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An Oversight of Marx's

by

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May 2001

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An Oversight of Marx's.

A couple of words about the title. The word *oversight** is obviously used as a joke, although the consequences of that 'oversight' were rather serious. Completely immersed in the ultimate writing for the completion of his capital work: *Das Kapital* (the first volume having been published in 1867); busy with the political affairs of the workers' international movement; Marx, though in touch with Trade Union leaders, does not pay too much attention to a sequence of events related to the British worker movement (theoretical discussions, political battles) occurring between 1867 to 1871. He judges the political events rather contemptuously and even ignores the theoretical discussion. The world is changing around him, as well as the way of thinking about it. Yet Marx, staring **beyond** his times and looking for the omens of the forthcoming revolution, does not grasp the signs of the crisis looming over the classical paradigm. Indeed, the theoretical discussion¹ will end in the making of a new paradigm: the 'utilitarian' way of thinking.

The story I am about to tell is, in the main, already known. Though contemporary, the events belonging to that story have been presented as parallel and separate events. Parallel from the point of view of their historical occurrence; separate from a theoretical point of view, as objects of different disciplines: the History of the Worker Movement, relating to the development of the *Trade Unions*; the History of the Economic Thought, with reference to the development of the theory of wages and to the debate over the so-called Wage-Fund theory. In what follows, I will not be presenting *new* facts. Instead, I will try to expose the known facts stressing their "simultaneity", in order to suggest a new interpretation. The object of this paper is to focus the discussion on the very moment in which 'Marxism' (hence, the 'critique of the economic theory') and 'economic thought' parted company. Something happened that, in those times, was in all probability impossible to discern. The refusal by Marx, and consequently by Marxists, to take due account of the inner crisis of the classical paradigm has opened a *hiatus* between Marxism and the dominant paradigm, which did not exist between Marx and the classical one. On the contrary, both sides shared the *same* language. Though this refusal could have been based on good reasons, I shall only allude to them, as it is outside the scope of this paper to discuss them and their consequences, thoroughly.

Someone wrote that 'one cannot jump over his own shadow'; neither could Marx. The distance between the path chosen by Marx and, consequently, by 'Marxists' and economic thought grew dramatically, following those events. No 'counterfactual' could ever have filled that gap.

* What I mean could also, instead than 'oversight', obviously be dubbed as a 'neglect'.

¹ This is, obviously, an all too sketchy a statement. Marx **did** actually see this crisis. In his *Postscript* to the second edition, 1873, of the *Capital* (i.e. after the events here recollected), he states that in 1830 ends the classical school, and begin what he names *vulgarökonomie*. The point is that, neither in the Sixties, nor after, he will see the seeds of a new paradigm in the discussions accompanying the long dissolution of the Classical school.

1. Foreword.

The discussion is set out along the following lines. First, the period 1867-71 is characterised as one marked by a *double* turning point, affecting both the economic paradigm and 'Industrial Relations'. The second step consists in a sketch of the development of wage theories contrasted against their historical background up to the critical years of 1823-25, which witnessed the repeal of the Combination Acts and the rise of the Wage-Fund Theory. Then the Wage-Fund theory is outlined in its different versions. Subsequently, the focus is directed on the attack to that theory, while concentrating on a single outstanding episode: William T. Thornton's *On Labour*. I then try to highlight the oddness of the fact that Marx largely ignored the discussion, which raged both around the work of the 1867 Royal Commission and Thornton's book.

2. 1867-1871, a fatal quinquennium.

From a theoretical point of view, something was ending and something else was beginning in this period. As instances of the first case, we have the appearance of the first volume of Marx's *Capital* in 1867, the crowning work -almost a *summa*- of classical political economy, and John Stuart Mill's famous and still controversial "Recantation" of the Wage-Fund theory in 1869. In Sidgwick's words: "In 1871 ...[the] halcyon days of Political Economy had passed away...so far as any date can be fixed for [their termination], I should place it at the appearance of Mill's notice of Mr. Thorntorn's book *On Labour* in the *Fortnightly Review* of March, 1869".²

On the other hand, we have the repeatedly celebrated phenomenon of the almost simultaneous *incipit* of a wholly new theoretical paradigm. In 1871 Jevons publishes his *Theory of Political Economy*, Menger his *Grundsätze* and Walras is about to enter the scene.³ Marshall from that moment onward, for more than two decades, will try to find his way silently. At the time, he began to translate all that, according to him, was worth keeping of the classical paradigm into the new 'utilitarian' one, stubbornly defended only by Cairnes among the leading economists.⁴

The span of time from 1867 to 1870 just precedes the end of a century of economic theory, which, according to the periodization given by Joseph Schumpeter, went from 1790 to 1870. The beginning follows Smith's *Wealth of Nations* and the end comes with the appearance of the *Theory* of Stanley Jevons.⁵

² Quoted in T.W. Hutchison, "The 'Marginal Revolution' and the Decline and Fall of English Classical Political Economy", 1973, p. 186.

³ Though these strands should represent "highly heterogeneous elements", see T.W. Hutchison, "'Marginal Revolution" cit, p. 176.

⁴ See J.E. Cairnes, *Some Leading Principles of Political Economy newly Expounded*, 1874. In his Chapter II he analyses the intricacies of the concepts of Demand & Supply; an analysis praised by Bagehot in his "Adam Smith and our Modern Economy", *Economic Studies*, 1895. Yet, for all that, he maintains the subsidiary role of Demand & Supply with respect to Normal Values, in a classical mood.

⁵ J.A. Schumpeter, *History of Economic Analysis*, 1954, (it. ed.: vol. II p.463). W.W. Rostow periodizes in another interesting way: from Adam Smith's Edimburgh lectures on political economy (1748) to Mill's *Principles* and Marx and Engels' *Manifesto* (1848). According to him, the publication of these two works «against the background of multiple revolution and deep cyclical depressions, constitutes a kind of hinge on which political

However, though the classical paradigm was about to end, the Seventies did not simply witness the acceptance of the newly propounded 'utilitarian' paradigm. The new doctrine was instead considerably resisted.⁶ As Schwartz⁷ put it: "Seen from the present day's viewpoint it may appear that the most important event affecting economic studies...was the publication of Jevons'...*Theory*...But this is an optical illusion ... marginalism was not accepted in the English-speaking world in the 1870, but only after the publication of Marshall's treatise in 1890...the centre of the stage was not occupied by marginalist but by the follower of the German historical school...".⁸ Still, in 1876, Adam Smith's work was discussed with regard to its merits and, if ever, to its persistent validity.⁹

Yet, between 1867 and 1871, something else was also happening in a quite different field, which, as we shall see, *did* generate a series of events impinging on the parallel story of the economic thought. The gist of these historical turning years is conveyed by the following quotations. Walter Bagehot, writing in 1867 at the beginning of the Royal Commission's work on Trade Unions, said: "The very great progress which workmen are making in the art of organisation, a progress manifest in France and America, as in England, seems to...alarm the remainder of the community".¹⁰ Two years later as eminent a Victorian personality as Dr. Arnold wrote: "**A new power has suddenly appeared...which is certainly a wholly different force from middle-class liberalism...It has its main tendencies still to form**"[bold added].¹¹

In 1867, after decades of agitations of the most different sorts and arising from the most different quarters (from revolutionary Chartists to parliamentary Reformers), a Reform Bill was passed -under a minority Tory Cabinet-, which

economy shifts from one set of priority to another [undln added]. GP]» see *Theorists of Economic Growth from David Hume to the Present*, 1993, p. 93. It is worthwhile to stress that the second end of Rostow's periodization coincides, according to Marx, with another turn in the crisis of the 'classical' political economy. As Marx writes in *Postscript* cited, Mill's work in 1848 opens a period of syncretism, in which the impelling demands of the working classes can no more be simply ignored.

⁶ A vivid account of the various strands of the discussion during the decade is given in T.W. Hutchison, *A Review of Economic Doctrines 1870-1929*, 1953, p.2-32. For an opposite view see K.Baradwaj, *Classical Political Economy and the Rise to Dominance of Supply and Demand Theories*, 1978.

⁷ Pedro Schwartz, *The New Political Economy of J.S.Mill*, 1968, p. 7.

⁸ Walter Bagehot, in his essay "The Postulates of English Political Economy", submits the methodological tenets of the historical school (both German and English) to deep criticism. Though this essay had been published in the above-mentioned *Economic Studies*, in 1895, it has been probably written around 1876.

⁹ A *grand dinner* (as was defined by Jevons) was held at the Political Economy Club, on 31 May 1876, 'in honour of the 100th anniversary of the publication of the *Wealth of Nation*'. The discussion, which took place there, witnesses the enduring hold that, though amidst rising criticisms, the classical paradigm was still exerting on the inner core (of 'politics, learning, the city, the civil service and the aristocracy') of the British ruling *class*. The episode, with its participants: both economists and eminent politicians (Mr. Gladstone was in the chair), is accounted for in: T.W. Hutchison, *A Review* cit., pp. 1-5

¹⁰ W. Bagehot, "The Working of the Trades Unions", *The Economist*, April 27th, 1867. It is worthwhile to recall what Bagehot said, some years before, writing about the extension of voting rights: "These considerations seem conclusive against the scheme...which would give an uncontrolled power over the borough constituencies to the working classes. *But they do not even tend to deter us from giving them a...reasonable share of power.*" "Trades Unions and the Reform", *The Economist*, October 22nd 1859,[bold & itlc. added]

¹¹ Arnold's words are typical for an educator, as he was. Lytton Strachey, somehow ironically, granted to him a lasting fame as the *Victorian* educator. See Giles Lytton Strachey, "Dr. Arnold", *Eminent Victorians*, 1918.

enlarged the *enfranchisement* first granted by the electoral Reform of 1832.¹² Moreover, an iniquitous legislation was amended in 1867, i.e. the *Master and Servant Act*. According to the Webbs, this was the first legislative success of the Trade Unions.¹³ Moreover, in 1867, a Royal Commission was established "to enquire and report on the organisation and rules of trades".¹⁴ Following the work of the Commission two Bills were passed in 1871, known as The Trade Unions Acts, and, though unsatisfactorily, Trade Societies were legalised for the first time.

The appointment of a *Royal Commission* was announced in the February 1867 Queen's Speech, after public opinion was stirred by the explosion of a can of gunpowder in a workman's house in Sheffield in 1866; an act of violence following a strike of cutlery workers. The Commission was given powers to "pursue the investigations by exceptional means. The inquiry was to extend to all outrages during the past ten years, whether in Sheffield or elsewhere".¹⁵ The moment was extremely critical for the workers' movement. Indeed, the year 1867 was also marked by the famous case of the Boilermakers' Society cashier (*Hornby vs. Close*), who, having been found "not guilty", had been released by a magistrate, after having 'wrongfully withheld' the Union's cash. The Court of Queen's Bench maintained that Union activity was in 'restraint of trade'. It followed that its funds were not to be protected, since the Union was "of its nature illegal at common law".¹⁶ The sentence was perceived by the Unions as a dangerous precedent, threatening their existence.

In the circumstances, it appeared that the long lasting 'struggle for acceptance'¹⁷ would undergo a severe check. Instead, unexpectedly, the Commission paved the way for the legalisation of the Trade Unions. At the beginning of 1867 the so-called Junta¹⁸ formed the "Conference of Amalgamated Trades", which "from 1867 to 1871 acted as the effective cabinet of the Trade Union Move-

¹² The Reform of 1867 extended the voting rights to all the house owners and to the tenants paying at least £10 yearly, doubling the *franchise* granted in 1832. Marx and The International Workers Association, took part in the Committee for the Reform League established in February 23rd, 1865 (see *Letter from Marx to Engels, May 1st, 1865*, K.Marx F.Engels, *Works*, vol. XLII, Letters, October 1864 - December 1867, note 114, p. 676. All the quotations from Marx's Correspondence are taken from the Italian edition of the MEW [Marx Engel Werke].

¹³ See Sidney & Beatrice Webb, *The History of Trade Unionism*, 1894, p. 250-1, 280.

¹⁴ G.D.H. Cole, *A Short History of the British Working Class*, 1960, p. 200-208. The events referred to here, have been accounted for in Cole's work and, with a greater mass of details, by S.&B. Webb, *The History* cit., p. 259-298. My sketch of these events is based mainly on Cole and Webb works.

¹⁵ G.D.H. Cole, *Short History* cit., p. 201.

¹⁶ S.&B. Webb, *History* cit., p. 262 ; G.D.H. Cole, *ibidem*, p. 202.

¹⁷ W.H.Frazer, *Trade Unions and Society. The Struggle for Acceptance 1850-1880*, London: Allen & Unwin, 1974.

¹⁸ This was the nickname given to a small group of Trade Unions officials, convened in the London Trades Council, which grew to a great influence over the whole Movement. The formation of Councils of this sort, local and nation-wide, was the crowning step in the development the so-called 'new-model' Unionism. The foundation in 1851 of the Amalgamated Society of Engineers (ASE) marked a turning point in the history of trade unionism in Great Britain; see G.D.H. Cole, *Short History* cit., Part II, I. Introductory, § 2 *The 'golden age'*; great supporters of this view were Sidney & Beatrice Webb, *History* cit., chap. IV, *The New Spirit and the New Model*, and chap. V, *The Junta and their Allies*. On this line see also, H.Pelling, *A History of British Trade Unions*, Harmondsworth: Penguin Books, 1971, and, Harmondsworth: Penguin Books, 1965. For a more cautious evaluation see, W.H.Frazer, *op.cit.*. About the contrasted relation of Karl Marx with the ASE, will be spoken below.

ment"¹⁹ and a battle began under the Junta's direction. Frederic Harrison and E. S. Beesly²⁰ were the 'apologists for Trade unionism' in the press, while Tom Hughes was 'almost the only spokesman' of trade unionism in Parliament. Their strategy, devised in consultation with Applegarth and Allan,²¹ was to direct the Commissioners' attention to the character of the larger Unions' as 'friendly societies' (the trade-mark of new-model unionism), and their role in restraining the aggressive action of the smaller local Unions.

The majority report of the Commission was rather inconclusive: although it did not recommend any new hostile legislation, it suggested that the privilege of registration should be denied to societies supporting the disputes of other trades.²² The minority report, signed by Hughes, Harrison and Lord Lichfield, stressed that no Trade Union would have accepted "legalisation" on such conditions and maintained that legislation should follow the principle that no act is illegal when committed by a workman, if not equally illegal when committed by anyone else. Frederic Harrison drafted a Bill project embodying the minority proposal, which was introduced to the Parliament by Mundella and Hughes; however the Liberal Government delayed approbation.

The Junta decided to support the action by means of a series of meetings²³ and finally called other Trade Union Associations to form a national Trade Union Congress protesting against the Third Clause of the Bill propounded in 1871 by the Home Secretary, Henry Bruce. This clause made it possible to treat almost any action undertaken by Unions or workmen during a wage struggle as a criminal offence, by re-introducing the vague terms defining such actions that had been used in the old Combination Acts, repealed in 1824. Eventually a compromise was found and two separate Bills were passed into law: the Trade Union Act legalised Union activity, while the criminal clauses were embodied in the Criminal Law Amendment Bill.²⁴ As the Webbs report, Trade Unionist asserted "that the Government was withdrawing with one hand what it was giving with the other", and the Webbs comment that "there was...some ground for the assertion".²⁵ In the *Capital*, Marx expressed his opinion on the Acts in almost the

¹⁹ S. & B. Webb, *History* cit., p. 263.

²⁰ The first was a personality of English Positivism, a contributor to the *Fortnightly Review* (edited by J.S.Mill); the second was the Editor of the *Bee-Hive*, organ of trade unionism (Beesly was also in personal contact with Marx, as the Marx-Engels Correspondence witnesses). In July, 1867, he contributed to the debate with an article in the *Fortnightly Review*, "The Trades Union Commission", in which he associated the working of the Royal Commission with the 1867 Reform Bill: "When a general election comes under the new Reform Bill, there will be strenuous attempts to divert the workmen from their real grievances", (p. 13).

²¹ They were the most outstanding members of the Junta known to Marx, being also representatives of the English workers movement in the International Association.

²² Solidarity among Unions had been considerably helpful during the Fifties and the Sixties, as stressed by the Webbs.

²³ The 23rd June 1869 Marx took part in a great meeting at Exeter Hall, held to support the Bill. Edward Spencer Beesly delivered a speech cited with approbation by Marx in a letter to Engels (*letter from Marx to Engels*, June 26th 1869, *op. cit.* vol. XLIII, Letters, January 1868-July 1870., p.352).

²⁴ 34 and 35 Vic. c. 31 (Trade Union Act), and 34 and 35 Vic. c. 32 (Criminal Law Amendment Act).

²⁵ S.&B.Webb, *History* cit. 280.

same words as the Trade Unions.²⁶ Instead G.D.H. Cole, enjoying the advantages of hindsight that also we all share, comments with approval the compromise reached in the Parliament. Indeed he stresses the fact that the separation of the two Acts could have allowed Trade Unions to promote action for the repeal of the Criminal Amendment without jeopardising the legalisation, which was standing independently.²⁷ In fact developments took that course: the protest against the criminal clauses began in 1871 and in 1875 a *Tory* cabinet²⁸ repealed them, replacing the Criminal Amendment Law and the Master and Servant Act of 1867 with the Conspiracy and Protection of Property Act and the Employers and Workmen Act respectively,²⁹ a change of name "expressing a fundamental revolution in the law".³⁰

Although the 1875 Acts were not the end of the story, the 1871 Acts were really the beginning of it.³¹

Yet, a formidable obstacle had to be overcome in order to reach the first legalisation. In fact, middle-class public opinion was not really favourable to trade unionism. Middle-class opinion was imbued with popular prejudice,³² which was granted the apparent sanction of Political Economy. To dispell it, the discussion focused on the two central and related questions: whether Trade Unions were necessary to obtain something that would otherwise impossible for the workers to reach and, consequently, whether the ultimate aim would prove beneficial or harmful for the community as a whole.³³

Public opinion against trade unionism was predominantly based on various popular versions of the main argument provided by the Wage-Fund theory. Accordingly, the discussion raged around the Wage Fund theory, which stood as a stumbling block on the road to the establishment of Trade Unions. The followers of the theory used it to deny any effectiveness to trade unionism, which, it was

²⁶ S.&B:Webb, *op. cit.*, p. 280 ff. K.Marx, *Das Kapital* [quot. from the it. ed.: *Il Capitale*, 1971, vol. I, p.911; Section VII, *The process of accumulation of capital*, Chap. XXIV, "The so-called primitive accumulation", § 3].

²⁷ G.D.H.Cole, *Short History cit.*, p. 207.

²⁸ Notwithstanding the 1867 Reform Bill, it was the second time that a Tory cabinet took a step in favour of the workers, the first time being the enactment of the 1871 Trade Unions Acts. Indeed, the Webbs raise the question whether the Liberal Party defeat in 1874 can be attributed also to its steadfast opposition to the repeal of the criminal clauses, S.&B.Webb, *History cit.*, p.286.

²⁹ 38 and 39 Vic. c. 86; and 38 and 39 Vic. c. 90.

³⁰ S.&B.Webb, *ibid.* p. 291.

³¹ The Courts did not easily conform to the Parliament Acts, and repeatedly tried to subvert the change embodied in them. The Webbs wrote in 1920: " we described...the successive assault made by the Law Courts upon the legal position conferred upon the Trade Unions by the Acts of 1871-76. **This controversy has since been closed...by the further statute of 1906 and 1913.**[bold added] S.&B.Webb, *Industrial Democracy*, Introduction to the 1920 Edition, p. viii. However, for of all the ambiguities and vagueness which eased the Courts resistance, the 1871 *Acts* may be considered the starting point of the whole process, see H.Vester & A.H.Gardner, *Trade Unions and the Law*, 1955. For the first years of struggle over the 1871 *Acts*, see B.&S.Webb, *History cit.*, p. 283-296.

³² On that point, see R.V.Clements, "British Trade Unions and Popular Political Economy, 1850-1875", 1961-62. For an account of the opinions of these times on the subject of Trade Unions, see S.&B.Webb, *Industrial cit.*, Part II, chap. I, "The Verdict of the Economists".

³³ As Walter Bagehot said, when the Royal Commission was summoned: "Are the combinations called unions so managed as to be beneficial to the community? and, is it wise or foolish to give them a status a recognised corporation? The real object of the Royal Commission...is to discover the true answers to those two queries...", "The Working" *cit.*, p. 20.

believed, was deemed to obtain only what the market itself would allowed, no more nor less.

The point I really want to emphasize here is the relation between the rise and fall of the Wage-Fund theory and the historical circumstances surrounding them. Accordingly, before turning to the discussion on the Wage-Fund itself, I will devote some time to a discussion of the relation between the turning points in the history of the wage theories and the historical turning points in the power relations between the *working class* and the other classes. As we shall see, the Wage-Fund debate is only an episode in this story.

3. Two parallel stories, the working class and the wage-theories: the Classics before the Combination Acts.

The point raised by the title of this paragraph is not that theories in any sense simply 'reflect' historical conditions. However, it is also difficult to acquiesce to the 'internalist' view that the history of theory is accounted for merely by subsequent and progressive 'refinements' of abstract tools. As K. Baradwaj said: "...*economic theories were...born in response to problems... Involved inextricably with the problems, there were always conflicting interests at stake...*"³⁴. Theoretical frames are very often overhauled "during the process of scientific examination [of contemporary economic problems]" says McNulty "This sort of overhaul is what the trade union movement provided".³⁵ Historical conditions 'irrupt', as it were, into theories and this may help to account for some of their turning points and discontinuities.

I will begin with the wage theories of the Classics.³⁶ Indeed, it is difficult to speak of any 'theory' of the rate of wages before them³⁷ as, previously, only a shared opinion that wages were to be kept at subsistence level existed. Mercantilists³⁸ for instance maintained that: "...the cheapness of wages...will cause the cheapness of Manufacture".³⁹ Even this statement was not intended as a general definition of the determinants of the wage level. Instead, the Mercantilists were interested in the relative prices prevailing between countries, in order to foster exports: "Wages must bear a rate in all Nations according to the price of Provisions".⁴⁰

³⁴ K.Baradwaj, *Classical cit.*, p.12.

³⁵ P.J. McNulty, *The Origins and Development of Labor Economics*, 1980, p. 80.

³⁶ The plural is intended to stress the differences between them, at variance with expressions like "the bulk of the Classical wage *theory* [itlc added]. added]", which treats 'the theories of the Classics' as variation of one and the same theory; see D.P. O'Brien, *The Classical Economists*, 1975, p. 111.

³⁷ E.Cannan, *Review of Economic Theory*, 1929, p. 334, "there were no theories of wages...for a long time...when the material condition of the free labourer was scarcely better than that of the slave had been." See also similarly, F.W. Taussig, *Wages and Capital*, 1896, *Part II*, The History of the Wages Fund Doctrines, Chapter VI, Before Adam Smith

³⁸ See E.S.Furniss, *The Position of the Laborer in a System of Nationalism*, 1965; see also P.W.Buck, *The Politics of Mercantilism*, 1974.

³⁹ J.Child, *A Discourse of Trade*, in *Early Tracts in Commerce*, 1954, p.349.

⁴⁰ J.Cary, *An Essay on the State of England, Its Poor and Its Taxes for Carrying on the Present War Against France*, 1695, p.144.

