James Mill
On the Overproduction and Underconsumption Fallacies
Edited and with an Introduction by George Reisman

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James Mill

On the Overproduction and Underconsumption Fallacies*

James Mill (1773-1836) is perhaps best known as the father and educator of John Stuart Mill. He deserves to be remembered for much more, however. Not only was he an influential popularizer of the ideas of his friend, David Ricardo, but also, as appears from the excerpt here presented, an important economist in his own right.

What has come down to us as Say’s Law may, perhaps with equal propriety, be called Mill’s Law. In a letter to Mill, dated July 27, 1820, Ricardo refers to the doctrine that a general overproduction is impossible and that capital can never increase too rapidly, as “Say’s and your doctrine of accumulation.” (Works of David Ricardo, Edited by P. Sraffa, Vol. VIII, Cambridge, 1962, p. 212.) And John Stuart Mill, in his discussion of the doctrine, states: “It is but justice to two eminent names to call attention to the fact, that the merit of having placed this most important point in its true light belongs principally, on the Continent, to the judicious J. B. Say, and in this country to Mr. [James] Mill; who (besides the conclusive exposition which he gave of the subject in his Elements of Political Economy) had set forth the correct doctrine with great force and clearness in an early pamphlet, called Commerce Defended; the first of his writings which attained any celebrity, and which he prized more as having been his first introduction to the friendship of David Ricardo, the most valued and most intimate friendship of his life.” (J. S. Mill, Principles of Political Economy, Ashley Edition (reprint Fairfield, New Jersey: Augustus M. Kelley, 1976) Book III, Ch. XIV, Sect. 4.)

Whether or not Mill arrived at his version of “Say’s” Law independently of Say is unimportant. What is important is that his is by far the more consistent, the more forceful, and the clearer version. Moreover, the excerpt now presented, which consists of Chapters VI and VII of Commerce Defended, entitled respectively, “Consumption” and “Of the National Debt,” is not confined exclusively to the overproduction fallacy, but is also and even more concerned with the companion fallacy of underconsumption. In the opinion of the Editor, it represents one of the most important contributions of the Classical School, and to this day, remains among the most advanced expositions of the theory of saving and capital formation to be found anywhere. A highly favorable opinion of this essay was shared by Mises and Hazlitt, both of whom personally expressed it to the Editor. Indeed, Hazlitt planned to include it in a new, enlarged edition of his Critics of Keynesian Economics.

One word of caution must be said. Commerce Defended was published in 1808, in reply to various articles by William Cobbett which had appeared in a publication of the day called the Political Register, and to a pamphlet by William Spence, entitled Britain Independent of Commerce. The only changes made to the text are to break up some of Mill’s extremely long paragraphs and to modernize the spelling. Despite the modernization of spelling, some phrases may sound quaint to modern ears.

That the arguments of Mill are now one hundred and ninety-eight years old is true; but it does not follow that they are therefore false. One of the things the attentive reader will be shocked to discover as he proceeds, is that the doctrines which Mill attacks, and which, therefore, are older than his own, are precisely those which are today considered modern! If the reader ignores the occasional archaic expression, he may come to regard Mill as a revolutionary critic of contemporary economics!

GEORGE REISMAN
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* An excerpt from the author’s pamphlet Commerce Defended, edited by George Reisman, Ph.D., Pepperdine University Professor Emeritus of Economics.
CONSUMPTION

The doctrine of Mr. Spence respecting consumption is not less worthy of examination than his doctrine concerning production.

This author divides the members of a civilized society into four classes: The class of landowners - The class of cultivators - The class of manufacturers - And the unproductive class. “As the whole revenue of a country,” he says,* “is derived from its land; and as the class of land-proprietors are the recipients of this revenue, it is evident that from this class must be drawn the revenues of the two other classes of society; the manufacturing and unproductive class. It is a condition, then, essential,” he adds, “to the creation of national wealth, that the class of land-proprietors expend the greater part of the revenue which they derive from the soil. So long as they perform this duty, everything goes on in its proper train. With the funds which the manufacturing and the unproductive classes appropriate to themselves from the expenditure of the class of landowners, they are enabled to purchase the food which the farmer offers to them. The farmer being enabled to dispose of his produce, acquires the funds necessary for the payment of his rent, etc. Let us make the supposition that fifty of our great landowners, each deriving twenty thousand pounds a year from his estates, which they have been accustomed to spend, were to be convinced by the arguments of Dr. Adam Smith, that the practice of parsimony is the most effectual way of accumulating national riches, and should save the £1,000,000 which their revenue amounted to. Is it not self-evident that the members of the manufacturing and unproductive classes, who had been accustomed to receive this sum, would have their power of consuming diminished? The farmer consequently could not sell so much of his produce, nor at so good a price as before. It is clear then that expenditure, not parsimony, is the province of the class of land-proprietors; and that it is upon the due performance of this duty by the class in question, that the production of national wealth depends. And not only does the production of national wealth depend upon the expenditure of the class of land-proprietors, but for the due increase of this wealth, and for the constantly progressive maintenance of the prosperity of the community, it is absolutely requisite that this class should go on progressively increasing its expenditure. It will follow, as a consequence, that in countries constituted as this and those composing the rest of Europe are, the increase of luxury is absolutely essential to their well-being. It is impossible exactly to define what are luxuries and what necessaries; yet a slight consideration will show that a very great proportion of our manufactures cannot be included under the latter title. Every one knows that a few hundreds a year are sufficient to procure all the necessaries and comforts of life: in what then can the sums above this amount, which are spent by the numbers in this country who have their £10,000 and £20,000 a year, be expended, but in luxuries? And as from this consideration it is plain that the population of the manufacturing class, at present occupied in providing necessaries, is fully equal to manufacture all that are wanted of this description, it follows that the additional population of this class can only be employed in the manufacture of new luxuries.”

This is the first part of our author’s doctrine concerning consumption, and I have been anxious to exhibit a full view of it. Its nature and value we now proceed to investigate.

The reader of this pamphlet, we trust, will immediately discover one short argument subversive of this whimsical speculation. It is founded, we see, upon the assumption that land is the only source of wealth; a position which we have found to be altogether untenable. Both manufactures and commerce are sources, and important sources of wealth; therefore the landed proprietors are not the original owners of the whole, nor of nearly the whole, annual revenue of the country. The foundation of Mr. Spence’s doctrine being thus removed, the superstructure of necessity falls to the ground.**

It may be useful, however, to exhibit a fuller and more accurate view of the fallacy of this doctrine respecting consumption. It proceeds entirely upon a misapprehen-

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* See Mr. S’s pamphlet, from p. 29 to 37.

