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TRADE UNIONS AND THE WAGES FUND
THEORY: ON THE SIGNIFICANCE
OF MILL'S RECANTATION
AND SOME NOTES ON MARX'S
THEORETICAL INTERVENTION

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The intensity of class struggle in England of 1860s began to transform trade unions from mutual aid association societies to key factors in wage bargaining. These changes at the political level undoubtedly triggered corresponding shifts in theoretical discussion of wages. These shifts had to do chiefly with the recognition of the capacity of the trade unions to impose permanent increases in real wages without causing unemployment. Our analysis will focus on the theoretical interventions of J. S. Mill and K. Marx in this historic conjuncture. They both implicitly challenged the dominant analytical consensus in accordance with which every labour confrontation was ultimately detrimental to the working class's own interests. Revising his own previous arguments, Mill came to support a reformist strategy which made room for trade unions but in the final analysis did not dispute capitalist rule. Marx, by contrast, challenged such political projects, stressing the irreconcilable contradiction between the long-run class interests of capital and labour.

1. INTRODUCTION

THE upturn in the workers' movement in Britain in the 1860s contributed to a proliferation of trade-union organizations and led ultimately to legalization of trade-union activity. The social role of the trade unions appears to have undergone gradual transformation: from organizations for mutual assistance they began to evolve into *significant*

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factors in bargaining (Breit 1967, 513; Hobsbawm 1996 [1975], 113-114; Schumpeter 1994 [1954], 759-760; Biagini 1987).

These changes at the political level had important repercussions for theoretical discussion on wages. Worth a specific mention is the fact that during the 1860s two different *political strategies* developed within the workers' movement, represented – arguably – at the *theoretical level* by the interventions of Karl Marx and John Stuart Mill (henceforth 'Mill'). The present paper seeks first and foremost, with the two above-mentioned writers (in no way fortuitously) as a basic point of reference, to explore the terrain underlying the shifts in the theoretical discussion.

These interventions (among others, obviously) constitute a *break* with the dominant ideological consensus against trade union action. According to this consensus every demand by workers is seen as in the final analysis contrary to the interests of the working class itself. There were two *basic* arguments to support such a perspective. In accordance with the first, which emerges (though not without qualification) from within the work of Ricardo himself, every increase in real wages above the level of subsistence tends to be nullified by a corresponding increase in population. From this viewpoint trade union activity appears – to say the least – ineffectual. The second argument was linked to the 'rigid' or 'vulgar' version of the wages fund theory, which portrayed the material fund of the commodity wages as *prima facie* invariable or inflexible as against workers' demands.

In his *Principles*, despite having *partially* rejected the rigid variant of the wages fund theory, Mill was explicitly negative in his attitude towards any claim-oriented activity of trade unions. Traces of the anti-syndicalist argumentation employed at an earlier date by Ricardo do indeed survive in his work. Though the wages fund was treated as modifiable (particularly if allowance were made for state mediation), he himself basically believed that trade union demands would lead not to an increase but to a reduction in individual wages. It was precisely this point that he felt obliged to reassess in his 'recantation' of 1869. In contrast to what is usually claimed in the relevant secondary literature, this shift in Mill's views definitely had theoretical *content* and *motivation*. As befitted the new political conjuncture, there was clear acknowledgement of a bargaining role for trade unions. For the first time a *reformist trade union strategy* was openly advocated which nevertheless, in the final analysis, did not go so far as to challenge capitalist power.

Marx, on the other hand, as leading figure within the First International, was not content merely to demonstrate the capacity of trade unions to secure income redistribution. Emphasising the irreconcilable character of the conflict between the long-run class interests of capital and labour, he considered that in the particular historical circumstances

the trade unions should also function as *organizational centres* of the workers' political struggle against capitalist political power.

The present paper is structured as follows. In section two we undertake a critical mapping of basic theses of Classical Political Economy, starting from Ricardo's wages theory and focusing specifically on Mill's wages fund theory. In section three we investigate the reasons for the sudden change of climate *vis-à-vis* the wages fund theory, with special emphasis on Mill's famous recantation. In section four we examine Marx's related intervention at this juncture, in particular his theoretical critique of the anti-syndicalist theories of the classical school. In the epilogue we shall summarize our conclusions.

2. FROM RICARDIAN THEORY OF WAGES TO WAGES FUND THEORY: THE CLASSICAL 'REACTION' AGAINST TRADE UNIONISM

2. 1. *Questions on the Ricardian Theory of Wages*

According to Ricardo (1984 [1817], 52) «[l]abour [...] has its natural and its market price». While the natural price of labour is «that price which is necessary to enable the labourers, one with another to subsist and to perpetuate their race, without either increase or diminution [...] [t]he market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce and cheap when it is plentiful» (*ibidem*, 52-53). The supply of labour depends on the magnitude of the population, its growth rate being determined by a (Malthusian) population principle. Demand for labour is in turn a factor of capital accumulation. It is, in other words, dependent on the rate of capital growth. The natural price of labour is the (long-run) centre of gravity in labour pricing, ensuring stability of population.¹ The short-run market price oscillates around it, tending always to conform to it (see Ricardo, *ibidem*, 53).

In the process of capitalist development or, as Ricardo expresses it, «[i]n the natural advance of society»,² «the wages of labour will have a tendency to fall».

As population increases, these necessities [the commodities on which the wages are expended] will be constantly rising in price, because more labour will be necessary to produce them [due to diminishing returns of the soil]. If then the money wages of labour should fall, whilst every commodity on which the wages of labour were expended rose, the labourer would be doubly affected, and would be soon totally de-

¹ According to ROWTHORN 1984 [1980], 185, in Ricardo's schema «[w]hen wages are exactly at the natural level, the population is stationary and the workforce is just replaced from one generation to the next».

² Nature advance of society, which leads it (in the «longer run») to the «stationary state» (see ROWTHORN 1984 [1980], 188 ff.).

prived of subsistence. Instead, therefore, of the money wages of labour falling, they would rise; but they would not rise sufficiently to enable the labourer to purchase as many comforts and necessities as he did before the rise in the price of those commodities.

(*ibidem*, 57)

Many points of Ricardo theses on wages are theoretically vague. The following is a brief review of some of them.

One preliminary question has to do with the *content* of the natural price of labour. Is it «a *physiological minimum*» or «a *cultural minimum*» (Rubin 1989 [1929], 280 ff.)? In other words, what is the content of Ricardo's «subsistence wage assumption»? (Hollander 1983, 314 ff.). Is the reference to a subsistence level *biological* or *cultural*? Ricardo (1984 [1817], 54-55) writes in this connection: «It is not to be understood that the natural price of labour, estimated even in food and necessities, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits of the people». The long-run real price of labour (*i.e.* the natural price of labour) *is thus determined by the cultural status* of the different stages in the development of a society or country and of different societies or countries (the habits of people at different times and places). What Ricardo is suggesting here is an *extra-economic* or *exogenous* determination of natural real wages, *i.e.* a determination *independent* of purely economic factors (or variables).¹

If Ricardo's reference is to a cultural minimum, *i.e.* a cultural subsistence level, one issue to be clarified is how the (Malthusian) principle exerts its influence on population, or in other words on the supply of labour?

One possible answer is that the (Malthusian) population principle itself includes a cultural element. According to Stigler (1956, 190), «Malthus is reasonably clear that usually it [the level of subsistence of the masses] is a cultural minimum, well above the biological minimum». Ricardo (1984 [1817], 55, 57) was aware of this dimension of the «law» of population when he wrote: «An English labourer would consider his wages under their natural rate, and too scanty to support a family, if they enable him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin [...]. The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stim-

¹ This point has been made in the relevant secondary literature, *e.g.* see GAREGNANI 1983, 1984; BHARADWAJ 1978. According to characteristic comment by HARCOURT 1972, 2, the theory of distribution in classical fashion, in the tradition especially of Ricardo, *precedes* in context and priority the theory of value. On the theoretical subject of internal-external (economic) determinations see also MANDEL 1980.

ulated by all legal means in their exertions to produce them. There cannot be a better security against a superabundant population».