It is also difficult to ascribe a 'proper theory' of wages to the Physiocrats, though they did share the 'subsistence' assumption. Quesnay⁴¹ thought of market relations at the border of the farm rather than inside it, so that it is even more difficult to speak of a labour market theory referring to Physiocrats than it is with regard to Mercantilists, as the latter were really witnessing the beginnings of the formation of such a market on a national scale.⁴²

A first great turn in the theory of wages occurred with the *Wealth of Nations* of Adam Smith.⁴³ Though referring to the 'price of provisions' similarly to the Mercantilists, he defined the 'subsistence' wage as the wage that equalises the supply of labour to the demand for it, on three different accumulation paths: expanding, stationary and declining.⁴⁴ "The demand for labour, according as it happens...to **require** an increasing, stationary or decreasing population regulates the **subsistence** of the labourer [bold added]".⁴⁵ These long-period equalities are maintained by means of the well-known demographic adjustment mechanism, by which the excess demand or supply of labour (i.e. of population in this case) is cancelled and the rate of wages brought to its equilibrium (i.e. *natural*) level.⁴⁶ Secondly, Smith distinguishes two kinds of prices: a *natural*

⁴¹ For instance Vaggi wrote that "Quesnay uses the term *salaire*, but it must be remarked that **this is not the same concept** as that of wage paid to salaried workers in the capitalistic mode of production. Quesnay wages were mainly influenced by the **subsistence level**...Instead of salaried labour one should speak of **necessary consumption paid** labour"[bold added]; G.Vaggi, *Prices, Markets and Reproduction: A Study in the Role of a Theory of Value in Physiocracy*, 1980, p.150.

⁴² K. Polanyi, in his famous book (*The Great Transformation*, 1944; it.ed: 1974, wherefrom the quotations are taken), gave us an account of the last stage of this process, following the abrogation of the Elizabethan Poor Law in 1834 (*op. cit.* p.91). He focused on the interpretation of the so-called Speenhamland System, as **the** obstacle for the development of a free labour-market, which emerges **suddenly** from its abolition (*op. cit.*, chapt. VII, VIII and IX). A quite different interpretation is given by Lipson (E.Lipson, *The Economic History of England*, 1947); in his classical work he stresses the length of the slow process of emergence of a free labour-market from a system of **paternalism**, and sets the turning point in this process much earlier, between the *Interregnum* and the *Glorious Revolution* (*op. cit.*, "The Age of Mercantilism", vol. II, Introduction, § vii, vol. III, chap. V, § ii. Wages, §viii Trade Unionism, and chap. VI, The Relief of the Poor).

⁴³ The discussion on the topic will be based mainly on Book I, Chapter VIII of A.Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1961.

⁴⁴ Instead, according to Cannan, Smith holds a 'subsistence' wage theory with regard to 'ordinary occasions', and a 'supply and demand theory' for the 'advancing and declining states' (E. Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, 1898, p. 185). He elaborates widely on that point in his *Review* cit., Chapter XI, "Incomes from Labour: their General Level", § 1, The Crude Subsistence Theory of Wages, and § 2, Adam Smith's Supply and Demand Theory. O' Brien (*Classical* cit., p. 111) distinguishes two sorts of wage-theories in Smith, namely a short-run *wage-fund* theory and a long-run *subsistence* theory. The same approach is followed by M.Blaug (*Economic Theory in Retrospect*, 1985, pp. 44-46), who maintains that the long-period relation between the demand for labour and wages is a 'long-run minimum-of-existence theory'.

⁴⁵ *Wealth* cit., Book V, Chap. II, p. 392 (see also Book I, Chap. VIII, p. 95, for an almost identical sentence). Smith puts the stress is set on the relation between the *level* of the wage rate and the *rate of growth* of the demand for labour, i.e. of accumulation; see Maurice Dobb, *Theories of Value and Distribution since Adam Smith*, 1973, p. 51; see also S.Hollander, *The Economics of Adam Smith*, 1973 (it. ed.: 1976; quotations are taken from this edition, p.174); this relation is overlooked by M.Blaug, *Retrospect*, cit., *ibidem*.

⁴⁶ "If...demand [for labour] is...increasing, the reward of labour must...encourage the marriage and the multiplication of labourers...If the reward should at any time be less than what was requisite for this purpose, the **deficiency of hands** would soon raise it; and if it should at any time be more, their **excessive multiplication** would soon lower it to this necessary rate." *Wealth* cit., *ibid.* p.89; "...the demand for men, like that for any other commodity, necessarily regulates the **production** of men; quickens it when it goes on too slowly, and stops it when it advances too fast." *Wealth* cit., Book I, Chap. VIII, p.89. [bold added]

and *market* (or "actual") price.⁴⁷ The latter is defined as "regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity profit, which must be paid in order to bring it thither".⁴⁸ The above-mentioned adjustment may be thought of as occurring between the *market* and the *natural* price (the first gravitating, as it were, toward the second). This adjustment mechanism (implying population movements) is not to be confused with another one.⁴⁹ In the case of the price of labour there are short-term causes of discrepancy, which occasionally come into play due to 'exceptional' years of prosperity or depression. In this case, consequently, the equality is brought in by means of competition between labourers and employers,⁵⁰ without implying population movements.

Indeed, expressing the long-period adjustment mechanism of wages devised by Smith in terms of demand and supply may be rather misleading. In his approach there are **no** independent balancing forces at work relying on the pivotal role of *any* price. Instead, there is a causal chain going from the demand of labour, determined by the pace of accumulation, to the rate of growth of the population, with wages 'instrumental' to this transmission. It is the change in the rate of accumulation that requires changes in the rate of wages, in order population could match the needs of accumulation.⁵¹

Moreover, it is worthwhile adding two further considerations. The first is that, contrary to a widely accepted view, elements of a *wage-fund* theory are, in my opinion, actually absent from Smith's work.⁵² Its attribution to him is probably

⁴⁷ A. Smith, *Wealth* cit., Book I, Chap. VII, p. 63. For a discussion of the theory of demand of the Classics with regard to some modern attempts to re-state it by means of demand schedules, see Pierangelo Garegnani, "The Classical Theory of Wages and the Role of Demand Schedules in the Determination of Relative Prices", 1983.

⁴⁸ "Such people may be called the effectual demanders, and their demand the effectual demand; since it may be sufficient to **effectuate** the bringing of the commodity to market." [bold added], *Wealth* cit., p. 89.

⁴⁹ A different interpretation of Smith's adjustment mechanism is advanced by W.W. Rostow (*Theorists* cit., p. 36), who follows Cannan above-mentioned interpretation, and maintains that *market* prices of labour are related with different rates of growth, while the *natural* one refers to the 'minimum' subsistence level, ruling in the stationary state. In my opinion, instead, Smith correlates **different** growth rates with **different** subsistence levels, calling them **all natural**. Moreover, according to Rostow, **any** deviation of the *market* from the *natural* rate is supposed to be adjusted *via* population movements. A similar position is held by M. Blaug, *Retrospect* cit., Chapt. 2, § 6. E. Cannan (*History* cit., p. 186) recognises only the demographic (i.e. long-period) adjustment mechanism, and the same does Maurice Dobb, *Theories* cit., Chapt. 2.

⁵⁰ I.e., in modern parlance, shifts in short-period demand and supply curves; "In years of plenty... **The demand for servants increases, while the number of those who offer to supply that demand diminishes** [bold added]", *Wealth* cit., p. 93, consequently "Those masters, who want more workmen, bid against one another"; "The contrary of this happens in years of sudden and extraordinary scarcity... A considerable number of people... thrown out of employment... bid against one another", *ibidem*, p. 96.

⁵¹ S. Hollander, *Economics* cit. p. 175; he stresses that a characteristic feature of Smith' theory is «the role... [of] ...the rate of accumulation of the capital as an "independent" variable», (*ibidem*. p. 174). This determines the rate of growth of the population and the level of wages.

⁵² The most outstanding representatives of the Accepted View are, for instance: F.W. Taussig, *Wages and Capital*; M. Blaug *Retrospect* cit., p.44, maintains that Smith, among other wage-theories, holds a short-run *wage-fund* theory (a position shared recently by O' Brien, as already mentioned above, and H. Landreth & D.C. Colander, *History of Economic Thought*, 1994); A. Skinner, "A Conceptual System", in *A System of Social Science. Papers Relating to Adam Smith*, 1979; S. Hollander, *Economics* cit., p. 176, rather maintains that Smith's wage-fund theory is not a *true* wage-fund theory (while I am denying this character **at all**); moreover analysing the first two chapters of the Book II of the *Wealth* he writes that " These chapters seem actually denying the wages fund ap-

due to a misunderstanding, likely to have arisen from his frequent and loose usage of the word *fund*.⁵³ However, no previously determined amount is implied in Smith's use.

The second observation concerns the centrality of the conflict between capital and labour. Smith was perfectly aware of the harshness of the legislation against workmen, as witnessed by his famous and widely quoted sentences on the advantages masters⁵⁴ had in combining against labourers. However, this was **not**, the *crucial* conflict in Smith. The *central* conflict in his theory is alluded to by the title of one of the most important chapters of his work, namely Chapter III in Book II and entitled: "On the accumulation of capital, or on productive and unproductive labour". Indeed, what impinges on accumulation and wealth is the unproductive employment of the labour force by the upper classes,⁵⁵ whose behaviour therefore conflicts not only with the *virtuous*⁵⁶ behaviour of capitalists, but also with the interests of the Nation as the whole. Moreover, it is competition among capitalists⁵⁷ that could potentially jeopardise accumulation and not the pretensions of the workers.⁵⁸ In fact, the idea that the maximum 'theoretical' wage could *threaten* accumulation will only appear *later* in the 19th century, and will be shared by Marx, J. S. Mill, Fawcett, Thornton and Cairnes, as we will see below.

proach", *ibid.* p. 218 (in the same vein see also the note 56, p. 176). In general, almost all the contributors to the discussion on the wage-fund theory, as it will be seen later, ascribe to Smith the beginning of the wage-fund theorising. A different case is that of Hicks, who in his re-construction of a Smith-like growth-model takes the 'accumulation of capital' as synonymous of 'expansion of the wage fund' (J.R.Hicks, *Capital and Growth*, 1969, Chap. IV: "Primitive Growth Models. Adam Smith and Ricardo", p.39); however, since he starts with the assumption of 'fixed wage' -for the single period (*ibid.*, p.37)- this cannot be considered a reconstruction of a Smithian 'wage-fund-theory', as a theory *explaining* the rate of wages, which is the point of view considered here. Cannan (*History* cit., p. 184-186) scrutinising Smith' theory, does not mention explicitly the *wage-fund* theory.

⁵³ A widespread use at those times, as for instance it is possible to find in the work of Quesnay. The same conclusion is reached by Bonar, while discussing the 'authorship' of the Wage-Fund theory: "Adam Smith frequent use of the words 'funds devoted' or 'fund determined' to this or that purpose may easily been misunderstood", James Bonar, *Malthus and his Work*, 1885), p. 273. According to Taussig, on the contrary these phrases are "undoubtedly parent of the word "wages-fund" (*Wages* cit. p. 145). As an example may be quoted the following sentence: "The demand for those who live by wages...cannot increase but in proportion to the increase of the funds...destined... [to] wages", *Wealth* cit. p. 77, which does not imply that the fund are **pre-determined** as **fixed**. McNulty, instead, interprets this sentence as stemming out of a *wage-fund* approach, *Origins* cit., p. 76.

⁵⁴ "The masters, being fewer in number, can combine more easily; and the law, besides, authorises, or at least does not prohibits their combinations, while it prohibits those of the workmen", A.Smith, *Wealth* cit., *ibid.* p. 74.

⁵⁵ See on that point J.R.Hicks: "the growth of the economy is slowed down by its unproductive consumption", *ibidem*, p. 38

⁵⁶ As opposed to the *vicious* one supported, as it were, by Mandeville, in his *Fable of the Bees*. Smith's is the very first answer to the paradox of the *Fable*, the other XVIIIth Century attempts being inadequate to the task.

⁵⁷ "In a country which had acquired...full complement of riches...which could, therefore, advance no further...both the wages of labour and the profits of stock would probably be very low...In a country fully herefore, would everywhere be as great, and consequently the ordinary profit as low as possible." (A.Smith. *Wealth* cit., pp. 106) [undl. added].

⁵⁸ Ultimately their condition, number and prosperity, is regulated by the 'demand of labour' -as quoted above-, and nowhere in chapter VIII, workers combinations are treated as a threat to accumulation. As W.W.Rostow has stressed (*Theorists* cit. p. 45), according to Smith, one of the advantage of a thriving country are lower unit labour costs, despite higher real wage rates. See also Pollard (S. Pollard, "The Labour-Force in Great Britain", in *The Cambridge Economic History of Europe. Vol VII: The Industrial Economies: Capital, Labour and Enterprises*, 1978; [it.ed., 1979] Chap. III) who opposes Smith, as an high-wage economist to Defoe, Mandeville, William Temple and Arthur Young, all advocating low-wages as the necessary *stimulus* to work.

Smith's theory of wages captures two important features of the historical circumstances surrounding it. First of all, Smith writes after the decades of the first *take-off* of the British economy⁵⁹ and this may account for his first departure from the pre-Smithian theories, namely his extension of the 'subsistence' concept in order to link it to prosperity and high wages, the objects of lengthy considerations in Book I, Chapter VIII, on wages.⁶⁰ The second feature is that the 18th century is marked by a complex process of development of salaried work and sees the emergence of a variety of workmen's associations and correspondingly of combinations among them.⁶¹ Consequently, it could be suggested that the new bargaining power, though unstable and fostered by favourable economic conditions, could be at the bottom of the short-term divergence between *market* and *natural* prices. Combinations among men had risen to greater importance, as compared to previous times. Indeed, towards the end of the century, plenty of petitions from masters to the authorities have been recorded, complaining that workers had entered in 'unlawful combination' in 'restraint of trade'.⁶²

The reason why we never considered "what regulates the earning of horses", says Cannan, is that "We don't let them bargain with us" over their feed and fodder.⁶³ An analogous reason, according to him, accounts for the absence of a wages theory before Smith.⁶⁴ Cannan attributed to Smith two sorts of wages theory: a 'subsistence' and a 'supply & demand' theory. In my opinion Smith holds only the 'subsistence' theory, though this concept could have been enlarged by him to take account of historical facts. I would add that when the scope of the bargain is to enlarge the barriers of 'subsistence', the economic theory is concerned only with the range of the extension, since the bulk of wages is determined outside the theory itself, by habits and customs. This accounts also for the 'secondary' role of 'demand & supply' in the determination of wages. Given these historical circumstances, the conflict between capitalists and workers to which the theory of wages refers cannot but be a 'repressed'⁶⁵ conflict. A **true** economic conflict is ruled out *a priori*, 'true' in the sense of an **open** conflict, not decided beforehand, since one side has such a supremacy, that the conflict cannot **even** be played in the 'economic' field, by 'economic' means, apart from

⁵⁹ See W.W.Rostow, *The Stages of Economic Growth*, 1960.

⁶⁰ A.Smith, *Wealth* cit.pp. 83-95.

⁶¹ See P.Mantoux, *La révolution industrielle aux XVIII^e siècle* (The Industrial Revolution in XVIIIth Century), [it.ed.: 1971], p. 100-112. The history of this development has been told, among others, by E.P.Thompson, *The Making of the English Working Class*, 1965, and S.&B.Webb, *History* cit. Many useful insights are given by Lipson; see, for instance, this interesting sentence: " it was the **collapse of the benevolent** [sic!] **autocracy** [i.e. the *Glorious Revolution*-GP] which did much to **stimulate the self-assertion** of wage-earners." , and further: "The tangible sign of the cleavage between capital and labour...was the growth of trade unionism" (*op. cit.*, vol. II, *Introduction*, p. xxxi).

⁶² S.&B.Webb, *History* cit., Chapter II, "The struggle for existence".

⁶³ E. Cannan, *Review* cit., p. 333.

⁶⁴ E. Cannan, *op. cit.*, p. 334; Cannan refers the absence of a wage-theory to situations in which bare subsistence conditions prevail, and the wages consisted only in a "fixed quantity of the necessities of life" (*ibidem*), so that "there were no variations in real earnings to make a theory about" (*ibid.*). While I agree with him that after Smith a theory of wages *does* exist; I am enlarging his suggestion to the *sort* of conflict underlying the theory.

⁶⁵ From other points of view (e.g. a Marxist one), a *repressed* conflict may be considered even *more* fundamental; but in this paper the stress is laid on conflicts which find their way to the market scene.

short-period and short-lived outbursts. This is not contradictory with the fact that workers try, combining, to get more in money terms, and that masters, often successfully, resist. The point is that, in Smith's theory the long-term real rates of 'wages' and 'profits' are not moving, as such, in an opposite way. Even when profits and wages move in opposite direction this, according to Smith, is not due to a **conflicting** behaviour of the two classes. Instead, it is due to the action of a *common* factor -namely the 'plenty of funds'- which affects in an opposite way the two rates.⁶⁶

4. After The Combination Acts. Malthus' first Macro-Constraint on wages.

After the publication of Adam Smith' *Wealth of Nations*, the Industrial Revolution developed further as did the combinations and societies of workmen. However, a double historical turn (practical and theoretical) took place at the end of the 18th century. The effects of the political change were of great relevance in this context and lasted for more than half a century: the same thread links Burke's *Reflections* of 1790⁶⁷ and the *Combination Acts* of 1800, which outlawed all Trade Union associations.⁶⁸

The *Acts* completed a previous Act (1799)⁶⁹ and made all national societies based on local networks illegal. The decade had witnessed a political struggle⁷⁰

⁶⁶ See the opening sentences of A.Smith, *Wealth* cit. Book I Ch. IX.

⁶⁷ E.Burke, *Reflections on the Revolution in France, and on the proceedings in certain societies in London relative to that event: in a letter intended to have been sent to a Gentleman in Paris, 1790*. The *Reflections* marked the political turn of the English public opinion which was initially sympathetic with the French Revolution, "In 1790, Burke in his *Reflections*...set out to rally English sentiment and patriotism in support of the existing aristocratic system of government", M.Butler, *Burke, Paine, Godwin and the Revolution Controversy*, p.1. Indeed the Webbs, writing about the Combination Laws, said: "Under the shadow of the French Revolution, the English governing classes regarded all associations of the common people with the utmost alarm.", S.&B:Webb, *History* cit., p. 73.

⁶⁸ Apart the discussion the economic consequences of these Acts, which we shall relate later to, another discussion had arisen whether these Acts were introducing some **new** content in the vast legislation anti-combination -swollen up during the XVIIIth Century-, or whether they were simply a summing-up of the existing measures. Lipson, *History* cit., vol. II, p. xxxi, holds this second view: "During the eighteenth century repeated laws were enacted against associations of working men in various occupations, and the Combination Laws of 1799 and 1800 were only the climax of a series of measures dating back to the opening decades of the century." The Webbs, instead, maintain that the Combination Act of 1800 "was not merely the codification of existing law, or their extension...to the whole field of industries. It represented a new and momentous departure", *History* cit. p. 91. A. Aspinall, *The Early Trade Unions*, 1949, (a precious recollection of documents from Home Office Papers from 1791 to 1824), supports the second view (*ibidem*. p. xvii). Thompson, *The Making* cit. p. 504, states that the novelty of the Acts "consisted in this; in the inclusive nature of their prohibition of *all* combinations; and in the fact that, unlike legislation in the **earlier paternalistic tradition**, they included **no compensatory** protective clauses."; a line of reasoning similar to the general argument of Lipson in his *Economix History* quoted above.

⁶⁹ Act 39 Geo. III. c. 81; The occasion was a petition from London engineers employers, complaining that combinations were destructive of the "discipline". A Bill was introduced by William Pitt on 17th June, 1799; the Bill passed with the only opposition of Benjamin Hobhouse in the Commons and of Lord Holland in the Lords. However, the employers were not yet satisfied. In January 1800 *The Times* announced a new Act preventing "conspiracy among journeymen tradesmen to raise their wages. All benefit clubs and societies are to be immediately suppressed". They got it with the Act 39 and 40 Geo. III. c. 60; S.&B.Webb, *History* cit., pp.69-72; Aspinall, *op.cit.* p. xi-xviii.

⁷⁰ The above-mentioned book, edited by Marilyn Butler "selects from the pamphlet war of the 1790s...the 'Revolution Debate' lasted for about six years, from the first English rejoicing at France's new dawn in 1789, to December 1795, when Pitt' government introduced measures to stop radicalism", M.Butler,*Revolution Controversy* cit., p.1. It is worthwhile recalling that Burke's "*Reflections* sold 19,000 copies in six months, *The Rights of Man* [see n.60] sold 200,000", C.Harvie, "Revolution and the Rule of Law (1789-1851)", in: *The Oxford History of*

between the governing classes, which although at first compliant had been alarmed by the French Revolution, and a series of democratic movements.⁷¹ The *Combination Acts* constituted the culmination of that struggle.⁷² These historical circumstances, marking the last decade of the 18th Century, are the practical background to a parallel turn in the economic-theoretical field: Malthus' *Essay on P opulation*.⁷³

As Keynes said, Thomas Robert Malthus had two 'fairy-tale godmothers' at his cradle: Jean Jacques Rousseau and David Hume, both close friends of his father.⁷⁴ Yet, beginning with the above-mentioned work, the son set out on a different political path to his father's, as explicitly stated in the complete title of the *Essay: An Essay on the Principle of Population, as it affects the future improvement of Society: with remarks on the speculations of Mr. Godwin, M. Condorcet, and other writers*.

The circumstances at the origins of the *Essay* (a discussion with his father over Godwin's *Enquirer*)⁷⁵ are well known, as are the intellectual circumstances of the historical period: the polemics over the idea of an indefinite progress in human happiness.⁷⁶ The gist of the *Essay* is conveyed by the following sentences, belonging to a letter Malthus wrote to Godwin just after its publication: "Could we suppose any country...to arrive at the *ne plus ultra* of subsistence of

Britain, 1988, p. 486. The most know among the leading personalities of the democratic movement are: Price (*Observations on the Nature of Civil Liberty*), Paine (*The Rights of Man*); Godwin (*Enquiry into Political Justice*); Mary Wollstonecraft (*Vindication of the Right of Man*, followed in 1792 by the most known *Vindication of the Right of Woman*), and Francis Place, a London taylor, leading the London Corresponding Society till 1794, whom will be spoken about later. For a detailed account of the period, see G.D.H.Cole, *Short History* cit., Part I, Chapt. III "The French Revolution in Great Britain"; see also M.Butler, *Revolution Controversy* cit., Introduction; for historical works relating to the period following the French Revolution, se also Butler's *Notes* and *Bibliography*.

⁷¹ After Paine exile, in 1792, a new wave of journals and pamphlets following him marked a new, working-class phase, of the movement: "For many modern historians, the most significant feature of the reform agitation of the 1790s is the spontaneous growth...of associations dominated by **working men**.", M.Butler, *Revolution Controversy* cit, p. 7. The following quotation from Thompson seems very interesting in defining the political atmosphere of the time: "These years of war crisis (1800-1801) require to be considered separately. **We are reaching the end of a tradition**, while **the new tradition** is just **emerging**. In these years the **alternative** form of economic pressure, that on **wages**, is growing more **vigorous**; behind the subversive language there is...the trade unionist **clandestine** organisation, the oaths, the **mysterious sect** of the «United Englishmen»"[bold added], E.P.Thompson, *Società patriiza, cultura plebea, otto saggi di Antropologia storica sull'Inghilterra del XVIII^{mo} secolo*, (Patrician Society, Plebeian Culture, Eight Essays in Historical Anthropology on the XVIIth Century England), [it. ed.: 1981, p. 113; quotations have been taken from this edition]. This thesis is advanced also in the other Thompson's mentioned work, *The Making of the English Working Class*.

⁷² "The aristocracy were interested in repressing Jacobin "conspiracies" of the people, the manufacturers were interested in defeating their "conspiracies" to increase wages: the Combination Acts served **both** purposes.[bold added]", E.P. Thompson, *The Making* cit., p. 198; Chapters IV ("Free-born Englishment) and V ("Planting the Liberty Tree") give a detailed an vivid account of the political eventa of the period.

