

Chapter 5

Production and Distribution

We cannot alter the ultimate properties either of matter or mind, but can only employ those properties more or less successfully, to bring about the events in which we are interested. It is not so with the Distribution of Wealth. That is a matter of human institutional solely.

—J. S. Mill, *Principles of Political Economy*, p. 199

In his 1848 edition of the *Principles of Political Economy* and in all editions that followed, Mill famously distinguished between the laws of production, subject to technological and knowledge constraints, and those of distribution, a matter of human design. Perhaps more than any other claim in Mill's corpus, this famous distinction has caused a great deal of confusion and consternation.

In what follows, we consider, first, why it matters in the first place. Essentially, the distinction and, by extension, the question of how distribution plays into production lies at the heart of all discussions of distributional reforms, including recent proposals to forgive loan debt and enact free health care, where the real questions are at what cost to our productive capacity, when is a transfer simply a transfer, and when and to what extent does it reduce savings and future growth.

Second, we take a close look at the motivations, in Mill's view, of those whose efforts are responsible for production and distribution. We next examine the meaning of Mill's claims that production arrangements are fixed but distribution "is a matter of human institution solely." Finally, we return to the question of whether production is divorced from distribution: Mill is very clear that different distributional arrangements have implications for production. Of course, the details—how much—depend on the specific arrangements.

The distinction between production and distribution and why it matters

At the start of Book Two of his *Principles of Political Economy*, Mill distinguished between the laws of production—“physical truths”—and laws of distribution—“a matter of human institution solely” (p. 199). Beginning in the nineteenth century and continuing through today, this now-famous description has generated considerable interest and much criticism. The technical point relates to whether distributional arrangements—e.g., capitalism, socialism, or communism—have any impact on output. If production is independent of how the product is distributed, then we can change the distribution of the total product with no effect on how much output is produced. If such a reform affects the size of what is to be distributed, we have less warrant to be confident in the success of the reform.¹⁶

In Mill’s time, there was much discussion of and experimentation with different distributional arrangements. Much of this occurred in Europe, but even within the United Kingdom social reformer Robert Owen¹⁷ and others experimented with non-market mechanisms of production. Indeed, the very existence of private property itself came under fire. Less than a decade before Mill published the first edition of his *Principles of Political Economy*, the French communist Pierre-Joseph Proudhon claimed that “Propriété c’est le vol!” (Property is theft!). In accordance with his commitment to “many sidedness,” his conviction that the franchise would soon be significantly enlarged, and his observation of the deep poverty and limited choices of the working class, Mill was very preoccupied with various distributional schemes put forward by the French socialists, especially those of Saint-Simon and Charles Fourier. He maintained a long and close friendship over the years with the French publicist and Saint-Simonian, Gustave d’Eichthal, who

¹⁶ There is of course another matter that became very important in twentieth century discussions—that of whether socialist or communist arrangements could replicate the outcome under capitalism. This question, which preoccupied F.A. Hayek briefly, is usually referred to as the Socialist Calculation debate. As Mill’s examination focused on small-scale socialist experiments, he did not tackle the question of wide-scale communism or socialism, yet he was much interested in the issues of information and incentives to which Hayek pointed.

¹⁷ A textile producer, Robert Owen was a prominent social reformer who, along with Charles Fourier and Saint-Simon, are referred to as the Utopian Socialists. Owen experimented in the early nineteenth century with socialist communities, including Harmony (later New Harmony), which he established in Indiana using his private funds.

was one of the most ardent and active apostles for the movement's ideals and who did not hesitate to attempt to convert Mill to Saint-Simonian ideas.

The technical point relates to the feedback of distributive schemes on production. Those who favored socialist schemes believed they could redistribute wealth (to something approximating equality) without damaging productive efforts. In opposition, Mill and others remarked that any change in the distribution of wealth might affect how much people would be willing to work and invest. This dispute came to the fore again in the twentieth century when Cambridge economists, including Piero Sraffa, scrutinized David Ricardo's (and Mill's) economics.¹⁸ These economists tried to construct a theoretical economic system in which distribution and production are independent. Aside from the theoretical debate, the economists questioned whether Mill's separation of the laws of production and distribution proved that he favored socialism. For the famous socialist, Sidney Webb, Mill's separation of production and distribution marked the beginning of a new sort of economic analysis, one distinctly and increasingly "socialistic" (Webb, p. 52). In Hayek's judgment, Mill's distinction denied any relationship between production and distribution, the "size of the product" being "independent of its distribution." For this, and because Mill opened the way for theorists such as Webb and Sraffa to endorse socialism, Hayek criticized Mill (and he attributed Mill's mistaken analysis to Harriet Taylor's influence). Here is Hayek's damning judgment in *Fatal Conceit*: "it is probably John Stuart Mill as much as anyone who is responsible for spreading... [this] error." Mill "overlooks the dependence of size on the *use* made of existing opportunities" (Hayek, pp. 92-3).