But how could this notion of a cultural minimum for the wages of labour be reconciled with the Ricardian thesis of real wages falling (deterioration of the standards of labourers' living) in the course of capitalist development as population increases and «land of an inferior quality, or less advantageously situated, is called into cultivation» (*ibidem*, 35)? Our view is that a theoretical question definitely arises here, because if the natural price of labour is governed by a cultural minimum and the population principle incorporates a cultural element, the natural price of labour will not be regulated by the size of population but will in fact regulate it.

According to Rubin (1989 [1929], 279, 281, 283) Ricardo «usually forgets these qualifications» (of cultural factors qualifying the physiological element), tending in fact to persist with the suggestion of a physiological minimum (functioning as an «iron law»),¹ by virtue of which the (real) wages of labour have the tendency in the longer run (that is in the process of capitalist development or in its stationary state) to be held down to a physiological minimum. In this way, real wages are *ultimately* an «outcome» of the internal logic of a cohesive system grounded «in the workings of natural laws: the 'physico-chemical' *law of diminishing fertility of the soil*, and the 'biological' *law of population*», *i.e.* the vulgar biological aspect of the population principle (also see Mandel 1971).²

Be that as it may, Ricardo's theoretical schema for the wages of labour incorporates two theoretical notions of the natural real price of labour, namely the one positing a cultural minimum (*long run* period) and the one positing a physiological minimum (*longer run* period).³ The former makes cautious overtures to *class struggle* as being among the factors determining wage levels in the long run (establishing a cultural minimum). It introduces class struggle – Ricardo gave qualified acceptance to such conceptions – to the extent of assigning it a role among the *extra-economic* (cultural) determinations of natural real wages, prescribing a cultural minimum and transforming it into a *political* minimum, which in turn exercises a determinate influence on people's habits. The popula-

¹ The proposition that «wages would be forced down to their physiological minimum [...] was later popularized by Ferdinand Lassalle as the notorious 'iron law of wages'» (ROWTHORN 1984 [1980], 194).

² The overall Ricardian conception of the process of the capitalist development («natural tendency of profits to fall» – arrest of «all accumulation» of capital – and the terminal stationary state) is actually based on these natural laws (RICARDO 1984 [1817], 64 ff.; see also RUBIN 1989 [1929], 279 ff.).

³ We agree with ROWTHORN 1984 [1980], 189–191 that Ricardo's theoretical schema could stand without the assumptions that confine his theory to a «rigidly fixed [...] unchanging subsistence minimum». We do not however intend to review the validity of this argument in the present paper.

tion principle here functions as a means for preserving the long-term equilibrium of natural real wages, which thus become an exogenously predefined cultural-political centre of gravity. This makes it possible for there to be different long-term levels of the natural price of labour as a result of the correlations of power between capital and labour.¹

From the outset Ricardo's second theoretical conception totally precludes the possibility of class struggle determining the wages of labour (the physiological minimum). Workers' real wages in the *longer run* are determined from within a closed system as an exclusive outcome of the action of autonomous variables, impenetrable to class struggle: *natural laws*. Any practice benefiting workers (such as trade union organization), any legislation favouring the labouring class, is futile, simply because the population principle (in its strictly biological manifestations) ensures imposition of a biologically determined center of gravity of labour price, unaffected by class struggle² (also see Rubin 1989 [1929], 280-282). Ricardo (1984 [1817], 61) writes:

These, then, are the laws by which wages are regulated, and by which the happiness of far the greatest part of every community is governed. Like all other contracts,

¹ According to STIRATI 1994, 50 ff., 81 ff., 147 ff., the possibility of the existence of different natural wages also emerges from Smithian analysis. This is a case «of persistent changes in proportion between the demand for labour and the population, which Smith associates with different trends of the economy: whether it is stationary, declining, or growing rapidly. In this case changes in that proportion are linked with structural aspects of the economic system» which «have a non-transitory influence on the bargaining position of the workers» and «will affect [thus] the natural wage». In a situation of rapid economic growth, real wages rise to levels above those of biological subsistence (SMITH 1981 [1776], I.viii.16-17, 22-23 – also see STIRATI, *ibidem*). In Smith's theoretical schema «the natural wage is a center of gravitation [...] while subsistence consumption represents the minimum level for the natural wage at a given time and place» (STIRATI, *ibidem*, 83). On the basis of the Smithian theory of wages, Stirati (*ibidem*, 149 ff.) goes on to propose a very interesting «translation of Ricardo theory into Smith's terminology» in the framework of which she employs Ricardian analysis to deduce different long-run natural wages. According then to this «translation» from a (previous) natural wage to the real market wage could be a lasting «deviation» which «is caused by a changed proportion between population» (that is the supply of labour) «and the demand for labour. [...] [T]his cause of wage variation has a certain persistence because of the slowness and uncertainty of the population adjustment mechanisms which [...] must intervene to correct the imbalance between employment and population». These «lasting changes in supply/demand ratio» thus lead in the long run «to changes in the natural wage» (see *ibidem*, 150-151).

² Before and during these «early phases» of the industrial revolution (*i.e.* at the time that Ricardo was writing his works) «organised unions hardly [...] existed in the trades» (HOBSBAWM 1952, 59). Contradictory pictures of the labour movement («desperate revolt and retreat, so familiar from 1815-1848»: *ibidem*, 57) permeate Ricardo's writings and are crystallized in the variety of ways he apprehends the mode of formation of workers' wages. Realizing the hopelessness of labour resistance to the masters' objective of reducing wages to starvation level, Ricardo theorized it as the deterministic consequence of a natural law. Moreover, taking into account that the time between the appearance of Ricardo's theory and that of Smith was a period of deterioration in the social and economic status of the working class (RUBIN 1989 [1929], 226), it is perhaps not difficult to understand why Ricardo was «more pessimistic than Smith was» (STIRATI 1994, 151) about the tendencies in real wages (also see RUBIN, *ibidem*, 205; BREWER 2002, 363-364).

wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

Thus Ricardo (like Smith)¹ did not recognise in his *Principles* any capacity of trade unions action to improve labourers' income.

2. 2. *The General Theoretical Framework of the Wages Fund Theory and Aspects of Mill's Specific Approach in his Principles*

The different variants of the wages fund theory were the central argument around which the conception of distribution was organized in post-Ricardian classical analyses. This theoretical approach is given its first comprehensive form in the works of James Mill and McCulloch (Rubin 1989 [1929], 205, 313; Schumpeter 1994 [1954], 667; Forget 1992, 35; see also Stirati 1994, 177-179 and 1999, 204-207). As a theory of supply and demand it represents a considerable theoretical retreat from the Ricardian theory of wages because of its abandonment of any search for a center of gravity for wages.

Different formulations of the wages fund theory have been put forward by its various exponents (e.g. Stirati 1994, 1999) but a full discussion of this point is beyond the scope of this paper. Here we are going to focus on some aspects of Mill's peculiar argumentation. Davanzati (2002) has provided a brief but comprehensive analysis of the internal inconsistencies and the lack of realism of the wages fund theory.