⁷³ T.R.Malthus, *Essay on Population*, [First edition, 1798]. My reconstruction of Malthus' *Principle of Population* will rely mainly on the first edition of the *Essay*, while the second and subsequent editions are not, on the main, considered here; the reasons of that choice are given below. The differences between the approach of the *Essay* and that of Malthus' *Principle* will be accounted for in the framework of Malthus discussion with Ricardo.

⁷⁴ J.M.Keynes, *Essays in Biography*, 1933; "Robert Malthus".[Quotations will be taken from the italian edition, J.M.Keynes, *Politici ed Economisti*, 1974]

⁷⁵ See J.Bonar, *Notes on Malthus First Essay* p.iii, published as an appendix to R.Malthus, *op. cit.*.

⁷⁶ On the discussion over perfectibility as the occasion of the *Essay*, see E. Cannan, *History* cit. p. 103.

population⁷⁷ ...the pressure of population...would be felt in frequent famines, and particularly in the **small recompense of labour**; for...the real recompense of labour depends upon the increase of the funds for its maintenance; and when these funds are completely stationary...this recompense will naturally be **the least possible**".⁷⁸

So, what do these funds consist in? "These funds consists principally in the necessary of life",⁷⁹ and since "the power of population is indefinitely greater than the power in the earth to produce subsistence for man",⁸⁰ the conclusion is reached. However to assure it, what is needed is that this differential be effective; the precise mathematical formulation of the two famous progressions being indeed incidental.⁸¹

In the mood of his *First Essay* Malthus rejected the possibility of the effectiveness of the so-called 'preventive' check, i.e. moral restraint, which later introduced in the subsequent editions of the *Essay*, and was to become the preferred argument of the later Malthusianism of McCulloch and John Stuart Mill.⁸² Indeed, Godwin had written in the above-mentioned letter to Malthus, that Prudence⁸³ could 'remove the constant want of an increasing quantity of food';⁸⁴ however, Malthus answered that, in this case, "it is highly probable that cultiva-

⁷⁷ As to Malthus' contention that he was applying the wisdom of Political Economy to the debate on the progress of mankind, we may compare the above-mentioned text with the following sentences of Smith. "In a country which had acquired...full complement of riches...which could, therefore, advance no further...both the wages of labour and the profits of stock would probably be very low. In a country fully peopled...the competition for employment would necessarily be so great as to reduce the wages of labour to what was barely sufficient to keep up the number of labourers..."(A.Smith. *Wealth* cit., pp. 106) [undl. added]. The sentences may appear to be an *anticipation* of Malthus' *Essay*. However I want to stress three relevant differences. First, the decline affects **both** wages and profits, and it is not intended to establish a rule concerning labourers *only*. Second, the context clearly indicates that Smith's concern is about the possibility of a future *stagnation* of accumulation ("China seems to have been long stationary", *ibid.* p. 106), while Malthus did *not* consider a slackening in the increase of food; third, the situation envisaged by Smith is supposed possibly to happen in a distant future, an approach with which Malthus will polemicize, as we will see below.

⁷⁸ *Letter from Malthus to Godwin*, 20th Aug. 1798; cited in J.Bonar, *Notes* cit. p. iv.

⁷⁹ R.Malthus, *Principles of Political Economy*, 1964, p. 234.

⁸⁰ R.Malthus, *op. cit.*, p. 13. It is noteworthy that this conclusion is reached simply "assuming...my postulata as granted" (*ibidem*). The postulates refer to the necessity of food "to the existence of men" (p.11) and to the strength of sexual passion (*ibid.*), which is asserted in a *a priori* way dismissing Godwin's suggestion that the impulse to reproduction was indeed already weakening in those times. Moreover the enunciation of the postulates themselves in no way grants the *crucial* differential. Later, in the third edition, Malthus will confirm that his *Essay* did *not* even intend to prove the magnitude of the two progressions, which were taken as **self-evident** (see the quotation from Malthus in Cannan, *History* cit. p. 113). This leaves not a very comfortable room to Hutcheson contention that the 'hard end' of the Principle of Population is " the most weighty... **empirical generalization** ever put forward" ("Marginal Revolution" cit. p. 195).

⁸¹ From the first sentences of the *First Essay* it may appear that Malthus considered the 'quantitative' definition of the arithmetic progression in the increase of 'subsistence', as an *a fortiori* hypothesis. Though criticizing them, Cannan reports Marshall and Mill statements that Malthus 'hazarded' the progressions 'chiefly by way of illustration' (Cannan, *History* cit., n. 1, p. 113). For an interesting discussion of the two dynamics, which is impossible here to comment as it would deserve, see M.Blaug, *Retrospect* cit., pp. 68-75. It is also outside the scope of the paper to discuss the general attempt of Blaug to reinterpret Malthus *Essay*, and broadly Malthusianism, by means of popperian categories; see also M. Blaug, *Ricardian Economics*, 1958, Ch. 6, Population and Wages.

⁸² See Schwartz, *J.S. Mill* cit., in particular Capt. 3, "Youthful Propagandism"; see also O'Brien, *J.R. McCulloch . A Study in Classical Economics*, 1970, Chapter XIII, Pauperism and Emigration.

⁸³ This is the 'other check' -the moral restraint- which will appear in the second edition of the *Essay*, and on which Malthus will elaborate in his *Principles*.

⁸⁴ J.Bonar, *Notes* cit. p.vii

tion would proceed still **more slowly**",⁸⁵ the incentive to promote cultivation having been removed.

A further step was required to strengthen Malthus' argument against Godwin and the others: the 'constraint' had to already be at work. As Cannan says: "Expressing 'astonishment' at the fact that writers have treated 'the difficulty arising from population' as 'at a great distance', he [Malthus] says: «if the view of the argument given in this essay be just, the difficulty, so far from being remote, would be imminent and immediate»⁸⁶, 'the period when the number of men surpass their means of subsistence', Malthus believed, 'has long since arrived'.⁸⁷

That Malthus was convinced of it is made evident by the following quotation from his subsequent work, *Investigation of the Cause of the Present High price of Provisions*: "It is a fact now generally acknowledged...that the late year...we have not grown corn sufficient for our own consumption...I own that I cannot but consider the late severe pressures...on... our crops...as a very **strong exemplification of a principle** which I endeavoured to explain in an essay published about two years ago...".⁸⁸

Establishing whether Malthus' *Essay*, published in 1798, actually contributed in forming the public opinion that supported the *Combination Acts* of 1799 and 1800, would require a careful examination of the public debates⁸⁹ that took place at the time, which is outside the scope of the present work. However, the *Essay's* logical and rhetorical structure would have made it an extremely suitable contribution. According to repeated statements, present in the first and second edition of the *Essay* as well as elsewhere, the poverty of the labouring classes must be ascribed to the joint operation of Nature and their own behaviour.⁹⁰ It follows very straightforwardly that any association or combination of workmen, cannot but be ultimately ineffectual from an economic point of view (temporary

⁸⁵ This is one of the many cases in which Malthus devises the re-action of a feed-back on the behaviour of the agents. May be the economist had been impressed also by his ingenuity displayed in counter-intuitive reasoning. For instance, in *First Essay*, when discussing Pitt's Poor Bill, Malthus says that though it was designed with "benevolent intention" to the poor (p. 94), actually it ought "create more poor" (p.95). Against the same measure, was poised the work of another influential writer, Burke's *Thoughts and Details on Scarcity, originally presented to the Rt. Hon. William Pitt in...November 1795*, 1800, p.4. In Thompson opinion (*Plebeian* cit. p. 116) this pamphlet had a great influence on Pitt. According to Cannan, the question of the Poor Laws, was in the background of the discussion on wages of the times (*History* cit., p. 187)

⁸⁶ R. Malthus *Essay* cit., p. 144.

⁸⁷ E. Cannan, *Theories* cit., p. 107. However, Taussig reports that Malthus, in his subsequent discussion with Senior, was ready to reduce his contention to a simple *tendency* to pressure over the subsistence.

⁸⁸ The quotation is taken from Bonar's *Notes*, (p. xi). "Malthus printed this tract in time for the meeting of Parliament on 11th Nov. 1800, and it seems to have reached Pitt and the Government." (*ibidem*, p. x).

⁸⁹ Keynes reports Bonar's opinion that the *Essay* aroused a libel war (more than twenty, according to Bonar); J.M.Keynes, "R.Malthus" cit. , p. 78. To be fair, Malthus' position apparently does not stem from a prejudiced unfriendly feeling towards the poor; on the contrary, speaking on nominal and real wages Malthus often refers to the unfair behaviour of the rich, yet he concludes: "though the rich by unfair combinations, contribute...to prolong...distress among the poor; yet no possible form of society could prevent the almost constant action of misery...upon all, **if all were equal**" [bold added], T.R. Malthus, *Essay* cit., p. 36.

⁹⁰ According to Cannan, Malthus, in the second *Essay*, preaches to the workers "a new gospel...of which the gist is, "To keep up your wages, keep down your numbers!" (E.Cannan, *Review* cit., p. 345). "This doctrine...won completely acceptance among economists...[since] it made them [the labourers]...appear to be the arbiters of their fate" (*ibidem*, p. 348-349), ruling out other ways of increasing wages, e.g. by means of combinations.

effects being only due to 'restraint of trade'; a criminal offence in Common Law at the times).

The *Essay* can hardly be considered a work that provides an 'explanation' of actual facts.⁹¹ Keynes, praising its intellectual boldness, calls it "a priori and philosophical"; while Walter Bagehot says that "in his first form, the *Essay on Population* was conclusive as an argument, only it was based on untrue facts; in its second form it was based on true facts, but it was unconclusive as an argument".⁹²

Nevertheless, it had momentous consequences for economic theory. Despite referring to his work, Malthus introduced a new concept, which had been quite alien to Smith: an **overall constraint**⁹³ (a macro-, though extra-economical constraint) impinging on the individual wage-rate and forcing it, in the last resort, to the subsistence-*minimum*. As we have seen, Smith had *three* subsistence-levels and none of them was constrained by any *law of Nature*. Only the capitalists' decisions as to the pace of accumulation determined the *advances* of capital, on which the demand for labour depended. Moreover, since the demand for labour and the demographic adjustment, helped determine both the rate of wages *and* the size of the population, the wage-bill followed as a consequence and a macro-constraint was redundant.⁹⁴

Malthus, on the other hand, maintained that "the demand for labour is not *proportioned* to the increase of capital in any shape",⁹⁵ but depends instead solely on the increases of the 'necessaries of life'. Hence, Malthus (similarly to Smith, although for different reasons) cannot be said to hold a *proper* Wage-Fund theory.⁹⁶ The constraint he puts on the *wage-rate*, was extra-economical in nature, and much more stringent than the one implied by any 'fund' designed by a capitalist to support labourers. In the first version of the *Essay*, it is clear that labourers are forced, by their own behaviour **and** by Nature, towards a minimum wage.

⁹¹ The *facts* of population were not the origin of it, as neither the 'explanation' of them was its 'purpose'. "His *Essay* was an anonymous pamphlet in a political controversy, and was meant to turn the light of political economy upon the political philosophy of the day"; J. Bonar, *Malthus* cit., p. 5.

⁹² W. Bagehot, *Economic Studies*, p. 179, quoted in Hutchison, "Marginal Revolution" cit., p. 196, n. 34. However Coats maintains that, though Malthus filled the subsequent editions of the *Essay* with "the results of his extensive search for demographic evidence", "younger authors came to the conclusion that the weight of evidence was against Malthus's theory" ("The Classical Economists and the Labourer", in: *The Classical Economists and Economic Policy*, 1971, p. 146).

⁹³ "This implies a strong and constantly operating **check on population** from the difficulty of subsistence" [bold & italic added], R.Malthus, *Essay*. cit., Chap. I, p. 14. Moreover, Malthus criticizes Smith for not isolating in the increase of revenue the growth of 'subsistence', which only supports labourers and **limits** their increase; "A distinction will in this case occur, between the number of hands which the stock of the society could **employ**, and the number which its territory can **maintain**" [bold added]. R.Malthus, *ibid.*, Chap. XVI, p.306.

⁹⁴ As Taussig points out, according to Malthus the *Principle of Population* is all what is needed to determine wages, and consequently Smith's inquiry on wages is made 'superfluous' (*Wages*, cit., p.163).

⁹⁵ R.Malthus, *Principles* cit., p. 234. According to Keynes and other commentators, beyond the *First Essay* Malthus, there exists a 'second' Malthus: the one of the *Principles*, who had softened the thesis of the *Essay*. Keynes refers mainly to the discussion over the *general glut*, and the depression following the Napoleonic Wars. S. Hollander tries to rescue Malthus, at least partially, from the allegation of being Keynesian *ante-litteram* in: "Malthus and the Post-Napoleonic Depression", *History of Political Economy*, vol. 1(2), Fall 1969, pp. 306-35

⁹⁶ Schumpeter (*History*. cit., p. 817) criticizes those commentators who ascribed to Malthus a Wage-Fund theory.

It was the novelty and the cogency of this constraint that most likely struck economists as well the public opinion.⁹⁷ The facts followed suit, in a twofold sense. In the second and subsequent editions of the *Essay*, Malthus collected a mass of evidence, taken from different times and different countries, which helped give the *Essay* a more scientific appearance.⁹⁸

However, as we have seen, Malthus himself was eager to find a more immediate confirmation for his thesis, than to rely on the working of the 'tendency' in a more 'distant future'. It could be argued that the consequences of the *Combination Acts* contributed to create a situation that appeared to validate his theory. According to the Webbs,⁹⁹ the *Acts* failed to "suppress the somewhat dictatorial Trade Unionism of skilled handicraft", yet they were efficient in "preventing the growth of permanent Unions among other sections of workers".¹⁰⁰ All this led to a situation marked by "the alternation of outbursts of machine-breaking and outrages, with intervals of abject submission and reckless competition" among workers. As for their economic consequences, "The reports of Parliamentary committees, from 1800 [sic!] onward, contain a dreary record of the steady degradation of the Standard of Life"¹⁰¹ in the new machine industries. This early statement by the Webbs is confirmed by more recent historical work. *Cambridge Economic History* reports that during the war with France (the period under consideration), while handicraft workers could almost adjust wages according to movements in prices, "the Combination Acts and the repeal of juridical protection (1813-14)¹⁰² did not permit them [the majority of workers] to take advantage from the new situation [i.e. war excess-demand]. The fall of real wages...persisted after the war..."¹⁰³

⁹⁷ Taussig says that "he had impressed on his contemporaries the belief that the tendency was [so] strong...asto leave it practically true...that an increase in subsistence meant simply an increase in number" (*Wages* cit., p. 162-163).

⁹⁸ A.W.Coats states that "Malthus's *Essay on Population*...[has] become longer and longer and duller and duller with successive editions as he incorporated the results of his extensive search for demographic evidence...but...younger authors came to the conclusion that the weight of evidence was against Malthus's theory" ("The Classical Economists and the Labourer", in: *The Classical Economists and Economic Policy*, 1971, p. 146).

⁹⁹ S.&B.Webb, *History* cit., p.87.

¹⁰⁰ For a contrary, rather minimising, view see T.S.Ashton, *The Industrial Revolution 1760-1830*, 1976 (6th ed.) [it. ed.: 1976, wherefrom are taken the quotations], Chapter V^b, "«Individualism» and «Laissez-faire»": "To these *Combinations Acts* has been given an unjustified emphasis in the histories of the British Trade Unionism", (p.143). Thorold Rogers was of a quite different opinion: "every effort was made then [1814-GP] and thereafter to sharpen the edge and expedite the use of the hateful laws which have been constantly enacted up to 1800 against combinations of workers, and were still strictly enforced", J.E.Thorold Rogers, *Eight Chapters on the History of Work and Wages*, (being a Reprint of Chapters viii., xii., xiv., xv., xvii., xviii., xix., xx., of *Six Centuries of Work and Wages*, 1894), 1908 (7th ed.), p. 139.

¹⁰¹ S.&B.Webb, *ibid.* p. 86.

¹⁰² I.e., the abolition of the Elizabethan Statutes concerning the regulation of wages and apprenticeship. See G.D.H.Cole, *Short History* cit. p. 40. J.E.Thorold Rogers (*Eight Chapters* cit. p. 139) says: "It should be remembered that the change [the abolition of the Statutes-GP] was effected at a time when the distress of the working classes was the deepest, [and] that the avowed object of the repeal was to cheapen labour". See also E.Lipson, *op. cit.* vol. III.

¹⁰³ Sidney Pollard, *op.cit.* p. 213.

5. *From the Combination Acts till 1824. I. Ricardo on wages.*

The picture just sketched above is the general historical background in which to situate the work of Ricardo.¹⁰⁴ However, before outlining the main features of his theory of wages, I would like to highlight an aspect belonging to his pre-analytical vision, namely the use Ricardo made of Malthus' *Principle of Population*, stated in his *Essay*. Ricardo takes from Malthus a fundamental component of his vision, namely the idea of the working of the Nature as an extra-economical *Barrier* to growth.¹⁰⁵

Similarly to Malthus, we find that this barrier hampers boundless progress. The idea of progress, which Malthus fought against, has as its consequence the bettering of the material conditions of the poor in general (and of the working classes in particular).¹⁰⁶ In Ricardo, the idea of progress is seen from the capitalist's side and is identified with accumulation.

Yet, here begins to develop the differences between the two authors. In Malthus' *Essay*, Nature limits the possibility of bettering the material conditions of mankind, and nobody can be regarded as responsible for that. Moreover, it is only the extra-economical feature of the 'limits' that renders them insurmountable. For Ricardo, on the contrary, although the limit represented by the barrier of Nature is, in the very long run, as inescapable as it is in Malthus' theory,¹⁰⁷ its working may be delayed by means of an economic policy opposed to landlords vested interests. "In every society advancing in wealth [capital] and population, independently of the effect produced by liberal or scanty wages, general profits must fall, unless be improvements in agriculture, or corn can be imported at cheaper price".¹⁰⁸

Two debates, the first over the *Corn Laws* and the second on the *Law of Markets*, form the historical background of the long lasting polemics between Ricardo and Malthus on the economic theories of value, capital and distribution.

The history of the development of Ricardo economic thought has been many times accounted for,¹⁰⁹ so I will take directly Ricardo's *Principles* as a base for

¹⁰⁴ D. Ricardo, *The Works and Correspondence of David Ricardo*, (Piero Sraffa ed., with the collaboration of M.H. Dobb), vol. I *On the Principles of Political Economy and Taxation*, Cambridge: At the University Press, 1962; Chap. Vth "On Wages".

¹⁰⁵ W.W. Rostow, *Theorists* cit., Chap. 3 "T.R. Malthus and David Ricardo, § *The Stages and Limits to Growth*, p. 87 ff.; the working of diminishing returns brings the economic system to the stationary state, see Blaug modelling of this idea, M. Blaug, *Retrospect* cit., p. 91.

¹⁰⁶ Actually Malthus starts from the economic feature of the broader -metaphysical and political- idea of progress of French and English Enlightenment, in order to confute the general idea itself.

¹⁰⁷ D. Ricardo, *Works* cit., vol. I, p. 98-102. This feature was inherited by the follower since, as Mark Blaug stressed, the core of Ricardian economics "is the notion that economic growth must sooner or later peter out owing to the scarcity of natural resources", M. Blaug, *Retrospect* cit. p. 141.

¹⁰⁸ D. Ricardo, *Works* cit., vol. IV, *Essay on the Influence of a Low Price of Corn on the Profit of Stocks*, p. 23.

¹⁰⁹ I will mention only a few. Sraffa's Introductions to various Volumes to *The Work and Correspondence of David Ricardo*, 1962, contain many historical circumstances of this development; an interesting outline is given also in R. Meek, *Studies in the Labour Theory of Value*, 1973, [it. ed., 1973], Chapter 3, "David Ricardo and the Development of the Labour-Theory of Value". J. H. Hollander, *David Ricardo: A Centenary Estimate*, 1910, is referred to by S. Hollander, *The Economics of David Ricardo*, 1979, Chapter 3, "The new Theory of Profits"; Chapter 4, "The *essay on Profit* and Ricardo's Defence", is devoted to the reconstruction of the discussion between Ricardo and Malthus on wages and profits. Hollander's main heuristic aim in this chapter is to refute Sraffa's interpretation of Ricardo's *Essay*, mainly the so-called corn-corn model.

al price...essentially depends on the habits and customs".

¹¹⁶ *Ibid.*, p. 101.

¹¹⁷ *Ibid.*, p. 102.

Having briefly sketched Ricardo's theory of wages, I will stress two points relevant for the present discussion. The first concerns the relation of Ricardo theory with the Wage-Fund theory.¹¹⁸ Obviously, in Ricardo there is a relation between accumulation, population and wages. However, when he considers what affects the rise or fall of (real) wages he lists the following "two causes: 1st. The supply and demand of labourers; 2dly. The price of commodities on which the wages of labour are expended".¹¹⁹ It appears from this sentence that he does not consider the *wage-bill* as an *ex-ante* variable. Instead, the wage-bill, based on the variable 'population' together with the 'wage' related to a path of 'accumulation' is simply an *ex-post* variable. According to this approach, the wage-rate is already constrained, as it were, at a 'reproductive' level. This outcome is due to the workings of the demographic adjustment; a mechanism, which, after Malthus, was called the 'Population Principle'.¹²⁰ Competition among workers makes this adjustment effective. Hence, there is no need to 'double' the 'natural' constraint over the unit price of labour by imposing a further constraint on the wage-bill.

The second point to be reckoned concerns the social conflict underlying the economic theory. For Ricardo, as well as for Smith, the *crucial* conflict accounted for by the economic theory is the one among 'proprietor' classes. In Smith's analysis it is the behaviour of the 'aristocratic' class, which hampers from 'outside' the accumulation. That role has been substituted in Ricardo theory by the behaviour of the *landlords*, a functional class; i.e. a class whose role is internalised into the process of accumulation. It is true that Ricardo maintains that wages and profits are linked by an inverse relationship;¹²¹ a relationship fought by Malthus, as we will see later, and emphasised by Marx. However, Ricardo considers the wage as an 'instrumental' variable,¹²² which 'transmits' to profits the 'natural' constraint of diminishing returns. "It appears, then, that the *same* cause which raises rent...will also raise wages"[itlc. added],¹²³ and diminishes profits. Though Marx interpreted the inverse relationship between wages and

¹¹⁸ Hollander emphatically denies that Ricardo has subscribed in the *Principles* the doctrine of 'wages fund'; S. Hollander, *The Economics*, p. 331. Oswald St. Clair maintains that James Mill's statement that the rate of wages depends on the proportion between capital and population is to be found in Ricardo's pages (*Key* cit., p. 87) and quotes (p. 100) Ricardo *Notes on Malthus* (*Notes*, pp. 264-265) to support this view; unfortunately he misunderstands Ricardo's sentence, which was simply referred to the action of demand and supply in determining the market rate. Moreover, a few pages later, he says that Ricardo did not regard wages as rigidly fixed in amount (*Key* cit., p. 93), which is tantamount to deny any attribution of a Wage-Fund theory to Ricardo.

¹¹⁹ D. Ricardo, *Works*, vol. I, p. 97.

¹²⁰ Actually the proper Malthus 'Principle' amounts to something more than the demographic adjustment around an equilibrium level (reckoned already by Smith). Malthus mechanism operates along a long run tendency to the 'minimum' compatible with the habits -i.e. the moral restraints- of the working classes, checking ex-ante the in-built tendency of the population to increase.

¹²¹ See D.P. O'Brien, *Classical* cit., p. 122; see also M. Blaug, *Ricardian* cit., p. 23. On the 'inverse relationship' see also Hollander on the 'inverse relationship' in the *Essay*, as discussed with Malthus (S. Hollander, *The Economics* cit., Chapt. 4, pp. 175-183), and in the *Principles* (*ibidem*, p. 254-255). Hollander quotes critically Schumpeter and Böhm Bawerk, holding that this inverse relationship is based on the fact that wages are at subsistence level.

