

Chapter V.

On Circulating And Fixed Capital.

§ 1. Fixed and Circulating Capital.

Of the capital engaged in the production of any commodity, there is a part which, after being once used, exists no longer as capital; is no longer capable of rendering service to production, or at least not the same service, nor to the same sort of production. Such, for example, is the portion of capital which consists of materials. The tallow and alkali of which soap is made, once used in the manufacture, are destroyed as alkali and tallow. In the same division must be placed the portion of capital which is paid as the wages, or consumed as the subsistence, of laborers. That part of the capital of a cotton-spinner which he pays away to his work-people, once so paid, exists no longer as his capital, or as a cotton-spinner's capital. Capital which in this manner fulfills the whole of its office in the production in which it is engaged, by a single use, is called Circulating Capital. The term, which is not very appropriate, is derived from the circumstance that this portion of capital requires to be constantly renewed by the sale of the finished product, and when renewed is perpetually parted with in buying materials and paying wages; so that it does its work, not by being kept, but by changing hands.

Another large portion of capital, however, consists in instruments of production, of a more or less permanent character; which produce their effect not by being parted with, but by being kept; and the efficacy of which is not exhausted by a single use. To this class belong buildings, machinery, and all or most things known by the name of implements or tools. The durability of some of these is considerable, and their function as productive instruments is prolonged through many repetitions of the productive operation. In this class must likewise be included capital sunk (as the expression is) in permanent improvements of land. So also the capital expended once for all, in the commencement of an undertaking, to prepare the way for subsequent operations: the expense of opening a mine, for example; of cutting canals, of making roads or docks. Other examples might be added, but these are sufficient. Capital which exists in any of these durable shapes, and the return to which is spread over a period of corresponding duration, is called Fixed Capital.

Of fixed capital, some kinds require to be occasionally or periodically renewed. Such are all implements and buildings: they require, at intervals, partial renewal by means of repairs, and are at last entirely worn out. In other cases the capital does not, unless as a consequence of some unusual accident, require entire renewal. A dock or a canal, once made, does not require, like a machine, to be made again, unless purposely destroyed. The most permanent of all kinds of fixed capital is that employed in giving increased productiveness to a natural agent, such as land.

To return to the theoretical distinction between fixed and circulating capital. Since all wealth which is destined to be employed for reproduction comes within the designation of capital, there are parts of capital which do not agree with the definition of either species of it; for instance, the stock of finished goods which a manufacturer or dealer at any time possesses unsold in his warehouses. But this, though capital as to its destination, is not yet capital in actual exercise; it is not engaged in production, but has first to be sold or exchanged, that is, converted into an equivalent value of some other commodities, and therefore is not yet either fixed or circulating capital, but will become either one or the other, or be eventually divided between them.

§ 2. Increase of Fixed Capital, when, at the Expense of Circulating, might be Detrimental to the Laborers.

There is a great difference between the effects of circulating and those of fixed capital, on the amount of the gross produce of the country. Circulating capital being destroyed as such, the result of a single use must be a reproduction equal to the whole amount of the circulating capital used, and a profit besides. This, however, is by no means necessary in the case of fixed capital. Since machinery, for example, is not wholly consumed by one use, it is not necessary that it should be wholly replaced from the product of that use. The machine

answers the purpose of its owner if it brings in, during each interval of time, enough to cover the expense of repairs, and the deterioration in value which the machine has sustained during the same time, with a surplus sufficient to yield the ordinary profit on the entire value of the machine.

From this it follows that all increase of fixed capital, when taking place at the expense of circulating, must be, at least temporarily, prejudicial to the interests of the laborers. This is true, not of machinery alone, but of all improvements by which capital is sunk; that is, rendered permanently incapable of being applied to the maintenance and remuneration of labor.

It is highly probable that in the twenty-five years preceding the panic of 1873, owing to the progress of invention, those industries in the United States employing much machinery were unduly stimulated in comparison with other industries, and that the readjustment was a slow and painful process. After the collapse vast numbers left the manufacturing to enter the extractive industries.