A number of contemporary analyses perpetuate an assertion that Mill addressed to James Mill and McCulloch, putting forward a variant of the wages fund theory in *real terms* within a simplified model that portrays overall social production as taking place in *discrete* production periods (see, for example, Ekelund 1976, Ekelund and Kordsmeier 1991 [1981], West and Hafer 1991 [1978], Negishi 1985). In such a model the wages fund (*i.e.*, the demand for labour) comprises the total amount of consumer goods that can sustain labour in the given production period, a sum that is determined in the course of the previous period. Wage goods are represented as something *entirely separate* from luxury goods. If the given material fund of wages is distributed between a certain number of

¹ If Ricardo's pessimistic view of the capacity of trade union action to achieve income benefits for the working class reflected a similar pessimism about the prospects for capitalist development in the longer run, Smith's doubts about the usefulness of trade unions action on the contrary derived from institutional factors, namely the context of capitalist class domination (SMITH 1981 [1776], 1.viii.13, also see below, section 3. 2.). Within this context of class domination, in his *Wealth of Nations*, as we have already seen above, Smith attributed the fate of labourers to the weakness of their spontaneously emerging bargaining power in relation to the variety of conditions prevailing on the labour market as a result of similarly diverse trends in the economy (stationary, declining, or growing rapidly) (*ibidem*, 1.viii). On this subject also see STIRATI 1994, 50 ff. We will return below to some other related aspects of the Smithian 'bargaining' argument.

existing labourers (*i.e.*, the supply of labour) real wages will be *endogenously* determined. Although the supply of wage goods is *stable* throughout the specific production period, it could not remain unchanged indefinitely. In the long run it will follow the dynamic of capital accumulation in accordance with the investment (saving) choices of capitalists (Schumpeter 1994 [1954], 666; Breit 1967, 510; Ekelund 1976, 78).

If we accept the preceding problematic we inevitably reach the following conclusion: an *inflexible distributional relationship* is imposed between capital and labour. The wages fund, as a natural supply of commodities, is at every moment strictly ordered outside of every institutional and social determination. Real wages can improve only insofar as fewer workers share the same wages fund. There can thus be no wage rises for workers as a whole. A permanent increase in wages would put a section of the labour force out of employment. In the long run the wages fund can only increase through *voluntary* investment by capitalists (*i.e.*, decisions to increase savings). Once capitalists make their decisions on the structure of capitalist accumulation (savings), the magnitude of the wages fund is rigorously prescribed and labourers must indisputably come to terms with these strictly predetermined limitations. This was the 'rigid' or 'vulgar' version of the wages fund theory, the central argument evoked by the capitalist class to justify its opposition to the demands of workers (Biagini 1987; Clements 1961, 95-96; Ekelund 1976, 67-69; West and Hafer 1991 [1978], 148; Davanzati 2002, 467; Stirati 1994, 1999).¹

It has frequently been noted that although Mill typically fails to make it clear whether the wages fund is comprised of commodities or money, he evidently elaborates his argumentation in *monetary terms* (Hollander 1987, 220; Forget 1992, 39; Breit 1967, 522). This conclusion is reinforced by his own related formulations, in which the term 'wages' «of course» denotes «money wages» (1976 [1871], II.xi.§2). There nevertheless remains an ambiguity which for an entire century after Smith, according to Taussig (1968 [1896], 145), continued to crop up in virtually all discussions on wages.

We cannot but agree with Forget (1992, 39) when she says that «by specifying the fund in monetary terms» Mill succeeds in placing emphasis on its *flexibility*. When workers are paid in money, the rigid distinction between wage goods and luxury goods no longer applies.² Even if wage goods are to be regarded as something separate from luxury goods, an

¹ As we saw above, an exogenously (or else extra-economically) cultural-political centre of gravity of real wages *predefined* from class struggle could be extrapolated from Ricardian analysis. But in a way the wages fund theory implies the exact opposite. The total wages fund is now *predefined quite independently of class struggle*, thereafter (endogenously) determining real wages.

² For a brief critique of this distinction see DAVANZATI 2002, 465.

increase in the monetary (wages) fund will soon generate a corresponding increase in the commodity (wages) fund. This is because if the workers are in a position to spend more, prices will go up and investments will be encouraged in the sector of wage goods (Forger, *ibidem*).

But although (notwithstanding the assertions of the 'rigid' or 'vulgar' version of the wages fund theory) this flexibility could in principle be thought to make possible a flexibility in relations of distribution and individual incomes, it is not utilized by Mill in his analysis in *Principles* to move the argument in such a direction. As we shall endeavour to demonstrate below, *the fate of the individual wage earner is sealed with or without increases in the monetary wages fund*, insofar as – in Mill's specific variant of the theory – he/she is subject to a *rigid law of population* (and by extension to activation of the so-called law of diminishing fertility of land). And given that this is the way things are, trade-union activity is, if not damaging, at least lacking in any beneficial dimension, unless it can succeed in thwarting the operation of precisely this law of population.

2. 3. Mill's Argument on Trade Unions in Principles: *Back to the Malthusian Population Principle*

The majority of economists and popularizing journalists of Mill's day were in the habit of regarding the wages fund theory as an inviolable natural law or, at the very least, as an obvious outcome of the application of common sense (see Clements 1961, 94-96; Breit 1967, 511; Rubin 1989 [1929], 313 ff.). Mill, of course, was more flexible in his analysis in *Principles*. His view was that above and beyond the wages fund theory there might possibly exist *alternative* institutional ways «for remodelling the relation between labourers and employers» (Mill 1976 [1871], II.xii.§1).

Mill's position (*ibidem*, II.xii.§1) is that one cannot exclude from discussion the contingency whereby through «law or opinion» and (why not) through trade union activity, higher real wages would be accomplished. This, however, would unfortunately involve a certain part of the existing working population being, or remaining, out of work (in Mill's own words: «some labourers are kept out of employment»: *ibidem*).

In Mill's analysis the wages fund can be interpreted as being a predetermined amount of savings, *set aside by decisions of the capitalists* for the support of labourers (Stirati 1999, 207). The abovementioned unemployment by this logic could only be eliminated through additional capital accumulation, *i.e.* additional capitalist savings. But the capitalists might not be willing cut down their consumption in favour of savings for the sake of pursuing such a project of investment. The *state* might then feel constrained to intervene in the distributive relations between capital and labour by introducing «compulsory saving», a «forced in-

crease of the wages fund» through imposition of additional taxes on capitalist luxury consumption («superfluities», Mill *ibidem*, II.xii. §1, §2). In this way an additional capital fund would be raised which could restore full employment at a higher level of wages. Note that *the overall wages fund would (indirectly) become flexible as a result of state intervention via taxation.*

If the moral influence of opinion does not induce the rich to spare from their consumption enough to set all the poor to work at 'reasonable wages,' it is supposed to be incumbent on the state to lay on taxes for the purpose [...]. The proportion between labour and the wages-fund would thus be modified to the advantage of the labourers, not by restrictions of population, but by an increase of capital. [...] Society mainly consists of those who live by bodily labour; and if society, that is if the labourers, lend their physical force to protect individuals in the enjoyment of superfluities, they are entitled to do so, and have always done so, with the reservation of a power to tax those superfluities for purposes of public utility; among which purposes the subsistence of the people is the foremost.

(Mill 1976 [1871], II.xii. §1, §2)

Mill's reasoning is based on two necessary presuppositions, which he himself avoids elaborating in his text. *Firstly*, taxation of capitalist superfluities does not alter the volume of predetermined capitalist savings. *Secondly*, and in consequence, while wage increases do indeed reduce total profits, they do not reduce the rate of capital growth. Reduction in demand for luxuries will be accompanied by a corresponding increase in demand for wage goods, resulting in a transfer of capital from production of the former to production of the latter (Mill *ibidem*, I.v. §3).