¹²² As stressed by Schumpeter, see *History* cit., p.

¹²³ D. Ricardo, *Works* cit., vol. I, p. 102.

unnatural price; because such a price could not permanently occur in any country...But if this price be...at great distance of time" it cannot be but an error "to consider the market-prices of labour as only **temporary** deviations" from such a 'natural' price. That the 'natural' price of labour is

¹²⁴ "Ricardo is not vulgar when puts the workers on the same footing as machinery or beasts of burden...This is stoical, objective, scientific", K. Marx, *Malthus*, Rome: Editori Riuniti, 1979, p. 78. This is an anthology of various passages of Marx on Malthus recollected from his works.

¹²⁵ W.H. Hutt, *The Theory of Collective Bargaining*, London: P.S. King & Son, 1930, pp. 8-9.

¹²⁶ This sentence is quoted from Hollander (*The Economics* cit., p. 255).

¹²⁷ E. Cannan, *History* cit., Chapter VII, Pseudo-Distribution, § 4, "Variations of Rent per acre", p. 248.

¹²⁸ D. Ricardo, *Works* cit., vol. I, Chapter VI, "On Profits", p. 115.

¹²⁹ T.R. Malthus, *Principles* cit., p. 18.

the most 'unnatural' price is due to the fact that, as Bonar stresses, "it would mean that the country...had arrived at the final limit of his resources".¹³⁰ The conclusion that Malthus draws appears to lead him, after a long detour, to his Smithian roots. "The natural or **necessary** price of labour...[is] that price which...is necessary to occasion an **average** supply of labourers, sufficient to meet the effectual demand. The market price...[is] the actual price in the market, which from temporary causes is sometimes above, and sometimes below, what is necessary to supply this demand."

The 'softening' of Malthus position with regard to the *Essay*, stressed by many commentators,¹³¹ has as an outcome his denial of any effective demographic regulating role of wages. "From high real wage [says Malthus]...two very different result may follow; that of rapid increase in population [Malthus' former position, shared by Ricardo]...and the other, that of **decided** improvement in the modes of subsistence...**without** acceleration in the rate of increase"[bold added].¹³² Instead, Ricardo continued to associate to each kind of wage a demographic function: the 'natural' (i.e. the wage that allows a 'given demand' for labour to be 'constantly' supplied)¹³³ is coupled to stationary population and the 'market' is coupled to an increasing population.¹³⁴ Only in an initial period, says Ricardo, a market wage, higher than the previously ruling natural one, would be devoted to an only *temporary* increase in the consumption of luxuries.¹³⁵

The change of Malthus position in the *Principles* with regard to his first *Essay* is shown also by the fact that the decrease of wages toward the subsistence minimum is now confined to the 'distant future', a possibility which Malthus emphatically denied in his early writings. Moreover, he accepts that accumulation and import can postpone the final state of distress, possibilities, which he did not mention earlier.

However, a closer scrutiny of Malthus discussion suggests that he is taking a step forward to Marshall, rather than backward to Smith. Indeed, though Malthus define the price of labour as 'natural', he deprives this price of a feature which is crucial in Smith and Ricardo theories, namely that the price of labour, as that of commodities, depends from an outside-the-market norm (their repro-

¹³⁰ J. Bonar, *Malthus* cit., p. 268.

¹³¹ "The analysis and policy proposals of the *Principles of Political Economy* are in sharp contrast with those of the *Essay*", Morton Paglin, Introduction to R.T.Malthus, *Principles* cit. p. iv; however it was Keynes who introduced this line of interpretation in his above-mentioned essay on Malthus. Hutchison coined the expression of 'hard end' and 'soft end' of Malthusianism to stress the wide spectrum of distribution theories stemming from Malthus *Essay*, "Marginal Revolution"cit. p. 195-198; Blaug contrasted the different version of the *Essay* with regard to its falsifiability, *Retrospect*, cit. p. 33.

¹³² R.T. Malthus, *Principles* cit., p. 226. "Malthus takes a long step toward the abandonment...of subsistence theory; the habits of the people are... affected by...the wages actually received", Cannan, *History* cit. p. 203.

¹³³ D.Ricardo, *Works* cit., vol. II, *Notes to Malthus*, p. 227.

¹³⁴ The crucial difference with Malthus lies in that, that for Ricardo, even if they are not at a **subsistence**-level, the wages are anyway ruled by a subsistence-**standard**, in the sense the wage may allow two, four or six persons to subsist, but always on a subsistence basis. Accordingly the first and the third are market wages, below and over the natural level, represented by the second.

¹³⁵ D. Ricardo, *Works*, vol. I, Chapter IX, "Taxes on Raw Produce", p. 163.

duction value).¹³⁶ According to them, the market is called in action only to render this norm 'effective'. Instead, in Malthus theory, when demand and supply meet they define either a stable ('natural') price, or a temporary ('market') price.¹³⁷ However, this price is not defined neither with regard to subsistence, defined widely as in Smith's theory, or more narrowly according to Ricardo, nor in general with regard to any outside-the-market norm.

The Demand & Supply approach is called in by Malthus to support his main point against Ricardo in the topic of wages, namely that wages and profits may move **together**. The discussion raved over this point through their correspondence; it is outside the scope of this paper, though, to analyse it thoroughly. However, it is worthwhile to stress that the arguments on which Malthus bases the parallel movements of wages and profits are often rooted on the working of what in modern terms we call 'effective demand'.¹³⁸ We have to take into account that Malthus referred through his whole argument to what happened during the "commercial depression that had prevailed since the peace", namely that "there had been a less demand for labour and a great fall in wages, but, it was also allowed, a much greater fall in profits", due to the greater competition among capitalists than among workers.¹³⁹ Accordingly, we cannot but read the following sentence as a proposition resounding an effective-demand approach: "we must make a careful distinction between the earnings...when employment is difficult to be found, and...earning when there is a demand for work to be done than there are hands to do it".¹⁴⁰ "What fixes ...wages and profits is not the cost of production, but the demand for the thing produced",¹⁴¹ Bonar did sum up recording Malthus' theory.¹⁴² As a consequence, a fall in the price of corn is not altogether beneficial to profits, being detrimental to rents, as Ricardo would maintain. At the same time, an increase is not always detrimental;¹⁴³ according to Ricardo, if a price increase is due to demand, it must be **preceded** by an increase in wages,¹⁴⁴ profits having been already curtailed. As well as in the case of slackening demand he referred to the post-war period, to argue over an excess demand period, Malthus take as a reference the war years from 1793 to 1813.

¹³⁶ D. Ricardo opens a really very short chapter on Demand and Supply with a sharp statement: "It is the cost of production which must ultimately regulate the price of commodities, and **not**, as has often been said, the proportion between the supply and demand" (D. Ricardo, *Works* cit., vol. I, Chapt. XXX; "On the Influence of Demand and Supply over Prices", p. 382); Blaug's comment is that "unfortunately this chapter fosters the impression that cost of production is something separate and apart from demand and supply", M. Blaug, *Retrospect* cit., p. 113.

¹³⁷ "The great law of demand and supply is called into action to determine...natural price, as well as...market price", R.T. Malthus, *Principles* cit., p. 71. The first calls in an "average [i.e. over a long period] supply of labour", while the latter differs from the former as a consequence of "temporary causes", *ibidem*, p. 224.

¹³⁸ "It sometimes happens that a fall in the price of raw produce is accompanied by a diminished power ...of the farmer to employ labour", R.T. Malthus, *Principles* cit., p. 258;

¹³⁹ *Ibidem*, p. 278.

¹⁴⁰ R.T. Malthus, *ibidem*, p. 260.

¹⁴¹ J. Bonar, *Malthus* cit., p. 279.

¹⁴² Actually, Bonar wrote this statement in a mood different from that in which I read it. Bonar shared the Sayan postulate of the impossibility of a *general* glut, and tried to rescue Malthus from this allegation, arguing that *general* does not mean *universal*, which was really what Malthus was aiming at: J. Bonar, *Malthus* cit. p. 281.

¹⁴³ See the discussion of Hollander in the section entitled "On the 'desirability' of a high corn price", (*The Economics* cit., p. 174-175).

¹⁴⁴ D. Ricardo, *Works* cit., Chapter VI "On Profits", p. 133; the case is scrutinised by Cannan, *History* cit. p. 199.

During these years, a whole set of factors helped to counterbalance the effects of "taking poorer land into cultivation";¹⁴⁵ the interesting feature of Malthus' argument is that he lists 'a rise of the price of corn from increased demand' among these factors. Accordingly he concludes that "the rate of profits will...depend more upon...the relative scarcity and abundance of capital, and the demand for produce compared with the supply, than on the fertility of the last land taken into cultivation",¹⁴⁶ i.e. upon the operation of diminishing returns transmitted by wages, working in favour of increased rent. A conclusion he defended against Ricardo in their correspondence: "I think that a high price of corn when not occasioned by such difficulty [less fertile land taken into cultivation] is a **decided advantage** [bold added]" .¹⁴⁷ The conclusion Malthus drew from the above-mentioned considerations was that the interests of the two 'proprietor' classes are not as conflicting as are in Ricardo's view.¹⁴⁸

Malthus theories about wages bear a strange relation with those of the other Classics. While the *first* Malthus 'hardens' Smith's approach to wages, the *second* Malthus 'soften' Ricardo's approach. The *first* Malthus is farther than Smith from the Wage-Fund approach, the *second* Malthus is closer than Ricardo to the Wage-Fund theory. "Malthus cannot be shown to have held the [Wage-fund] doctrine", says Bonar. If this statement relates to the existence of 'limited' fund which solely the capitalist 'intend' to devote to wages, this is true (first of all, for he reckoned capital *and* revenue as constituting the funds devoted to the maintenance of labourers). Moreover, considering what, according to him, must be taken into account when estimating the prospective demand for labour, i.e. 'the encouragement to population', Malthus takes into consideration "the increase in the exchangeable value of the **whole produce**",¹⁴⁹ a proposition which can hardly fit into the framework of the Wage-Fund theory.

However, there is a sense in which Malthus can be told to have made a step toward the formulation of the Wage-Fund theory. This step is rooted in his conception of demand: "the demand will be represented...by the sacrifice in money which the demanders are willing and able to make in order to satisfy their wants".¹⁵⁰ To this conception it needs only to add the rigidity of the demand for labour to land into MacCulloch's treatment of the Wage-Fund theory.

¹⁴⁵ R.T. Malthus, *Principles* cit., p. 288..

¹⁴⁶ R.T. Malthus, *Ibidem*, p. 289. The whole Malthus' discussion over wages, demand and profits is very cumbersome; different strands are constantly intertwined, so that it is difficult to distinguish argument based on theory-of-value considerations from those based on effective-demand consideration. Also the correspondence with Ricardo on the same subject is very intricate; unfortunately it is impossible here analyse it, as it would deserve.

¹⁴⁷ *Letter from Malthus to Ricardo*, 16 July 1815, quoted by Hollander, *The Economics* cit., p. 175. Hollander devotes a greater part of Chapter 4, "The *Essay on Profits* and Ricardo's Defence", to the discussion between Malthus and Ricardo running through their correspondence on the topic of the relation between wages and profits. Hollander' analysis is penetrating and very helpful in orientating through the intricacies of the discussion: However, for all his merits, it seems to me that Hollander plays down the strand of discussion based on effective demand arguments, concentrating on the differences between Malthus and Ricardo arising from their different theories of value.

¹⁴⁸ See the final pages of the Section IX, "Of the Rent of the Land" of Malthus' *Principles*.

¹⁴⁹ R.T. Malthus, *Principles* cit., p. 260.

¹⁵⁰ R.T. Malthus, *ibidem*, p. 62 ff. This is not the place to discuss the advances, which his approach makes in the understanding of demand and supply. For instance, he put forward the conception of the *extent* of demand and

If Malthus was not that close to the Wage-Fund theory from theoretical standpoint, he was closer from a practical one. Workers' combinations, wrote Malthus to Ricardo, were "not only illegal, but...**ineffectual**"[bold added]; wages kept artificially high "must have the effect of throwing so many out of employment, as to...render these higher wages in reference to the whole body perfectly futile." To that Ricardo answered disapprovingly that "a combination among the workmen would increase the amount of money to be divided amongst the labouring classes", a *money*-increase implying a *real*-wage increase according to Hollander.¹⁵¹ Malthus sentence appears to express a widespread belief; a belief that will get a firm ground with the appearance of the Wage-Fund theory. It is all the more interesting, hence, the flat refusal of Ricardo of one of the main consequences of that theory.

The 'softening' of Malthus positions with respect to his first *Essay* is many-faceted: denying the inverse relationship between profits and wages, he denies a conflict between rent and profits. On the other hand, the above-mentioned re-statement of an overall constraint on wages, reminds his stance in the first *Essay* and emphasises the conflict between rent&profit on one side, and wages on the other. However, the times were ripe; something else was about to happen, that would 'soften' the position of the Law toward the labourers. It is this step that will be treated as the bridge to a new theory of wages.

7. *The repeal of the Combination Acts.*

"The Wars ended amidst riots". It is with this sentence that Thompson opens the Chapter devoted to the political unrest that occurred after the end of the Napoleonic Wars.¹⁵² In a less dramatic mood, Cole wrote that "it has been said with truth that British Socialism was born on the morrow of the Peace of 1815".¹⁵³ Let us take a step backward. We left the workers' movement under the pressure of the *Combination Acts*: grievous though their enactment had been, it had not been uniformly harsh.¹⁵⁴ For approximately twenty years, we have an overall picture of struggles, defeats and violent outbursts (as, for instance, the Luddites in 1811-1812),¹⁵⁵ all relentlessly curbed.¹⁵⁶ The end of the Wars witnessed the spread of the first 'modern' depression in Great Britain.¹⁵⁷ A countrywide discon-

supply; i.e., the distinction between their equality *ex-post* and *ex-ante* (in modern parlance) which were often confused in the discussion of the times.

¹⁵¹ *Letter from Ricardo to Malthus*, 21 October 1817, referring to a statement in the 5th edition of Malthus' *Essay* (1817), p. 371; the two statements are quoted by S. Hollander, *The Economics* cit. p. 333

¹⁵² E.P. Thompson, *The Making* cit., Part Three, Chapt. XV, "Demagogues and Martyrs".

¹⁵³ G.D.H.Cole, *Short History* cit., p.43.

¹⁵⁴ See, G.D.H.Cole, *ibidem*, Chapt. IV, "War and Peace", § 2. Unemployment, revolt and repression, p. 43ff.

¹⁵⁵ See, G.D.H.Cole, *ibid.*, p. 41-43. In Thompson, *ibid.*, Chapt. XIV, "An Army of Redresser", we can find a detailed and balanced assessment of the Luddites themselves, and of their political background.

¹⁵⁶ See, for an account of the period, G.D.H.Cole, *ibid.*, Part I, Chapt. IV, "War and Peace", and S.&B.Webb, *History* cit., Chapt. II, "The Struggle for Existence [1799-1825]; a great part of Thompson's *The Making* is devoted to a detailed reconstruction of the events of the period.

¹⁵⁷ See W.W.Rostow, *Theorists* cit., p. 60 ff, for an interesting account of the depression, together with the correlated first great debate on 'effective demand', between Malthus on one side and Ricardo, James Mill and Say on the other.

tent, demonstrations and great political crises (Pentridge Rising 1817, "Peterloo" 1819,¹⁵⁸ "Cato Street" 1820¹⁵⁹) marked the years from 1815 to 1820. "Repression...was sharp, savage, and effective", says the *Oxford History of Britain*.¹⁶⁰

However, at closer inspection, the picture does not look that grim. The political climate started changing in 1815, following Napoleon's defeat and the onset of the Restoration. A consequence of this state of affairs was that public opinion was much less suspicious than before about the real danger of insurrectional attempts. It was also less confident about the role of Government, following what the press and courts disclosed on 'spies' and 'agents provocateurs' in unveiling the various conspiracies.¹⁶¹ As a consequence, juries, despite a number of capital executions, showed themselves less willing to persecute and inflict heavy sentences than the Government would have wished them to be.¹⁶² "As panic subsided", Cole writes, "a mood of greater tolerance set in".¹⁶³ The crucial point, stressed by Thompson, is that as the economic recovery crept in after 1820, the *union sacré* between the exacerbated anti-Jacobin public opinion and the Government, which had ruled starting from the 1790s, was fading away.¹⁶⁴ This deep change helped a reassessment of the *Combination Acts* under a new light: employers themselves denounced 'competitive cutting of wages' as "injurious to the trade at large".¹⁶⁵ Questioning the effectiveness of this method was in itself a fundamental change in approach.

"General unions" were first mentioned in 1818.¹⁶⁶ In 1820, Cobbett once again started agitating for "parliamentary Reform" and Owen began his movement to foster 'co-operation'.¹⁶⁷ In the Twenties William Hazlitt, Thomas Hodgkins, Gray and others started theoretical polemics against the Ricardian orthodoxy.¹⁶⁸ Hodgkins, both a Socialist and a Ricardian, is linked to Francis Place, a

¹⁵⁸ The 16 August 1819, the magistrates ordered to arrest the speaker at a reform demonstration in Manchester, at St. Peter's Fields; the soldiers turned to the crowd, and eleven were killed. Some of the troops involved were 'dragons', famous after Waterloo; hence, the site was sarcastically dubbed 'Peterloo'; (*Oxford History* cit., p.493). However, the cavalry more directly responsible of the casualties, was the Yeomanry: "Manchester manufacturers, merchants, shopkeepers on the backhorse" (Thompson, *The Making* cit., p. 686).

¹⁵⁹ Thistlewood -a leading Radical personality- and his companions, have been arrested in Cato Street, while preparing to assassinate the Cabinet; *ibid.*, p. 493.

¹⁶⁰ *Ibid.*, p.493. See also S.&B. Webb *History* cit., Chap. II, "The struggle for existence", p. 95: "The workers...were further coerced, in 1819, by the..."Six Acts", which at one blow suppressed practically all public meetings."

¹⁶¹ Thompson refers to the Hammonds' book, *The Skilled Labourer*, as embodying the so-called Whig interpretation of those events, reducing to nihil any real subversive activity, attributing it to the sole 'provocative' action of the Government. For a balanced discussion of the sources, see E.P.Thompson, *ibidem* p. 575-591 and p. 650 ff.

¹⁶² See Thompson, *ibid.*, p. 671.

¹⁶³ G.D.H. Cole, *Short History* p. cit., p. 59.

¹⁶⁴ "A large section of middle-class opinion held aloof from the Government." E.P. Thompson, *ibid.*, p. 671.

¹⁶⁵ The Webbs quote the sentence from a declaration dated June, 16th, 1819, *History* cit., p. 94-95.

¹⁶⁶ They were mentioned, for instance, in the *Resolutions* of a meeting of many Trades, held in Manchester, in August 19th, 1818 (H.O.42/179 and 181); Aspinall, *op. cit.*, p. 272-274. Henry Hobhouse (Home Office Under-Secretary) wrote in a letter, in August 21st, 1818: "Mr. Marriott has sent me a paper [the mentioned *Resolutions*] containing a **plan** for a **general combination** among all trades, and I have information from **other quarters** of a similar tendency"[bold added] (H.O.79/3/261-62, 266-67); *ibidem*, p.275.

¹⁶⁷ G.D.H.Cole, *Short History* cit., Chapt. V, "Socialism and Reform", § 1. Socialist Origins, p 52-58.

¹⁶⁸ A.Ginzburg, *Socialisti ricardiani* (Ricardian Socialists), Milano: ISEDI, 1976, Introduction., p. I-LXXX.

radical Benthamite and a Ricardian,¹⁶⁹ in The London Mechanic's Institution, later Birbeck College.

We last saw Francis Place in 1794 leading the London Correspondence Society (later suppressed). However, a new turn¹⁷⁰ is associated with his name: the 1824 change in the *status* of the British workers, an event of paramount importance. According to the legend, carefully built by Place himself¹⁷¹ and reported by the Webbs, he practically suborned a Royal Commission, unsuspecting of what was at stake, convincing it to support the Repeal of the *Combination Acts*. It is, indeed, true that Francis Place, the 'Radical breechesmaker' of Charing Cross, "began to work...as early as 1814"¹⁷² towards the repeal of the *Combination Acts*. However, the turning point in his struggle was marked when he eventually obtained the help of Joseph Hume MP, leader of the growing party of Philosophic Radicalism, and of the Ricardian economist John Ramsay McCulloch, editor of the *Scotsman*, thus winning the "full backing of the Benthamite group".¹⁷³ "A powerful article based on Place's facts", write the Webbs, "which he [McCulloch] contributed to the *Edinburgh Review* in 1823 secured many converts; and his **constant** advocacy gave Place's idea a...notoriety which it had hitherto lacked"[bold added],¹⁷⁴ and "swung many MPs in support of the repeal"¹⁷⁵

The rationale underlying the agitation for the repeal of the *Acts* is remarkable in itself: Place adopted an 'abolitionist' argument, i.e. that workers combine only insofar they are forbidden to do it. He claimed that: "The laws against combina-

¹⁶⁹ According to the Webbs he was "pupil of Bentham and James Mill", *History* cit. p. 96; Thompson goes further in saying that "by 1818 he really was captive of Bentham", *The Making* cit., p. 769.

¹⁷⁰ According to Clegg, Fox and Thompson the history of trade unionism before 1889, can be split in three periods: from Combination Acts to 1824, from the Repeal to full legalisation in 1875 (a process put in motion by the 1870 Acts), and after; H.A.Clegg, Alan Fox, A.F.Thompson, *A History of British Trade Unions since 1889*, Oxford: At the Clarendon Press, 1964, Chapt. I, Trade Union Movement before 1889, pp. 43-44.

¹⁷¹ In his "Autobiography", MSS in *Place Collection* at the British Museum. According to Thompson, *op. cit.*, p. 516, Graham Wallas, *Life of Francis Place* (1898), "draws extensively and verbatim from Place's manuscripts, very often too uncritically". The history of the Repeal is narrated in chapt. viii of Wallas book; relevant passages are referred to by Thompson in his *The Making*, and by the Webbs in their *History*.

¹⁷² G.D.H. Cole, *Short History* cit., p. 59. "The movement for a repeal of the Combination Laws began in a period of industrial dislocation and severe political repression", S.&B. Webb, *The History* cit., p. 93.

¹⁷³ G.D.H.Cole, *ibidem*, p. 59; substantially agreeing accounts of the Repeal are given also by E.P. Thompson, *The Making* cit., p. 516-521, and by S.&B.Webb, *The History* cit., p. 97-109. Rogers credits to Bentham's 'persevering acuteness' the abolition of the *Acts*; J.E. Thorold Rogers, *Eight Chapters*. cit., p. 143.

¹⁷⁴ S.&B. Webb, *The History* cit., p. 99. Actually the article is recorded as published in January 1824, in the Vol. XXXIX of the magazine, under the title: "Combination Laws - Restraint on Emigration etc.", see D.P. O'Brien, *McCulloch* cit., *Bibliography*, p. 413. May be the article to which the Webbs were referring to, was the one published in 1823 on the *Scotsman*, dealing just with the repeal: "Proposed Repeal of the Combination Laws", *ibid.*, July 26, 1823, followed by another one dealing with the other topic associated in the working of the Committee, under a broader label of *free-trade* measures, to the repeal of the *Combination Acts*: "Restraint on the Emigration of Workmen and the Exportation of Machinery", *ibid.*, August 16, 1823. Actually in 1823 McCulloch published two more article on the subject on the 8th edition of the *Encyclopedia Britannica*, namely the articles "Combination", p. 160-166, and "Wages", p. 674-680; and in 1825 contributed to the *Scotsman*, on July 2, October 5 and 29, November 2 (Combination Laws - Mr. Hume)and 12 (On the Combination Laws - Measures Pursued by Workmen Ruinous to Themselves), with articles on combinations; D.P. O' Brien, *ibidem*, p. 412-413, 421 and 423.

