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"DROP THE DEAD DONKEY": A RESPONSE TO STEVEN KATES ON THE SUBJECT OF MILL'S FOURTH PROPOSITION ON CAPITAL

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Abstract*

Steven Kates has recently (2015a) attempted to explain and justify J S Mill’s paradoxical “fourth proposition on capital”, which states that “demand for commodities is not demand for labour”, a proposition which notoriously – over generations – has baffled many eminent commentators. Kates intends to resolve the puzzle by offering “a proper understanding of Say’s Law as it was understood by Mill and his contemporaries.” We conclude that Kates does indeed reveal the logic of Mill’s proposition, making it clear that from Mill’s lost “supply-side” perspective, it is in no way puzzling or paradoxical. However, at the same time it becomes evident that Mill’s whole position is undermined by his acceptance of the untenable belief that “demand is constituted by supply”, which leaves us with the clear understanding that his fourth proposition, despite Kates’s rationalisation and defence thereof, as well as certainly being paradoxical, is simply untrue.

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"Drop the Dead Donkey"

A Response to Steven Kates on the Subject of Mill's Fourth Proposition on Capital

Introduction

Steven Kates is well-known as a present-day proponent of the old "classical" macroeconomics of Jean Baptiste Say, James Mill, David Ricardo and J S Mill. He regards that body of thought as being of superior merit to, and of much greater practical relevance than the Keynesian theory which subsequently supplanted it as the mainstream wisdom.[1] He holds by Say's Law, "which seems simplicity itself, [was] accepted by every economist for more than a hundred years up until 1936, [but] is apparently an impassable obstacle in the modern world."[2] Mill sees Say's Law as creating an unfortunate intellectual barrier which cuts modern readers off from valuable theoretical contributions of the past. Kates, as he himself says, has "written books and papers, monographs and articles"[3] in a long-sustained effort to persuade the economics profession to see its way around that "obstacle". Most recently he has focused attention on Mill's puzzling "fourth fundamental proposition on capital", which notoriously states that "demand for commodities is not demand for labour". In fact, Kates evidently means (Kates, 2015a) to settle, once and for all, the status of that contentious proposition by providing an explanation and defence of the apparent paradox presented by Mill. His intention (2015a, p.55) is to demonstrate that:

> Mill's fourth proposition is no paradox. It is not a riddle. It is an answer to those who believe that an increase in unproductive spending can increase the number of persons employed. Mill denied it is possible and was doing no more than expressing the near-unanimous conclusion of the economists of his time at the end of the general glut debate. It was a conclusion embedded within economic theory until the publication of *The General Theory* in 1936 representing, as it did, the actual meaning of Say's Law within classical economic thought.

Kates's explanation and defence of Mill's fourth proposition

To convince readers of the logic and validity of Mill's fourth proposition Kates adopts two lines of approach. One is to argue that the difficulty scholars today have with the proposition stems not from any error in Mill's analysis, but from the fact that in the years since Mill formulated the proposition, the mind-set of economists has so altered that what was familiar

[1] "We seem to have a completely false notion that economic theory moves only forward, that the latest is the best, and that the past has been transcended. The reality is that the economics of Mill, even his 1848 first edition, will provide more insight into the operation of an economy than any of the Samuelson clones that have been published to explain what Keynes meant in trying to raise aggregate demand." (Kates, 2015b, p.12)

[2] Kates (2014, p.9).

[3] Kates (2014, p.9). See, for instance, Kates (1998), *Say's Law and the Keynesian Revolution: How Macroeconomic Theory Lost Its Way*, and Kates (2003), *Two Hundred Years of Say's Law*, etc.

and readily understood in Mill's day has (unfortunately) become virtually unintelligible to the modern reader. Kates names a number of subsequent, and eminent, commentators as having found great difficulty in grasping Mill's meaning. In this connection, Marshall, Allyn Young, Hayek and Samuel Hollander are mentioned. For this state of general incomprehension, Kates blames both the marginal and the Keynesian revolutions for shifting theoretical attention away from the old emphasis on supply-side factors in determining levels of output and employment to a completely different focus on conditions of demand, thereby effecting a fundamental change of theoretical perspective, and so making it difficult or impossible for later readers to follow Mill's argument.[4]