** Mr. Spence here furnishes us with an unanswerable argument against his doctrine of durable commodities. He insists upon it, as we have already seen, that all commerce is unprofitable, which does not import durable commodities. But commodities the more they are durable, are the more opposed to consumption. In conformity with his doctrine of consumption, he ought to recommend commerce in the most perishable commodities. His doctrine of durable commodities affords an argument against his doctrine of consumption; and his doctrine of consumption affords an argument against his doctrine of durable commodities.
It appears from this very explanation of the meanings of the term, that it is of importance to the interests of the country, that as much as possible of its annual produce should be employed, but as little as possible of it consumed. The whole annual produce of every country is distributed into two great parts; that which is destined to be employed for the purpose of reproduction, and that which is destined to be consumed. That part which is destined to serve for reproduction, naturally appears again next year, with its profit. This reproduction, with the profit, is naturally the whole produce of the country for that year. It is evident, therefore, that the greater the quantity of the produce of the preceding year, which is destined to administer to reproduction in the next, the greater will naturally be the produce of the country for that year. But as the whole annual produce of the country is necessarily distributed into two parts, the greater the quantity which is taken for the one, the smaller is the quantity which is left for the other. We have seen, that the greatness of the produce of the country in any year, is altogether dependent upon the greatness of the quantity of the produce of the former year which is set apart for the business of reproduction. The annual produce is therefore the greater, the less the portion is which is allotted for consumption. If by consumption therefore Mr. Spence means, what we have termed consumption properly so called, or dead unproductive consumption, and it does appear that this is his meaning, his doctrine is so far from being true, that it is the very reverse of the truth. The interests of the country are the most promoted, not by the greatest, but by the least possible consumption of this description.

Let not Mr. Spence, however, be alarmed. Let him rest in perfect assurance, that the whole annual produce of the country will be always very completely consumed, whether his landholders choose to spend or to accumulate. No portion of it will be left unappropriated to the one species of consumption, or to the other. No man, if he can help it, will let any part of his property lie useless and run to waste. Nothing is more clear, than that the self-interest of men, ever has impelled and ever will impel them, with some very trifling exceptions, to use every particle of property which accrues to them, either for the purpose of immediate gratification, or of future profit. That part, however, which is destined for future profit, is just as completely consumed, as that which is destined for immediate gratification. A thousand ploughmen consume fully as much corn and cloth in the course of a year as a regiment of soldiers. But the difference between the kinds of consumption is immense. The labor of the ploughman has, during the year, served to call into existence a quantity of property, which not only repays the corn and cloth which he has consumed, but repays it with a profit. The soldier on the other hand produces nothing. What he has consumed is gone, and its place is
left absolutely vacant. The country is the poorer for his consumption, to the full amount of what he has consumed. It is not the poorer, but the richer for what the ploughman has consumed, because, during the time he was consuming it, he has reproduced what does more than replace it.

We may hence perceive how it is, that a country advances in property, and how it is that it declines. When the produce of each year is the same with that of the preceding year, it is plain that the riches of the country are stationary; when the produce of each year is greater than that of the preceding, the wealth of the country is advancing; and when the produce of each year is less than that of the preceding, the wealth of the country is on the decline. What then is the cause by which the annual produce of a country is increased? About this there can luckily be no controversy. The cause by which the annual produce of a country is increased, is the increase of that division of the annual produce, which is destined to administer to reproduction. That we may have more work, we must employ more workmen, and use more materials. The maintenance of these workmen, and the materials on which they operate, are the new fund which is indispensably requisite to the increase of the annual produce. But the only source whence this provision can be drawn, is the source whence the whole fund destined to administer to reproduction is drawn, the annual produce of the country.

Now, we have already clearly seen, that the annual produce of every country is always divided into two parts, that which is destined for mere consumption, and that which is destined for the business of reproduction; and that those two parts always wholly exhaust that produce. In whatever proportion, therefore, the part destined for reproduction is augmented, in the same proportion must the part intended for consumption be diminished, and vice versa. When the affairs of a country are stationary, when the produce of this year, for example, is the same with that of the last, that is to say, is equal both to that part which was appropriated to the business of reproduction and to that which was appropriated to consumption, the part destined for reproduction must have been so large as to suffice for replacing itself, and for affording an increase equal to that part of the annual produce which was taken for consumption. Again, if the produce for the succeeding year is to be the same with the present, such a part of this year’s produce must be devoted to the business of reproduction as will suffice to replace itself, and to afford a surplus equal to that part which is reserved for immediate consumption. While this proportion is maintained, the situation of the country is stationary.

When, however, it fortunately happens, that a smaller proportion than this of the annual produce is withdrawn for consumption, and a greater proportion than this is left for reproduction, the prosperity of the country advances. The produce of each year is greater than that of the preceding. On the other hand, whenever in the stationary situation of a country, a greater than the usual proportion of the annual produce is withdrawn from the business of reproduction, and devoted to consumption, the produce of the succeeding year becomes necessarily diminished, and as long as this consumption continues, the affairs of the country are retrograde. It is evident, that the arrangement of society, which has a tendency to draw the greatest proportion of the annual produce to consumption, is that in which there is the greatest inequality of fortunes, in which there is the greatest number of persons, who have no occasion to devote themselves to any useful pursuit. But it is the maintenance of great fleets and armies, which is always the most formidable weight in the scale of consumption, and which has the most fatal tendency to turn the balance against reproduction and prosperity. It is by the lamentable continuance of wars, almost always nourished by puerile prejudices and blind passions, that the affairs of prosperous nations are first brought to the stationary condition, and from this plunged into the retrograde.

Mr. Spence offers one curious observation. After the statement which we have already quoted, of the miseries which he supposes would flow from a disposition in the landholders not to spend, he anticipates an objection. “Let it not be urged,” says he, “that what they might save would not be hoarded, (for misers now-a-days are wiser than to keep their money in strong boxes at home) but would be lent on interest; it would still be employed in circulation, and would still give employment to manufacturers.” This objection he encounters with the following answer: “It should be considered, that money borrowed on interest is destined not for expenditure, but to be employed as capital; that the very circumstance of lessening expenditure decreases the means of the profitable employment of capital, and consequently that the employment of the sum alluded to as capital, would in no degree diminish the hardships of those, who had been deprived of the revenue derived from its expenditure.”