¹⁷⁵ E.P. Thompson, *The Making* cit., p. 519.

tions...induced [working people] to break and disregard the law".¹⁷⁶ If workers were left to realise for themselves that Trade Unions were **ineffectual**, they would refrain from combining, without having to be made to do so. The only way of reaching this state of affairs was to abolish the *Acts*. McCulloch backed Place, by outlining a similar position¹⁷⁷ in the above-mentioned article. However, the events that followed showed that, at the time (and after), their opinion was shared neither by employers nor by employees and politicians, who all were "equally certain that Trade Union action would raise prices".

I will only sketch the story, as it has been told many a time. Hume managed to get a Commons Committee of Enquire, packed with friends, going and Place very skilfully managed to 'wrap' evidence from trade unionists, in order to make it more palatable for the Commissioner. The keynote of Place's lobbying was indeed that "this [the repeal] is the way to prevent disputes".¹⁷⁸ He drafted the Report and succeeded in controlling the drafters of the Bill: "Entirely without debate, and without **most** of the Cabinet knowing what happened, the Bill became law"[bold added].¹⁷⁹

However, although it may be true that the Parliament did not even notice the repeal, the same cannot be said of the workers. The Webbs quote Nassau Senior describing, in a report to Lord Melbourne, the impact of 'a great moral effect' in all the industrial centres. In 1824 and 1825 there was an outburst of strikes, which aroused nationwide protest by employers.¹⁸⁰ The whole work risked being undone: ship owners presented a Bill "under which Trade Unions, and even Friendly Societies, would have been impossible".¹⁸¹ By this time, Trade Unions displayed an energy, which, according to Place, was in marked contrast with their previous apathy. They flooded the Parliament with petitions, gathered people protesting at the entrance of premises where Trade Union witnesses were not admitted and, although the Government appointed much more carefully selected Commission, they managed to stop the ship owners' Bill.¹⁸² The Bill that was eventually passed contained much less favourable terms than the one of 1824 for "it merely legalised combinations for dealing with questions of wage and hours, and, at the same time, hedged round the concession with fresh penalties against «intimidation, molestation and obstruction»".¹⁸³ However, the step beyond the *Acts* of 1800 had finally taken place and, although judicial struggles would rage

¹⁷⁶ Wallas, *op. cit.* p. 239, quoted in Thompson, *op. cit.*, p. 516.

¹⁷⁷ See D.P. O'Brien, *McCulloch cit.*, Chapter XIV, "Wages, Unions, and Hours", § 3, *Combination*, p. 366-370. McCulloch agreed with Place that "without power of coercion the unionists ranks broke", O'Brien, *ibid.*, p. 366.

¹⁷⁸ E.P. Thompson, *ibidem*, p. 519.

¹⁷⁹ G.D.H. Cole *Short History cit.*, p. 60; Rogers added that there was no record in the Hansard, *Eight Chapters cit.*, p.143. The Act of 1824, was 5 Geo. IV. c. 95, and excluded trade unionists from prosecution for conspiracy in common law, a kind of prosecution even more frequent than that falling under the *Combination Acts* themselves; S.&B. Webb, *The History cit.*, p. 103.

¹⁸⁰ S.&B. Webb, *op. cit.*, p. 104; G.D.H. Cole, *ibidem*, p. 60.

¹⁸¹ S.&B. Webb, *ibidem*, p. 106.

¹⁸² S.&B. Webb, *ibid.*, p. 107.

¹⁸³ G.D.H. Cole, *ibidem*, p. 61.

in the Courts for a long time after the repeal,¹⁸⁴ this step would not be annulled: "The Act of 1825...effected a real emancipation. The right of collective bargaining...was for the first time expressly established."¹⁸⁵

"It is a suggestive feature of this [reform]", commented the Webbs, "that the men...[who] carried it through were the only ones who proved altogether mistaken as to its practical consequences...«Combinations -Place wrote to Sir Francis Burdett in 1825- will soon cease to exist. Men have been kept together ...only by the oppression of the laws; these being repealed, combinations...will

¹⁸⁶ Almost thirty years later, McCulloch expressed his delusion by saying that: "This measure has not, however, had all the effects that some of its supporters anticipated. It must be admitted, that the workmen have...discovered a refractory and turbulent disposition".¹⁸⁷

8. *The rise of the Wage-Fund theory: enter a new Macro-Constraint on wages.*

The history of the Wage-Fund theory begins with John Ramsay McCulloch writing about the Repeal of the *Combination Acts* and ends with John Stuart Mill's Recantation, in the eve of the Trade Union Acts in the 1870s.¹⁸⁸

The theory had been elaborated to support Place's movement; "McCulloch writings in defence of trade unionism -says O'Brien- are of some importance because he was instrumental in the repeal of the Combination Laws".¹⁸⁹ The theory was indeed particularly well suited to it, for it presented a very fortunate political, as it were, double edge. According to McCulloch, as O'Brien reports: "The Combination Laws were futile...because combinations of either employers or workers were **powerless to defeat market** [bold added]".¹⁹⁰ In this context,

¹⁸⁴ "there were many prosecutions of workers after 1825 for virtually the same offences as while the Combination Laws were in force. Nevertheless, the victory was substantial; for the mere fact of combination could no longer be treated as a crime, and it became possible for Trade Unions to maintain an open and continuous existence"; G.D.H. Cole, *ibid.*, p. 61.

¹⁸⁵ S.&B. Webb, *History* cit., p.108; the Act of 1825 was 6 Geo. IV. c. 129.

¹⁸⁶ Quoted in S. & B. Webb, *ibidem*, p. 108-109.

¹⁸⁷ J.R.McCulloch, *A Treatise on the Circumstances which determine the Rate of Wages and the Condition of the Labouring Classes including An Inquiry into the Influence of Combinations*, London: G.Routledge & Co., 1854 (First Edition as *Essay etc.*, Edinburgh: A.Black & W.Tait, 1826, 2nd ed., London: Routledge & Co., 1851 and 1854), Reprinted in 1963 & 1967 by Augustus M.Kelley Publisher, New York, from the Second Revised Edition of 1854, p. 77.

¹⁸⁸ I will not deal with Cairnes' attempt to a revamp the theory (J.E. Cairnes, *Leading Principles* cit., Part II, Chapter I, *The Rate of Wages*) which paved the way to the subsequent discussion of the Eighties and Nineties (see S. Gordon, "The Wage-Fund Controversy: The Second Round," *History of Political Economy*, 1973). Though this reappraisal could have its merits (among others, a lengthy discussion of Thornton's criticism), it could not revive what Mill's Recantation and the *Trade Union Acts* had destroyed; i.e. the link between the public aversion towards Trade Unions, and the conviction that combinations were condemned by Political Economy. An opinion fought also by H. Fawcett: "When the subject of strikes is discussed political economy is...employed...to dispose of the whole question...[saying that]: «...This cannot be; the immutable laws of demand and supply forbid it», see H. Fawcett, "Strikes: Their Tendencies and Remedies", *The Westminster and Foreign Quarterly Review*, 1860, p. 4, quoted by G. Becattini, "Henry Fawcett and the Labour Question in Mid-Victorian England", *Marshallian Studies*, 1988, p. 7.

¹⁸⁹ D.P. O'Brien, *McCulloch* cit., p. 366.

¹⁹⁰ D.P. O'Brien, *ibidem*. p. 367, quoting McCulloch articles on the *Scotsman* and the *Essay*. The broad idea is that employers are strong enough to beat workers, so they do not need the duress of the law; though employers themselves apparently preferred to be aided. Schwartz's assertion that the "wages fund doctrine had little to do

prosecuting in 1824 or giving them more protection than the one already afforded in 1867, were both pointless. When the question of the full legalisation of Trade Unions came to the fore, in the second half of the 1860s, the aspect that attracted attention and polemics from trade unionists and intellectuals was the futility of further legal protection. However, it was the **other** side, the pointlessness of prosecution, which recommended itself when the question whether to expunge the criminal legislation on Trade Unions was raised in 1824.

It was not simply to conceal their purpose, that Hume and Place packed their proposal to repeal the *Combination Acts* together with other typically *free-trade* measures.¹⁹¹ When the repeal went ahead, it was only partially meant to be a concession to workers' aspirations; it was rather devised as a step towards the establishment of a *free* labour market.¹⁹² It could not have been otherwise, as trade unionists themselves appear to have, tactically,¹⁹³ understood. As McCulloch put it: "the grand principle of freedom of industry must not infringed upon", since "the *result of the combination* is...the **only** test by which we can discover whether the advance of wages claimed...has been... reasonable".¹⁹⁴

It is in this context that McCulloch introduced¹⁹⁵ the Wage-Fund theory (although not the actual term)¹⁹⁶ in the above-mentioned articles on wages and combinations, published in the *Encyclopaedia Britannica*, the *Edinburgh Review* and the *Scotsman* in 1823 and 1824. He subsequently published their content in his *Principles* (1825) and a revised version in his *Essay* (1826), later republished with minor additions as the *Treatise* (1854).¹⁹⁷

with trade unions" is hardly tenable and derives from his previous assumption that the 'wages fund' was simply another name for the "Ricardian theory of wages" (Ricardo included), P. Schwartz, *J.S. Mill* cit. p. 70-71.

¹⁹¹ Followed by McCulloch in his *Edinburgh Review* article, of 1824, mentioned above; S.&B. Webb, *The History* cit., p. 103.

¹⁹² As almost all the authors of the historical works cited, have stressed, the crowning step of this process has been the *Poor Law Amendment Act* of 1834, voted by the new *reformed* Parliament, abolishing the so-called Speenhamland system of relieving the poor.

¹⁹³ At the beginning, trade unionists were diffident about Place and his project. According to Thompson (*The Making* cit., p. 517), "[they] had reason to suspect Place": Place and Hume had engineered the repeal of the Elizabethan Statutes of Apprenticeship, a repeal that was strenuously resisted by workers.

¹⁹⁴ J.R. McCulloch, *Treatise* cit., p. 88. This should hinder also employers, in lowering wages under the equilibrium level, see D.P. O'Brien, *McCulloch* cit., p. 368.

¹⁹⁵ Mrs. Marcet vague phrasing about wages, have considered sometimes as an anticipation of the theory; see the dialogue from her *Conversations on Political Economy*, 1816, is reported by Cannan (*Review* cit., p. 350). I suggest, instead, that those sentences cannot be taken but as an elementary exposition of Malthus' *Principle of Population*. Also some sentences of James Mill may be misjudged, as anticipating the Wage-Fund theory. However, a perusal of his section on "Wages" shows that his theory amounts to no more than a Malthusian approach, leading him to conclusions opposite to that held by McCulloch, a few years later; James Mill, *Elements of Political Economy*, [1st ed. 1822, 3^d ed. 1826: it. ed. Vol. V, Biblioteca dell'Economista, Prima Serie, Torino: Pomba & Co., 1854; Chapter II, Section II, Wages, p. 720-731]

¹⁹⁶ Actually we may find the word 'capital' or 'fund' interchanging, but never we find the expression: wage-fund, neither in the *Treatise* nor in his *Principles*, while we find it in J.S. Mill, *Principles of Political Economy*, London: Longmans, Green & Co., 1909 (Ashley ed.); Reprints of Economic Classics, New York: Augustus M. Kelley, 1965, Book II, Chapter XI, On Wages, p.344. It was used also by H. Fawcett, *Manual of Political Economy*, London: Macmillan, 1876 (5th ed., revised and enlarged; 1st ed. 1863), Chapter IV, "On Wages".

¹⁹⁷ J.R. McCulloch, *The Principle of Political Economy: with some Enquiries respecting their Application and a Sketch of the Rise and Progress of the Science*, (1st ed., 1825), Edinburgh: William Tait, 1853. The *Principles* are connected with McCulloch lecturing activity in which he "did not attempt to break new ground"; accordingly in the *Principles* he rather concentrated "on popular exposition" of the classical doctrines (D.P. O'Brien, *McCulloch* cit., p. 47 and 71). In the *Essay*, and after in the *Treatise*, he instead elaborated his own view on wages, designed

Many commentators, both in the distant past and more recently, have tended to ascribe the *lineage* of the Wage-Fund Theory to the Classics themselves: Smith, Ricardo and Malthus.¹⁹⁸ In the preceding sections, I have endeavoured to show that the theoretical structure of the Classics' theories of wages stands rather at odds with a proper Wage-Fund theory.¹⁹⁹

The reason usually given for the attribution in question is the reference to the Classical concept of 'capital' as 'anticipation' of wages. This meant to imply in itself the idea of a wage-fund. However this is not, in my opinion, sufficient. For instance, in Quesnay the subsistence-goods constituting the '*avances annuelles*' (i.e. wages), are 'available' at the beginning of the period, so that they appear to constitute a **pre-determined** fund. In fact, the proportion devoted to productive labour and hence to accumulation is *not* fixed.²⁰⁰ Even Marx, who always stressed the concept of capital as 'anticipation', moved from a 'real' advance from a 'fund' of wage-goods in an early work on wages,²⁰¹ to a 'money' advance and a real 'flow' of wage-goods. In the second volume of *Capital* he writes that "from the point of view of circulation...«the bulk of the goods consumed by the workers are...produced by a work applied during the same period, then they are not, in any sense, accumulated by the capitalist»."²⁰²

What needs to be added to the concept of capital as 'anticipation', in order to move from a view of (circulating) capital as a 'wage-bill', to one that sees capital as a 'wage-fund', is the idea of a pre-determined quantity as a limit, entailing an **inverse** relationship between wages and employment.²⁰³

A new interesting feature of the theory is that, at variance with Malthus' *Essay*, which deals with a macro (**non** economic) constraint on the **rate of wages**,

for the discussion of the competent public: J.R. McCulloch, *A Essay on the Circumstances which determine the Rate of Wages and the Condition of the Labouring Classes including An Inquiry into the Influence of Combinations*, Edinburgh: A.Black & W.Tait, 1826; republished as *Treatise etc.* To show some relevant features of the Wage-Fund theory, I will rely rather on McCulloch's version of the *Treatise*, in which I believe the theory is more adequately expounded than in his *Principles*.

¹⁹⁸ Taussig's devotes Part II of his *Wages and Capital* to develop this thesis. many modern commentators rely on his treatment.

¹⁹⁹ A possible link of Ricardo with the Wage-Fund theory is a letter in December 1820, in which Ricardo agrees with a statement of McCulloch, that combinations, either of employers or employees, could not 'defeat market forces'. McCulloch expressed this judgement in an early series of articles on combinations (not mentioned above) published in the *Scotsman*: on August 1, 1818, August 29, 1818, September 12, 1818 September 18, 1819; D.P. O'Brien, *McCulloch* cit. p. 367 and p. 416.

²⁰⁰ The appearance of the contrary stems out of the 'equilibrium' (stationary) *Tableaux*. However, if we take into consideration a 'disequilibrium' (expansionary) *Tableau*, we can see that different **current** proportions of the landlords Revenue devoted to agricultural produce, may effect a redistribution of the global product in favour of the *farmer*, augmenting their **current** *avances*; see François Quesnay, *Physiocratie. Droit naturel, Tableau économique et autres textes* (Physiocracy). Natural Right, Tableau Économique and other texts), (J. Cartelier ed.), Paris: Flammarion, 1991, (Premier) problème économique, pp. 269-295.

²⁰¹ "Wage is not...a share of the worker in the good produced by him. Wage is [a] part of pre-existing good"; K.Marx, *Lavoro salariato e capitale* (Wage-work and Capital), Roma: Newton Compton Editori, 1971, p.42.

²⁰² Quoted by Dardi from the 1953-58 Einaudi edition of the *Capital*; M. Dardi, *Il giovane Marshall: accumulazione e mercato* (The Young Marshall: Accumulation and Market), Bologna: Il Mulino, 1984, p. 37.

²⁰³ "This introduces an inverse relation between wages and employment which Ricardo did not consider systematic"; A. Picchio "Longe, Marshall, Webb. A game of chess or a struggle for survival", *Studi e Ricerche del Dipartimento di Economia Politica*, N° 57, Modena: Department of Political Economy, p. 10.

McCulloch introduces a **new macro-economic**²⁰⁴ constraint on the **wage-bill** in the *Treatise*, which constrains the wage-rate at the same time, albeit in a milder way than the theory of the 'natural wage' propounded by the Classics had done before. Indeed, MacCulloch, having defined the main relation of the theory in the proposition "*Wages depend on the Magnitude of Capital or Fund appropriated to their payment, compared with the numbers of Labourers*",²⁰⁵ faces the question of the 'relative increase in capital and population'. McCulloch, though sharing a broad Malthusian approach to population, actually severs the link with the main economic consequences of the *Principle of Population* (as Nassau Senior²⁰⁶ and John Stuart Mill²⁰⁷ will do after him).

He performs this in two ways. First, he stresses the process by which wealth is increased through ploughing back the surplus of production, a process in which capital as "labour accumulated" has the pivotal role. This is the kernel of McCulloch's comparison between Ireland and England: it is accumulation, hence 'capital', and not fertility, that matters in increasing the feeding capability of a country.²⁰⁸ Secondly, he by-passes the demographic adjustment mechanism, by relegated to a period that is so long as to be ineffectual: "the supply of labourers in the market", writes McCulloch, "can neither be speedily increased when wages rise, nor speedily diminished when they fall".²⁰⁹ The period of time that must elapse before "the stimulus...can be felt" is about twenty years. Therefore, any effective feedback mechanism, linking wages and population (i.e. the labour force) is ruled out.²¹⁰

²⁰⁴ Schumpeter entitles the paragraph, dealing with the theory: *The wage-fund theory: precursive of the modern aggregate analysis* (J.A. Schumpeter, *History* cit., p. 810-821); in that paragraph he acknowledges MacCulloch as the 'principal exponent' of the theory; *ibidem*, p. 818.

²⁰⁵ J.R. McCulloch, *Treatise* cit., p.3.

²⁰⁶ Senior, for instance, while repeatedly protesting his total agreement with Malthus, says that: "Whether, in the absence of disturbing causes, it be the tendency of subsistence or of population to advance with greater rapidity, is...of slight [sic!] importance", and continues: "there are causes...**within human control**, by which the advance [in human happiness] can be regulated". **This** was exactly the thesis **against** which, Malthus' *Essay* was written. See, Nassau W. Senior, *Two Lectures on Population*, London: John Murray, 1831, being a reprint of the 1828 ed., London: Saunders and Otley (Reprint by Arno Press *nc.*, 1976), p. 50.

²⁰⁷ Mill, devotes § 1 and 2 of Chapt. X of Book I to the *Law of Population*. Then in Chapter XI, of Book II enunciates the general rule of the Wage-Fund theory; the titles of the following paragraphs: § 3, 4, 5 and 6, are strictly hard-Malthusian, while the content is bending toward soft-Malthusianism, let alone toward some non-Malthusian propositions. Then, he devotes Chapters XII and XIII to the remedies for low wages, indicating in overpopulation a general cause of poverty. While the approach is soft-Malthusian, the measures envisaged are broader than that. Eventually when, in Chapter III of Book IV, he scrutinise at length the long-period relation between capital, population and wages, elaborating a taxonomy of long-period paths of growth, he completely ignores the Malthusian *Principle* (J.S. Mill *Principles* cit.). That Mill did actually shared a Malthusian approach to society and population is shown by the problems he met in his youth when he advocated birth control behaviour, in order to fight poverty; Pedro Schwartz, *J.S. Mill* cit., Chapter 3, "Youthful Propagandism". The Recantation severed the links between his 'social' and 'economic' Malthusianism.

²⁰⁸ As we have seen before, Malthus emphatically denies that what limits wages is **in any sense**, capital.

McCulloch comparison between Ireland and Great Britain, leads to the non-Malthusian conclusion, that population in the two countries moved in opposite way to the growth of capital; J.R. McCulloch, *ibidem*, p. 19 ff.

²⁰⁹ McCulloch, *ibid.* p. 34.

²¹⁰ For the contrary opinion, maintaining that McCulloch does believe in the flexibility of population movements, see Antonella Picchio, "The Political Economy of the Social Reproduction of Labour. Analytical and Historical Aspects of Labour Supply", pp. 107-108.

Having disposed of the two sides of the *Population Principle*, McCulloch also modifies the relation between the 'market' and the 'natural' wage. While in Ricardo, 'market' and 'natural' wages move according to different rules, for McCulloch they move together. "The natural or necessary rate of wages...has a tendency to rise when the market rate rises, and to fall when it falls".²¹¹ The consequence of such an approach is that the 'natural' rate can no longer be considered a 'gravitation' level **attracting** (more or less speedily) the market rate. "Diminish the cost of subsistence of men", says Ricardo "...and wages will ultimately fall, notwithstanding...the demand for labourers".²¹² For McCulloch, instead, the 'natural' rate performs the role of a 'minimum' level, moving **according to** the 'market' rate and depending on the interplay of 'supply' and 'demand'.²¹³

McCulloch's deviations from the Classics' doctrines are sometimes interpreted, following Marx's allegations, exclusively in a negative way, as being due to his loose approach to theoretical questions. Instead, I would suggest that he was trying to elaborate, with his usual lack of rigour, on a fundamental change in labour-market relations, which was impending in the period, during which he wrote his 1823 and 1824 articles and the 1826 *Essay*, or had already worked its effects, when he wrote his later, 1854, *Treatise*. The change I am hinting at is the outcome of a period marked by a rising discontent of employees and part of the employers about the rules regulating the labour market, increasingly deemed as ineffective. This was precisely the process that culminated in the repeal of the *Combination Acts*.

It is often maintained that there exists a different, 'higher' and truer, version of the Wage-Fund theory.²¹⁴ This version, linked mainly to the name of John Stuart Mill, is elaborated in a section of his *Principles* entitled: *Influence of the Progress of Industry and Population, on Rent, Profits and Wages*.²¹⁵ It consists in an approach in which the wage-bill (constrained by the full employment of savings in order foster accumulation, i.e. by Say's Law) represents the demand for labour in terms of rates of growth of capital and is equalised to the labour supply. The latter, is, in turn, expressed in terms of population growth rates, the rate of wages and by taking into consideration the effects on profits, rent and prices. This version is usually called the long-period Wage-Fund theory, as opposed to the short-period one, which is meant to determine the Classical 'market' wage-rate. I will neither discuss this classification,²¹⁶ nor take the 'long-period' Wage-Fund theory into consideration for two reasons.

²¹¹ *ibid.*, p. 34.

²¹² D. Ricardo, *Principles* cit. Chapter XXX, "On the Influence of Demand and Supply on Prices", p. 382.

²¹³ McCulloch, *Ibidem*, p. 34. A. Picchio emphasises the similarities with Ricardo's views; *ibidem*, p.110 ff.

²¹⁴ For instance, Marshall, in his Appendix on the Wage-Fund, second section, argues that Mill indulged in the cruder version in the Book II of his *Principles*, but not in Book IV. Hicks quotes as the authors using a "modernised, 'elastic', wage-fund theory", Wicksell, Böhm-Bawerk and Taussig; J.R. Hicks, *The Theory of Wages*, 1968, p. 17, n. 1.

²¹⁵ J.S. Mill, *Principles* cit., p. 710-724.

²¹⁶ Actually, after that McCulloch blurred the distinction between market and natural wage-rate, we cannot find it revived in Fawcett, or in Mill. At most we may consider that McCulloch theorising was more short-period -in to-

First, it was the '**short-period**' Wage-Fund theory, that was hotly discussed and abandoned at the time. It had three fundamental features: it was non-Malthusian, non-Ricardian (the links with the *Population Principles*, and the 'natural wage' having been almost severed)²¹⁷ and it asserted an inverse relationship between wage and employment. The inverse relationship held both in equilibrium, at different full employment levels, and in disequilibrium at different non-full employment levels, the disequilibrium situation being adjusted by means of competition.

