J. S. MILL, UNIONS, AND THE WAGES FUND RECANTATION: A REINTERPRETATION*

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I. Introduction

Judging by the literature, there is no dwindling of interest in John Stuart Mill's so-called recantation of the classical wages fund doctrine that appeared in his review in 1869 of W. T. Thornton's book *On Labour.* Current discussion has centered on Mill's motive for recanting, the precise connection with Thornton's analysis, and the "strength" of the recantation. The latter issue has been shown to be dependent upon whether one's analysis is in terms of short run or long run, real terms versus nominal, micro dimensions versus macro, fixed or flexible production functions, and an elasticity of demand for labor that has unity or zero elasticity.[1]

We conjecture that most nonspecialists have obtained their main information on the recantation from Appendix 0 in Ashley's edition of Mill's *Principles.* There Ashley includes selective quotations from Mill's review of Thornton, including the apparently significant sentence that reads ". . . the doctrine hitherto taught by all or most economists (including myself) . . . is deprived of its scientific foundation and must be thrown aside."[2] Nothing could seem a more unambiguous statement of recantation. It is important, however, to consider closely what it was from which Mill was "recanting." To do this, we must first supply the missing words in the above quotation. The full quotation reads ". . . the doctrine hitherto taught by all or most economists (including myself), *which denied it to be possible that trade combinations can raise wages,* or which limited their operations in that respect to the somewhat earlier attainment of a rise which the competition of the market would have produced without them, —*this* doctrine is deprived of its scientific foundation and must

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be thrown aside" (our italics). The position that Mill was rejecting—the doctrine that trade combinations could not raise wages—will be emphasized throughout this paper. Also, the importance of reading the whole of Mill's review of Thornton (Parts I and II) with this point primarily in mind will become clear.

The Oxford Dictionary defines "recant" as "withdraw and renounce (opinion, statement, etc.,) as erroneous." Judged exclusively on the single quotation given above, Mill did *not* recant from the central logic of the wages fund component of the classical economic doctrine. To do this, he would have had to renounce as erroneous the classical model *on its own assumptions.* Ricardo's model specified his institutional assumption that "like all other contracts wages should be left to the fair and free competition of the market. . . ."[3] Mill, on the other hand, was postulating a state of the world based on different assumptions: wages were *not* to be left to the free competition of the market. They were, rather, to be bargained for by unions operating within a constitution that legally recognized and endorsed their activities. Clearly there are two different models here, and one does not recant merely by shifting assumptions. There is nothing in Ricardo that would deny that unions can increase the wages *of their members.* They could do this simply by restricting entry so that some working people (the union members) were better off and others (those excluded by entry restrictions) relatively worse off. The total working population could not be described as being unambiguously better off after this kind of intervention. And this was the prime test that concerned the classical doctrine.

An important question remains: whether Mill successfully demonstrated that unions could cause wage increases *without* inflicting unemployment on nonmembers. Leaving aside (until Section V below) questions of monopsony, we note that this, in turn, depends on the demand for labor being of zero elasticity (completely inelastic) and coinciding with a supply curve that was also completely inelastic. Samuel Hollander (1968) contends that Mill was indeed arguing that the demand for labor was of this nature. We shall argue that the perfectly inelastic demand curve for labor, even if it is a generalization in Mill, is, at best, a short-run phenomenon, and still consistent with a negatively sloped demand curve for labor in the long run.

More important, Mill himself explicitly gave up the contention that the demand curve is typically of zero elasticity in the very same review of Thornton that is traditionally taken as the main locus of Mill's recantation. And at this very point of conceding a negatively sloped demand curve for labor, Mill returned to an argument for trade unions that he had presented in the very first edition of the *Principles* in 1848. It maintained that the only long-run avenue for increasing wages was through population control. Union members, Mill argued, were more foresighted and responsible than other workers. If unions were allowed, a working population with new tastes for higher standards of living and new control over its numerical size would emerge.[4] Ultimately, therefore, Mill was "recanting" from the argument that unions could not raise wages in the long run by their effects on the *supply* of labor (the wages fund still explaining the demand side).

Our paper will discuss each of the above points separately. Section II examines Samuel Hollander's interpretation of Mill's argument for trade unions as implying zero elasticity of labor demand. Section III will scrutinize Mill's reception of Thornton's arguments about zero demand elasticity and his insistence that the monetary wage fund is elastic even in the short run. Section IV will focus upon the hitherto neglected second part of the Thornton review where Mill ultimately abandons the notion that labor demand is infinitely inelastic. Section V will examine some aspects of Mill's special philosophical attraction to trade unions, will place into perspective his possible support based on the monopsony argument, and will conclude our argument as to the central issue: what it was that Mill recanted.