To make the point that to Mill's contemporaries his analysis was in fact intelligible and generally deemed correct, Kates, when referring to the fourth proposition, never fails to cite Sir Leslie Stephen's dictum (1876, p.297) that "complete apprehension" of Mill's fourth proposition "is, perhaps, the best test of a sound economist". (Kates, 2015a, p.40) But should we take Leslie Stephen as an authority on economic theory? Note that Joseph Schumpeter (1950, p.116) regarded Stephen not as an economist, but as "first and last, a political sociologist". Again Kates likes to mention that, after the publication in 1848 of Mill's *Principles*, which included the contentious fourth proposition, the volume and the proposition were readily accepted by the profession. The fact that by 1848 the principal critics of the Say's Law doctrine – Malthus, Chalmers and de Sismondi – had all passed from the scene may be not unconnected with the smooth passage which Mill's *Principles* received.

Kates's main line of defence of the fourth proposition is an attempt, by focusing on the four propositions on capital together with Mill's understanding of Say's Law, to spell out Mill's own reasoning in the hope that readers, having been forewarned that Mill's theoretical perspective was not that of a present-day Keynesian, will appreciate Mill's logic and find his meaning self-evident. As Kates puts it (2015a, p.45):

> This paper will . . . attempt to explain Mill's reasoning in a way that not only demonstrates the internal coherence of his statement, but will also argue that the fourth proposition and the first three together provide a logical and cohesive understanding of the operation of an exchange economy, based as they are on an understanding of the classical meaning of Say's Law.[5]

Let us consider Kates's explanation.

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[4] Kates (2003, p.75) referring to the proposition that "demand is constituted by supply" comments, "So inbred have Keynesian ways of thinking become that this conception may simply be beyond the comprehension of a modern economist." (It might of course, *pace* Kates, simply be wrong.)

[5] Kates adds to the above the following; "Moreover, the demonstration that demand for commodities is not demand for labor requires no retreat into classical presuppositions such as the wages-fund to explain why this may be the case, or any reading into the text of some principle left unstated on the pages of Mill's *Principles*." With that we cannot agree: it appears that Mill certainly does employ the notion of a "wage-fund". Note that all editions of the *Principles*, as edited by Mill, were published before his celebrated "recantation" of the wage-fund doctrine. See discussion below and footnote 5.

First recall Kates's complaint that an intellectual "discontinuity" has cut modern economics off from the conventional mode of thinking of Mill's time. Kates believes that to understand Mill and his apparently paradoxical fourth proposition we must bridge this conceptual gap by recovering, *in his own terms*, Mill's interpretation of how the economy works. What must be then be understood is that Mill's whole approach was based on the supposition (a supposition shared today by Kates) that what happens on the supply side is crucial in determining the state and progress of the economy. Kates holds that the loss of this essential insight - swamped by the impact of the marginalist and Keynesian revolutions – has led macroeconomics into a disastrously wrong turning by directing attention away from supply to the state of demand for output as the primary determining factor.

From Mill's (traditional) perspective, in all situations it is supply-side factors that are of primary importance. Initially, for goods to be produced, labour must be supported by capital – capital which must be supplied (from savings) before it can put labour into motion. The supply of capital is vital: without capital, no employment, no production. Production in each sector – i.e. supply - mutually creates the purchasing power to buy the productions of all other sectors. Supply *is* demand. Overall supply cannot outrun demand as supply and demand are in reality opposite sides of the same coin. This (Say's Law) understanding does not exclude the possibility of recession and unemployment – unemployment occurring as the result of miscalculation of the appropriate supply in relation to demand – certainly not in consequence of a deficiency of the "desire to purchase" relative to capacity to produce.

It is Kates's intention to assure modern readers that, from Mill's perspective (and his own) there is nothing puzzling or paradoxical in Mill's fourth proposition.

We note first what Kates says about Say's Law, and then continue with the four propositions on capital. As regards Say's Law as understood by Mill, Kates emphasises the belief that demand is constituted by supply, that demand deficiency was not seen as a legitimate explanation for recessions, but that it was accepted (something not usually understood today) that "recessions do occur", these being caused "by errors in production decisions", not by deficiency of demand. Kates stresses (2015a, p.45) that Mill "meant his fourth proposition to apply to situations where large-scale unemployment exists. His point was that even with high unemployment, an increase in demand would not lead to an increase in the number of jobs."