Secondly, the 'long-period' Wage-Fund theory, in my opinion, can hardly be considered a proper Wage-Fund theory. It amounts to a co-determination of the wage rate together with the other macro-economic variables. It keeps the Wage-Fund theory's more general idea of a macro-constraint on wages, while getting rid of the inverse relationship between wages and employment, which constituted, in my opinion, its more characteristic, historical as well theoretical, feature.

It was this insufficiently founded inverse relationship that fell under wide and harsh criticism when times were ripe for another change in the British class relationship.

9. The rise of Trade Unionism.

The period opened by the 1824 Repeal of the *Combination Acts* till the 1871 *Trade Union Acts* witnessed the occurrence of a long series of social and political struggles. Many important political and social movements: Owenism, Chartism, Co-operative movement and manifold attempts to build a general nationwide Union did rise and fall.²¹⁸

I will mention here only the more important turn in the whole story, namely the emergence of the New Model unionism. The reason is that it was its leaders, namely the so-called Junta, who for the first time carried to a positive juridical end the long 'struggle for acceptance'. "We have seen the magnificent hopes of 1829-42 ending in bitter disillusionment: we shall now see the Trade Unionists of the next generation largely successful";²¹⁹ in this way the Webbs opened the Chapter on the New Model unionism.

day terms - oriented, while Mill's was more long-period oriented; but none made this distinction effective in their analysis.

²¹⁷ For instance Fawcett, after having paid in a few lines his tribute to Malthus, devotes almost three pages to another influence on labour supply. Namely, to the effect on the labour market of the introduction of machinery, regulating wages in a much quicker way than the demographic mechanism. Fawcett's point presents a striking similarity to the one, widely elaborated by Marx in his *Capital*, see H. Fawcett, *Manual* cit., p. 137 ff. It is worthwhile to recall that Ricardo re-considers the effect of the introduction of machinery, insofar it calls for shrinkage in the level of employment, then on 'gross product'. The consequences on the rate of wages will be felt only according to the pace of population adjustment. D. Ricardo, *Principles* cit. Chapt. XXXI, "On Machinery".

²¹⁸ Only to give a gist of the period I mention here the titles of the chapters Cole and the Webbs devoted to the period: from the former *Short History* we read: Ch. vi, "Revolutionary Trade Unionism" (till 1834), "Chartism to 1839", "Chartism-Later Phases", "Trade-Unionism Re-made" (1835-50); in the Webbs *History* we read: Ch. iii, "The Revolutionary Period"[1829-1842], Ch. iv, "The New Spirit and the New Model"[1845-1860].

²¹⁹ S. & B. Webb, *History* cit., p. 180.

A first revival of trade-unionism after the break-down in 1834 of the Grand National Consolidated Trades Union, the first Owenite attempt to a nation-wide Union,²²⁰ has been the formation in 1845 of the National Association of United Trades for the Protection of Labour. The name chosen shows that the 1834 failure has taught Trade Unionists to privilege the resistance to legal and industrial oppression, rather than to commit themselves to broader socio-political aims.²²¹ This association was, according to the Webb "half-way from the revolutionary voluntarism of 1830-34 and the Parliamentary action of 1863-75".²²²

The first great turn occurred when, on January 6, 1851, Newton and Allan formed a Provisional Committee of the "Amalgamated Society of Engineers, Machinists, Smiths, Millwrights and Patternmakers" (ASE). The member of this Union, the first on a national scale, reached in October the number of 11000. It was the "largest and powerful Union...ever existed in engineering trade".²²³ As a consequence, the Central Association of Employers of Operative Engineers was formed in December 1851. The aggressive policy initiated by the ASE led to an industrial struggle in the engineering trade, which ended in 1852 with a terrible defeat. The 'disastrous' strike of Preston cotton-spinner, the failure of Kidderminster carpet-weavers and Dowlais iron-workers followed in 1853 the collapse of the movement due to the 1852 lockout.

However, during the Preston *lock-out* and after, in 1853, the ASE was attacked by the left-wing Chartism. From January 1852, Ernest Jones published a series of very critical articles against trade unionists in his *Notes to the People*. From a reference made by Marx in a letter to Engels, we know to-day that these articles were inspired by Marx, as reported by Giuseppe Berta, an Italian student, in his book devoted to a long, detailed analysis of the relationship between Marx, Chartism and Trade Unionism.²²⁴ Marx was himself a refugee from the defeat of the revolutionary movement in the continent, when he arrived in Britain at the beginning of the Fifties, after the defeat of the last wave of Chartism.²²⁵ It was an historical paradox that, while he was beginning to pursue his aim of building a theoretical weapon, namely his economic theory, for the forthcoming revolutionary movement, the leaders of the British tradeunionists movement were beginning their long march towards 'acceptance'. Not surprisingly, Marx unreservedly supported left-wing Chartism against unionism; "in

²²⁰ Cole's book is devoted mainly to its rise and fall, G.D.H. Cole, *Attempts to General Union*, 1953.

²²¹ S. & B. Webb, *History* cit, pp. 180-195

²²² *Ibidem*, p. 195.

²²³ *Ibid.*, p. 213.

²²⁴ *Letter from Marx to Engels*, November 4th, 1864; see G. Berta, *Marx, gli operai inglesi e i cartisti* (Marx, the British Workers and the Chartists), 1979; Chapter second, "Between Unionism and Chartism: the Amalgamated society of Engineers and the left-wing Chartism, 1851-52". Berta stresses the opposition of Marx to trade unionism at large, and to ASE in particular, together with the co-operative movement, from the very beginning of his sojourn in Great Britain. Moreover, Berta adds that after the 1853 *lock-out* left-wing Chartism collapsed, and concludes: "Also to this fact we may trace back the origin of Marx's political isolation, from the end of the Fifties, partly suffered and partly chosen", (*ibidem*, p. 116)

²²⁵ It may be interesting to consult a Table build by Hobsbawm, reporting the long series of political insurgencies from 1800 to 1850, E. Hobsbawm, "Economic Fluctuation and some Social Movements", in *id.*, *Labouring Men. Studies in the History of labour*, 1968, p. 131.

that initial opposition -says Berta- was already implicit the historical divide, in Britain, between trade unionist movement and political Marxism".²²⁶

Contemporaries appeared to be much concerned by these struggles. Tooke and Newmarch in 1857 wrote that these struggles [1850-53] could be considered "as the first attempt on large scale, organised and systematic, of factory workers to get a higher wage standard, following the favourable economic circumstances".²²⁷ Moreover at the time of the strikes "the *Economist* was forced to admit that...the class conflict underwent a transformation from a "contractual problem" to a "power struggle".²²⁸

The Webbs maintain that "it was the dramatic events of 1852 which made the establishment of the Amalgamated Society of Engineers a turning-point in the history of Trade Union Movement...the publicity which it gained from the conflict gave it a position unrivalled prominence in the Trade Union world".²²⁹ The New Model, though many contend its novelty,²³⁰ consists in combining the function of trade protection with those of an insurance company based on mutual aid, typical of the friendly societies.²³¹ In spite of the failures the working men were impressed by "the admirably thought-out financial and administrative system, which enabled"²³² the combination of the two functions. In 1859 the movement for shortening the hours of labour in the building trade was countered by the Central Association of Master Builders by an attempt "to destroy all combination". "This declaration of war...gained ...the support of the whole Trade Union world";²³³ eventually this battle ended in a draw, according to the Webbs. Two were the most important consequences of the strike; the first was the adoption by another trade, that of the builders, of the New Model under the name of Amalgamated Society of Carpenters. The second is that "out of the Building Trades Strike of 1859-60 arose the London Trades Council", which was the organ we already met, which organised the agitation in 1867. In 1862 Robert Applegarth was elected general secretary of the Carpenters' Union, and the Junta was about to form. The next step has been the formation, between 1858 and 1867 of 'permanent' Trade Councils in the leading industrial centres. In June 1866, in the eve of the 1867 storm, which led to the historical turning point in 1871, "138 delegates, representing all the great Unions, and a total membership of about 200.000 met at Sheffield".²³⁴

²²⁶ *Ibidem*, p. 43

²²⁷ T.Tooke and W.Newmarch, *History of Prices and of the State of Circulation during Nine Years 1848-1856* (vol. V of the *History of Prices* of T.Tooke), 1857, p. 294; quoted by Berta G., *Marx cit.*, p. 88.

²²⁸ The *Economist* is quoted by Berta in "Unionismo e scioperi nel commento dell'«Economist»" (Unionism and Strikes as Commented by «The Economist»), in *Annali della Fondazione L. Einaudi*, 1975, p. 129-132.

²²⁹ S. & B. Webb, *History cit.*, p. 217. The Webbs add that "from 1852 to 1889 the...constitution of the Amalgamated Society of Engineers served as a model for all new national trade societies" *ibidem*. p. 217.

²³⁰ For instance, A.E. Musson, *Trade Unions and Social History*, 1974, reacted strongly against the Webbs' view.

²³¹ As we have seen before, the Junta in the hearings before the 1867 Royal Commission exploited this double character in favour of the Trade Union case.

²³² *Ibidem*, p. 218.

²³³ *Ibid.*, p. 230-231.

²³⁴ *Ibid.*, p. 258.

This was the historical background against which we have to place the discussion over the Wage-Fund theory. The theory, though denying the possibility of a *general* increase in wages, did not deny by itself the possibility of sectional improvements, though at expense of other sectors of workers. This left only a small room of play for tradeunionist faced by a public opinion, which accepted wholeheartedly the first part of the proposition.²³⁵ Public opinion followed its bent in accepting this doctrine; however, it was aided accepting it by two influential personalities of the popular political economy: Jane Marcet and Harriet Martineau.²³⁶

According to Antonella Picchio, both of them, treating the subject of wages, relied on James Mill's *Principles of Political Economy*. Mrs. Marcet used almost the same words of Mill, saying that the rate of wages "depends upon the proportion which capital bears to the labouring...population";²³⁷ while Miss Martineau who, say the Webbs, later "retracted his economic dogmatism", wrote that "our operation must be directed toward proportioning labour and capital".²³⁸

This sort of propagandism, contributed to link together vague phrases about capital and labour, or generic Malthusian sentences, with the more attentively elaborated theories of McCulloch, Fawcett and John Stuart Mill, all unified in the name of the working of demand and supply. Consequently, the popular opinion rooted itself in the belief that, beginning with Adam Smith onward, all the Classic held one and the same theory.

That middle-class members, in the mid-XIX century, were imbued with the values of "economic Individualism", cannot be surprising. That the representative of the Trade Union movement, in the same period, did accept "with perfect good faith, the economic Individualism of their opponent", as maintained by the Webbs,²³⁹ is more startling. This change of mind marks an epoch; it can be despised, or fought from a political standpoint.²⁴⁰ However, the consequence of it is of great momentum; for the first time, starting from the Industrial Revolution, workers representatives and some middle-class members shared, at least in part, a common language.

Tradeunionists "claimed only that freedom to combine which the more enlightened members of that class were willing to concede to them".²⁴¹ Eric Hobsbawm, although not sharing the unreserved admiration of the Webbs for the 'aristocracy of labour', concedes to sectional unionism, in a humorous way, some 'wider value': "The labour aristocrat may wear a top-hat and think on busi-

²³⁵ The Webbs devoted a long and detailed discussion to the so-called "Verdict of the Economists" in the Chapter I of their above-mentioned *Industrial Democracy*, pp. 603-653.

²³⁶ See the lemmas devoted to them by Antonella Picchio, *New Palgrave: A Dictionary of Economics*, 1987.

²³⁷ A. Picchio, *Marcet* cit. p. 309.

²³⁸ See S. & B. Webb, *Industrial* cit., p. 608, footnote.

²³⁹ S. & B. Webb, *History* cit. p. 239.

²⁴⁰ That these values were not shared by the whole working class is not relevant, though obvious; for what matters is they were shared by their representative, see Clements, who tries to rescue the unionist from this allegation, "British Trade Unions" cited.

²⁴¹ S. & B. Webb, *History* cit., p. 239.

ness matter exactly like his employer, but when the pickets were out against the boss, he knew what to do".²⁴²

We have noticed the public opinion acceptance of the prominence of the market, commonly shared by middle-class representative and the unionists. On the other hand, the theoretical foundation of the Wage-Fund theory relied heavily on Demand & Supply, whatever these words were intended to mean.

It may be suggested that the efficacy of Thornton's attack on the Wage-Fund theory may have depended from the fact that he levelled it at the junction of the two beliefs. All in all, the Flint Glass Makers declared at their first conference in 1849,²⁴³ it is "only a question of supply and demand, and we all know that if we supply a greater quantity of an article than what is actually demanded...whether it be labour or any other commodity" the article will cheapen.

Moreover, if these men on one side of the barricade were men trying a new bargain, Thornton himself was the right discussant on the other side (as he thought of himself).²⁴⁴ He had set to himself, as the aim of the discussion, to establish a "common basis of negotiation" and to meet the workers in a "fair and equal conference".²⁴⁵ However, his discussion went far ahead of the purpose he consciously set to himself.

10. Fighting the Wage-Fund theory: Thornton's 'On Labour'.

"Trade Unions are on their trial", with this trenchant sentence Fleeming Jenkin starts, in 1867, his comment on a review of the *Report of the Commissioners of the Royal Commission* published in the *Quarterly Review*. And continues: "if the union cannot raise wages, it is futile to discuss whether they should be permitted to try...the arguments...that no combination...can alter the rate of wages...takes two forms...and are enounced as the doctrine of the Wages Fund, and the Law of Demand and Supply".²⁴⁶ In this article Jenkin, after having disposed of the predetermined fixate of the wage-bill examines the "rule by which the price of labour may be determined", i.e. by means of Demand and Supply. In this article, Mill's assertion of Demand and Supply as an *equation*²⁴⁷ is given a functional expression, which constitutes a step forward in relation to Mill's own theory.²⁴⁸

²⁴² E. Hobsbawm, "Trends in the British labour Movement", in *Labouring men* cit., p. 323; this essay, together with "The labour Aristocracy in Nineteenth-century Britain", contains a very balanced assessment of the phenomenon of the 'labour aristocracy', as to its dimension and its meaning.

²⁴³ S. & B. Webb, *Ibidem*, p. 201.

²⁴⁴ W. T. Thornton, *On Labour Its Wrongful Claims and Rightful Dues. Its Actual Present and Possible Future*, 1869, Introduction, p. 37-38

²⁴⁵ W. T. Thornton, *On Labour* cit., p. 38.

²⁴⁶ Actually, the passages quoted are scattered from p. 3 to p. 9 of Fleeming Jenkin, "Trade-Unionism: how far Legitimate", *North British Review*, 1870, re-published in the *Papers, Literary, Scientific &c.*, 1887; reprinted as the No 9 of *Series of Reprints of Scarce Tracts in Economic and Political Science*, under the title: *The Graphic Representation of the Laws of Supply and Demand and other Essays on Political Economy*, 1931, pp. 3-75. One year later, T.E. Cliff Leslie, published "Political Economy and the Rate of Wages", *Frazer's Magazine*, 1868, pp. 81-95, mainly devoted to the criticism of the concept of an 'average wage'.

²⁴⁷ "...the proper mathematical analogy is that of an *equation*", J.S. Mill, *Principles*, cit., p. 448.

²⁴⁸ F. Jenkin, "Trade-Unionism" cit. p. 17. However Jenkins gives the equation the form $y=F(1/x)$, which appears to be derived from the traditional Wage-Fund approach. Indeed the formula is compatible with the specification

Jenkin thinks of Demand & Supply and the Wage-Fund theory as being the same theory embodied in 'different wording'. From the foregoing sections we may instead define Supply and Demand as being the analytical core of the Wage-Fund theory. However I have quoted Jenkin judgement to stress how, in the mind of the contemporaries, to discuss the latter theory implied discussing the former. Cairnes, some years later, defined the Wage-Fund theory as a Market price theory, and stated that Mill had given to the latter topic "its definitive solution in the chapter on 'Demand and Supply' in... [Mill's] Principles". A few pages later he said also that "that doctrine [of Market Price] has been challenged by Mr. Thornton and...**successfully**"[bold added].²⁴⁹

Before 1867, Longe's attack on the Wage Fund theory is commonly considered the more relevant attempt to undermine the consent, which surrounded that theory. Longe's pamphlet, under the title, *Refutation of the Wage-Fund Theory* in 1866.²⁵⁰ Longe's pamphlet was followed by two articles of Thornton in *The Fortnightly Review*, the first, "A New Theory of Supply and Demand", at the end of 1866, and the second, "What Determines the Price of Labour or Rate of Wages", in 1867. In 1867 appeared also, among others, the above-mentioned article of Jenkin, two articles of Bagehot, one on the economic side, and the other on the political side and an article of Beesly, dealing with the political aspects of the discussion.²⁵¹ At the end of 1867 appeared also the "Stray Chapters" of the forthcoming Thornton's book, *On Labour*, which was to be published in 1869.²⁵² The publication of *On Labour* rekindled the polemics; the book was followed by a series of more or less critical reviews and comments, together with the famous Mill's Recantation.²⁵³

The main point scored by Longe theoretical criticism is the inconsistency between the postulate of the wage-bill as a fund, and the working of Demand and

W=xy, i.e.: wage-bill=labourers *per* wage-rate, in which the fixity of the wage-bill is abandoned, but the inverse relationship between wage-rate and employment is maintained in its original form of unit elasticity of demand.

²⁴⁹ J. E. Cairnes, *Leading Principles* cit., p. 110 and 115.

²⁵⁰ Longe F.D., *A Refutation of the Wage-Fund Theory of Modern Political Economy as enunciated by Mr. Mill, M.P. and Mr. Fawcett, M.P.*, 1866.

²⁵¹ The content of the article of Edward Spencer Beesly, "The Trades Union Commission", *The Fortnightly Review*, 1867, is mainly political. Also Walter Bagehot's "The Working", already cited, is arguing on the political side of the question; while his subsequent "The Effect of Trade Unions upon Wages and upon Prices", published on *The Economist*, July 13th, 1867, elaborates on some economic points of the debate.

²⁵² The first two Thornton's articles, dealing with the economic-theoretical side of the discussion on the rate of wages have been merged in the first chapter of the book; while the 'stray chapters', like all the remaining, were dealing with the moral and political aspects of the discussion on Trade Unions.

²⁵³ F. Jenkin, "The Graphic Representation of the Laws of Supply and Demand, and their application to Labour", in *Recess Studies*, 1870; reprinted in *Papers* cit., pp. 77-106. In this work, in order to discuss Thornton's criticism of Demand and Supply theory, he makes a further step toward a modern formulation of Demand and Supply in term of continuous curves. Frederic Harrison's article, though quoted by Thornton in the first edition, refers apparently to the content of one of the first Thornton's article; accordingly I am quoting it as discussing *On Labour* content, F. Harrison, "Good and Evil of TradeUnionism", *Fortnightly Review*, No. 13. L. Courtney, "Mr. Thornton on Labour", *The Times*, 1869. The *Edinburgh Review* devoted a collective review to Thornton's book, to the Final Commissioners' Report of the *Royal Commission* on Trade Unions, the *Memorandum* on the law on Trade Union and a French book on the subject of tradeunionism. The review is on the political side, and not very sympathetic. There is a curious story about Mill's *Review* of Thornton, not sufficiently critical for the tastes of the *Edinburgh Review*, which is accounted for in Mill's *Collected Works*, vol. V, t. 2, *Essays on Economics and Society*, (1850-1879), 1967, p. 632.

Supply, according to Mill's own theory. Demand, says Longe, cannot be conceived as a lump *sum* to be devoted to the purchase of a commodity;²⁵⁴ and the definition of demand as a sum is not suitable to face the problem of labour-market equilibrium. Accordingly, the wage-bill is an *ex-post* magnitude, determined by the interplay of supply and demand on the market.²⁵⁵ However, the conception of demand he criticises may be thought as belonging to Fawcett²⁵⁶ but not to Mill, as Longe himself acknowledges.²⁵⁷ It appears that Longe economic criticism of Demand and Supply impinged only slightly on the framework of Mill's own theory, and that the latter could have agreed on the main with Longe criticism.

Thornton's discussion begins where Longe's criticism ends; i.e. he faces directly the question how to define Supply and Demand, and "their influence on prices and wages"; leaving aside the question of a *fund* to be distributed.

The first step to be performed, says Thornton, is to "disentangle ourselves from certain misconception": Accordingly, he sits down to define anew demand and supply. Both demand and supply are defined respectively as "the quantity offered for sale...at some specified price", and "the quantity they [the customers] are ready to buy at some specified price";²⁵⁸ his definitions of supply being no more than an extension of Mill's definition of demand.²⁵⁹

At the same time he lays down the conditions according to which some crucial propositions will hold; namely, Mill's proposition that 'the price resulting from competition is the one at which demand and supply [i.e. the quantities]...will be equalised'. Is always assumed, he adds, that "'price rises when demand exceeds supply, and falls when supply exceeds demand".²⁶⁰ These conditions are, firstly, that "competition is free and unrestricted", i.e. that dealers and customers are acting according a maximising principle of "getting the utmost", respectively for their goods and their money. Secondly, that "goods be offered unreservedly for sale".²⁶¹

However, these conditions may prove to be only necessary, but not sufficient; "even though all these conditions be fulfilled, the propositions I am impugning will be untenable". There *are* cases in which, either "the relation between supply and demand do not determine price", (in the sense always taken for granted of a **unique** price); or, though competition determine one final price and transactions take place, "the quantity offered...and demanded at that price, will not be equal".

²⁵⁴ F.D. Longe, *Refutation*, cit. p. 24, of the original edition.

²⁵⁵ *Ibidem*, p. 35.

²⁵⁶ H. Fawcett, *Manual*, cit., Book II, chapt. iv, p. 152.

²⁵⁷ F.D. Longe, *ibid.* p. 29.

²⁵⁸ W.T. Thornton, *On Labour*, cit. p. 45

²⁵⁹ Many commentator interpret Mill's definition of demand as a "quantity...[which] varies according to the value", as implying the notion of a demand-curve. However, a close scrutiny of Mill's text shows that his definition amounts to no more than 'a set of price-quantity points', not globally linked by any monotonical rule. Thornton's, and Cairnes' usage of this definition of demand, follows closely Mill's use; J.S. Mill, *Principles* cit., p. 448.

²⁶⁰ W.T. Thornton, *Ibidem*, p. 46

²⁶¹ *Ibidem*, p. 47. It must be stressed that Mill did not state fully with the same clarity these conditions.

Then, the well-known examples follow of the Dutch and English auction in a daily fish market;²⁶² in the first auction the price is settled by descending bids, while, in the other, bids are ascending.²⁶³ If we keep rigorously to the notions of supply and demand as **couples** price-quantity offered and demanded, then we have that supply and demand are different in the two market, while the **actual** quantities transacted are the **same**.²⁶⁴ Thornton does not want to stress an *anomaly* of the Supply and Demand approach in itself, as many commentators have believed. Quite the contrary, he wants to show that his new amended definition helps in ruling out this anomaly,²⁶⁵ which would have been emerged with the old definition based only on 'quantities': i.e., with the old approach, the case should have been exactly the undesired one of *identical* quantities associated with *different* prices.

