

Chapter XI.

Of Excess Of Supply.

§ 1. The theory of a general Over-Supply of Commodities stated.

After the elementary exposition of the theory of money contained in the last few chapters, we shall return to a question in the general theory of Value which could not be satisfactorily discussed until the nature and operations of Money were in some measure understood, because the errors against which we have to contend mainly originate in a misunderstanding of those operations.

Because the phenomenon of over-supply and consequent inconvenience or loss to the producer or dealer may exist in the case of any one commodity whatever, many persons, including some distinguished political economists,(255) have thought that it may exist with regard to all commodities; that there may be a general over-production of wealth; a supply of commodities in the aggregate surpassing the demand; and a consequent depressed condition of all classes of producers.

The doctrine appears to me to involve so much inconsistency in its very conception that I feel considerable difficulty in giving any statement of it which shall be at once clear and satisfactory to its supporters. They agree in maintaining that there may be, and sometimes is, an excess of productions in general beyond the demand for them; that when this happens, purchasers can not be found at prices which will repay the cost of production with a profit; that there ensues a general depression of prices or values (they are seldom accurate in discriminating between the two), so that producers, the more they produce, find themselves the poorer instead of richer; and Dr. Chalmers accordingly inculcates on capitalists the practice of a moral restraint in reference to the pursuit of gain, while Sismondi deprecates machinery and the various inventions which increase productive power. They both maintain that accumulation of capital may proceed too fast, not merely for the moral but for the material interest of those who produce and accumulate; and they enjoin the rich to guard against this evil by an ample unproductive consumption.

§ 2. The supply of commodities in general can not exceed the power of Purchase.

When these writers speak of the supply of commodities as outrunning the demand, it is not clear which of the two elements of demand they have in view--the desire to possess, or the means of purchase; whether their meaning is that there are, in such cases, more consumable products in existence than the public desires to consume, or merely more than it is able to pay for. In this uncertainty, it is necessary to examine both suppositions.

It will be here noticed that Mr. Mill uses demand in the sense for which we contended it should be used (Book III, Chap. I, § 3), and not as "quantity demanded." The present discussion of over-production should also be connected by the student with the former reference to it, Book I, Chap. IV, § 2.

First, let us suppose that the quantity of commodities produced is not greater than the community would be glad to consume; is it, in that case, possible that there should be a deficiency of demand for all commodities for want of the means of payment? Those who think so can not have considered what it is which constitutes the means of payment for commodities. It is simply commodities. Each person's means of paying for the productions of other people consists of those which he himself possesses. All sellers are inevitably and *ex vi termini* buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should, by the same stroke, double the purchasing power.

Everybody would bring a double demand as well as supply; everybody would be able to buy twice as much, because every one would have twice as much to offer in exchange. It is probable, indeed, that there would now be a superfluity of certain things. Although the community would willingly double its aggregate

consumption, it may already have as much as it desires of some commodities, and it may prefer to do more than double its consumption of others, or to exercise its increased purchasing power on some new thing. If so, the supply will adapt itself accordingly, and the values of things will continue to conform to their cost of production. At any rate, it is a sheer absurdity that all things should fall in value, and that all producers should, in consequence, be insufficiently remunerated. If values remain the same, what becomes of prices is immaterial, since the remuneration of producers does not depend on how much money, but on how much of consumable articles, they obtain for their goods. Besides, money is a commodity; and, if all commodities are supposed to be doubled in quantity, we must suppose money to be doubled too, and then prices would no more fall than values would.

§ 3. There can never be a lack of Demand arising from lack of Desire to Consume.

A general over-supply, or excess of all commodities above the demand, so far as demand consists in means of payment, is thus shown to be an impossibility. But it may, perhaps, be supposed that it is not the ability to purchase, but the desire to possess, that falls short, and that the general produce of industry may be greater than the community desires to consume--the part, at least, of the community which has an equivalent to give.