* See Mr. S.’s pamphlet, p. 32.
Wonderful, as after what we have been considering, it may appear, it is yet certain, that Mr. Spence here objects to the augmentation of the portion of the annual produce, which is destined for reproduction. The savings of the landholders, says he, would be employed as capital. But why should they not be employed as capital? Because, says Mr. Spence, expenditure would be lessened.

Well may we here congratulate our author on the clearness and comprehensiveness of his views. What then? The corn which we supposed the landowner to consume upon his agricultural servants and horses, would not be as completely expended as that which we supposed him to consume upon his livery servants, his studs, and his dog kennel? The ploughmen of the country do not expend as well as the soldiers? There is here a want of discernment, which in a man, who stands up as an emphatical teacher in political economy, does hardly deserve quarter. Of the two parts of the annual produce, that which is destined for production and that which is destined for consumption, the one is as completely expended as the other, and the part which is destined for reproduction, is that which is probably all expended in the shortest time. For the man who intends to make a profit is in haste to obtain it. But a considerable time may elapse before a man consume the whole of what he lays up for mere gratification. He may have in his cellar a stock of wine to serve him for several years, but the flax or the wool in his warehouse will probably be all worked up in the course of one year.

To render the futility of Mr. Spence’s objection still more clear, we may show him by an analysis of a particular case in what manner the savings of his landholders would contribute not to the worst but to the best effects in civil society. As this error respecting the importance of dead consumption is common both to the mercantile system and to that of the Economistes, and very generally diffused among the ordinary part of mankind, it is of no little importance, even at the risk of being thought tedious, to endeavour to set it in the strongest light I am able.

Let us suppose that one of Mr. Spence’s landholders with a revenue of £10,000, the whole of which he has been accustomed to spend in the maintenance of a brilliant and luxurious establishment, becomes resolved all at once to cut short his expenditure one half. He has thus the very first year £5,000 to dispose of. Even Mr. Spence allows that he will lend, not hoard it. Let us suppose that he lends it to the linen manufacturer in his neighborhood. To what use in his hands is it immediately applied? to the augmentation unquestionably of his business. He goes directly and buys an additional quantity of flax from the farmer, he sets to work an additional number of flax-dressers and spinners, he employs the carpenters, blacksmiths, and other necessary artisans in erecting for him an additional number of looms, and he hires an additional number of weavers. In this manner the £10,000 of the landholder is as completely consumed as ever it was. But £5,000 of it is consumed in a very different manner. It is consumed, 1st upon a very different set of people, and 2nd to a very different end. 1. It is consumed upon the growers, the dressers, the spinners, and weavers of flax, with the carpenters, blacksmiths, and other artisans whose labors are subservient to that manufacture, instead of being expended, as formerly, upon lacqueys and cooks, and the other artificers of luxury. 2. It is expended for the sake of reproduction. By means of its expenditure a property of an equal and more than equal amount is now called into existence; by its former expenditure nothing was called into existence. The produce of the country for this year therefore is greater than it would otherwise have been by the amount of £5,000, with its natural profits. If we suppose these profits to be only ten

* Here, too, Mr. Spence follows a remarkable part of the system of the original Economistes. “Consumption is the measure of reproduction—the more that is consumed, the more that is produced,” said Mercier de la Riviere, Ordre Essentiel des Societes Polit. Tom. ii. p. 138. At the time when this system was first invented, when men had just begun to analyze the operations of society, such a mistake was to be expected, perhaps, indulgence. But after the real causes of wealth have been so clearly evolved by Dr. Smith, after the mysterious process of production has been so exactly resolved into its first elements, it shows either a very slight acquaintance with his work, or a woeful inability to trace the consequences of the truths demonstrated in it, if a man can now adopt the doctrine of the Economistes respecting consumption. - A late French writer, M. Say, Economie Polit. Liv. v. ch. 3. tells a pleasant anecdote of a practical pupil of this doctrine. “I knew,” says he, “a young man who threw crystal flasks out the window after he had emptied their contents, on the grounds that it was necessary to encourage manufactures.”
per cent, which is surely reasonable, the produce of the
country is thus £5,500 the greater, on account of the very
first year’s saving of the landholder.*

Another strange perversity of Mr. Spence’s doctrine
here presents itself. It is directly opposed to the very end
which it purposes to promote, consumption. By renounc-
ing Mr. Spence’s plan in the instance we have adduced,
the country would have more to expend to the amount of
£5,500 in the very first year of the new operation of the
£5,000; because it would have more produce to the
amount of £5,500. Mr. Spence will not surely say that a
nation can consume more than it produces; and it is very
odd that he and the other pupils of the same doctrine do
not reflect that consumption is posterior to production,
as it is impossible to consume what is not produced.
Consumption in the necessary order of things is the effect
of production, not production the effect of consumption.
But as every country will infallibly consume to the full
amount of its production, whatever is applied to augment
the annual produce of the country by consequence aug-
ments its annual consumption. The greater therefore the
departure from Mr. Spence’s rules, the more rapid in
every country the increase of consumption will be.

There is another idea the explication of which I could
have willingly avoided, because it is more abstruse than
may appear adapted to the greater part of the readers of
a pamphlet, and after all the pains I can take to render it
plain in the narrow space to which I am confined, con-
siderable obscurity may still appear to rest upon it. This
explication however is not only necessary because it
serves to clear away a remaining objection of the
Economistes, but because it exposes the fallacy of certain
notions current in this country, which threaten to have
very extensive practical consequences. The Economistes
and their disciples express great apprehensions lest cap-
ital should increase too fast, lest the production of com-
modities should be too rapid. There is only, say they, a
market for a given quantity of commodities, and if you
increase the supply beyond that quantity you will be
unable to dispose of the surplus.