II. Infinitely Inelastic Demand for Labor: The Hollander Thesis

The classical wages fund theory, as associated with Ricardo, Smith, Senior, and McCulloch was based on the three assumptions: the fund (a) was a given stock of real goods; (b) it was used up in a discrete time period; and (c) it was conceived of at the macroeconomic level.[5] In Mill's critique of the classical doctrine (in the Thornton review), he drew a consequence from these three assumptions: The demand for labor was of unitary elasticity, the case where the outlay on labor remains constant whatever the wage. This is the conclusion (in the last sentence) in the following quotation:

> The demand for labour consists of the whole circulating capital of the country, including what is paid in wages for unproductive labour. The supply is the whole labouring population. If the supply is in excess of what the capital can at present employ, wages must fall. If the labourers are all employed and there is a surplus of capital still unused, wages will rise. This series of deductions is generally received as incontrovertible. They are found, I presume, in every systematic treatise on political economy, my own certainly included. I must plead guilty to having, along with the world in general, accepted the theory without the qualifications and limitations necessary to make it admissible.
>
> The theory rests on what may be called the doctrine of the wages fund. There is

supposed to be, at any given instance, a sum of wealth, which is unconditionally devoted to the payment of wages and labour. This sum is not regarded as unalterable, for it is augmented by saving, and increases with the progress of wealth; but it is reasoned upon as at any given moment a predetermined amount. More than that amount it is assumed that the wages-receiving class cannot possibly divide among them; that amount, and not less, they cannot but obtain. So that, the sum to be divided being fixed, the wages of each depend solely on the divisor, the number of participants. In this doctrine it is by implication affirmed, that the demand for labour not only increases with the cheapness, but increases in exact proportion to it, *the same aggregate sum being paid for labour whatever its price may be.*[6]

Breit (1967) has argued that Mill is misleading in his insistence that a unitary elastic demand curve for labor is implicit in the classical doctrine, since that doctrine is couched in (long-run) terms. Meanwhile, Hollander (1968), bypassing Breit's argument, has maintained that Mill's main objective was to show that the demand curve for labor had zero, not unitary, elasticity in the short run. The significance of elasticities for the argument for trade unions is clear: With a unitary elastic demand curve for labor, unions will obtain wage increases only at the expense of workers who are put out of jobs in the unionized industries. With the demand curve of zero elasticity, on the contrary, this will not occur, the laboring force as a whole will be better off, and the classical doctrine is refuted.

If Mill's intention were to emphasize the zero elastic demand case, he was obviously influenced by Thornton's book. Thornton's work presented a general attack on demand and supply as explaining *all* prices. His attack rested upon what he thought were clear (although anecdotal), demonstrations of market price breakdown stemming from severe discontinuities and completely inelastic supply and demand schedules. These examples were based on microeconomic analysis and typically involved small number cases. Market price breakdown occurred either because inelastic demand and supply curves did not intersect, or because the schedules were coincidental over portions of their range. In both cases actual prices were, therefore, arbitrary. In the context of arbitrary prices of labor, since employers could organize more effectively than employees, the former had the best of the bargain in their setting of the same arbitrary wages. Thornton insisted that unions could provide a countervailing power. It was for *this* reason that he argued against a predetermined aggregate wages fund.

Mill gives the impression of having gone further than Thornton in a search for the reason why the demand curve for labor should be completely inelastic. But his search was not well developed, and there is much scope for debate as to Mill's real meaning. Mill proceeds from the previous quote as follows:

Does the employer require more labour, or do fresh employers of labour make their appearance, merely because it can be bought cheaper? Assuredly, no. Consumers desire more of an article, or fresh consumers are called forth, when the price has fallen: but the employer does not buy labour for the pleasure of consuming it; he buys it that he may profit by its productive powers, and he buys as much labour and no more as suffices to produce the quantity of his goods which he thinks he can sell to advantage. A fall of wages does not *necessarily* make him expect a larger sale for his commodity, nor, therefore, does it *necessarily* increase his demand for labour.[7]

The initial reaction of modern economists to Mill's argument will be to dismiss it as inaccurate. In the classical competitive market a fall in an industry's marginal cost curve will make it intersect a given demand curve at a higher equilibrium rate of output. This *would* normally increase the demand for labor.

It has recently been argued, however, that in one circumstance Mill is correct. This is the case where there are fixed technical coefficients of production or, in other words, where input substitutability is not possible. The marginal cost curve would, in this case, be vertical over the relevant range. This is the central proposition that Samuel Hollander examines.[8]

Before proceeding, we offer the following responses to the Hollander thesis: First, in the previous quotation (last sentence) Mill argues that a fall of wages does not *necessarily* increase his demand for labor. This suggests that he is not making the general case that the demand curve for labor in the *aggregate* is perfectly inelastic. Second, if fixed technical coefficients were dominant in Mill's mind, it is curious that in the same sentence, he should have been at pains to explain that a fall of wages does not necessarily "make him [the employer] expect a larger sale for his commodity." If Mill were preoccupied with fixed coefficients, one would have expected something like the following: "A fall of wages does not in the short run *allow* the employer to use more labor because in the short period there is complete absence of the necessary additional co-operant factors."