Though the above-mentioned was not a case of "price varying while the relation of supply and demand remained unaltered", Thornton adds, "examples of the converse are plentiful as blackberries";²⁶⁶ namely, cases in which price continues unaltered though demand and supply differ. The cases he lists may be classified under the heading of 'rationing'. It must be added that, in Thornton cases, 'rationing' does not increase the price; this because price has already exhausted the possibilities of variation. This happens in the case of an auction-fixed price, which is a 'maximum' price', or in the case of horses in which demand may exceed supply at the 'minimum' price determined by the higgling of the market.²⁶⁷

One may think of these cases as anomalies. The crucial point is that no economist before him even suspected these possibilities, so that the conditions guaranteeing the validity of the propositions, mentioned at the beginning, were not laid down at all; these propositions were held almost *unconditionally*. It is against this lack of conditionality that Thornton's criticism was aimed at.

An even more interesting point is Thornton own comment: "perhaps this sale of fish may be deemed an exceptional transaction...even so...its importance as an example would be not...impaired, for a scientific law admits **no exception** whatsoever".²⁶⁸ This statement is, in my opinion, much less *naïf* than it can ap-

²⁶² *Ibidem*, p.48 It must be stressed that Thornton case will be framed only later by Marshall by means of his time-dependent classification of equilibrium; Thornton's case is neglected in Marshall essay "On Value", as falling under the heading of 'market values'. A. Marshall, *Early Writings*, Whitaker ed., 1975, p.123

²⁶³ It is worthwhile to stress that the Dutch auction elicits from the buyers a max-max price, namely the maximum of the maximum prices the buyers are disposed to tender for the goods for not doing without; while the English, normal, auction elicits a maxi-min price, namely the maximum of the minimum prices the buyer are disposed to tender for the goods lest to do without it. See W.T. Thornton, *ibid.*, p. 47-49.

²⁶⁴ Moreover, starting with Jenkin (*Grafic*, cit. p. 84), then Marshall in his essay "On Value", (*Early* cit. p. 154) have translated Thornton's case in a D-S curves apparatus, as a vertical segment of the demand curve; i.e. an anomaly which is easy to get rid of. My suggestion is that Thornton's case may be **correctly** translated into curves drawing **two** demand curves, each of them associated with a different sort of auction. Moreover, Whitaker, introducing Marshall's essay "On Wages", maintains that his treatment has been "considerably influenced by Thornton's ideas" (*Early*, cit., p. 179).

²⁶⁵ W.T. Thornton, *ibid.*, p. 48.

²⁶⁶ *Ibidem*, p.49.

²⁶⁷ *Ibid.* p. 53.

²⁶⁸ *Ibid.* p. 50.

pear at first sight. It says something meaningful on what Thornton thinks to be the nature of scientific 'laws'. Though his conception is not thoroughly held without oscillations, Thornton holds these 'laws' to be **mathematical** in their nature, even if not in their form. Indeed, mathematical (i.e. universal) proposition can be refuted by means of **counterexamples** (i.e. singular) propositions.²⁶⁹

This is exactly the role, which Thornton entrusts to his 'counterexamples'; a role misunderstood by Mill, who starting from the definition of Thornton's cases as 'exceptions' concludes that "since this rule, though **general**, is not absolutely **universal**, he is scientifically right". However in this case the question may be raised: "How many such cases really exist"?²⁷⁰ In other words, Mill contrasts Thornton's 'mathematical' characterisation of economic 'law' with an 'empirical'. However, Thornton follows Mill even on this ground, putting forward, as an *a fortiori* argument, that his cases of 'rationing' and 'restricted competition' are more 'typical' representative of the actual transactions, than are Mill's case of unrestricted competition and unreserved sale.²⁷¹

After having enumerated other cases of 'rationing', Thornton concludes that, though "price does not always rise when demand exceeds supply, it must need fall when supply exceeds demand. **This is the one solitary truth among the fallacies of the popular theory**".²⁷²

After having discussed that excess demand or supply are 'always' associated with the rise or fall of prices, Thornton takes into consideration the question of the convergence toward an equilibrium situation, namely Mill's assertion that the "price is always tending to a point at which supply and demand will be equal".

He, first, restates the condition that goods be "unreservedly offered for sale"; an assumption which in the course of his discussion he makes many time, using it as a sort *counterfactual*, namely he makes it in order to say that even when this condition is fulfilled cases may occur infringing the initial proposition; moreover, this condition is seldom present.

When supply exceeds demand, he says, a stock cannot be sold unless price will fall till the stock will be absorbed. However two anomalies *do* present themselves. The first is the case of 'overshooting': the price falls *below* the equilibrium level, disavowing Mill's assertion (Marx also has raised this contention many times).²⁷³ The second anomaly occurs when an excess demand does appear again at the floor price, which allows the clearing of the stock.²⁷⁴

²⁶⁹ It may worthwhile to remind that this relation between 'universal' and 'singular' proposition lie at the root of Popper notion of methodological 'falsifiability'; see K: Popper, *The Logic of Scientific Discovery*, 1934 (1st ed.) [it. ed.: 1970], p. 74.

²⁷⁰ J.S. Mill, "Thornton on Labour and its Claims", Part I and II, *Collected Works*, vol. V, t. 2, *Essays on Economics and Society*, (1850-1879), 1967.p. 637.

²⁷¹ W.T. Thornton, *Ibidem*, p. 50.

²⁷² *Ibidem*, p. 52.

²⁷³ *Ibid.*, p. 53; to eliminate this anomaly some very *specific* assumptions must be made in the framework of *continuous* curves (on which neither Thornton, nor Mill did rely); the *cobweb* theorem is an examples of these.

²⁷⁴ *Ibid.*, p. 53; Thornton's case occurs at firm, or *small* market level. I only want to direct the reader attention on the elaborate construction we may meet in every standard text-book, which allows to eliminate this anomaly from the range of the possibilities in the theory of the firm in perfect competition (namely: equilibrium at *wide* market level, horizontal demand curve at firm level, perfect mobility of customers).

At this point, Thornton relaxes the assumption he has maintained through-out, namely that "goods are offered for sale unreservedly", and obviously concludes that "**with one notable exception, that of labour**, commodities are almost never²⁷⁵ offered unreservedly for sale." With this argument he ends the polemical part of his work, treating the case of a 'corn dealer', "who manage to secure the higher price...simply by...declining the price which would have resulted from the relation between **actual** supply and **actual** demand" [bold added].²⁷⁶

I have chosen this last quotation in order to introduce the constructive part of Thornton's discussion. Indeed, in my opinion, the main novelty of his positive proposal on what can determine the rate-of wages, is indeed his reliance on **expectations**, as contrasted with **actual** quantities, on which did rely, at the times, the current notions of Demand and Supply.

Thornton begins stating that the rate of wage may move between a minimum and a maximum level; and asks: "what is that decides what price shall exactly be"?²⁷⁷ The object of the dealer, says Thornton, is to get "the largest aggregate price which he can get within the period during which it will suit him to **keep** his stock **unsold**"[bold added]. The bold is intended to stress two features of the sentence; firstly, the notion of reservation, 'typical', according to him for most transaction and, secondly, the time-element implicit in the 'keeping', which evokes a resemblance with a sort of 'liquidity preference' in terms of goods.

His answer to the question is: "It is competition...that determines price. Competition remaining the same, price cannot possibly vary".²⁷⁸ Namely, restating the sentence in a negative way, the difference between the quantities offered and demanded might not alter the price. The number of competitors, leaving aside the case of monopoly, does not matter very much in itself. What matters is the fear to be undersold, or the desire to undersell.

According to Thornton, it is competition which regulates "current price"; "but what regulates competition"? The answer is: "the estimates formed by dealers of the probability of the market"; in other words "prospective supply and demand may not inaccurately be said to determine competition". If the expectation will be disappointed, competition will be stimulated if supply turns out to be greater, while competition will be slackened if demand will be less than expected.

"Prospective supply can signify nothing more distinct than the whole quantity **expected** to be brought to market within a **definite period**".²⁷⁹ Accordingly, he maintains that "**actual**...supply and demand do **not** affect price at all, **except** in so far they form part of prospective supply and demand...or **except** when there is no apparent chance of any increase of present supply and demand".²⁸⁰

²⁷⁵ *Ibid.*, p. 55. This is a statement on the 'empirical' side, not on the 'mathematical'. Without doubt Mill could question its validity with more confidence than we can do to-day.

²⁷⁶ *Ibid.*, p. 56.

²⁷⁷ *Ibid.* p. 58-59.

²⁷⁸ *Ibid.*, p. 59.

²⁷⁹ *Ibid.*, p. 62.

²⁸⁰ *Ibid.* ,p. 63.

We may now take into account a sentence summing up the threads of the argument. "Competition does indeed always depend upon the estimate of probable supply and demand formed by those dealers who rate lowest the probable proportion of demand and supply, or who...are most disposed to sell cheaply";²⁸¹ namely, the dealers at the margin of the choice whether lower or not the price.

At this very point, the way is paved to scrutinise the case of the price of labour. If it be true that "the price of labour is determined as the price of any other ...commodity", then it does *not* depend on supply and demand either. "In the absence of monopoly and combination it is under the sway of competition".²⁸² However there is **one** crucial difference: "Whereas what determine the price of tangible commodities is always the competition of the dealers [a sentence in a Classic mood]...the price of labour may be determined by the competition of the owing to the fact that labour is almost always offered for sale without reservation of price".²⁸³ Usually, sellers "may hold back their goods for more or less time"; what hamper the labourer to exploit this possibility is, first, its poverty and, second, and even more important, the fact that the income "which might be made by the sale of to-days labour be not made to-day, it can never been made at all" for, at variance with stocks carried on, "to-morrow there will be none of to day's labour left to sell".²⁸⁴

The weakness of the labourer is worsened by tacit or explicit combination by masters. Moreover, even if employers should be on the average to enter in better terms with the workers, "the niggardliness of...[a] **single one** may suffice to neutralise the liberality of all the rest". The conclusion follows by itself: "the price of labour, when settled by competition, is almost always much lower than that of any other commodity";²⁸⁵ Trade Unions are the only effective way to alter this situation.

Thornton discussion gets rid of the Wage-Fund theory; with a momentous consequence, namely that, after him, also economists may agree on that, that workers can try to enhance their bargaining position by means of combinations, without any **overall constraint** impinging no more on them. The 'Verdict of Economists', from that moment onward, was no more a general accepted dogma.

11. John Stuart Mill's Recantation.

The Wage-Fund theory was couched in a Demand and Supply jargon. Although the phrases on Demand and Supply did convey a feeling of evidence, the underlying rationale of their working was left rather indeterminate. Demand and Supply were indeed crucial for the working of the Wage-Fund theory, insofar they were operating the distribution of the fund among the recipients. It followed from it the main tenet of the theory; namely, the inverse relationship be-

²⁸¹ *Ibid.*, p. 64.

²⁸² *Ibid.*, p. 68.

²⁸³ *Ibid.*.,p. 69.

²⁸⁴ *Ibid.*.,p. 74. It is worthwhile to stress the discussion that take places in a note of the same page with Cairnes, who denies that the time-element of 'keeping, be altogether relevant to increase the weakness of the workers.

²⁸⁵ *Ibid.*, p.83.

tween wage and employment, a feature that we, in modern term, may represent as one unit elasticity of demand.²⁸⁶ On this feature were crucially founded all the practical consequences drawn from the Wage-Fund theory

However, nowhere, neither in McCulloch, nor in Fawcett and Mill we do find any discussion on the way by which Demand and Supply lead to the equilibrium situation. The analysis is often concentrated on the consequences arising out a disequilibrium shock altering the condition on a single market. However the situation of equilibrium was always simply presupposed. It is against this unsatisfactory state of affairs that was directed Thornton's attack.

Thornton's criticism has been countered by many commentators appealing to our apparatus of continuous Demand and Supply curves, and minimising his criticisms as based only on "completely inelastic schedules, severe discontinuities and the like".²⁸⁷ These commentators seem not to take into account the fact that the conditions of validity of our curves encompass a set of assumption aimed at ruling out the *anomalies*, which undermined the validity of the notion of Demand, and Supply held at Thornton's time.²⁸⁸ Furthermore, many commentators have expressed their surprise at Mill's Recantation. "Certainly it is a curious incident in the history of economic thought that on such **flimsy** criticism Mill should have given up one of the main pillars on which the classical economic structure rested".²⁸⁹ Others have compared and contrasted Longe and Thornton criticisms, maintaining that the former critique was more appropriate.²⁹⁰ To settle this question, without entering in a detailed analysis of the two works, I think it useful to answer the preliminary question whether they are *in pari materia*. Even a cursory perusal of the two texts shows that the answer is in the negative. Longe devotes about twenty pages over eighty (and four sections out of twenty-one) to deal with the relation of the Wage-Fund with Demand and

²⁸⁶ In a more rigorous way, it can be said that the (finite) set of points price-quantity lies on an equilateral hyperbola. Apart from Fleeming Jenkin (unknown at the times), indeed, no economist of the times (Mill included) held a notion of demand, which, at least implicitly, should be represented by a continuous curve. Moreover, though he used the curves, Jenkin did not lay down the conditions of validity of the use; which was what Thornton put under discussion.

²⁸⁷ S. Hollander, "The Role of Fixed Technical Coefficients in the Evolution of the Wage-Fund Controversy", *Oxford Economic Papers*, 1968, p. 330. His work is noticeable for a reconstruction of a more palatable *ex-post* Wage-Fund theory, which in my opinion is a not consistent with McCulloch, Fawcett and Mill's account of it. Not, surprisingly, the reconstruction is based on Torrens, whose *On Wages and Combination* scarcely shows any sign of Wage-Fund theory.

²⁸⁸ Hence, it is not altogether surprising that Thornton's criticism appears to be easily disposed of by means of arguments based on our modern curves.

²⁸⁹ William Breit, "The Wage-Fund Controversy Revisited", *Canadian Journal of Economics and Political Science*, 1967, p. 521. He also suggests that one of the possible explanation of that lies in the fact that Mill "was a personal friend of Thornton, and perhaps he was anxious to do Thornton a good turn" (p. 522). Other have pointed on the sympathy Mill showed toward the workers case. All these 'explanations' are simply offensive for the intellectual honesty of Mill. If Mill would not have intellectually convinced of Thornton's argument, he did not have recanted; as he did not before, when faced with the more less theoretically sharp criticism of Longe. The point of friendship has been raised by Longe himself in a letter to Hollander, in which he added to his grievances, for having been ignored by Mill, a not so veiled allegation of plagiarism: "I never doubted that Thornton as well as Mill was aware of my pamphlet, and was pleased to find these known writers adopting my views"; the letter from Longe to J. Hollander (cited by him in his Introduction to the 1903 reprint of Longe work) is quoted by Breit, *ibidem*, p. 521, n. 40.

²⁹⁰ For instance, among others, Taussig, S. Hollander, W. Breit, Scott Gordon, Pedro Schwartz and Antonella Picchio already quoted.

Supply.²⁹¹ Thornton devotes all the forty-five pages of the first chapter to the discussion of the theory of Demand and Supply. Moreover, he dispose of the 'fixity' of the wage-bill only in one page-long note; a topic which had attracted usually the attention of most of the critics of the Wage-Fund theory,²⁹² like Longe himself, who devoted the remaining seventeen sections of his pamphlet to a detailed criticism of that point.

Mill's Recantation cannot, in my opinion, be surprising, since Thornton attack was levelled against the drawbacks of the theory held **at his times**, and of which Mill was the most authoritative exponent. Mill was well aware of the theoretical as well as of the methodological meaning of Thornton's criticism. In his review of Thornton's book, appeared in 1869 on the *Fortnightly Review*,²⁹³ Mill quotes himself as saying that "there is always a benefit done to any department of knowledge by **digging about the roots** of its truths",²⁹⁴ and continues "Mr. Thornton has done **much more than this**. The doctrine he controverts...is not the **entire** law of the phenomenon...there are cases which it does not reach"[bold added].²⁹⁵ From this sentence it begins a complex defensive strategy centred on the abandonment of the untenable position represented by the Wage-Fund theory and concentrating on the defence line of the re-statement of the theory of Demand and Supply.

Indeed, from the very beginning, Mill puts aside the Wage-Fund theory in his comment on Thornton saying that "a theory of wages **obtrusively** meets the inquirer...and is commonly regarded as rendering superfluous any further argument"[bold added].²⁹⁶ Eventually, only in the second part of the review, Mill reaches his practical conclusion: "It is almost needless to say that nothing but a close combinations among the employed can give them even a chance of successfully contending against the employers".²⁹⁷

Let us recall briefly Thornton main point. He started criticising the theory he called 'supply & demand' intending with this a theory narrowly defined as determining price by means of the comparison of **actual quantities** supplied or demanded, at a certain price. He maintained that the theory was valid basing on **too narrow** assumption, namely those underlying the paradigmatic case of 'unreserved sale' and 'unrestricted competition'; and that there were plenty of cases left aside, due to the too narrow definitions of the theory. He proposed to substitute it with a theory, the starting point of which was the whole spectrum of degrees of intensity of competition (from zero to Mill's maximum)²⁹⁸ based on the working of expectation: only *prospective demand and supply*, according to him could explain his counterexamples.

²⁹¹ See the Index of Longe's pamphlet, A. Picchio; *Longe* cit., p. 41.

²⁹² W.T. Thornton, *On Labour*, cit., p. 84-85.

²⁹³ J.S. Mill, "Thornton on Labour" cited.

²⁹⁴ J.S. Mill, *Ibidem*, p. 641.

²⁹⁵ *Ibidem*, p. 641.

²⁹⁶ *Ibid.*, p. 634.

²⁹⁷ *Ibid.*, p. 643.

²⁹⁸ To see again a similar approach we had to wait till E.Chamberlin *Theory of Monopolistic Competition* in the Thirties of the XIXth century.

There is a sentence of Mill, which conveys the gist of his re-statement of the new content to be given to the old label of Demand and Supply theory. "This case [it is the Dutch auction case]...is really representative...[of] what Mr. Thornton has made and what he has not made out". Accordingly he deals with the various cases maintaining that Thornton has not proved that the theory of supply and demand is not the theory "strictly conformed to the case", but simply that it "is not the **whole** theory".²⁹⁹ However, for instance, in this case Mill, followed by later commentators³⁰⁰, confuses the existence of two rules to determine price, with the existence of indeterminacy in the determination of price.³⁰¹ In another case Mill states that the conditions of applicability of demand and supply do not exist; however, the absence of these conditions was not perceived and stated by him before.³⁰² A crucial point is reached when Thornton makes a set of counterexamples, all based on expectations, contending the implicit assumption of the accepted theory, that goods are "offered for sale unreservedly". Mill's comment is: "I cannot perceive that these considerations are subversive of the law of demand and supply", and declares "reserving a price is, to all intents and purposes, **withdrawing** supply". In other words, he redefines Thornton's cases defined in terms of *expected* quantities in terms of *actual* quantities. What is curious is that modern commentators have supported Mill's criticism of Thornton by means of demand and supply curves; while Mill's case rests on the assertion that "cost of production is the real law of the phenomenon", and Mr. Thornton's improvements in the theory of price" are unimportant "as they must necessarily be in the **common** case in which **demand and supply are but disturbing** cases"[bold added].³⁰³

However, at this juncture, while theoretically downplaying Thornton's cases, he admits that "the price of labour falls within one of the excepted cases";³⁰⁴ here begins properly the Recantation: "I must plead guilty to having...accepted the theory **without the qualifications and limitations necessary to make it admissible**";³⁰⁵ "the doctrine...which denied it to be possible that trade unions can raise wages..is deprived of its scientific foundation".³⁰⁶

Cairnes has been often utilised by modern commentators to downplay the meaning of Mill's Recantation. However, this is not confirmed by the known facts. It emerges both from the correspondence with Mill, and from Cairnes own writings that he shared Mill's appreciation of the theoretical work of Thornton.

²⁹⁹ J.S. Mill, *Ibidem*, p. 637

³⁰⁰ As we have seen above, all those who translated the case of Dutch action with a vertical segment in the demand curve.

³⁰¹ *Ibidem*, p. 637.

³⁰² *Ibid.*, p.638.

³⁰³ *Ibid.*, p.642.

³⁰⁴ *Ibid.*, p. 642-643.

³⁰⁵ *Ibid.*, p. 643.

³⁰⁶ *Ibid.*, p. 646.

The divide was, as Mill put it, on the practical side; i.e. whether The Wage-Fund theory had to be abandoned.³⁰⁷

What Thornton wanted to do, was to lay down the elements of a **new** paradigm, by pointing out the cases, which, according to him, were outside the reach of the established paradigm. What he got, was the listing, explicit or implicit, of a set of assumptions relegating his cases as *anomalies*, belonging to the old paradigm, to be ruled out. John Stuart Mill strategy was successful,³⁰⁸ playing down Thornton pretensions he paved the way to the emergence to a paradigm which, at least in one sense developed from the old. The step from 'quantity' to 'variables', and from demand and supply defined as 'sets of points' to demand and supply defined as 'functions' was easier to take starting from Mill's standpoint, than from Thornton's one.

Many commentators have stressed the fact that Mill's Recantation, following Thornton's criticism of the Wage-Fund theory, has marked a crucial turning point on the path leading to the new marginal paradigm.³⁰⁹ For a long time onwards after Thornton's criticism, no more wages have been restricted into the limits of an **overall** constraint. We had to wait for more than twenty years, till Wicksteed *Coordination of the Law of Distribution*³¹⁰ did restore such a constraint, in the shape of a global *technical* constraint, represented by the production function. The notion of a production function introduced by Wicksteed, and refined later by Hicks,³¹¹ links together wages *and* profits, determined as shares of the common national dividend by means of their marginal productivity. Mill's superior limit of wages, that of "keeping the capital of the country",³¹² was external to the theory; starting from the epoch of the Wage-Fund theory, Wicksteed, for the first time, internalised *again* an overall constraint. But this is quite a different story.

12. Marx & Thornton: the 'Oversight'.

Marx to Jenny Marx: "In the same number of the «Fortnightly» there is the second article of Mill on Thornton's Capital and Labour. Out of this critique I infer that both are worth nothing".³¹³ This was his judgement on the theoretical

³⁰⁷ Letter from Mill to Cairnes, June, 23rd, 1869; quoted in George O'Brien, "J.S. Mill and J.E. Cairnes", *Economica*, 1943, p. 285.

³⁰⁸ For an analysis of how successful, in the history of science, can be the strategies aimed at eliminating *anomalies* from established paradigms, through suitable definitions, see I. Lakatos, *Proof and Refutation. The Logic of Mathematical Discovery*, Cambridge: Cambridge University Press, 1976, and *Falsifiability and the Methodology of Research Programs*, in *Criticism and the Growth of Knowledge*, Cambridge: Cambridge University Press, 1970.

³⁰⁹ See T.W. Hutchison, *A Review* cit., Chapter I. Marco Dardi, an Italian student, has elaborated on this point, showing the relevance of the discussion over the Wage-Fund theory on the path which lead from the Classics theory in which market was subordinated to accumulation to Marshall approach in which accumulation and market are intertwined, M. Dardi, *Il Giovane Marshall: Accumulazione e Mercato* (The Young Marshall: Accumulation and Market), Bologna, Il Mulino, 1984, Chapter II, § 2, Wage-Fund, wage theory and the possibility of Trade Union action.

³¹⁰ P.H. Wicksteed, *The Coordination of the Law of Distribution*, 1984.

³¹¹ Hicks, *The Theory* cited.

³¹² J.S. Mill, "Thornton on Labour" cit., p.

³¹³ Letter from Marx to Jenny Marx, June 10th, 1869.

theoretical positions, I will briefly sketch out the latter's theory of wages. Marx's published work on the theory of wages is not very ponderous: it spans over two decades going from *Lohnarbeit und Kapital*³²⁰ (1849), to *Value, Price and*

³¹⁴ The interested reader may peruse the anthology, recollected from various Marx and Engels writings, published by F. Ciafaloni, K.Marx F.. Engels, *Trade Unions*, Milano: Summa Uno, 1972.