This is much the most plausible form of the doctrine, and does not, like that which we first examined, involve a contradiction. There may easily be a greater quantity of any particular commodity than is desired by those who have the ability to purchase, and it is abstractedly conceivable that this might be the case with all commodities. The error is in not perceiving that, though all who have an equivalent to give *might* be fully provided with every consumable article which they desire, the fact that they go on adding to the production proves that this is not *actually* the case. Assume the most favorable hypothesis for the purpose, that of a limited community, every member of which possesses as much of necessaries and of all known luxuries as he desires, and, since it is not conceivable that persons whose wants were completely satisfied would labor and economize to obtain what they did not desire, suppose that a foreigner arrives and produces an additional quantity of something of which there was already enough. Here, it will be said, is over-production. True, I reply; over-production of that particular article. The community wanted no more of that, but it wanted something. The old inhabitants, indeed, wanted nothing; but did not the foreigner himself want something? When he produced the superfluous article, was he laboring without a motive? He has produced--but the wrong thing instead of the right. He wanted, perhaps, food, and has produced watches, with which everybody was sufficiently supplied. The new-comer brought with him into the country a demand for commodities equal to all that he could produce by his industry, and it was his business to see that the supply he brought should be suitable to that demand. If he could not produce something capable of exciting a new want or desire in the community, for the satisfaction of which some one would grow more food and give it to him in exchange, he had the alternative of growing food for himself, either on fresh land, if there was any unoccupied, or as a tenant, or partner, or servant of some former occupier, willing to be partially relieved from labor. He has produced a thing not wanted, instead of what was wanted, and he himself, perhaps, is not the kind of producer who is wanted--but there is no over-production; production is not excessive, but merely ill-assorted. We saw before that whoever brings additional commodities to the market brings an additional power of purchase; we now see that he brings also an additional desire to consume, since if he had not that desire he would not have troubled himself to produce. Neither of the elements of demand, therefore, can be wanting when there is an additional supply, though it is perfectly possible that the demand may be for one thing, and the supply may, unfortunately, consist of another.

It is not sufficiently borne in mind, also, that the whole progress of civilization results in a differentiation of new wants and desires. To take but a single instance, with the growth of the artistic sense the articles of common use change their entire form; and the advances in the arts disclose new commodities which satisfy the world's desires, and for these new satisfactions people are willing to work and produce in order to attain them. With education also comes a wider horizon and a more refined perception of taste, which creates wants for new things for which the mind before had no desires. A little reflection, therefore, must inevitably lead us to see that no person, no community, ever had, or probably ever will have, all its wants satisfied. So far as we

know man, it does not seem possible that there will ever be a falling off in demand, because of a satiety of all material satisfactions.

§ 4. Origin and Explanation of the notion of general Over-Supply.

I have already described the state of the markets for commodities which accompanies what is termed a commercial crisis. At such times there is really an excess of all commodities above the money demand: in other words, there is an under-supply of money. From the sudden annihilation of a great mass of credit, every one dislikes to part with ready money, and many are anxious to procure it at any sacrifice. Almost everybody, therefore, is a seller, and there are scarcely any buyers: so that there may really be, though only while the crisis lasts, an extreme depression of general prices, from what may be indiscriminately called a glut of commodities or a dearth of money. But it is a great error to suppose, with Sismondi, that a commercial crisis is the effect of a general excess of production. It is simply the consequence of an excess of speculative purchases. It is not a gradual advent of low prices, but a sudden recoil from prices extravagantly high: its immediate cause is a contraction of credit, and the remedy is, not a diminution of supply, but the restoration of confidence. It is also evident that this temporary derangement of markets is an evil only because it is temporary. The fall being solely of money prices, if prices did not rise again no dealer would lose, since the smaller price would be worth as much to him as the larger price was before. In no matter does this phenomenon answer to the description which these celebrated economists have given of the evil of over-production. That permanent decline in the circumstances of producers, for want of markets, which those writers contemplate, is a conception to which the nature of a commercial crisis gives no support.

The other phenomenon from which the notion of a general excess of wealth and superfluity of accumulation seems to derive countenance is one of a more permanent nature, namely, the fall of profits and interest which naturally takes place with the progress of population and production. The cause of this decline of profit is the increased cost of maintaining labor, which results from an increase of population and of the demand for food, outstripping the advance of agricultural improvement. This important feature in the economical progress of nations will receive full consideration and discussion in the succeeding book.(256) It is obviously a totally different thing from a want of market for commodities, though often confounded with it in the complaints of the producing and trading classes. The true interpretation of the modern or present state of industrial economy is, that there is hardly any amount of business which may not be done, if people will be content to do it on small profits; and this all active and intelligent persons in business perfectly well know: but even those who comply with the necessities of their time grumble at what they comply with, and wish that there were less capital,(257) or, as they express it, less competition, in order that there might be greater profits. Low profits, however, are a different thing from deficiency of demand, and the production and accumulation which merely reduce profits can not be called excess of supply or of production. What the phenomenon really is, and its effects and necessary limits, will be seen when we treat of that express subject.