While the technical problem has largely been resolved (distribution and production being recognized as interdependent), the issue of whether socialist arrangements may be obtained with little cost to the size of the product remains a live one. As noted at the outset, politicians and public intellectuals frequently propose redistributive measures—e.g., zero-cost tuition. Rarely does the discussion of such proposals focus on how and to what extent these policy measures will alter savings, incentives, and output.

¹⁸ Sraffa edited Ricardo's *Collected Works* and devoted much of his career to the unfinished problem (in his view) of classical economics, an economy-wide model relying on the labour theory of value (Sraffa 1960).

The question remains as to whether the evaluations of Mill's position, noted above, are substantially correct. They are not. To see that they are mistaken, in what follows we consider, first, how in Mill's view producers (and consumers) are motivated, and, second, his discussion of the laws of production and distribution, *as well as* their interrelationships.

Who are Mill's producers and consumers?

To understand Mill's writings on distributional arrangements, we need to step back and consider what motivates people in his system. Recall the point emphasized above (Chapters 1-3) that, for Mill, people are all basically subject to similar motivations.¹⁹ For his purposes in the *Principles of Political Economy*, producers include laborers, landowners, and those we would today call capitalists, who control the means of production. Beginning with the first edition and in all subsequent editions, Mill wrote that, subject to substantial, and improved, education and information opportunities (see Chapter 7), all people are capable of making reasonable economic and political choices. In Chapter 2 we saw that Mill held that speech and the ability to make decisions improved when people had opportunities for discussion. We have also seen this position our examination of Mill's feminist writings (Chapter 4): once they were allowed to make more decisions, including how much to save and when and whom to marry, women would improve their decision-making capacity.

In looking at production in the *Principles of Political Economy*, Mill wrote that labourers, capitalists, and landowners are similarly motivated to obtain gain (material or otherwise) at the lowest cost. More than this, he acknowledged that those in other cultures (he names France and Ireland) are similarly motivated. Consequently, differences in outcomes are not the result of systematic natural differences for Mill. Instead, they result from circumstances, luck, history, and experience, including educational attainment.

This contrast between circumstances and natural inclinations is a major theme of Mill's work, both in the *Principles of Political Economy* and in many additional pieces on Ireland. Responding to the enormous suffering caused by

¹⁹ Gordon Tullock famously declared that "people are people," a phrase that nicely captures Mill's view. David Levy and I have developed the argument, which harkens back to Adam Smith, at length. We call it "analytical egalitarianism."

the Irish famine, some writers of the time questioned whether Ireland and Irish labourers were doomed to economic stagnation and poverty. W.R. Greg blamed the poverty of the Irish labourers on their so-called natural inclinations to be lazy. He suggested that the Irish would never work hard or become productive.

Mill vehemently rejected this supposed explanation. He opposed arguments regarding inherent, racial, national, or ethnic differences and he explicitly attacked statements that relied on “natural differences” in his discussion of the impact of property rights on incentives in Ireland. In Mill’s view, the problem was not the workers but the institutions. Low productivity in Ireland was not a result of a natural inclination to indolence:

Is it not, then, a bitter satire on the mode in which opinions are formed ... to find public instructors of the greatest pretensions, imputing the backwardness of Irish industry, and the want of energy of the Irish people in improving their condition, to a peculiar indolence and insouciance in the Celtic race? Of all vulgar modes of escaping from the consideration of the effect of social and moral influences on the human mind, the most vulgar is that of attributing the diversities of conduct and character to inherent natural differences. (Mill, *Principles of Political Economy*, p. 319)

Mill instead imputed Ireland’s “backwardness” to distributional arrangements that denied to the Irish the fruits of their labour. People will not work very hard, he argued, if they are not very well rewarded. On the other side of this, the political economist Greg attacked Mill’s position and suggested that the Irish were inherently indolent. Any attempt to change the distribution of income through newly established property rights would fail to correct:

“Make them peasant-proprietors,” says Mr. Mill. But Mr. Mill forgets that, till you change the character of the Irish cottier, peasant-proprietorship would work no miracles.... Mr. Mill never deigns to consider that an Irishman is an Irishman, and not an average human being—an idiomatic and idiosyncratic, not an abstract, man. (Greg 1869, p. 78)

The argument had real currency for those who lived in England—in Mill’s view, what went wrong in Ireland in the lead-up to the famine was a matter of institutional failure, poor institutions, rather than inherently unproductive workers. Other commentators made the case that, because of their natural proclivity to indolence, Ireland was and would remain the burden of England, with the poor working folk in England suffering as a result.

The parallels to present-day arguments about the burden that poor immigrant workers impose on taxpayers, or not, are unmistakable. Arguments over whether and why people work hard today—inclination versus incentives—remain with us, and the racialized context remains.

What motivates Mill’s producers and consumers?

With Mill’s position on how people are equally capable and willing to work in mind, consider next Mill’s idea of *what* motivates them. Mill’s clearest statements about this are contained in an early piece, the 1836 essay *On the Definition of Political Economy*. Here he argued, in line with his position in the later *Utilitarianism*, that people are social beings. He attempted in the earlier work to specify which decisions were the appropriate subject matter for political economy. Mill made the case for a separate science of political economy, one that treats economic behaviour in a social context:

“Political Economy” is not the science of speculative politics, but a branch of that science. It does not treat of the whole of man’s nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth. (*On the Definition of Political Economy*, p. 321)

In line with this attempt to abstract from the full causal framework and focus on the main causes at work in economics, Mill developed an “arbitrary definition” of economic people. While recognizing the complexity of motivational forces at work, he suggested that most of these are unimportant for the

study of economic phenomena. Maximizing, economizing behaviour, and the desire to create and obtain wealth were central; other motivations were less significant and might be neglected without harm to the study at hand. People “invariably” do what is required, Mill wrote, to “obtain the greatest amount of necessaries, conveniences, and luxuries, with the smallest quantity of labour and physical self-denial with which they can be obtained in the existing state of knowledge” (*On the Definition of Political Economy*, p. 326).

This is the origin of Mill’s abstract “economic person” and, arguably, the much-maligned idea of *homo economicus* in modern economics in which an idealized person acts perfectly rationally, armed with perfect knowledge. In light of criticism that has been directed towards the idea of *homo economicus*, it is important to note the context in which Mill developed the notion: as others held that neither the Irish nor women nor former slaves would ever be capable of voting or self-governance, Mill countered that, abstracting from experience and luck, they were the same equally capable people.

In *On the Definition of Political Economy*, Mill noted that we are all subject to two countervailing exceptions that are “perpetually antagonizing” to the desire to accumulate wealth: namely, we are all averse to labour, and we all desire present enjoyment of pleasure (pp. 321-22). Having duly noted these counter tendencies, the economist “abstracts” from other motivations that sometimes might interfere with work effort.

Thus, Mill presupposed that producers are motivated to produce as much as possible by expending as little effort as possible. In this context, he distinguished between laws that were largely subject to human manipulation (distribution), and ones that were less so (production). At any given time, he wrote, productive capacity is largely determined: “Whatever mankind produce, must be produced in the modes, and under the conditions, imposed by the constitution of external things, and by the inherent properties of their own bodily and mental structure.” Mill listed four factors that determine production: energy, skill, technology (“the perfection of their machinery,” and something akin to judgment (“judicious use of the advantages of combined labour”) (*Principles of Political Economy*, p. 199).

Production subject to technological and knowledge constraints

Of course, while these factors are relatively fixed over the production period, Mill recognized that they change over time and in this context he focused on positive changes in productive capacity. Technological change, an “improvement in the processes of cultivation” or “future extensions of our knowledge of the laws of nature” might occur (*Principles of Political Economy*, p. 199). Barring such improvements, his main point is that wishful thinking doesn’t actually affect production; at any given time “the opinions, or the wishes, which may exist on these different matters, do not control the things themselves” (*Principles of Political Economy*, p. 199). Notwithstanding his recognition of significant opportunities for improvement, Mill’s overall thrust is to set up a contrast between what is fixed as “physical truths” (*Principles of Political Economy*, p. 199)—production arrangements—and what is subject to human control—distribution.