³¹⁵ *Letter from Marx to Engels*, December 4th, 1869.

³¹⁶ All that is mentioned in Marx's *Correspondence*; for the contrasted relations between Potter and the others leaders see also the *History of the Webbs*.

³¹⁷ At the end of the Sixties Marx was in personal contact with Beesly; through Paul Lafargue and other intermediaries Marx tried to convince Frederic Harrison to propose a review -written by Engels- of his *Capital* to the *Fortnightly Review*; the attempt lingered for a long time, as emerges from many letters from 1867 to 1871. Moreover, Engels (and, very probably Marx's) judgement on Trade-Unions was not, at that time, much better than before; Engels writes to an italian anarchist: "The trade-unionist movement...has become more as an obstacle to the general movement, than a mean for its progress ", *Letter from Engels to Carlo Cafiero*, July 7th, 1871.

³¹⁸ *Letter from Marx to Engels*, June 22nd, 1867.

³¹⁹ See, for instance, among others the *Letter from Marx to Engels*, February 11th, 1865.

³²⁰ K. Marx, *Wage-work and Capital*, (the reference is given above); the volume contains the content of five articles appeared in the *Neue Rheinische Zeitung*, April 1849; re-published by Engels in 1880 and 1881, with some (controversial) terminological change, in order to have the text closer to *Capital* terminology. The italian edition publishes also the 1847 *Notes*, entitled *Arbeitslohn*, preparatory for a series of conferences to the German Workers Association in Bruxelles, which was the basis for the posterior articles (see *Letter from Marx to Engels*, June 3rd, 1864) . The Notes were first published by Rjazanov in the magazine *Unter der Banner des Marxismus*, n° 1, march 1925; see E. Mandel, *La Formation de la Pensée Économique de Karl Marx, de 1843 jusqu'à la Rédaction du «Capital»*. *Étude génétique*, (The Formation of the Economic Thought of Karl Marx etc.), Paris: Maspéro, 1967 (it. ed. Bari: Editori Laterza, 1969), Chapt. IX, "The development of the theory of wages". There are also passages in the *Economic-Philosophical Manuscripts* (1843) -the paragraph on "Wage"-, in the *German*

*Profit*³²¹ (1865) and to those parts of *Kapital* (1867), devoted to wages.³²² The various passages scattered in the *Theories on Plus-Value*³²³ and the so-called *Grundrisse*³²⁴ do not alter the overall picture.

The lines of the argument in *Lohnarbeit* singularly resemble the *incipit* of Thornton: what is a wage? It is the price of that 'commodity' named 'labour' ('labour-force', in later Marxian terminology); a price obeying the same rules as any other commodity. Marx continues: the *price* of a commodity is determined by competition. However, here Marx parts company with Thornton, for competition is only mentioned in order to limit its action to excess supply and demand,³²⁵ which in turn make the price lower or higher than some reference level. This level is, for this earlier Marx, given by the *cost of production*: "*The costs of production of labour...Are the costs necessary to maintain the worker as a worker*".³²⁶ In *Value and Price* and in *Capital*, Marx's stance is more neatly defined: "*the value of the labour-force is the value of the means of subsistence*",³²⁷ necessary for the conservation and the reproduction of the worker. The theoretic-

Ideology (1845) and the *Misery of Philosophy* (1847); I will not comment on these, more philosophic writings.

³²¹ K.Marx, *Salario, prezzo e profitto* (Value, Price and Profit), it.ed. Roma: Editori Riuniti, 1984. The manuscript was published by Eleanor Marx: "K. Marx, *Value, Price and Profit*, addressed to workingmen, edited by his daughter E. Marx Aveling, London: S. Sonnenschein & Co., 1898". The same year it was edited by E. Bernstein, in the *Neue Zeit* (XVI, Bd. 2) under the title: *Lohn, Preis und Profit*. John Weston, an Owenite, had asserted on April 11th 1865, before the Central Committee of the *International*, the uselessness of Trade Unions; Marx delivered, on 20th and 27th June 1865, two speeches to confute Weston's thesis. Marx wrote to Engels, on May 20th, June 24th and 27th, about the circumstances of his conferences, and pondering over their publication on the *Bee-Hive*.

³²² *The Capital*, Book I, *Second Section*: Chapter IV, § 3. "Purchase and Sale of the Labour-Force", here we find the first definition on the matter; *Sixth Section: The Wage*, this Section is dedicated to wages, together with of the § 5, "The so-called Work-Fund" of the Chapter XXII (*Seventh Section*), devoted to a cursory critique of the Wage-Fund Theory. Actually, the most interesting statements about wages and labour-market are put forward in Chapter XXIII, "The General Law of Capitalist Accumulation", § 2 and § 3. A Book on Wage-work, was mentioned in the original plan of Marx economic writings. This Book disappeared from the eventual structure; however, from various sources, it turns out that it should have dealt rather with the 'nature' and the 'historical' circumstances of wage-work, than with the determinants of wage-level. The circumstances of this change of plan -and the discussion which arose about it- are reported by R.Rosdolsky, *Zur Entstehungsgeschichte des Marschen «Kapital»* (On the Genesis of Marx's «Capital»), Wien: Europa Verlag, 1955. see also E. Mandel, *ibidem*.

³²³ The dissection of the theories of value and plus-value before him, unpublished during his life, and afterward published first, by Kautsky, and then in the voll. XXVI/1-3 of the *Marx Engels Werke*, Berlin. (Marx Karl, *Theorien über den Mehrwert* (Theories on Plus-Value), *Aus den nachgelassenen Manuskript «Zur Kritik der politische Ökonomie» von Karl Marx, herausgegeben von Karl Kautsky. III. Von Ricardo zur Vulgärökonomie*, [it. ed.: *Storia delle teorie economiche* (History of Economic Theories), Torino: Giulio Einaudi Editore, vol. III, 1958.]).

³²⁴ *Grundrisse der Kritik der Politische Ökonomie (Rohentwurf). 1857-1858* (Ground-lines of the Critique of Political Economy), Berlin: Dietz Verlag, 1953 [it. ed. *Lineamenti fondamentali di critica dell'economia politica («Grundrisse»)*, Torino: Giulio Einaudi Editore, 1976, wherefrom the quotations are taken]. With the editorial title of *Grundrisse* has been edited the recollection of the unpublished manuscripts written during 1857-1858, being the ground for his subsequent published works; it was first published in Moscow by the IMEL [Institut Marx-Engels-Lenin], in 1939, in the first edition of MEGA [*Marx-Engels Gesammelte Ausgabe*]. For a penetrating analysis of this work, see R.Rosdolsky, *Genesis* cit..

³²⁵ However, competition among workers refers to the offer price of workers, and to the degrees of productivity offered (*Wage-work* cit., p.74). It has nothing to do with variations in supply of labour associated with population movement.

³²⁶ *Wage-work* cit., p. 52.

³²⁷ K.Marx, *Capital* cit., Sect. 2nd, Chapt. 4, p. 206. In his *Theories*, Marx does criticise Ricardo for having included Demand & Supply in the determination of the 'natural' price of labour (*Theories* cit. vol. II, 1955, p. 112). Moreover, he never mention the deviations of 'market' from 'natural' wages, neither discussing Ricardo nor Smith (*Theories* cit., vol.I, 1954, Chap. II).

cal structure of wages is more complex in *Capital*: after having defined of a long-period equilibrium level of wages, Marx defines a long-period mechanism that 'maintains' the wage-level. The kernel of the so-called 'industrial reserve army' is given by the long-run dynamics of labour-saving technical progress, conceived as a strategic response to wage pressure,³²⁸ providing excess-supply in the labour market.

It is worthwhile noting that this step performs a complete "endogenisation" of labour movement thereby removing any natural (i.e. demographic) feature it may have had.³²⁹ Marx presents the mechanism as working because the growth of 'constant capital' (embodying technical progress) is greater than the rate of growth of 'variable capital' (the demand for labour). "It is not", Marx says, "the...increase of the labour-force...which makes the [variable] capital insufficient, as rather, the decrease in the capital that makes the labour-force to be in excess.",³³⁰ adding, with a bit of anti-Malthusian irony, two *numerical progressions* showing that "*the demand for labour...will decrease progressively with the increase of the global capital*".³³¹

Already in *Value and Price* (as in *Capital* later), the 'reproduction' level of the wage-rate has two components: a physiological one, as it were, and a historical one. However, one should be careful not to treat the 'historical' component in a tautological way, in the sense that **any** deviation from the 'physiological' level comes to be attributed to it. What Marx meant was the slow, steady, long-run improvement in workers' conditions, what we might call the remains of a long series of 'short-lived gains': "the *number and extent of his so-called necessary wants...are themselves the product of historical development, and depend...on the degree of civilisation of a country...and...on the habits and...comfort*",³³² in which the labourers have been accustomed to live ('some tea or rum, sugar or meat', as he ironically listed in his 1847 *Notes*). Commenting on Hodgskin, Marx writes: "The workers themselves...though unable to prevent the lowering of wage (**with regard to value**),³³³ not letting it to fall to the *minimum*, to a certain extent get with force a share of the progress of the general wealth"³³⁴ [bold added].

³²⁸ Originated in the up-swings of business activity. See P. Garegnani, "Valore e Distribuzione in Marx e negli economisti classici" (Value and Distribution in Marx and the Classical Economists), in *Valori e prezzi nella teoria di Marx* (Values and Prices in Marx's Theory), R.Panizza & S.Vicarelli (eds.), Torino: Giulio Einaudi Editore, 1981. "The growth of trade unionism...-wrote Lipson...was so **far from being the outcome of machinery** that the invention and adoption of machinery were, partly...inspired by the the hope of **liberating employers from their dependence upon labour**."(E.Lipson, *op. cit.*, vol. II, *Introduction*, p. xxxi), the Marxian flavour of the sentence is not all that surprising, taking into account the strand of Tory.criticism of industrialism.

³²⁹ The Classics had already endogenized the population movements *via* wage oscillations.

³³⁰ K.Marx, *Capital* cit. vol. I, Sect. 7th, Chapt. 23, p. 762.

³³¹ *Ibidem*, p.775. In the *Capital* this theory is widely elaborated; however, the point itself, is intuitively laid down twenty years before, already in his 1847 *Notes* (*Notes on Wage*, in *Wage-work* cit. p. 107)

³³² *Ibidem*, Sect. 2nd, Chapt. 4, p.206.

³³³ I.e. the tendency to the minimum regard wage is in value-terms, not in real-terms. The discussion about 'pauperization', relative or absolute has been widespread among commentators, and needs not to be faced here.

³³⁴ K.Marx, *Theories* cit., vol. III, Chapt. III, p.334.

I have only grasped he says it, that he sees dawning afar in the future the fading away of the capital as a power severed from labour.", and the above-mentioned letter to the daughter Jenny.

³⁴¹ I.e. the Marxian term for the capital devoted to wages.

and dismisses the more trivial version of the theory, in terms of the determination of the wage-rate as a 'quotient'.³⁴²

From the *Theories of Plusvalue* we know how he despised the popular way of closing an argument by means of an appeal to the working of Demand and Supply. A discontent which, probably unknowingly, he shared with Fawcett, who blamed the appeal, on the subject of strikes, to «the immutable laws of demand
³⁴³ We also know that he considered any deviation from the strict Ricardian line, intended to make more room for the working of Demand and Supply, simply as deviations from Ricardo's standard of scientific rigour. Marx was convinced of the Classics' view that market dynamics should only be 'instrumental' to the actual achievement of values, the determinants of which lay outside the market.

We know that he had notice of the first Thornton's attempt to reformulate the theory of supply and demand to pave the way to his criticism to the Wage-Fund theory, before the publication of *On Labour*. However, he took Thornton's assessment of his work at its face-value: "you will be surprised to hear that **-after the precedent of Thornton on the Fortnightly Review-** the *Economist* has declared verbatim: «No such a "law" of demand and supply does exist, in any sense...market prices do not comply with the law which is commonly supposed to regulate them, neither as a matter of fact nor as a tendency»"[bold added].³⁴⁴

We may regret that he did not peruse attentively the chapter of Thornton's book, where he submitted the meaning of Demand and Supply to deep scrutiny; or we may wonder whether he could have appreciated it in any sense. Actually, he did not even try to explore the path followed by Cairnes in his attempt of integrating the Classic's doctrine of normal values, with a treatment of Demand and Supply comprehensive of the new contribution of J.S. Mill and Thornton.³⁴⁵

It could be suggested that our knowledge of his acquaintance with that debate may be defective, and that excerpts of Thornton's writings (as of most of his readings) might be found in the unpublished manuscripts.³⁴⁶ However, even if that were to be the case and one asked the rhetorical question "If he had indeed perused the theoretical chapter, did Marx draw any useful suggestions out of it", the answer could hardly be anything other than in the negative.

Marx did not or could not see in Thornton's position an **irruption** into the theory of a change in the power relations between classes. By doing so, despite

³⁴² K. Marx, *Capital*, Section VII, Chapter 22, p. 748-751. The conception of the 'quotient' is taken from H. Fawcett, *The Economic Position of the British Labourer*, London 1865, p.120.

³⁴³ See the full quotation from the above-mentioned: H. Fawcett, "Strikes: Their Tendencies and Remedies".

³⁴⁴ *Letter from Marx to Engels*, Nov. 14th, 1868, *Works*, XLIII., p. 218, n. 240; following the editor the reference is to, W.T.Thornton, "A New Theory of Supply and Demand", already quoted.

³⁴⁵ See Chapter II, "Supply and Demand", Chapter III, "Normal Value, Chapter IV, "Market Value" of Cairnes' *Leading Principles*.

³⁴⁶ I must remind that we have no substantial record of Marx acquaintance and judgement of the developments of economic theory after the Sixties. Indeed, almost all the published works of Marx in the MEW, namely *Zur Kritik*, *Capital*, *Theories on Plusvalue* and *Grundrisse*, have been written before 1867. The bulk of the notes, excerpts and unpublished drafts, after this date, are going to be published in the forthcoming MEGA.

all his scorn for the Wage-Fund theory, Marx kept an 'old' stance with regard the development of trade unionism.³⁴⁷

Marx's theory of wages is built upon the political **powerlessness** of the workers, embodied, so to speak, in those theories regarding wage as 'subsistence' (though corrected by an 'historical' element). The 'powerlessness' was both a *fact*³⁴⁸ and a postulate of the political theory, the 'political element' around which Marxian economic theory was framed. The historically actual 'powerlessness' of the working class, with the associated 'impossibility' of improvement in wage-work conditions within capitalism, sharpened Marx's argument on the 'necessity' of the abolition of wage-work (i.e. of capitalism) itself. What Marx did not or could not take into account as a *fact* relevant for **theory** was the 'political' growth of workers **inside** capitalism, even if this process could be complex, resisted, discontinuous and even *reversed*.

Is it too daring to say that, in a sense, Marx removed (even unconsciously) the possibility of this *fact*, as it could threaten his theory that outlined a way out of capitalism, an end, which he expected to be historically **near**?

13. Conclusions.

I have tried to show how the events described above can be considered as turning points in the history of both workers' organizations and economic doctrines, together with the fact that Marx did not appreciate them to their full extent. Marx's neglect regards both facts and theories. Now, in conclusion I shall try to argue this position through.

It must be said that the facts themselves could hardly have come as a surprise to Marx. Twenty years earlier, in the first section of his *Manifesto*, entitled *Bourgeois and Proletarians*, he had devoted many dense pages to the growth of workers' organizations in connection with the struggles over wages. There, he foreshadowed a continuous growth of these organizations *through* a series of blows and defeats. Moreover, being as he was in contact with the leaders of the ASE, the rise of trade unionism in the 1850s and 1860s could not in itself surprise him, in the way it did his contemporaries. Obviously, it can be objected that the outcome of the workings of the 1867 Royal Commission (i.e. the *Trade Unions Acts* of 1870) was something more than the public acknowledgement of the social presence of trade unionism and scattered the seeds for the future radical change of the constitutional *status* of the British working classes. However, at those times it was indeed difficult to detect the *future* effects of the new legislation. In any case, as we have seen, Marx (with Trade Union officials) utterly dismissed the possibility.

The point to which I am aiming at, is not simply that he failed to fully appreciate the growth of trade unions on the one hand, and the relevance of the discussion over the Wage-Fund Theory (and the associated Mill Recantation) on

³⁴⁷ Similar for instance, ironically enough, to that of Fawcett.

³⁴⁸ Hardly such a situation could be defined in another way; a situation in which a relevant section of the population had no rights whatsoever of political representation, and their rights of association were severely restricted.

skij opinion on Mill a the *failure* of "bourgeois" economics, Marx devoted a paragraph in the *Theories* to outline the differences between "Classical Economy and Vulgar Economy", (*Theories* cit., vol III, Ch. vii, § 7).^{v-}

ment is an acute analysis of the development of machinery in 'big' industry,³⁵³ where human labour does not 'use' machines any more and instead the 'system of machines' dictates rhythm and action of human labour. In this context, "The wealth manifests itself rather...through the extraordinary disproportion between the labour time applied and his product".³⁵⁴ "The capital itself is this contradiction actuated...on one side, he calls in existence all the powers of science...to get the creation of wealth independent from the labour employed...On the other side, he tries to measure by means of the labour-time the gigantic social forces thus created".³⁵⁵ "As far as," he concludes, "the big industry develops, the creation of the real wealths depends less from the...quantity of labour employed...than from the...[powerful effectiveness]...of the agents put in motion". Marx continues to say that, "As soon as labour, in its immediate form, ceases to be the spring of wealth,³⁵⁶ the labour-time ceases, and must cease to be its measure..."³⁵⁷.

The sentences might be read (notwithstanding author's intention) as defining the historical turn, after which the conditions for the validity of the labour theory of value expire. On the contrary, Marx argued³⁵⁸ that when 'the labour-time ceases...to be...[the] measure' of wealth, "the value in exchange ceases and must cease to be the measure of the value in use", and then the "production based on the value in exchange breaks down."³⁵⁹ At the culmination (expected to occur in a not very distant future) of the process of development (ongoing under his eyes) of the social formation he was analysing, Marx was expecting the occurrence of a political revolution. He did not expect the unfolding of a new 'paradigm' of economic theory.

While Marx's theoretical background was the 'dissolution' of the classical paradigm, Marxists have witnessed the rise of the new paradigm, which, although starting from various sources, grew to a whole theoretical *corpus*. They have often chosen the strategy of extending the definition of *vulgärökonomie* to the new situation, a definition Marx coined for the doctrines of the previous epoch.³⁶⁰ One of the most outstanding cases is represented by Bucharin's work

³⁵³ For a thoroughly analysis of the topic see: M. Berg, *The Machinery Question and the Making of Political Economy 1815-1848*, Cambridge: Cambridge University Press, 1980.

³⁵⁴ *Grundrisse*, p. 716.

³⁵⁵ *Ibidem*, p.718

³⁵⁶ It is in the Classical tradition (ascending to Hobbes: "Plenty dependeth...merely on the labour and industry of men" (T. Hobbes, *Leviathan*, Book II, Chapt. XXIV) to speak of Labour as the sole source of Wealth; see J.R. McCulloch, *Principles* cit., p. 64; or J.S. Mill *Principles* cit., Chapter II, *On Labour as an Agent of Production*.

³⁵⁷ *Ibid.*, p. 717.

³⁵⁸ As, commenting these sentences, does for instance E. Mandel, *Formation* cit., p. 119-121. Sweezy, in his account of the Marxian theory does not even mention the *Grundrisse* (P. Sweezy, *The Theory of Capitalist Development*, New York: Monthly Review Press, 1942), nor does M. Dobb in his *Political Economy and Capitalism* (London: Routledge & Kegan, 1940).

³⁵⁹ *Ibidem*, p. 717.

³⁶⁰ May be they had a strong inducement to do this, by the fact that, as Bagehot had pointed out, while "...our Political Economy does not profess to prove this growing world to be a good world -far less the best", on the contrary "abroad **necessity of contesting socialism** has made some writers use the conclusions brought out by our English science for that object" [bold added], *Postulates* cit. p. 26. It is at least plausible that, what was true for mid-XIX Century, had become even truer afterwards.

Politiceskaja Ekonomija Rantie (The Political Economy of the Rentier): "The new theory [the Austrian school]", he writes, "has grown up from the *last* brood of the bourgeoisie",³⁶¹ whose psychology does not belong to the epoch of '*ascending* capitalist development'; as it is rather marked by the '*decadent* look' of the times: "the *rentier* has a *consumer* psychology".³⁶² "The «Austrian» theory", he says, "...voices the ideology...of the bourgeois on the *sunset boulevard*", as he expresses his "decadent mentality with a theory scientifically **sterile**" [bold added].³⁶³ The conclusion could not but be a declaration of total failure for the new brand of bourgeois economic theory.³⁶⁴

That Marx has ignored Thornton's criticism of the Wage-Fund Theory and his re-statement of Demand and Supply, taking into consideration the wide range of Marx' writings, may seem quite a trifling event, and the reappraisal of it, no more than a *curiosum*. However, it may be that the consequences of that neglect have been momentous for Marxism. Could it be that Marxism, led astray by Marx' *oversight*, had lost the thread with which to 'repeat' the **critique**³⁶⁵ of **political economy**?

I do not know whether it could have been possible, or desirable, to perform such a task. Yet, I find it peculiar, that Marxists never sat down to settle the question, even if only to answer in the negative.

³⁶¹ N.I.Bucharin, *Politiceskaja Ekonomija Rantie* (The Political Economy of the Rentier), it. ed. Roma: Samonà & Savelli, 1970, p.46. The whole "Introduction" is noteworthy to highlight the point raised here.

³⁶² *Ibidem*, p.49.

³⁶³ *Ibid.* p. 52. The discussion is moulded into the philosophical framework of 'objectivism vs. subjectivism', which marked a greater part of Hilferding answer to Böhm-Bawerk attack on Marx's Transformation Problem.

³⁶⁴ To be fair, I must remind that Bucharin strongly criticised Marxist's attitude of mere dismissal of the *bourgeois* economic theory. He maintained that the ultimate refusal must be preceded by a thoroughly analysis of the *bourgeois* theory, so performing a so-called 'inner critique' (Bucharin, *op. cit.* p. 34). Unfortunately, Bucharin's supposed 'inner critique' amounts to not so much more than a mere exposition studded here and there by observations pointing to the 'subjectivistic' sins of the author analysed. No attempt is made to scrutinize whether there is some, though little, advance in economic knowledge, and which sort of 'apologetical' hindrance forbade a deeper analysis (In his *Theories on Plus-Value*, Marx argued many times in this way scrutinising the theories of Ricardo). A classical, and also pedantic, follower of Bucharin is a Russian economist I. Blumin who in his *Critique of Bourgeois Political Economy. Subjectivistic School and Bourgeois Political Economy. I Austrian and Anglo-American School, II Mathematical School*, first published in Moscow in 1928, enlarged Bucharin approach to the newer *bourgeois* economic streams. It is worthwhile to mention an essay of Ronald L. Meek, *Marginalism and Marxism*, in Black R.D.C., Coats A.W. and Goodwin C.D.W. (eds.), *Marginal Revolution* cit. p.233-245; the essay is interesting for his approach, developing a suggestion of the Polish economist Oskar Lange.

³⁶⁵ According to Marx's usage of the word, 'critique' does *not* mean simply refusal. First and foremost, it means a deep scrutiny of what in a theory is well grounded, and may be retained, at variance with what is to be abandoned. However, for Marx, 'critique' implies also a deep re-structuring of the theory, not simply the elimination of wrong propositions: "at the **same time** exposition of the system [of bourgeois economy] and its critique through the exposition"[bold added], he writes to Lassalle when preparing his first published work, *Zur Kritik der Politische Öonomie; Letter from Marx to Lassalle*, 22 February 1858, *Zur Kritik* cit., p. 211.

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