However – and this is the crucial point in Mill's reasoning – the higher incomes for labour achieved by virtue of the preceding process are not expected to be of great duration. The State-mediated wage increases will have negative consequences for accumulation, *not because they reduce the profitability of capital but because they trigger an uncontrolled population increase.* Due to diminishing fertility of land this situation will sooner or later lead to a reduction in real labour income, probably at levels still lower than the initial equilibrium (*ibidem*, II.xii. § 2). Let us focus on some aspects of Mill's argument:

Any contrivance, even if successful, for temporarily improving the condition of the very poor, would but let slip the reins by which population was previously curbed; and could only, therefore, continue to produce its effect, if, by the whip and spur of taxation, capital were compelled to follow at an equally accelerated pace. But this process could not possibly continue for long together, and whenever it stopped, it would leave the country with an increased number of the poorest class, and a diminished proportion of all except the poorest, or, if it continued long enough, with none at all.

(Mill 1976 [1871], II.xii. § 4)

The abovementioned conclusion applies only when account is taken of the Malthusian population principle *in its strictly biological dimension,*

something which in no way presupposes the demand and supply framework of the wages fund theory and indeed is apparently inconsistent with it.¹ When Mill examines the political action of trade unions he in effect beats a hasty retreat to the well-tested Ricardian arguments of population law and the law of diminishing returns of the soil, eschewing any notion of supply of labour and of labour incomes that could be separable from these laws. His view is evidently that labourers should abandon ambitious claims unless and until they are capable of provident management of their improved incomes.

The above argumentation by Mill contradicts Breit's observation (1967, 510; emphasis added) that the «major policy implication» of the wages fund doctrine was to render «labour unions, factory legislation, and other institutional means of raising wages [...] futile and self-contradictory *because* they merely reduced aggregate profits and, therefore, investment».² In accordance with Mill's specific train of thought, although trade union action would result in unemployment, the required increase in (real) labour income may in principle become possible through State intervention by means of taxation of capitalist luxury consumption, *without changing the level of employment*. Such intervention would bring into operation an additional wages fund (forced accumulation). *But here we are talking about something entirely temporary and potentially extremely destructive*. These higher (real) labour wages slacken control over population increase, reshaping workers' cultural habits. Although in an initial phase it may appear possible that State intervention could effect a redistribution of income in favour of wage earners (higher real individual wages in conditions of full employment) it is also quite on the cards that the real income of the individual wage earner could fall, given that population is rising and inferior-quality land is coming into cultivation. Continuation of such pro-labour State policies for the purpose of maintaining a higher level of real wage income may well lead in the final analysis not just to unemployment but to greater impoverishment than existed in the first place, and even to the country's overall economic ruin. Despite the fact, therefore, that Mill perceives the wages fund as being *relatively* flexible, he does not acknowledge the possibility of trade unions (and ultimately the State) being able to in-

¹ In keeping with the total inflexibility of distributive relations, in the 'rigid' or 'vulgar' version of the wages fund theory, there can be no question of increases in workers' income leading to an increase in population. Any increase in individual wages for a given wage fund would simply lead to direct increases in unemployment (and so would reduce, not increase, population). For Mill, by contrast, it is the very flexibility of the monetary wages fund that generates the theoretical possibility of resort to a law of population.

² Breit's stance is not of course incompatible with the overall logic of Mill's text. It is nevertheless evident that, not taking into consideration the population principle that is embodied in Mill's argumentation, he does not give a proper account of Mill's specific train of thought.

fluence the distribution of income and the level of real wages of the totality of workers. His argumentation in this respect continues to bear the mark of its Ricardian origins.

Mill's position is thus that the best and most reliable *measure*, undoubtedly, for relieving unemployment and poverty is prudential restraint on population growth. Trade unions must therefore abstain from the struggle for higher incomes, focusing their attention exclusively on reforming the reproductive habits of the working class. This, through restriction of the labour supply, could lead to rises in wages (Mill 1976 [1871], II.xii. § 4, § 2). Notwithstanding some minor vacillations of phrasing in successive editions of *Principles*, Mill's argumentation on this point is unflinching (also see Evans 1989, 287; West and Hafer 1991 [1978], 156). Mill in other words proposed to his trade union friends that they should abandon their ineffectual class demands and adopt a 'contraception' strategy. Trade unions, in other words, should be converted into *cultural* and *educational* associations,¹ capable of instilling labourers with a morality that might induce them to control their numbers.²

2. 4. Conclusion: The Classical 'Consensus' Against Trade Union Pretensions

So, as far as the question of trade union activity is concerned, what is involved here may well be consolidation of a prevailing *theoretical consensus* among the key classical writers. From Smith and Ricardo (although with notable deviations in the latter case) to his epigones, *the shared assumption was the notion that trade union activity, whatever else could be said about it, is in any case of no benefit*. Either by virtue of the effects of the Malthusian population law (in its strict biological dimension) or by those of the mechanism of supply and demand (the wages fund theory) *any extra-economic institutional determination of long-run real wages is precluded*. Even Mill, the so called 'progressive' intellectual of that period, did not believe that the political action of trade unions could achieve any positive re-distribution for the working class as a whole, since any initial increase in the wages fund would merely open

¹ This political schedule was reconciled with the overall ideological platform that safeguarded capitalist hegemony in mid-Victorian Great Britain. In a very interesting analysis, THOLFSEN 1971, 61 pointed out that after the defeat of 1848 outbreaks «concern with injustice and inequality receded, and a preoccupation with personal improvement and advancement came to the fore. Workingmen gave their unqualified allegiance to an ethic of improvement which exalted the intellectual and moral development of the individuals as the highest good».

² We should not confuse Mill's advice on a voluntary reduction in the number of labourers through reformation of the reproductive habits of the working class with Ricardo's (speculated) cultural minimum. In our view Ricardo's cultural-political centre of gravity is imposed by class struggle (that is to say, in the long run class struggle determines income distribution), while Mill's 'contraception' strategy implies a given relation of distribution between capital and labour, to which workers must adapt, and in the context of which they could improve their individual income by self-limiting their physical reproduction.

the prospect of greater poverty and even possible economic ruin. The formation of unions would succeed in ensuring the interest of labourers only by contributing to their cultural and moral improvement, and above all establishing a 'contraception' strategy.

In any case, in their direct negotiations with employers, trade unions had no options other than to comply with the terms of what was evidently an immutable 'iron law' governing the income distribution between capital and labour. This logic had to a large extent prevailed in workers' unions, roughly by the early 1870s (Breit 1967, 511; Biagini 1987, 824).

3. THE FIRST POWERFUL REACTIONS IN THE 1860S AGAINST WAGES FUND NOTIONS AND MILL'S NEW STANCE

3. 1. *Introducing Trade Unions Into Mainstream Political Economy*

The upturn in workers' struggles through the 1860s imposed a *significant* shift in the social role of trade unions, beginning to transform them from mutual aid associations to *important political factors and negotiators* (Schumpeter 1994 [1954], 759-760; Breit 1967, 513). It is this 'reappearance' of the proletariat on the political scene that led to the first legislative reforms, which initially allowed for only an elemental form of labour organization, including negotiation of strikes (Hobsbawm 1996 [1975], 113). In Britain, indeed, the political weight of the working class movements was so great that, after a transition period (1867-1875), it managed to generate a system of legal recognition relatively favourable to trade unionism¹ (Hobsbawm, *ibidem*, 113-114). It is in any case no coincidence that the very same period saw the establishment of the first International Workers Association (1864). The strike movement in Great Britain reached a climax between 1871 and 1873, with new trade unions continually appearing (Hobsbawm, *ibidem*, 109, 112-113).