No proposition however in political economy seems
to be more certain than this which I am going to an-
ounce, how paradoxical soever it may at first sight
appear; and if it be true, none undoubtedly can be deemed
of more importance. The production of commodities
creates, and is the one and universal cause which creates
a market for the commodities produced. Let us but con-
sider what is meant by a market. Is anything else under-
stood by it than that something is ready to be exchanged
for the commodity which we would dispose of? When
goods are carried to market what is wanted is somebody
to buy. But to buy, one must have wherewithal to pay. It
is obviously therefore the collective means of payment
which exist in the whole nation that constitute the entire
market of the nation. But wherein consist the collective
means of payment of the whole nation? Do they not
consist in its annual produce, in the annual revenue of
the general mass of its inhabitants? But if a nation’s power

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* Mr. Spence says in a note (p. 24 of his pamphlet, 3rd edition) “There is a singular
vagueness and confusion in the whole of Dr. Smith’s reasoning, relative to the
different effects of prodigality and parsimony upon national wealth. His arguments
seem to be intended to maintain, that fresh capital may be profitably employed, in
manufacturing goods which nobody will buy; for, certainly no purchasers would be
found for the goods brought into existence by the employment of new capital, if all
the members of the society were to convert the greater part of their revenue into
capital.” This is pretty much as if a follower of the Ptolemaic astronomy should
accuse the reasonings of Sir Isaac Newton of vagueness and confusion, because
they do not tally with the doctrines of cycles and epicycles.

** My reader may convince himself by personal inspection that the following passage
is actually to be found in Mr. Spence’s pamphlet (p. 55) “Sir Richard Arkwright, by
his invention and employment of improved machinery, in the spinning of cotton,
annually gained great riches. But would he ever have been wealthy, if he had every
year spent in tea, wine, sugar, etc. destined for his immediate consumption, a sum
equal to, or greater than, the whole of his gain? Surely not. The dullest intellect
must see, that he never could have acquired wealth, by this constant expenditure of
his gains, in articles to be consumed by himself, which, when consumed, left no
relic behind them; however great might have been his gains, and however long he
might have acted on this system. If, then, a private manufacturer cannot acquire
wealth in this way, neither can a manufacturing nation. The cases are precisely
parallel.”
of purchasing is exactly measured by its annual produce, as it undoubtedly is; the more you increase the annual produce, the more by that very act you extend the national market, the power of purchasing and the actual purchases of the nation.

Whatever be the additional quantity of goods therefore which is at any time created in any country, an additional power of purchasing, exactly equivalent, is at the same instant created; so that a nation can never be naturally overstocked either with capital or with commodities; as the very operation of capital makes a vent for its produce. Thus to recur to the example which we have already analyzed; fresh goods to the amount of £5,500 were prepared for the market in consequence of the application of the £5,000 saved by the landholder. But what then? have we not seen that the annual produce of the country was increased; that is, the market of the country widened, to the extent of £5,500, by the very same operations? Mr. Spence in one place advises his reader to consider the circumstances of a country in which all exchange should be in the way of barter, as the idea of money frequently tends to perplex. If he will follow his own advice on this occasion, he will easily perceive how necessarily production creates a market for produce. When money is laid out of the question, is it not in reality the different commodities of the country, that is to say, the different articles of the annual produce, which are annually exchanged against one another? Whether these commodities are in great quantities or in small, that is to say, whether the country is rich or poor, will not one half of them always balance the other? and is it not the barter of one half of them with the other which actually constitutes the annual purchases and sales of the country. Is it not the one half of the goods of a country which universally forms the market for the other half, and vice versa? And is this a market that can ever be overstocked? Or can it produce the least disorder in the market whether the goods are in great or in small quantity?

All that here can ever be requisite is that the goods should be adapted to one another; that is to say, that every man who has goods to dispose of should always find all those different sorts of goods with which he wishes to supply himself in return. What is the difference when the goods are in great quantity and when they are in small? Only this, that in the one case the people are liberally supplied with goods, in the other that they are scantily; in the one case that the country is rich, in the other that it is poor; but in the one case, as well as in the other, the whole of the goods will be exchanged, the one half against the other; and the market will always be equal to the supply. Thus it appears that the demand of a nation is always equal to the produce of a nation. This indeed must be so; for what is the demand of a nation? The demand of a nation is exactly its power of purchasing. But what is its power of purchasing? The extent undoubtedly of its annual produce. The extent of its demand therefore and the extent of its supply are always exactly commensurate. Every particle of the annual produce of a country falls as revenue to somebody. But every individual in the nation uniformly makes purchases, or does what is equivalent to making purchases, with every farthing’s worth which accrues to him. All that part which is destined for mere consumption is evidently employed in purchases. That too which is employed as capital is not less so. It is either paid as wages to laborers, who immediately buy with it food and other necessaries, or it is employed in the purchase of raw materials.

The whole annual produce of the country, therefore, is employed in making purchases. But as it is the whole annual produce too which is offered to sale, it is visible that the one part of it is employed in purchasing the other; that how great soever that annual produce may be it always creates a market to itself; and that how great soever that portion of the annual produce which is destined to administer to reproduction, that is, how great soever the portion employed as capital, its effects always are to render the country richer, and its inhabitants more opulent, but never to confuse or to overload the national market. I own that nothing appears to me more completely demonstrative than this reasoning.

* The attentive reader will perceive that no deduction is made in the preceding argument for that part of the annual produce which is consumed immediately by the producer. The motive for this was a desire not to perplex the argument by qualifying clauses. To notice this particular, at the same time, was entirely unnecessary, since that part of the annual produce which may be consumed by the producer, as it increases not the demand in the national market, so neither does it increase the stock or supply in that market, because it is not carried to market at all. It is also to be considered that in every country where labor is well divided, and skillfully applied, the proportion of the produce which the producers immediately consume is always very small.
It may be necessary, however, to remark, that a nation may easily have more than enough of any one commodity, though she can never have more than enough of commodities in general. The quantity of any one commodity may easily be carried beyond its due proportion; but by that very circumstance is implied that some other commodity is not provided in sufficient proportion. What indeed is meant by a commodity's exceeding the market? Is it not that there is a portion of it for which there is nothing that can be had in exchange. But of those other things then the proportion is too small. A part of the means of production which had been applied to the preparation of this superabundant commodity, should have been applied to the preparation of those other commodities till the balance between them had been established. Whenever this balance is properly preserved, there can be no superfluity of commodities, none for which a market will not be ready. This balance to the natural order of things has so powerful a tendency to produce, that it will always be very exactly preserved where the injudicious tampering of government does not prevent, or those disorders in the intercourse of the world, produced by the wars into which the unoffending part of mankind are plunged, by the folly much more frequently than by the wisdom of their rulers.