The argument relied on by most of those who contend that machinery can never be injurious to the laboring-class is, that by cheapening production it creates such an increased demand for the commodity as enables, ere long, a greater number of persons than ever to find employment in producing it. The argument does not seem to me to have the weight commonly ascribed to it. The fact, though too broadly stated, is, no doubt, often true. The copyists who were thrown out of employment by the invention of printing were doubtless soon outnumbered by the compositors and pressmen who took their place; and the number of laboring persons now employed in the cotton manufacture is many times greater than were so occupied previously to the inventions of Hargreaves and Arkwright, which shows that, besides the enormous fixed capital now embarked in the manufacture, it also employs a far larger circulating capital than at any former time. But if this capital was drawn from other employments, if the funds which took the place of the capital sunk in costly machinery were supplied not by any additional saving consequent on the improvements, but by drafts on the general capital of the community, what better are the laboring-classes for the mere transfer?

There is a machine used for sizing the cotton yarn to prepare it for weaving, by which it is dried over a steam cylinder, the wages for attendance on which were only two dollars per day, as compared with an expenditure for labor of fourteen dollars per day to accomplish the same ends before the machine was invented.

All attempts to make out that the laboring-classes as a collective body *can not* suffer temporarily by the introduction of machinery, or by the sinking of capital in permanent improvements, are, I conceive, necessarily fallacious.(111) That they would suffer in the particular department of industry to which the change applies is generally admitted, and obvious to common sense; but it is often said that, though employment is withdrawn from labor in one department, an exactly equivalent employment is opened for it in others, because what the consumers save in the increased cheapness of one particular article enables them to augment their consumption of others, thereby increasing the demand for other kinds of labor. This is plausible, but, as was shown in the last chapter, involves a fallacy; demand for commodities being a totally different thing from demand for labor. It is true, the consumers have now additional means of buying other things; but this will not create the other things, unless there is capital to produce them, and the improvement has not set at liberty any capital, even if it has not absorbed some from other employments.

If the improvement has lowered the cost of production, it has often required less capital (as well as less labor) to produce the same quantity of goods; or, what is the same thing, an increased product with the same capital.

§ 3. --This seldom, if ever, occurs.

Nevertheless, I do not believe that, as things are actually transacted, improvements in production are often, if ever, injurious, even temporarily, to the laboring-classes in the aggregate. They would be so if they took place suddenly to a great amount, because much of the capital sunk must necessarily in that case be provided from funds already employed as circulating capital. But improvements are always introduced very gradually, and

are seldom or never made by withdrawing circulating capital from actual production, but are made by the employment of the annual increase. I doubt if there would be found a single example of a great increase of fixed capital, at a time and place where circulating capital was not rapidly increasing likewise.

In the United States, while the cost per yard of the manufactured goods has decreased, and so made accessible to poorer classes than before, the capital engaged in manufactures has increased so as to allow a vastly greater number of persons to be employed, as will be seen by the following comparison of 1860 with 1880 taken from the last census returns. (Compendium, 1880, pp. 928, 930.)

Number of Capital	Average	Total amount	establishments.	(Thousands).	number of paid	in hands wages	during
employed.	the year.	1860	140,433	\$1,009,855	1,311,246	\$378,878,966	1880
		253,852	2,790,272	2,732,595	947,953,795		

"A hundred years ago, one person in every family of five or six must have been absolutely needed to spin and weave by hand the fabrics required for the scanty clothing of the people; now one person in two hundred or two hundred and fifty only need work in the factory to produce the cotton and woolen fabrics of the most amply clothed nation of the world."(112)

To these considerations must be added, that, even if improvements did for a time decrease the aggregate produce and the circulating capital of the community, they would not the less tend in the long run to augment both. This tendency of improvements in production to cause increased accumulation, and thereby ultimately to increase the gross produce, even if temporarily diminishing it, will assume a still more decided character if it should appear that there are assignable limits both to the accumulation of capital and to the increase of production from the land, which limits once attained, all further increase of produce must stop; but that improvements in production, whatever may be their other effects, tend to throw one or both of these limits farther off. Now, these are truths which will appear in the clearest light in a subsequent stage of our investigation. It will be seen that the quantity of capital which will, or even which can, be accumulated in any country, and the amount of gross produce which will, or even which can, be raised, bear a proportion to the state of the arts of production there existing; and that every improvement, even if for the time it diminish the circulating capital and the gross produce, ultimately makes room for a larger amount of both than could possibly have existed otherwise. It is this which is the conclusive answer to the objections against machinery; and the proof thence arising of the ultimate benefit to laborers of mechanical inventions, even in the existing state of society, will hereafter be seen to be conclusive.(113)