At the political level a strengthened trade union movement within which a moderate *reformist strategy* was the predominant current had become an irrevocable reality (Hobsbawm, *ibidem*, 113-114). Legislation was revised in such a way as to be able to accommodate *collective bargaining* between workers and employers. This new element in economic life began gradually to be introduced into the mainstream theoretical discussion of the period. It is precisely at this time that the first serious theoretical attacks made their appearance against the dominant wages fund theory. The main purpose of these attacks was not to per-

¹ The objective purpose of these reforms from the viewpoint of the capitalist State was obviously control-subjection of the politically dangerous working class movement, so as to prevent its transformation into an independent revolutionary power.

suade people of the exploitative nature of capitalism. In keeping with the new social reality, they attempted to mount a defence of the activity of the trade union movement.

Mill's personal friend Professor Fawcett was unquestionably a leading representative of this new current in economic thought. Noteworthy interventions were also made by Longe in 1866 and Thomas Thornton in 1869 (the latter also being a friend of Mill's, see Breit 1967, Bharadwaj 1978, Negishi 1986). Less well-known are the objections to the wages fund theory that came from the German economists Hermann and Rodbertus (Rubin 1989 [1929], 316). There can be no doubt, however, that particular interest was aroused by Mill's attempt to *modify* the theoretical framework of the wages fund theory. We should never lose sight of the fact that, in contrast to the abovementioned economists, Mill was the most famous intellectual of his era.

In a review of the aforementioned Thornton's work, published in two parts in the May and June 1869 numbers of *Fortnightly Review*, Mill attempted publicly to modify the analysis of wage formation he had put forward in *Principles*. In the secondary literature this intervention is known as his 'recantation' of the wages fund theory. The intentions of Mill's 'rejection' in 1869 of the dominant wages doctrine constitute one of the most difficult problems in the history of economics (Hollander 1987, 221; Ekelund 1976, 84).

Summarizing the debate in an unexpected aside in the first part of his article, Mill acknowledged that the new theoretical point at issue was whether trade unions could after all achieve *general* wage increases for the all workers *without* causing unemployment. As we have already discussed, this eventuality was excluded in his analysis in *Principles*:

The doctrine hitherto taught by all or most economists (including myself), which denied it to be possible that trade combinations can raise wages (...) this doctrine is deprived of its scientific foundation, and must be thrown aside.

(Mill 1975 [1869], 646)

Mill was even more explicit in his personal correspondence with Fawcett, insisting that he «could show that an increase of wages at the expense of profits would not be an impracticability on the true principles of political economy» (cited in Kurer 1998, 533).

Admittedly, in his analysis in *Principles*, Mill had agreed that a general increase in wages for the working class as a whole by means of forced savings through taxation was in principle a possibility – but in the final analysis harmful, because of the influence of the law of population and the declining fertility of the land. Nevertheless even when achieved by this means it was seen as something only marginally significant, and he himself had never maintained that the trade unions would be able *on*

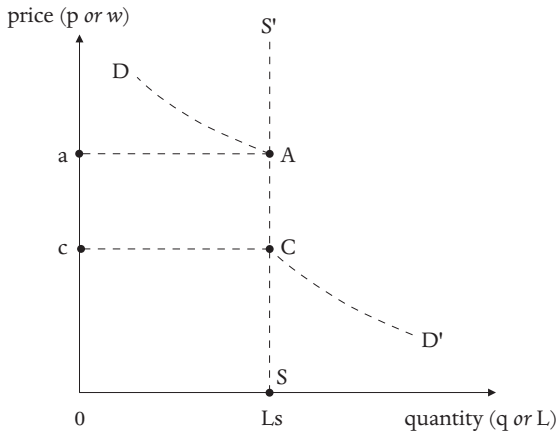
their own to impose changes to the overall wages fund, redistributing profits to the advantage of wage earners. The essence of the recantation, as we shall see below, consists in the proposition that trade unions not only *can* but also *should* impose a general redistribution of profits, obliging the capitalists to carry out *forced* savings and accumulation, *without this requiring State intervention and without the increase in wages causing unemployment or being neutralized by the workings of the law of population*. Where in *Principles* aggressive trade union activity was condemned as harmful, now it was not only justified as necessary but also represented as effective. Let us look more closely at Mill's new train of thought.

3. 2. Mill's Recantation of the Wages Fund Theory: Making Room for Trade Unions

In the 1869 paper (and specifically in its first part), Mill appears to have been influenced by Thornton. The latter's intervention provided him with a good opportunity to test some new analytical positions justifying trade union action. Although Thornton's critique of supply and demand analysis in general and wages fund theory in particular was based on the existence of *disequilibrium prices*, Mill insisted on the quite different case of *multiple equilibria* (for more see Mill 1975 [1869], 642-643; Negishi 1986, 576; Kurer 1998, 527; West and Hafer 1991 [1978], 151-154).

This becomes obvious when Mill examines the difference between *Dutch* and *English* auctions (Mill 1975 [1869], 636-637). Both are represented in the following diagram, where the vertical inelastic supply curve coincides with the corresponding inelastic section of the demand curve. While Mill is not interested in the details of curve shapes, his analysis is based on the above presupposition about them.¹

¹ On this point, the analyses of NEGISHI 1986 and KURER 1998 in our view provide an accurate rendition of Mill's argument. Although Mill makes no explicit reference to supply and demand curves, his entire argumentation hints at some such idea or at any rate could be interpreted as doing so. The quantity supplied and the quantity demanded of a commodity is not «at any time a fixed quantity, but varies with the price» (MILL 1975 [1869], 635). Hence, «the demand and supply theory, when rightly understood [...] signifies, that the ratio which exists between demand and supply, when the price has adjusted itself, is always one of equality. If at the market price the demand exceeds the supply, the competition of buyers will drive up the price to the point at which there will only be purchasers for as much as is offered for sale» (*ibidem*, 635-636). The opposite will occur when the supply exceeds the demand. However, as we discover later in his text, Mill's view is that there are markets on which demand behaves in a peculiar fashion, not subordinating itself to the rule «that demand increases with cheapness» (that is to say the relation between price and quantity demanded does not always apply conversely). Thus, «if there is a part of the scale through which the price may vary without increasing or diminishing the demand, the whole of that portion of the scale may fulfil the condition of equality between supply and demand» (*ibidem*, 637). This is precisely a vertical demand curve situation.



In the first case – the Dutch auction – the bids come from the sellers, who in this way retain the «initiative of price». It is expected that the seller will initiate the auction starting with a very high supply price (higher than p_a) so as to achieve a favourable equilibrium price for himself, let's say p_a . In the English auction, by contrast, bids come from the buyers, who will choose a low price to initiate (rather lower than p_c). When we are in the vertical section AC of the demand curve, in other words, the partner in the transaction retaining the «initiative of price» is in a favourable position to impose equilibrium prices in accordance with his/her interests (Mill, *ibidem*).

For Mill cases such as the above pertaining to the supply and demand mechanism are not some characteristic «exceptions» but reflect the predominant reality of the labour market (*ibidem*, 642). Wages fund theory thus requires modification.

Mill's argumentation evolves as follows. When the demand and supply mechanism leads to alternative equilibrium prices – leaving «the price in part indeterminate, because there is more than one price which would fulfil the law» (*ibidem*, 642) – and accordingly «there is some amount of indeterminateness in its operation» (*ibidem*, 637), for the configuration of the *one* final price we must take into account the particular *bargaining process*. That is how the labour market is *institutionally organized*. In that market, Mill argues, the employer enjoys the institutional advantage of always negotiating from a stronger position than the employee. The former possesses the «initiative of price» (*ibidem*, 642-643) and so takes advantage of «the inability of labourers to hold out» (*ibidem*, 646).