Kates duly notes the substance of the four propositions. Thus, proposition one: "industry is limited by capital" (capital being defined as all means of subsistence, materials and equipment necessary to support labour engaged in production); proposition two: "capital . . . is the result of saving"; proposition three: "capital . . . although saved, and the result of saving is nevertheless consumed" (used up in supporting productive labour in adding to the stock of resources); and proposition four (Mill, 1866, I, v, 9), "what supports and employs productive labour, is the capital expended in setting it to work, and not the demand of purchasers for the product of the labour when completed. Demand for commodities is not demand for labour." With proposition four comes the corollary: "The demand for commodities determines in what particular branch of production the labour and capital shall be employed; it determines the direction of the labour; but not the more or less of the labour itself, or of the maintenance or payment of the labour. These depend on the amount of the capital, or other funds directly devoted to the sustenance and remuneration of labour."

That, effectively, is all that Kates has to say in support of Mill's fourth proposition. What do we make of this "explanation"? The focus is clearly on the supply side. The first three propositions, and indeed the first part of proposition four, are uncontentious and perfectly acceptable – they state that capital is accumulated via saving out of current income, and that for labour to be employed, the application of capital is required, as the means, in Adam Smith's phrase, of "putting labour into motion". But, from a modern perspective, it may still be difficult to understand the latter part of proposition four – why do Mill and Kates insist that demand for commodities is not demand for labour?

We need to return to Kates's statement (quoted above) that "the fourth proposition and the first three together provide a logical and cohesive understanding of the working of an exchange economy" to see if it holds the clue to the position he is taking. We think it does. We suggest that Kates is arguing that if (as he believes) supply really does create demand, the fourth proposition simply recognises this in stating that the supply of productive resources is what determines the volume of both employment and demand. In other words, it would be a contradiction of Say's Law to suppose that "demand for commodities is demand for labour"; the fourth proposition is implicit in the other three when Say's Law is taken as valid. From Mill's perspective, supply-side conditions determine the amount of expenditure on the employment of labour. Resources are offered in the sure confidence of there being no problem with the volume of demand necessary to take up the resulting output: the sole role thus left to demand for output is merely to determine the allocation of that *given* amount of employment amongst the various branches of production.

Employment depends on the quantity of resources available to support labour; the availability of resources does not simply set a maximum limit to the possible volume of employment – resources will be used to the full in supporting labour. Mill is explicit:

> While on the one hand, industry is limited by capital, so on the other, every increase in capital gives, or is capable of giving, additional employment to industry; and this without assignable limit. I do not mean to deny that the capital, or part of it, may be so employed as not to support labourers, being fixed in machinery, buildings, improvement of land, and the like. . . . What I do intend to assert is, that the portion which is destined to their maintenance, may (supposing no alteration in anything else) be indefinitely increased, without creating an impossibility of finding them employment; in other words, that if there are human beings capable of work, and food to feed them, they may always be employed in producing something. (Mill, 1866, I, v, 1)

That is, we believe, what Kates intends us to understand as his explanation of the "paradox": that availability of capital, not demand for output, is the key factor in determining the volume of employment. That such is his line of thought is made more clearly explicit in an earlier account he has given of the fourth proposition. He says there (Kates, 2011, p.79):

> Mill's fourth proposition states that "demand for commodities is not demand for labour". Its meaning: when you buy goods and services you are not hiring labour. This is how it was put by Mill: "To purchase produce is not to employ labour; . . . the demand for labour is constituted by the wages which precede the production, and not by the demand which may exist for the commodities resulting from the production."
>
> What this means is this. When someone buys goods, they are not themselves employing the labour or paying the wages. By the time the good is bought, the work has already been done, and workers have already been paid. The employment of labour is an entrepreneurial decision made in advance of production and sale. It is not the consequence of someone finally having bought the product.