This important, and as it appears demonstrative doctrine, affords a view of commerce which ought to be very consolatory to Mr. Spence. It shows that a nation always has within itself a market equal to all the commodities of which it can possibly have to dispose; that its power of purchasing is always equivalent to its power of producing, or at least to its actual produce; and that as it never can be greater, so it never can be less. Foreign commerce, therefore, is in all cases a matter of expediency rather than of necessity. The intention of it is not to furnish a vent for the produce of the industry of the country, because that industry always furnishes a vent for itself. The intention of it is to exchange a part of our own commodities for a part of the commodities which we prefer to our own of some other nation; to exchange a set of commodities which it peculiarly suits our country to produce for a set of commodities which it peculiarly suits that other country to produce. Its use and advantage is to promote a better distribution, division and application of the labor of the country than would otherwise take place, and by consequence to render it more productive. It affords us a better, a more convenient and more opulent supply of commodities than could have been obtained by the application of our labor within ourselves, exactly in the same manner as by the free interchange of commodities from province to province within the same country, its labor is better divided and rendered more productive.

It thus appears of what extraordinary importance to every community is the augmentation of capital; that is to say, the augmentation of that part of the annual produce which is consumed in the way of reproduction. If we but recall the thought of that important doctrine first illustrated by Smith, that a progression is necessary in national affairs to render the circumstances of the great body of the people in any degree comfortable, our humanity, as well as our patriotism, will become deeply interested in the doctrine of parsimony. Dr. Smith shows that even when a country is stationary, the subsistence of the laboring classes is reduced to the lowest rate which is consistent with common humanity; that is to say, it is barely sufficient to enable them to maintain their present numbers, but not sufficient to enable them in the least degree to augment them. But if we recollect how much greater than this are the powers of multiplication in the species, how natural it is for the average of families to be more numerous than merely to replace the father and the mother; we shall see with feelings of commiseration how wretched must be the circumstances of those families that are more numerous, and of how many human creatures brought into existence, it must be the miserable fate to perish through want of subsistence. But if such is the dismal situation of the great body of the people, when the national affairs are but stationary, how much more shocking to our feelings are their circumstances, when the situation of the country is retrograde.

In this situation the laborer is unable to earn even at a rate which is sufficient to maintain the number of the laboring class. Calamity now comes down with a heavier hand. That class must even be thinned by the dreadful operation of deficient subsistence. On the other hand, when the affairs of the country are progressive, the wages of the laboring class are sufficient not only to maintain their existing numbers, but to augment them. The reward

* What then are we to think of such speculators as Lord Henry Petty, who told the House of Commons in one of the debates on the appropriation of part of the sinking fund in his new finance plan, that it was necessary to prevent the national debt from being paid too fast, lest the country should become overstocked with capital? There was not an individual in the House who contradicted him.
of labor is liberal. The laborer can support a moderate family with ease; and plenty and comfort diffuse themselves throughout the community. Have we not seen that this progressive state of society, that all these happy consequences result from continual additions made to the capital of the country, or to that part of the annual produce which is devoted to reproduction? and have we not seen that the retrograde condition, with all its deplorable consequences, results from making continual additions to that part of the annual produce which is taken for mere consumption? Little obligation then has society to those doctrines by which this consumption is recommended. Obstacles enough exist to the augmentation of capital without the operation of ridiculous speculations. Were the doctrine that it can increase too fast, as great a truth as it is an absurdity, the experience of all the nations on earth proves to us, that of all possible calamities this would be the least to be feared. Slow has been its progress everywhere; and low the degree of prosperity which has in any place been given to the mass of the people to enjoy.

OF THE NATIONAL DEBT

Were the exhortations to consumption, of Mr. Spence and others, addressed only to individuals, we might listen to them with a great deal of indifference; as we might trust with abundant confidence that the disposition in mankind to save and to better their condition would easily prevail over any speculative opinion, and be even little affected by its practical influence. When the same advice, however, is offered to government, the case is widely and awfully changed. Here the disposition is not to save but to expend. The tendency in national affairs to improve, by the disposition in individuals to save and to better their condition, here finds its chief counteraction.

Here all the most obvious motives, the motives calculated to operate upon the greater part of mankind, urge to expence; and human wisdom has not yet devised adequate checks to confine within the just bounds this universal propensity. Let us consider then what are likely to be the consequences should this strong disposition become impelled, and precipitated by a prevailing sentiment among mankind. One of the most powerful restraints upon the prodigal inclinations of governments, is the condemnation with which expence, at least beyond the received ideas of propriety, is sure to be viewed by the people. But should this restraint be taken off, should the disposition of government to spend become heated by an opinion that it is right to spend, and should this be still farther inflamed by the assurance that it will by the people also be deemed right in their government to expend, no bounds would then be set to the consumption of the annual produce. Such a delusion could not certainly last long: but even its partial operation, and that for a short time, might be productive of the most baneful consequences. The doctrines of Mr. Spence which we have already considered, naturally lead to this dangerous application; but it is only when he comes to speak of the national debt that his advice is directly addressed to government.

"For my own part," says Mr. Spence, ** "I am inclined to believe that the national debt, instead of being injurious, has been of the greatest service to our wealth and prosperity. It appears that man is in fact much more inclined to save than to spend. The land-proprietors accordingly have never fully performed their duty; they have never expended the whole of their revenue. What the land-proprietors have neglected to do, has been accomplished by the national debt. It has every now and then converted twenty or thirty millions of what was destined for capital into consumable revenue, and it has thus given a most beneficial stimulus to agriculture."

The reader does not, I suppose, expect that I should compliment this doctrine with any very long discussion.

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* We have already seen, p. 137, an application of the doctrine of the utility of expence, in the plea of Lord Henry Petty for alienating part of the sinking fund. The sinking fund has been operating for twenty years. It ought in that time to have given a tolerable specimen of its effects. Well, how has it paid the national debt? Why, the national debt is now nearly triple its amount at that time when the sinking fund was instituted. If the rapid payment of the national debt were the greatest of our dangers, we might bless God upon being the securest nation in the universe. We may here see, however, with some alarm, the extent of practice which might rapidly be given to the consuming doctrine. Lord Henry Petty professes to regard the sinking fund as the sheet anchor of the nation. Yet upon the strength of this speculation he could recommend to Parliament to devote part of that sinking fund to immediate consumption!