Mill's analysis revives – through Thornton of course – an argument that was first introduced by Smith. According to Smith capitalists' and

labourers' interests are in no way to be identified with each other. Since capitalists «are always and everywhere in a sort of tacit, but constant and uniform combination» and are protected by the law, they possess a powerful advantage in the wage struggle (Smith 1981 [1776], I.viii.11-13). It is not difficult for them to «force the other [party] into a compliance with their terms» (*ibidem*). By contrast, labourers are in an institutionally disadvantageous position and «very seldom derive any advantage from the violence of [their] tumultuous combinations» (*ibidem*). This is due «partly from the interposition of the civil magistrate, partly from the superior steadiness of the masters, partly from the necessity which the greater parts of the workmen are under of submitting for the sake of present subsistence» (*ibidem*).

All this may be seen from a perusal of the vertical segment AC in the above diagram. If labourers are not unionized they are evidently not in a position to resist the pressure of capitalist intentions and they will in the end accept any price between w_a and w_c . The capitalists, on the other hand, who can easily enter into agreement with each other, have no difficulty in suppressing competition between themselves, as evident from the inelasticity of the relevant demand curve. If we confine our attention to an examination of AC , it appears immediately obvious that a reduction in price will not result in any increase in the quantity demanded.

It is precisely here that the essential *shift* in Mill's views is to be located. In *Principles* he had accepted *one and only one factor* for improving wages, and that as a counterbalance to the consequences of the law of population: control of the labour supply. Now he was not only questioning the effect of the population law but also *acknowledging an additional independent factor*. Counterbalancing the privileged position of capitalists, the trade unions (and not the State), *can* and *should* impose an overall redistribution of profits, and such a redistribution is no longer vain, since it leads neither to unemployment (the result of trade-union action in the pre-recantation Mill), nor to increase in population (the result of State-organized political redistribution in favour of labour in the pre-recantation Mill). If trade unions do not do this, employers will insist on «low bids» and will finally impose *low equilibrium wages*, «lower than there is any natural necessity for». It may be helpful, at this point, to quote the following extract from Mill's 1869 paper:

It has made it necessary for us to contemplate [here Mill refers to Thornton's intervention], not as an impossibility but as a possibility, that employers, by taking advantage of the *inability of labourers to hold out, may keep wages lower than there is any natural necessity for*; and *è converso*, that if work-people can by combination be enabled to hold out so long as to cause an inconvenience to the employers greater than that of a rise of wages, a rise may be obtained which, but for the combination, not only

would not have happened so soon, but possibly might not have happened at all. The power of Trades Unions may therefore be so exercised as to obtain for the labouring classes collectively, both a larger share and a larger positive amount of the produce of labour; *increasing, therefore, one of the two factors on which the remuneration of the individual labourer depends*. The other and still more important factor, the number of sharers, remains unaffected by any of the considerations now.

(Mill 1975 [1869], 646; emphasis added)

Political action by trade unions is *absolutely justified*. It will not be deterred by any population principle or condition (the «number of shares remains unaffected»), and will not turn against working class interests by causing unemployment and/or lowering wages. The wage payments will be determined in keeping with bargaining conditions between capital and labour and not within a framework of autonomous variables (predetermined wages fund, magnitude of labour population). Every change in power correlations to the benefit of labour will move the equilibrium point nearer to A. This justifies the emphasis placed by Mill on the *direct variability* of the wages fund, which is now able to be augmented (as a limit) to the extent of the capitalist's entire income: «if he [the capitalist] has to pay more for labour, the additional payment comes out of his own income; perhaps from the part which he would have saved and added to capital, thus anticipating his voluntary economy by a compulsory one; perhaps from what he would have expended on his private wants or pleasures» (*ibidem*, 645).

The above analysis stands only as long as the vertical supply curve SS' coincides with the relatively inelastic segment AC of the demand curve DD' . In elastic segments, DA or CD' , equilibrium wages would be *univocally* determined. The same would apply if we had postulated an elastic supply curve. Mill, however, does not seem particularly concerned about the 'technical' details of his examples. The analysis he puts forward in the rest of his 1869 recantation paper ends with the *final conclusion* that, besides capitalist accumulation and working population, *bargaining conditions themselves also (i.e. besides labour supply) determine equilibrium wages*.¹ But this can hardly be described as a 'supply and demand mechanism'.

3. 3. Conclusions: the reformist Strategy for the Trade Unions

It is however worth noting that Mill's analysis in his article of 1869 is *not without its hesitations*. The conclusions of the previous paragraph are based on the argumentation of the first part of his recantation article. By contrast, in the second section of the same article Mill provides a partial recapitulation of the arguments on the rigid wages fund and

¹ KURER 1998, 531-532 came to a similar conclusion.

(Malthusian) population law, in its vulgar (biological) dimension. Although continuing to oppose viewpoints advocating a ban on trade unions and evidently very critical of the notion that trade unions violate the freedoms of those workers who do not desire to become unionized (Mill 1975 [1869], 658-659), Mill's findings in many ways resemble the corresponding conclusions of the *Principles*: «so long, at least, as there are any classes of labourers who are not unionized, the successes of the Unions will generally be a cause of loss to the labourers in the non-unionist occupations» (*ibidem*, 661-662).

This point was also noted by West and Hafer (1991 [1978], 156) who correctly pointed out that «in all the editions of the *Principles* [...] and in Part II of the Thornton review, Mill assumed that unions could typically succeed in keeping up the wages of their members only by limiting the number of entrants into the trade [...]. Mill's major support of trade unions is ultimately based entirely upon different reasoning, namely, the Malthusian argument». These hesitations on the part of Mill have led other writers also to the conclusion that Mill's position in the recantation involved nothing new. This is a thesis put forward in a substantial part of the relevant secondary literature: Taussig (1968 [1896], 248-249), Hollander (1968, 1987), Breit (1967, 522), West and Hafer (1991 [1978], 157-158), Ekelund (1976, 102), Ekelund and Kordsmeier (1991 [1981], 171).

Our view is that *there is no uniform economic problematic permeating the 1869 text* and that in any case the arguments of Mill that we described in the preceding paragraph retain *their own specific autonomy*. Thus, despite the very real hesitations, *in the 1869 text there is for the first time a perceptible shift in Mill's argumentation*. We are led to the same conclusion as Kurer (1998, 532): evidently «Mill had good reasons to recant».

We very definitely disagree then with the argumentation of Forget (1992), who questions the analytical content of Mill's recantation,¹ maintaining that it was only political factors that led him to a theoretically vacuous self-criticism of the relevant theses of the *Principles*, since the wages fund was monetary in form and thus in Mill's analysis in any case flexible. In our opinion, *the recantation does possess theoretical content*. Indeed it is from precisely this perspective that it is also politically expedient. The (contradictory) shift comprising the main argumentation of the first part of Mill's recantation article is as follows: *firstly*, there is a retraction of the problematic that trade union activity will inevitably

¹ Mill himself, however, was of a different opinion. In a letter dated 9th April 1869 Mill asks the opinion of Cairnes in relation to the first section of the article. Indicatively he notes: «I feel pretty sure you will concur in what I have written on the so-called wages fund, a subject on which I expressed myself in my *Political Economy* as inaccurately as other people, and which I have only within the last two or three years seen in its proper light» (cited in EKELUND 1976, 66; emphasis added).