The question we must now ask is – what underlies this interpretation of events? Obviously, a basic factor is the Say's Law presumption that overall demand naturally accommodates itself to whatever volume of output is offered on the market – no need to worry about the volume of demand relative to the volume of potential output. The other understanding on which Mill's position depends, is evidently (despite Kates's denial of the point[6]) the wage-fund theory of employment (a derivative of Say's Law) which holds that at any time there is, available in the hands of employers, a fixed volume of capital which *will* be applied to "put labour into motion". The volume of employment at any time depends therefore, given the value of real wages, on the size of the existing "wage-fund" of investible resources. Demand for output has nothing to do with determining the size of the fund: demand for output passively adapts itself the size of that fund.

George Stigler (1988, p.3) recognised what Mill had in mind:

> Consider the famous fourth proposition on capital . . . : a demand for commodities is not a demand for labor; rather, the demand influences only the allocation of labor among industries. This argument is most clearly stated in the first edition, where its essence is simply this: labor is employed by the existing wages fund, - all labour if wages are flexible, a suitably limited amount of labour if wages are not flexible. Then the composition of the demand for output by consumers influences only where the employed labourers will be occupied. Q.E.D.

[6] See footnote 4 above. Kates's denial of the use of the wage-fund theory in Mill's analysis appears to depend on a misreading by Kates (2015a, p.48) of Mill's meaning. Mill does distinguish between *all* real capital goods and the wage-goods required to maintain labour.

We are thus given to understand that, *within the terms of Mill's conception*, it can be said that "demand for commodities is not demand for labour": Mill's proposition follows with perfect logic from his basic Say's Law understanding of how the economy works.

But *without a "tame" aggregate demand function* – that is to say, outwith a world of Say's Law - Mill's fourth proposition makes no sense. In the real world of uncertainty, resources are invested to support labour in employment, not simply on the basis of their availability, but on the basis of expectations – forecasts – as to the conditions in the market for the output which that labour will produce. If prospects appear unpropitious, funds may be retained in liquid form rather than committed to specific (and illiquid) real assets. *Both the volume and the direction of planned production do depend on expectations of demand.*

Thus Mill's fourth proposition, while from Mill's own (obsolete) perspective straightforward and in no way paradoxical, is, from a modern "demand-orientated" viewpoint, certainly paradoxical and essentially invalid: it involves the untenable assumption that an entrepreneur will – under all normal circumstances[7] - commit to employment and production *all* the resources at his command, without any doubts as to the adequacy of a market for the resulting output. But it cannot reasonably be assumed that *any* volume of production must find a market. We may correctly say that, *in reality*, demand for commodities *is* demand for labour.

Examples of Mill's analysis on the basis of the proposition that "demand for commodities is not demand for labour"

Once we thus appreciate the foundations of Mill's position in Say's Law and the wage-fund theory of employment, it becomes easy to understand his reasoning in the several, otherwise puzzling, examples he offers as illustrative of his fourth proposition on capital. Let us therefore conclude this discussion by reviewing Mill's applications of his fourth proposition. We can see how the proposition, woven deeply into Mill's thinking, supports conclusions which a modern theorist would not countenance.

Initially he puts two cases before the reader: firstly, one in which demand for a commodity exists, but the necessary capital does not; the second instance is of the opposite situation in which capital is available but demand for output is absent.

Case 1 is described thus:

> Suppose, for instance, that there is a demand for velvet: a fund ready to be laid out in buying velvet, but no capital to establish the manufacture. It is of no consequence how great the demand may be: unless capital is attracted into the

[7] Mill allows (only) that in the case of a financial crisis, and breakdown of the normal mechanisms of exchange and credit, traders my well try keep money in hand and desist from commercial ventures. For an extended discussion of the foundations of Mill's belief in Say's Law , see Grieve, R H (forthcoming, 2016, *Journal of the History of Economic Thought*), "Keynes, Mill and Say's Law: the *legitimate* case Keynes ought to have made against J S Mill."