** Britain Indep. of Commerce, p. 74.
As it is founded upon the very same mistakes which we have traced in our author’s doctrines respecting the consumption of individuals; it would be necessary for me to tread over again the very same steps, to the fatigue of my reader as well as of myself. As the practical consequences, however, of these mistakes are deeply dangerous, and as there is reason to think that they have a more real operation in the administration of British affairs than the mere speculative reader, it is probable, would easily believe; it is necessary to consider with a little attention the principal points of this application of Mr. Spence’s theory.

According to Mr. Spence the national debt has been advantageous because the government has thus spent what the land-proprietors would otherwise have saved. When his language is put into accurate terms it means this; the land-proprietors have every year endeavoured to increase to a certain amount that part of the annual produce which is destined for the business of reproduction, whereby they would have increased the annual produce, and the permanent riches of the country; but government has every year, or at least at every short interval of years, taken the property which the people would thus have employed in augmenting the riches of the country, and has devoted it to mere dead consumption, whence the increase of production has been prevented. It is in this manner, according to Mr. Spence, that the national debt has been advantageous.

Let us hear Mr. Spence’s reasonings in defence of this doctrine. “Capital,” says he, *  “is essential to a nation, but a nation may have too much of it; for what is the use of capital, but to prepare articles on which a revenue may be spent, and where is the revenue to be spent, to be derived from, if it be all converted into capital?” It is evident that Mr. Spence here falls into his old mistake, supposing that capital is not spent as well as revenue, that is, the part of the national produce which the people would thus have employed in augmenting the riches of the country, and has devoted it to mere dead consumption, whence the increase of production has been prevented. It is in this manner, according to Mr. Spence, that the national debt has been advantageous.

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“When, during a war,” says Mr. Spence, ***  “a loan of twenty or thirty millions is made, in what is the sum expended? Is it not consumed in providing food and clothing for the army and navy, etc.” But, had no loan been wanted; and had the individuals of the army and navy been cultivators, manufacturers, and contributors, in all the necessary ways, to national production, might not the same sums have been employed in maintaining and clothing them? The difference would have been highly important. As industrious individuals, they would have reproduced within each year a property equivalent to that which they consumed, together with its natural profits. As soldiers and sailors, they consumed without producing any thing; and at the end of each year a property equal to what they consumed was destroyed, and not the value of a pin created to replace it.

After hearing what Mr. Spence has to say in favor of loans, let us hear him on the subject of the taxes paid for the interest of those loans. “These taxes,” says he, ****  “are perhaps a greater cause of prosperity than the original debt was.” His reason is immediately added; because, says he, “****  “they are, for the most part, constantly devoted to the purchase of consumable commodities,” that is to say, they are constantly devoted to dead consumption. The same fatal mistake still clings to Mr. Spence. The double meaning of the word consumption still confounds him. Were the sums, paid in taxes, not sacrificed to dead consumption, would they not still be employed in making purchases? would they not be employed in purchasing the raw materials of manufactures, or in paying the wages of manufacturing and agricultural servants, who with these wages again would purchase their food and clothing? Mr. Spence applauds the taxes, because they take so much from that part of the annual produce of the country which is destined for productive consumption, and add it to the part which is destined for dead consumption. This is the very cause for which the intelligent contemplator deplores them.

“Heavy taxes,” says Mr. Spence, +  “are doubtless oppressive to many of the members of a society individually considered, yet where the whole, or by far the greater part of the taxes of a nation are expended in that nation, taxation may be carried to a very great extent, without injuring national prosperity.” It is curious to observe how extremes meet. This is a favorite doctrine too of the mercantile system, of which those of the school of Mr. Spence have so great an abhorrence. The reason of both is the same, that the taxes are laid out in the purchase of commodities; and they have not the discernment to reflect, that the money would have been as certainly laid out in the purchase of commodities, had it remained as

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* Britain Indep. of Commerce, p. 75.
** Ibid.
*** Britain Indep. of Commerce, p. 75.
**** Ibid.
+ Britain Indep. of Commerce, p. 76.
capital. As capital, however, it would within the year have replaced itself with a profit; as taxes it is all consumed, and nothing is created to replace it. By its consumption as taxes the country is rendered poorer, by its consumption as capital, the country would have become richer.

Mr. Spence has next a most excellent idea. The sums paid as taxes, he allows, might have employed productive laborers. “But,” says he, “if we have already productive laborers, sufficient for the supply of all our wants, why increase their number?” This is an argument the most commodious in the world. It is equally accommodated to all times and places. The population of England and Wales was found, in 1801, to be very nearly nine millions and a half. In the time of Edward the 1st, the population of England and Wales was found to be about two millions and a half. Had Mr. Spence lived in the days of Edward the 1st, his argument would have been just as handy as at the present moment. It would apply as logically to the wilds of Tartary, as to England and France. Let us observe another of Mr. Spence’s consistencies. He here tells us, we see, that society ought to become stationary. We have already productive laborers enough; why increase their number? Yet Mr. Spence informed us, in a passage which we have already quoted, that on this increase depended the prosperity of every country. “A nation,” he told us, “may be said to be in prosperity, which is progressively advancing in wealth, where the checks to population are few, and where employment and subsistence are readily found for all classes of its inhabitants.”

This is all which I can perceive, that Mr. Spence advances in the form of direct argument, to prove that the national debt, and heavy taxes, are a public blessing; ** and, if the maxim be well founded, that the proofs of any proposition ought to be strong, in proportion as the doctrine is wonderful, great is the danger that Mr. Spence’s speculations will not have a very splendid fortune.