lead to unemployment (that is to say the problematic of a given inflexible redistributive relationship), *secondly* there is retraction of the effect of the law of population and the law of diminishing returns as inevitable consequences of increases in workers' wages. Our view is thus that although the relative flexibility of the money wages fund in Mill does not by itself lead to the recantation positions (or, as we attempted to show is not to be equated with its theoretical content), it has however made the shift theoretically possible, or perhaps to be more accurate made theoretically easier. Here too we therefore disagree with the claim of Kurer (1998, 534) that «the *Principles* is dominated by a wages-fund doctrine of the iron-clad sort». Flexibility of the money wages fund is thus compatible with Mill's recantation, but the latter is activated by his political sensitivity towards workers' trade union activity, something that Kurer (*ibidem*, 533) also accepts. In this sense *it is the developing dynamic of the labour movement that has activated the pre-existing potential for flexibility of the wages fund of Mill's Principles towards defending trade union struggle.*

With the new, albeit *incomplete*, analytical framework,¹ notwithstanding the ambiguities of his recantation, Mill supports a new 'strategy of intervention' for the trade unions, in parallel with a 'strategy of contraception'. In accordance with it, workers' wage demands are projected as *necessary*. The trade unions *can* and *must* intervene to configure workers' income through processes of bargaining and not *just* through birth control. This process causes neither unemployment nor a rise in population. It therefore does not operate against the interests of the working class. *Different forms of bargaining between labour and capital result in different points of equilibrium, all presupposing full employment.* Insofar as the law of population is inactive and (if one is to judge from the first part of Mill's 'recantation' article) the wages fund is the outcome of this bargaining, real wages are institutionally, extra-economically or exogenously determined.

Mill's recantation was dictated first and foremost by the need for political economy to keep in step with the new institutional and social reality of an emerging and now legal working class syndicalism. To the extent that it demonstrated the desirability and feasibility of worker de-

¹ In the new edition of *Principles* published subsequent to his recantation, Mill, now advanced in years and with health problems, was not able to renegotiate and incorporate its theoretical and political conclusions. Thus, in the introduction to the final – seventh – edition (1871) of the *Principles*, the only one to be published after the recantation of 1869, commenting on the relevant dialogue on the theory of wages fund, Mill notes that: «additional light has been thrown on these subjects; but the results, in author's opinion, are not yet ripe for incorporation in a general treatise on Political Economy» (MILL 1976 [1871], xxxi). There is no amendment of any point in the basic analysis.

mands in the context of the exploitative relationship of wage labour, the *theoretical legitimization* of trade union activity offered by Mill's analysis, even in the absence of questioning such a relationship, in the given conjuncture constituted a potentially worker-friendly reformist strategy. It does not appear to have been altogether foreign to the inclinations of Mill himself. It is well-known that towards the end of his life he maintained contact with trade unionists and supported liberal parliamentary candidates who were on the side of the workers' organizations (Dobb 1975 [1973], 126). It is also well-known that in the 1860s Mill believed that liberal reforms could be achieved only through a fusion of elements of the working class and petty-bourgeois ideologies. He accordingly began to see political economy as a bridge between the two, and he sought to incorporate some working-class ideals into his own theoretical system (Forget 1992, 46-47). As characteristically noted by Forget (*ibidem*): «Mill saw his own special province as the reform of middle-class opinion; he intended to make the well-to-do more sympathetic to labor interests, and this involved undermining the fallacious system of political economy adopted by the middle and upper classes».

Nevertheless, the British trade unions did not find it easy to accept even the reformist strategy that emerged *by implication* from Mill's intervention. For many years following Mill's recantation, the workers' publications and the trade union leaders remained ensnared in the theory of supply and demand. It was only between 1874 and 1877 (in the aftermath of the strike wave of 1871-1873. See above) that they began to include the new input in their argumentation. It seems that the main reason for this delay was the adaptation of the workers' leaders to the climate of arbitration and compromise as a means for handling workers' demands (for details see Biagini 1987, 822-932; and also Hobsbawm 1996 [1975], 114).

4. MARX'S INTERVENTION IN THE POLITICAL CONJUNCTURE OF THE 1860S

4. 1. *Marx's General Political Project*

Though the founding of the International coincides with the emergence of the labour movement, there was a parallel process of reformist incorporation of the working class into capitalist strategy. The increased economic prosperity of that period, the legalisation of trade unions, the corresponding predominance of «diffident and corrupt» «liberal» labour leaders, who «tried to [...] convince public opinion that (trade unions) did not pose a threat to the constitution» (Biagini 1987, 812), «stimulated the personal ambition of the bolder and more politically minded workers towards local self-improvement and the pursuit

of immediate ends, and away from the comparatively nebulous ideal of an international alliance against the bourgeoisie» (Berlin 1996 [1939], 160-161; see also Hobsbawm 1996 [1975], 114; Riazanov 1927, ch. viii). In these conditions, as Berlin (1996 [1939], 166) mentions, Marx left the International «as elastic as he could, in order to be able to include as many active workers' organizations as possible, however disparate their methods and character».

We described earlier how in relation to the theory of wages and workers' unions there are clearly *two Mills*: the *Mill of Principles* and the *Mill of (the first part of the) recantation article*. Marx's political strategy marginally intersects with the politics resulting from Mill's 1869 analysis. Marx insisted on grounding the International in the real movement of the labouring masses and the trade unionist objectives that they set themselves: the «problems of wage labour and of hours of labour» (Ryazanov, *ibidem*). Both writers acknowledged an *extra-economic* determinant establishing the real wages of labour. Marx, moreover, perceiving that the specific political conditions of the period made it possible for trade unions to function as centres of *political representation*, noted that they played what was for their time a key role in struggling for the overturn of the capitalist system of exploitation. We should not forget that despite the fact that trade unions were in general terms organizations of privileged minorities, on the one hand they were a beachhead for more ready diffusion of trade unionism and on the other they were able to comprise nuclei for the organization of powerful workers' movements and so for forms of political intervention in the political scene (Hobsbawm 1996 [1975], 109, 224-229).

4. 2. *Behind the Scenes of Marx's Political and Theoretical Intervention within the International*

Marx's distinctive theoretical approach emerged in the *Manuscripts 1857-58* (first published in 1939-1941 as *Grundrisse*) and in his *A Contribution to the Critique of Political Economy* (first published 1859). From that point onwards he would be engaged in an intensive effort to bring his system to completion. By the time of the establishment of the First International he would already have finished the 1861-63 Manuscript (part of which was first published between 1905 and 1910 under the title *Theories of Surplus Value*), and had embarked upon his initial draft for the writing of *Capital* (see Milios *et alii* 2002, viii).

Prior to the publication of the first volume of *Capital* in 1867, Marx delivered an important lecture on the theory of wages in two presentations (in Geneva on 20th and 27th June, 1865) to the General Council of the International. This lecture was finally published in London in 1889

under the title *Wages, Price and Profit*. His main purpose was to deliver before the Council a detailed report in which the significance of trade unions in the capitalist process of production would have been clarified.

As Marx himself confided in his personal correspondence to Engels (on 20th May 1865), he had to interrupt his theoretical research in political economy because he had judged it necessary to intervene immediately. In a meeting of the *International*, Weston, an old Owenist, had put up two arguments against trade union action. Firstly, «a general rise of the rate of wages would be of no benefit to the workers», so, secondly, «the trades unions for that reason, etc., are harmful» (Marx and Engels 1865). According to Marx, «if these two propositions [...] were to be accepted, we should be in a terrible mess, both in respect of the trades unions here and the infection of strikes now prevailing on the Continent» (*ibidem*).

Our analysis will confine itself to the arguments of the 1865 lecture, which is an intervention by Marx in the specific political and theoretical conjuncture. This intervention inside the *International* was a form of *indirect* participation (Marx was not a well-known writer in his time) in the previous public discussion on the wages fund theory.¹ By criticising the latter, he gave a first general statement of his theory of wages (which is later more carefully developed in *Capital*), *codifying his general problematic on this matter*.²

We are able to isolate three general arguments, which formed the basis for his analysis later on in *Capital*.