> occupation, there will be no velvet made, and consequently none bought; unless, indeed, the desire of the intending purchaser for it is so strong, that he employs part of the price he would have paid for it, in making advances to workpeople that they may employ themselves in making velvet; that is, unless he converts part of his income into capital, and invests that capital in the manufacture.
>
> (Mill, 1866, I, v, 9)

To the modern reader, this is weird: one cannot see why there should be any problem – nothing more than the temporary difficulty of a shortage of velvet until the unsatisfied demand attracts resources into velvet production. Why does Mill not simply take it that resources will be transferred from somewhere else in the economy or created as required? Why should the consumer himself have to undertake production? But in the light of our investigation of Mill's thinking, all becomes clear. Capital – a free supply of capital, a larger wage-fund – has to be in existence *before* velvet can be produced: the mere emergence of a demand for velvet does not in itself, *ceteris paribus*, generate an increase in the available wage-fund. Unless the anxious customer himself adds to the wage fund by putting up the capital to employ extra workers in velvet production, no such production is possible. Mill has no conception of the demand for labour being derived from the demand for what labour produces: the demand for labour is simply constituted by the resources available to "put labour into motion".

Case 2 illustrates again – from the opposite perspective – Mill's adherence to Say's Law. In this instance, if there is capital available to support labour in employment, that labour will certainly be employed: the is no need to worry about the sufficiency of demand to take up the output that labour will employ. Thus Mill: "the employment afforded to labour does not depend on the purchasers, but on the capital" That is to say, as cited above: "in other words, that if there are human beings capable of work, and food to feed them, they may always be employed in producing something." (1866, I, v, 3) Somehow or other, if capital is on offer, employment will be generated – end of story.

In his chapter "Fundamental Propositions on Capital" (1866, I, iv) Mill hammers away at the fourth proposition point that it is not the purchase of commodities that creates employment: more labour can be brought into employment *only* via increasing the wage fund – which may be done through advancing capital for the direct employment of workers, not through buying finished products. Given his acceptance of the wage-fund theory Mill tries to show – via a series of elaborate examples - that it is only through the *direct* employment of labour that an increase in employment can be generated.

The background here is that Mill is firmly opposed to Malthus's policy recommendation that, in times of recession, the wealthy should spend more - create more demand for luxuries – in order to boost the demand for labour. But if, according to Mill, "demand for commodities is not demand for labour", it is evident that "the demand for labour cannot be increased by increasing the demand for goods." Mill contends not only that additional luxury spending cannot generate more employment, but can, on the contrary, actually reduce the wage-fund.

Consequently, if, when there is unemployment, a wealthy individual wishes to help "the labouring class", he may do so by charitable giving, or offering direct employment, but there is simply no point in his increasing spending on luxury items for his own use.[8]

Mill attempts to demonstrate, via a number of examples, that if a landowner changes his pattern of luxury expenditures - increasing his spending on direct labour (say, on the services of workers to enhance the beauty of his estate) instead of buying manufactured luxuries, he thereby increases the wage-fund and increases simultaneously the demand for labour. (Correspondingly, increasing purchases of luxuries at the expense of employing labour directly, will, Mill holds, diminish employment.)

If we examine at least one of his illustrations, the error (from a modern perspective) of Mill's thought becomes evident: he forces a questionable answer out of his example in order to make the point that increasing the demand for manufactured commodities is not the way to benefit labour. Consider the following illustration. Mill supposes that a landowner who has been accustomed to spend on a luxury item (velvet) gives up that expenditure and instead employs labour directly on beautifying his estate. The modern reader will understand that, in so doing, Mill's landowner is simply exchanging one form of luxury expenditure for another, and that the effect (*ceteris paribus*) is to transfer labour from velvet manufacture to (building) work on the estate. But to Mill this altered pattern of spending *increases* the demand for labour – an extra amount of capital is said to be applied to the support of labour (i.e. the wage-fund is increased).

Thus Mill (1866, I, v, 9):

> Where there was formerly only one capital employed in maintaining weavers to make 1000£ worth of velvet, there is now that same capital employed in making something else, and 1000£ distributed among bricklayers besides. There are now two capitals employed in remunerating two sets of labourers.

How, we must ask, has Mill managed to conjure up an additional 1000£ worth of capital? His explanation is that, if the landowner had (which Mill supposes to be so) given warning that he was about to cease buying velvet, the velvet manufacturer could have curtailed production accordingly, thereby avoiding a loss on unsold output. The velvet manufacturer "will [then]" says Mill, "find himself as rich as before, with undiminished power of employing labour in general.[9]" Mill's contention is therefore that there are now *two* capitals in existence – that of the manufacturer plus that of the landowner. Apparently the landowner's employment of labour has added to the wage-fund. This is pure wage-fund theory.