There is an idea, which he has appended to this doctrine, which would furnish occasion to a most important inquiry; were it not of a more extensive nature, than to admit of being brought within the limits of the present Tract. “In the time of war,” says Mr. Spence, **** “when the most taxes are paid, the bulk of the population of this country enjoy greater prosperity than at any other time.” He adds, “just now, for example, never were the bulk of the people so prosperous.” As he states this merely as an

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* Britain Indep. of Commerce, p. 76.
** He refers to Lord Lauderdale’s “inquiry into the nature and origin of public wealth.” His lordship’s arguments, however, are merely those of Mr. Spence extended. They are drawn from the same source, and applied to the same end. Wherever the above arguments are conclusive against Mr. Spence, if they are conclusive against him at all, they are equally so against Lord Lauderdale. It seems therefore unnecessary to extend the pamphlet by any examination of arguments, which are already refuted.
*** Among other accusations which Mr. Spence has brought against Dr. Smith, he wishes to prove, that, though he dissents from the doctrine of the Economists, he yet “virtually admits its truth.” (See p. 41 of Mr. Spence’s pamph. 3rd edit.) “He asserts,” says Mr. Spence, “that all revenue must be derived from rent of land, profit of stock, or wages of labor. But in the course of his investigation, he admits, that no taxes are finally paid by the profit of stock; the employer of capital always shifting the burden from himself upon the consumer. He allows, too, that taxes cannot finally fall upon wages, since the wages of the laborer increase in proportion, as the price of the articles he consumes is augmented by taxation. On what, then, can taxes fall, but upon the rent of land? If all revenue be necessarily derived from rent, wages and profit, and the two latter cannot be affected by taxation, Dr. Smith, on his own premises, admits the truth of the doctrine of the Economists.” One can with some difficulty determine what to say of this. It is directly untrue. Dr. Smith is so far from saying, that no taxes fall ultimately either upon the profit of stock or the wages of labor, that he explains particularly in what manner taxes do fall upon both. Mr. Spence, however, certainly did not intend this misrepresentation. He tells us, that he borrowed the idea from the Edinburgh Review. [Jan. 1803, No. II, p. 445]. It is probable, that he trusted to this authority, without undergoing the drudgery of consulting Dr. Smith; (taking the business of instructing the public very easily!) and the writer in the Review, with the precipitance natural to a reviewer must have made the assertion at random.
**** Britain Indep. of Commerce, p. 76.
inference from his theory, entirely unsupported by any reference to facts, and as we have seen that his theory is extremely erroneous, we might reject the inference without any farther inquiry. But I am desirous of entering my protest in a manner somewhat more circumstantial against an opinion demonstratively unfounded, cruel to the sufferers, and calculated, as far as its influence extends, to prolong the national calamity of war; an opinion the more likely, if false, to produce disastrous consequences, because it is entertained by many persons in the more affluent circumstances of life, for whom it is too natural to believe, when they themselves are at their ease, that all the world are in a similar situation. It must have been from such a consideration as this of the circumstances of the poor, from an attentive inquiry founded upon his own enjoyments, that Mr. Spence must have learned to assure us, that they are in great prosperity.

Surely, Mr. Cobbett will here take up arms against his new confederate. There is no point which Mr. Cobbett has labored with greater industry, and better effect, for many months, than to prove that the situation of the lower orders has become much more unfavorable since the commencement of Mr. Pitt’s career as a minister. I remember some time ago, though the date I cannot assign, he presented to us a calculation to prove how much the price of the quartern loaf had risen upon the wages of the laborer, and how inadequate his weekly wages had now become, to afford even bread, (not to speak of fire, clothing, and lodging, or a day of sickness) even to a moderate family. To afford evidence upon this subject, sufficient to compel the assent of such persons as are resolved to withhold it as long as they possibly can, a very copious induction of well attested facts would be requisite. These on such a question could not be very easily procured; and the inquiry, even if the facts were ascertain’d, would extend itself beyond the limits to which we are at present confined.

We can, however, appeal within a narrow compass to a few general facts, which afford a strong ground for inference to the whole subject. One of these, of a most extraordinary and important nature, is the state of the poor’s rate. The medium average of the annual expenditure on account of the poor, in the years 1783, 1784, and 1785, was £2,004,238. During the period of peace, which intervened from this date till the breaking out of the war in 1793, no general account was taken of the poor’s rate; and we have, therefore, no complete collection of facts, by which we can ascertain in what degree it increased during that period. If we may form however, a conclusion from the general state of the country, in which wages were continually advancing, while the price of provisions was stationary, or rather on the decline, we seem warranted to infer, that it did not increase at all, if it did not rather decline; at any rate that it did not increase, but in a very small degree.

We have something indeed much more precise than this, on which to found our conclusions. In the Returns from the Parishes inserted in the Work of Sir F. M. Eden, on the Poor, we have statements of the annual expenditure during that period; and though they are not digested into tables, or the general results exhibited, a comparison in a few cases will satisfy the inquirer, that he poor’s rate was the same, or very nearly the same, in 1785 and 1792. The case, however, widely altered during the progress of the war. The attention of the nation had been gradually more and more attracted to this growing calamity during some years previous to 1803, when an act of the legislature was passed, for taking an account of the nature and amount of the expenditure on the poor. At this time it was found to amount to the enormous sum of £4,267,965, 9s 2d. In the course of ten years of war, therefore, the poor’s rate had more than doubled. In nine years, from 1776 to 1785, it had increased only £473,434; in ten years, from 1793 to 1803, it increased £2,263,727.

Does this fact seem to support the strange conclusion of Mr. Spence, that the people of England are most prosperous during war? and above all, that they were never in so prosperous a condition, as they are at this moment? Does Mr. Spence really know, that the number of persons in England, who receive parochial charity, is 1,234,768? The whole population, exclusive of military and convicts, but including the paupers, are 8,872,980. Deduct from this the number of paupers, we have 7,638,212. The paupers, therefore, are to the rest of the population, as one to six nearly. If we suppose, that the higher and middling classes form but one fourth of the population, we shall find that nearly every fifth individual in the laboring classes is a parish pauper. Does this lamentable and extraordinary fact indicate a state of prosperity? If we consider that it is the male part of the population chiefly, that is the earning part and pays the poor’s rate, it will appear, that the paupers are equal to nearly one third of the whole male population, including old men, young men, and children. Mr. Spence will here, it is probable, launch out into a declamation on the growing vices of the poor, (this at least is the general resource) and will to these ascribe the extraordinary increase of the poor’s rate during the war.

But why should the vices of the poor have increased so fast during the war? If this is the effect of war, deeply is its prolongation to be deplored. I know, however, no facts by which it can be made appear, that the poor are more vicious than they were in 1785; and as to complaints, these were as strong fifty years ago, as they are now. If it be said, that the poor’s rate itself is a proof of the increase in the vices of the poor; this is merely
begging the question. It is first making the vices of the poor account for the poor’s rate, and next the poor’s rate account for the vices. Besides, how much sooner the growing tendency of vice is to be deplored, its progress in a whole people is always much slower than what is here ascribed to it. The comparison too of the wages of the laborer with the price of provisions, as made by Mr. Cobbett, in the manner stated above, affords direct evidence on this subject, and leads to the same lamentable conclusion. There are, unluckily, but few recent statements publicly attested, to which on this subject a writer can appeal, and I am unwilling to advance any thing merely on my own experience and observation.