Firstly, Marx (1865, ch. ii) criticised Weston's 'rigid' version of the wages fund theory. In the argumentation of Weston, real wages would remain unchanged, as would the *real* wages fund. The basic idea was that an increase in the money value of wages would lead to a corresponding increase in prices, ultimately leaving real wages and wages fund unaffected and *inflexible*. Marx believed, with considerable justification, that behind the 'rigid' or 'vulgar' version of the wages fund theory of Weston lay the mistaken value approach of the «the theory of production costs» (see Rubin 1989 [1929]). But he did not stop here. Simply by raising the question of whether the *income relationship* between the capitalist class and the working class is or is not *rigid* (the question of the relations of income distribution and their flexibility), he in effect laid the analytical basis for the debate on trade union activity and the

¹ «The workers' legal and political repression was routinely justified by 'the Laws of Political Economy,' especially the wage-fund dogma. Marx's intervention in the wage-fund debate, though long unrecognized, is one of his finest achievements» (LAPIDES 2002, 260).

² Note that both in his 1865 lecture and later on in *Capital*, when Marx discussed the wages fund theory he carefully avoided referring to Mill, who was so closely associated with this theory. For this question see the interesting paper by EVANS 1989.

«amount of wages». He explicitly admitted that the relation between wages fund and profit share is manifestly *variable* (*ibidem*, ch. i), rejecting the more general conception of the wages fund theory and noting that «a general rise in the rate of wages would result in a fall of the general rate of profit» (*ibidem*, ch. xiv). For a given «amount of national product», *total class correlations of power* determine the share of labour (see *ibidem*, ch. ii). There is thus no fixed wages fund whose the size is determined solely by the investment plans of the capitalists (for a given level of employment). The relations of income distribution are – within limits – quite flexible, with the capitalist always interested in taking as much as possible (*ibidem*, ch. i), so that «the matter resolves itself into a question of the respective powers of the combatants» (*ibidem*, ch. xiv). As with wages, levels of profit are likewise dependent on the social balance of forces between capital and labour: «the fixation of its actual degree is only settled by the continuous struggle between capital and labour, the capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum, while the working man constantly presses in the opposite direction» (Marx 1865, ch. xiv).

Secondly, by emphasizing the distinction between the «physical» and the «historical» or «social» element, he introduced a *relational determination* of real wages at levels higher, in any case, than the (Ricardian) «*physiological minimum*». Prior to the development of his theoretical schema on the wages of labour in *Capital*, Marx thus perceived that the (*long run*) center of gravity of real wage is determined historically, *i.e.* independently of the conditions of the pure economic conjuncture (the phases of industrial cycles), that is to say: it is determined *extra-economically* or *exogenously*, as a result of a historical crystallization of the balance of class forces (on the terrain of a social formation), only its minimum being determined biologically (for this subject see Economakis and Sotiropoulos 2006).¹ By this reasoning no rigid necessity is to be derived from a population law that ties (at long last) real wages to a «physiological» minimum, as implied in Ricardo's theoretical scheme. Later in *Capital*, Marx followed this line of argumentation to develop the con-

¹ He writes in this connection: «there are some peculiar features which distinguish the *value of the labouring power, or the value of labour*, from the values of all other commodities. The value of the labouring power is formed by two elements – one merely physical, the other historical or social. Its *ultimate limit* is determined by the *physical element*» which corresponds to «the necessaries absolutely indispensable (for the working class) to live and multiply. The *value* of those indispensable necessaries forms, therefore, the ultimate limit of the *value of labour* [...]. This historical or social element, entering into the value of labour [of labour power], may be expanded, or contracted, or altogether extinguished, so that nothing remains but the *physical limit*» (MARX 1865, ch. xiv). Marx «believes in unlimited technical progress, and rejects the notion of diminishing returns in agriculture which play such an important role in Ricardo's stationary state» (ROWTHORN 1984 [1980], 192), and thus in his biological determination of wages.

cept of «industrial reserve army» and so succeeded in vitiating the Malthusian population law. Through the latter Marx provided an explanation for the oscillations in the market price of labour around the historically-determined real wage, at the same time rejecting the notion of full employment in the labour market.¹

Thirdly, under the peculiar political conditions of that historical era, trade unions could become not only «*key centres of resistance*» for improvement of workers' incomes within the limits of the capitalist system but also political centres for «the ultimate abolition of the wages system». Marx writes:

They [the trade unions] fail partially from an injudicious use of their power. They fail generally from limiting themselves to a guerrilla war against the effects of the existing system, instead of simultaneously trying to change it, instead of using their organized forces as a lever for the final emancipation of the working class that is to say the *ultimate abolition of the wages system*.

(*ibidem*, ch. xiv; emphasis added)

At the political level, Marx's decision to attack the 'rigid' or 'vulgar' version of the wages fund theory was an attempt to impose limits on the growing co-optation of the working class into capitalist political strategy. Capitalist economic growth is not an inelastic precondition for every claim by the working class for a greater share (in both absolute and relative terms) of the national product. Such a viewpoint – which ran directly contrary to trade union leaders' policy of conciliation – also comprises a necessary theoretical and political link between *economic* and *political class struggle*, freeing labour in its struggle for better living conditions within capitalism from joint responsibility for the condition of the 'national', *i.e.* for capitalist, development. Under this precondition, trade unions were supposed to remain not just «centres of resistance against the encroachments of capital» but also political centres for «the ultimate abolition of the wages system».

5. EPILOGUE

In the 1960s, following a long period of class struggles, the trade union movement in Great Britain acquired an important institutional role in the organization of the political scene. The preceding analysis leads us to two general conclusions.

Firstly, the changes at the political level undoubtedly also triggered corresponding shifts in theoretical discussion of wages. Within the workers' movement *two different political strategies* unfolded, identifiable

¹ Given that our analysis, as we have already pointed out, confines itself to the arguments of the 1865 lecture, we do not intend in this paper to review Marxian wage theory in *Capital* (in this connection see ECONOMAKIS and SOTIROPOULOS 2006).

for the sake of brevity with the contemporary theoretical interventions of Marx and Mill.

The *reformist strategy*, key reference point for which is undoubtedly Mill's paper of 1869 (not without contradictions), sought to orient the growing radical working class movement towards political targets that did not involve contestation of capitalist power. To achieve this end, Mill had to run against the prevailing theoretical consensus according to which trade union activity (whatever else could be said about it) is in any case of no benefit. Hence, he had to reject both the Malthusian population law and the rigid version of the wages fund theory, which were active in his argumentation in *Principles*. This double rejection, clear enough in the first part of his 1869 paper, forms the analytical basis of his well-known recantation.

On the other hand, from within the First International Workers Association, Marx tried to utilize every opportunity accorded to him – such as the political lecture of 1865 – to stress the class nature of the capitalist system and argue for the feasibility of a *revolutionary strategy*, posing the issue of the overthrow of capitalist power without denying the importance of straightforward economic demands. He seems to have understood that satisfaction of the economic interests of dominated classes not only does not place limits on the political power of dominant classes but also constitutes a means for 'political disorganization' of the dominated classes. The economic 'sacrifices' that, as Mill suggests, capital is required to undergo, can – with suitable ideological packaging – be made into an efficacious medium for keeping the dynamics of the movement 'within the limits of the system', stabilizing bourgeois political hegemony (see Poulantzas 1987 [1968], 190 ff.).

Secondly, the shifts in the theoretical discussion had to do chiefly with recognition of the capacity of the trade unions to impose *permanent* increases in wages for workers *as a whole*. In this context, the determination of long-run real wages began to be associated first and foremost with institutional and social factors (balances of class forces). This brings the discussion back to the arguments of Smithian political economy.

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