[8] "[A] person does good to labourers, not by what he consumes on himself, but solely by what he does not so consume." (Mill, 1866, I, v, 9)
[9] The "power to employ labour" does not, of course, outside Mill's world of the wage-fund theory and Say's Law, imply that labour will necessarily be employed.

That Mill's account makes sense *only on the basis of his two special assumptions* can readily be shown. (That is not a problem for Kates, but it is a problem for us.) The fact that the velvet manufacturer has been able to withdraw from velvet production without loss, does not mean that his existing stock of *real* capital is unchanged. The demand for capital in velvet production has fallen, and (*ceteris paribus*) nothing has altered elsewhere other than that the demand for capital to support extra estate workers (bricklayers) has increased. The manufacturer having recovered his *financial* outlay, cannot simply[10], as Mill assumes, apply it to some other activity – finance may be available, but (apart for the landowner's requirements) there is no new opening for the application of real capital. Only if Say's Law were to apply and exclude any constraint on production from the side of demand, could Mill assume that the velvet manufacturer could happily continue activity in some new field of operation. *Without assuming Say's Law, along with the wage-fund thesis*, there is no reason to expect a net increase in real capital or in employment. We conclude that Mill's attempted proof of his contention (that it is of more benefit to labour if the propertied classes contribute to charity or themselves directly employ workers rather than spend their incomes on buying manufactured products) – *while perfectly logical on the basis of his own (and Kates's) assumptions - from a modern perspective, fails*. His assumptions are invalid. He does not succeed in demonstrating that in conditions of recession extra spending by the well-to-do on goods can be of no advantage to the labouring class; it is perfectly possible that additional demand for commodities can indeed create demand for labour.

Finally, before we complete our investigation of Mill's treatment of issues of capital and employment, we note what appears to be confusion on his part as to how an increase in savings (curtailed spending on luxuries) can add to the wage-fund. This is what Mill says (1866, I, v, 3).

> The proposition for which I am contending is in reality equivalent to the following, which to some minds will appear a truism, though to others it is a paradox: *that a person does good to labourers not by what he consumes on himself, but solely by what he does not so consume.* (Emphasis added)

That assertion appears to reflect again Mill's belief in his fourth proposition: his understanding, that is to say, that the way to increase employment is not to buy produced goods but rather to add to the wage-fund by putting up capital for the *direct* employment of labour. Accordingly, Mill argues that if "I" wish to add to the wage-fund, "I" must *cut* my luxury consumption, and directly "make over" into the hands of workers the purchasing power thus saved. In consequence, workers are now enabled to buy subsistence goods with the purchasing power "I" have given up. Mill's point is evidently made in direct opposition to Malthus's contention that it is *increased* luxury expenditure that is needed to generate employment times of recession. Mill puts it thus:

[10] "simply": i.e., with no concern as to the existence of profitable investment opportunities.

> If instead of laying out 100£ in wine or silk, I expend it in wages, the demand for commodities is precisely equal in both cases: in the one, it is a demand for 100£ worth of wine or silk, in the other, for the same value of bread, beer, labourers' clothing, fuel and indulgencies; but the labourers of the community have in the latter case the value of 100£ more of the produce of the community distributed among them. I have consumed that much less and made over my consuming power to them. If it were not so, my having consumed less, would not leave more to be consumed by others. . . . I have turned over part of my share of the present produce of the community to the labourers.

"Turned over": to ensure that readers grasp his point, Mill adds that the above instance of transferring resources to the labouring class can be understood as equivalent to "my" (his) handing over (directly transferring) a portion of his income to the "labouring class" - as would be done through Poor Law payments:

> There cannot be a better *reductio ad absurdum* of the opposite doctrine than that afforded by the Poor Law. [the "opposite" doctrine being of course that spending by the propertied classes on luxuries for their own consumption can be of benefit to labourers.] If it can be equally for the benefit of the labouring classes whether I consume my means in the form of things purchased for my own use, or set aside a portion in the form of wages or alms for their direct consumption, on what grounds can the policy be justified of taking my money away from me to support paupers? since my unproductive expenditure would equally have benefitted them, while I should have enjoyed it too. If society can both eat its cake and have it, why should it not be allowed the double indulgence?