There are, however, some general facts which afford a fair inference to all other cases. In some papers for example printed in 1807, by order of the society of shipowners in Great Britain, I find it stated, that since the year 1780, the price of provisions has increased £84.8s.2d. per cent. That wages, however, have increased only £39.7s.1d. per cent. a rate of increase which is not nearly one half of that of provisions. This account too of the low rate of wages is the more to be depended upon, that it was adverse to the conclusion which the ship owners wanted to establish. Now, though the shipping trade for a few years has been far from flourishing, it is only for a few years; and even during them there has been no diminution in the employment of shipwrights, because the enormous demand in the king’s yards, and in the navy, has much more than compensated for any slackness in the yards of the merchants. We have never heard complaints, that shipwrights were not as well paid as any other artificers of a similar description; that their wages have not risen in a similar, or rather in a superior proportion. We may, therefore, infer, with abundant assurance, that the rate of wages, in proportion to that of provisions, has in all cases where some peculiar circumstances have not created an extraordinary competition for hands, suffered a similar depression. From all this we are surely authorized to conclude, that the assertion of Mr. Spence respecting the prosperous condition of the people at large, is rash and unwarranted.5

I am unwilling to dwell upon this topic, as I am sensible, that I expose myself to a very formidable argument, which we have acquired, in this country, a wonderful dexterity in wielding against one another, that is, the argumentum ad invidiam, (if Mr. Cobbett will for once pardon the use of a learned phrase) the argument, not of refutation, but of odium. The opinion which I have just now ventured to express, and which, if true, it is of so much importance not only to express but to proclaim, there are many gentlemen, who will ingeniously refute, not by attacking the argument, but the author; not by showing that the opinion is unfounded, but by asserting, that the author wishes to stir up the poor against the rich. The two antagonists whom I have more particularly challenged in this tract, I must, however, deny the honor of belonging to that illustrious body. If my argument has not convinced them, they may, if they deem it of sufficient importance, endeavour to refute it; but both of them seem to be too much fettered by old fashioned prejudices, to satisfy themselves, that it is the best mode of refuting an argument to calumniate the arguer.

It might be not useless to those who are the most averse to hear of the fact, barely to allow themselves for one moment to suppose it real, and then to ask themselves, whether it ought to be disguised or to be made known; whether the fatal cause is more likely to be removed by concealment or by exposure. That the fact, if real, is a lamentable one, I suppose will not be doubted; first on principles of mere humanity, next on those of patriotism. For what would it indicate? Have we not seen that when a country is prosperous, the laboring classes of the people are by necessary consequence in comfortable circumstances? that when the comforts of the laboring classes have decayed, the prosperity of the country is at least at a stand, a point from which declension is the consequence, natural and very difficult to be avoided? Since the subject is then of so much importance, let us hope that all those whom the opinion here stated may offend, will exert themselves to refute it. If they can produce facts but nearly as strong against it as are stated to prove it, our wishes will forcibly incline us all to range ourselves of their party.
1. Mill, at least implicitly, has in mind the feudal aristocracy here. His observation does not apply to great inequality of wealth in a free economy. This is because such inequality is largely the result precisely of a higher degree of saving on the part of those who have accumulated the great fortunes.

2. The Physiocrats.

3. The error of Spence and the modern proponents of this doctrine is that they do not realize that the production of goods to be employed reproductively, i.e., capital goods, provides fully as much employment for capital goods and labor as does the production of consumers’ goods. If ninety percent of a nation’s “gross annual produce” is to be employed reproductively and only ten percent consumed, then of the capital goods and labor available in the country, ninety percent are employed in the production of capital goods, and only ten percent in the production of consumers’ goods. Given these proportions, the present supply of labor and capital goods is devoted ten percent to the consumption of one year later, and nine percent to the consumption of two years later. The latter result follows from the fact that the capital goods of next year are the product of ninety percent of today’s capital goods and labor, and are in turn employed ten percent in the production of the consumers’ goods to be available in two years. By an extension of the same reasoning, the capital goods and labor of this year are devoted 8.1% to the consumption of three years later, 7.29% to the consumption of four years later, and so on indefinitely. The effect of employing a larger proportion of the “gross annual produce” reproductively is not to lock resources up in purposeless production, which does not benefit the consumer, but merely to delay the consumer’s reaping of the benefit of their use. And the greater this delay, the greater the benefit derived. For products produced by ten percent of the resources of a country which year after year are augmented in respect to capital goods, and which are the more rapidly augmented the greater the proportion of resources devoted to the production of capital goods, must very soon exceed the quantity of consumers’ goods which could be produced by any greater proportion of the country’s resources.

4. Continual additions “to that part of the annual produce which is devoted to reproduction” do not require a constantly rising proportion of the produce so expended. A retrograde state of society does not result from a growth of the “part of the annual produce which is taken for mere consumption,” but from a growth in the proportion of the produce so taken. In a progressing economy, a larger amount of produce will continually be available for consumption as well as reproduction. This is Mill’s real meaning, judging from the context.

5. It is grotesque that while war and destruction were (and are) held to be the causes of prosperity, capitalism has received the blame for the deterioration of economic conditions in early nineteenth century Britain which was precisely the result of the almost uninterrupted warfare with France carried on between 1793 and 1815. The spiritual heirs of Spence, despite all the evidence of statistics and common observation, are no better informed on the effects of war than he was. They persist in the delusion that World War II, for example, was a period of high prosperity. In actual fact, it represented a far greater degree of poverty, even in the United States, which was spared any physical destruction, than the worst years of the depression which preceded it. In the depression, some people could not buy a new car, a new house, or new appliances. In the war, no one could, for the simple reason that they were not being produced. Despite the fact that he probably worked longer hours, the average person could not obtain in any quantity the most common articles of consumption, from chewing gum and candy bars to gasoline and tires. Millions more worked, and they worked longer hours, but the greater part of their output was consumed on the battlefields. It was not until 1949 that the country recovered from this “prosperity.”