Distribution not subject to these constraints

Of course, policy might initiate a one-time (or ongoing) shock to productive capacity. As noted at the outset, Mill believed that the rules governing distribution were determined not by technological relationships but rather by the collective will of society. He acknowledged that by “consent of society” the distribution of produce may be altered: “The things once there, mankind, individually or collectively, can do with them as they like” (*Principles of Political Economy*, pp. 199-200). Distribution depends on what arrangements the collective endorses:

The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of *the ruling portion* of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose. (*Principles of Political Economy*, p. 200; Mill added the italicized text in 1852 and subsequent editions)

Customs vary in time and place. The consequences of customs are not arbitrary, but instead are much like “physical laws”; “Human beings can control their own acts, but not the consequences of their acts.” Consequences are much akin to the laws of production, having the “character of physical laws, as the laws of production” (*Principles of Political Economy*, p. 200). Wishful thinking is just that, wishful.

Mill’s position on distribution in these passages is an “eyes wide open” argument: humans may shift from one distributional arrangement to another, but they must realize there will be consequences of such shifts that they can perhaps foresee but cannot prevent. Hence, Mill proceeds to analyze the predicted consequences of different distributional arrangements, systems of private property, socialism, peasant proprietorships, and so on.

A relationship between distribution and production?

We can now return to the question raised at the outset, whether for Mill changes in distributional arrangements are independent of production. Notwithstanding Hayek’s conclusion, Mill insisted such changes would have consequences on the amount to be distributed: “Society can subject the distribution of wealth to whatever rules it thinks best: but what practical results will flow from the operation of those rules, must be discovered, like any other physical or mental truths, by observation and reasoning” (*Principles of Political Economy*, p. 200). As we will see when we discuss his views on socialism and economic democracy in detail (Chapter 7), Mill was very preoccupied with the potential impact on production of various institutional arrangements for land tenure, inheritance and poverty relief. Human nature being what it was, Mill foresaw difficulties under the incentive structure associated with socialism. For now, it is sufficient to note that Mill worried that the pressure of population growth would be more severe under socialism than under a system of private property. Comparing “individual agency in its best form” and “Socialism in its best form” Mill held that the conclusion would “depend mainly on one consideration”: “which of the two systems is consistent with the greatest amount of human liberty and spontaneity” (*Principles of Political Economy*, p. 208). In this, he remained consistent with his views on liberty, outlined in Chapter 1 above.

The policy implications of Mill's position are twofold and consistent with what we have learned in earlier chapters: Mill saw self-governance and independence as keys to individual happiness. From the *Principles of Political Economy* and *On the Definition of Political Economy* we have seen that individuals are equally capable of making choices for themselves. Thus, it will come as no surprise to learn that, for Mill, education is useful while paternalism, looking after the labouring poor or some other disfavoured group, is unnecessary. In the 1849-50 exchange with Thomas Carlyle about former slaves in Jamaica, Mill held there was no need to force former slaves to work (to re-enslave them, as Carlyle opined should happen). Rather, like anyone in the labour market, former slaves would work as long as real wages were sufficiently high to induce them to do so (Mill, 1850). Mill further insisted in the chapter "On the Probable Futurity of the Labouring Classes" in the *Principles of Political Economy* that paternalism directed at the labouring poor was not a viable policy option: "The poor have come out of leading-strings, and cannot any longer be governed or treated like children. To their own qualities must now be commended the care of their own destiny. Modern nations will have to learn the lesson, that the well-being of a people must exist by means of the justice and self-government" (*Principles of Political Economy*, p. 763).

Second, if, as is clear from Mill's *Principles of Political Economy*, distributional arrangements influence the total amount being produced, a systematic study of the impact of different arrangements on production was warranted. For Mill, improvement in this narrow, economic context meant ending the dependence of the labouring poor upon the good offices of the rich (*Principles of Political Economy*, p. 768). Ever the "many sided" one, he was open to considering changes that *would* influence output if they might also favour workers, "moderating the inordinate importance attached to the mere increase of production, and fixing attention upon improved distribution and a large remuneration of labour as the two desiderata" (*Principles of Political Economy*, p. 758). As noted above, the devil was in the details—how much independence would be gained and at what cost. Mill therefore undertook a study of various economic arrangements. We turn to Mill's position on property in Chapter 6, followed by his analysis of socialism, worker cooperatives, and capitalism in Chapter 7.