That may seem simple and straightforward, but there is in fact something wrong with Mill's argument. While Mill apparently sees that transfer as putting capital straight into the wage-fund, on consideration of the situation, we appreciate that such a transfer of purchasing power does not, of itself, increase the wage-fund. All it actually does is cause a shift in employment from luxury production to wage-good production. (As Mill put it, bread and beer are produced - by the same total workforce - and consumed in place of wine and silk.)

Mill seems to have confused charitable giving (a deliberate redistribution of income) with saving and investment. The former, by itself, does not increase the wage-fund: part of the existing capital employed in supporting labour is re-deployed, from maintaining labour in luxury goods production, to maintaining labour as paupers. *The total amount of labour supported is still the same.* What Mill doesn't appear to have understood is that, if the wage-fund is to be expanded to permit higher employment, it is not enough simply to redistribute purchasing power from the wealthy to the workers: the transfer must result in a sufficiently increased production of wage-goods such as can support a *larger* workforce. For that to happen, for the "wage-fund" to be increased and to be applied in supporting labour, there has to be an expected increase in the overall demand for labour, that is to say, *a justifying expectation of an overall increase in demand for the produce of labour.*

Mill's adoption of the fourth proposition seems here to have misled him into confusion as to how extra resources for the maintenance of labour in employment can be brought into being. Simply to persuade the well-to-do to cut back on luxury consumption and hand over a portion of the incomes to the labouring classes does not itself create additional employment. Mill is here repeating the error that he made in his example of the landlord reducing purchases of luxury manufactures in favour of employing more workers on his estate. We found in that instance that Mill was wrong to suppose that the altered pattern of expenditure automatically increased the wage-fund. The situation here with the Poor Law parallel is equivalent. Switching expenditure from luxury commodities and passing the foregone purchasing power directly into the possession of the labouring class does not, *per se*, increase the wage-fund. [11]

To repeat: what is essential for the wage-fund to be increased so as to permit extra employment to be given is production of sufficient *additional* capital (wage-goods) by the workers transferred from the luxury to the wage-goods sector - additional wage-goods to support that extra employment. How – in a world *without* Say's Law - does that happen? There, expected demand for output necessarily comes into the picture. More wage-goods will be produced *only* if it is anticipated that the demand for labour (to take up these extra wage-goods) is about to increase in expectation of a growing demand for *output*. So much for the fourth proposition.

Conclusions

We conclude that while, in terms of his own assumptions – assumptions characteristic of the old classical focus on supply as the essential driving force within the economy - Mill's fourth proposition is – as demonstrated by Kates - a straightforward logical conclusion (with no element of paradox). But although Kates succeeds in guiding us to an understanding of what Mill meant by his fourth proposition, he fails to persuade us that we should accept that contentious proposition. It acceptability depends on the acceptability in its turn of Mill's basic assumption that "demand is constituted by supply", together with the associated wage-fund theory. From a modern perspective, which recognises that it is expectations of demand which determine production and employment, Mill's assumptions are untenable. If Kates wishes to persuade us of the validity and relevance of Mill's proposition, he would have to persuade us also to accept the obsolete doctrines which underpin it.

We allow that Kates's paper makes a valuable contribution in clarifying what Mill was getting at with his fourth fundamental proposition on capital, but that is all. Ironically however, Kates's double-edged elucidation, far from rehabilitating Mill's proposition, inadvertently

[11] Note that when funds are transferred to paupers via the Poor Law, that must be the end of the story; these monies are spent on maintenance of the recipients – and do not make it possible to put additional workers into employment. No increase in the wage-fund can be generated. But if, as in Mill's prior instance, the funds released by the wealthy are paid to labour made redundant from the luxury goods sector, *and* if all of these workers are put to producing an extra supply of wage-goods, the wage-fund could thereby be increased: *but that would happen automatically only if Say's Law held good.*

makes it clear that this notorious thesis has no place in modern macroeconomic theory. While it is true that certain things of great value in the old classical tradition of economic thought - for instance the concept of production with a surplus, recognition of the importance of economic power in determining distribution – were lost with later (neoclassical) developments, Mill's fourth proposition is not one of these; it is no hidden gem. It is time for Kates to accept that a curtain ought to be drawn over this obsolete proposition.

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