would be accumulated. So long as there remain any persons not possessed, we do not say of subsistence, but of the most refined luxuries, and who would work to possess them, there is employment for capital. . . . Nothing can be more chimerical than the fear that the accumulation of capital should produce poverty and not wealth, or that it will ever take place too fast for its own end. Nothing is more true than that it is produce which constitutes the market for produce, and that every increase of production, if distributed without miscalculation among all kinds of produce in the proportion which private interest would dictate, creates, or rather constitutes its own demand.

This is the truth which the deniers of general overproduction have seized and enforced. . . .

The essentials of the doctrine are preserved when it is allowed that there cannot be permanent excess of production, or of accumulation; though it be at the same time admitted, that as there may be a temporary excess of any one article considered separately, so may there of commodities generally, not in consequence of overproduction, but of a want of commercial confidence. . . .

# The Surplus Wheat

or – COMPARATIVE ADVANTAGE  
IN THE COLD WAR



It was a chilly afternoon  
At story-telling time.  
Old Kaspar shivered in his chair  
And gulped his rum-and-lime,  
While Peterkin and Wilhelmine  
Warmed up the colorvision screen.

They saw a wide and rolling plain  
Without a house or tree;  
And filling all that vast expanse  
As far as eye could see  
Were countless groups of giant cans  
Arranged in circles, squares, or fans.

And swarms of heavy trailer-trucks  
In every dusty lane  
Were standing by the giant cans  
Unloading golden grain;  
While waiting trucks with heavy loads  
Were parked on all adjacent roads.

"Now tell us what it's all about!"  
The little children cried.  
"It's Surplus Wheat," Old Kaspar said  
In tones of honest pride;  
"We're filling every desert plain  
With shiny cans of costly grain."

"But what's the sense in growing more  
Than we can eat or sell?"  
"In times of Economic War,  
I've heard the Planners tell,  
The countries that survive the test  
Are those that outproduce the rest.

"Some other countries may excel  
In population growth,  
Or lead the race for bigger bombs,  
Or faster cars, or both;  
But there's not one we cannot beat,  
At filling cans with surplus wheat."



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