Our third observation is based on an opinion we share with William Breit: The classical wages fund doctrine was intended in terms of the long run. As Breit has demonstrated,[9] a *long period* demand for labor can be derived for a classical system wherein wage bargains affect the long-run demand for labor indirectly through their efforts on profits and investments. This means that, even if the short-run demand curve *is* typically vertical, because of the effects on profits, a union-negotiated higher wage would, in the long run, reduce the quantity of labor demanded at that wage and perhaps shift the labor demand curve to the left.[10]

Our fourth observation concerns Mill's dropping of another important assumption in the classical doctrine. In his review article of 1869 Mill adopts Thornton's habit of analyzing the wages fund in monetary instead of real terms, a departure that was recognized long ago by Taussig.[11] Mill chooses to describe the wages fund as the whole of an employer's monetary proceeds "after keeping up his machinery, buildings, and materials and feeding his family."

> The less he expends on the one, the more may be expended on the other, and *vice versa.* The price of labour, instead of being determined by the division of the proceeds between the employer and the labourers, determine(s) it. If he gets his labour cheaper, he can afford to spend more upon himself. If he has to pay more for labour, the additional payment comes out of his own income . . . there is no law of nature making it inherently impossible for wages to rise to the point of absorbing not only the funds which he had intended to devote to carrying on his business, but the whole of what he allows for his private expenses, beyond the necessaries of life. The real limit to the rise is the practical consideration, how much would ruin him, or drive him to abandon his business: not the inexorable limits of the wages-fund.[12]

Here, it seems, is another case where Mill was not so much recanting as changing the assumptions of the classical doctrine.

Ekelund (1967) has stressed that Ricardo's classical model requires the assumption of differential consumption patterns. The Ricardian doctrine features capitalists and landlords as luxury consumers with workers consuming "corn." On this assumption, Ekelund argues, even though the monetary wages fund is flexible, unionized workers will not be able to secure an increase in their *real* wages. Extra money in their hands will merely bid up the prices of a fixed, predetermined amount of "corn." Even if we allow the assumption of fixed technical coefficients in Mill's treatment, the classical doctrine also assumes "fixed coefficients" of *consumption,* so indeterminacy of shares is ruled out whatever the elasticities of demand for labor. The point is that Mill's decision to change this assumption does not constitute a demonstration of scientific error in the older doctrine.[13]

Our sixth, and last observation is, we believe, most important of all. Whatever the suggestion of fixed technical coefficients in John Stuart Mill's economic works, the fact is that in the neglected, but not obviously less important, second part of the Thornton "Review," he explicitly concedes that the typical demand curve for labor has a negative slope. But this crucial point will be developed later in Section IV. Prior to this we must examine another sense in which Mill entertained the idea that demand curves for labor could be infinitely inelastic: Thornton's special market conditions and examples.

III. THORNTON'S INFLUENCE

Much support is now given to the view that John Stuart Mill's so-called "recantation" regarding the wages fund theory had been slowly evolving before the 1869 publication of Thornton's book. In a letter to J. E. Cairnes in 1869, Mill enclosed a copy of the first part of the Thornton Review to the *Fortnightly,* "the purely economic part," for Cairnes's "purely scientific" judgment. Mill anticipated that Cairnes would concur with what he had written on the wages fund, "a subject on which I express 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."[14]

The general opinion is that the appearance of Thornton's book and the ensuing review offered Mill an excellent opportunity to depart from the confines of classical wage theory. We contend that Mill used Thornton's analysis not to submerge classical doctrine but to complement it. This conclusion is based on a consideration for the *whole* of the Thornton review as distinct from the first part of it, the part that was sent to Cairnes, and the part that, unjustifiably, has been the center of attention ever since.

The first "purely economic" part of Mill's review, concentrated upon Thornton's various attempts to "disprove" the accepted law of supply and demand. On our reading, Mill's firm conclusion is that Thornton had not destroyed the law. At most he had qualified it. Focusing upon Thornton's example of the Dutch auction,[15] Mill concludes that this instance, although apparently trivial, was truly representative in showing what Thornton had, and had not, succeeded in doing. Thornton had certainly shown in this case that the law was consistent with two different prices. But, Mill argued,

> The conclusion ought to be, not that the law is false, but Mr. Thornton does not deny in the case in question it is fulfilled; but only, that it is not the entire law of the phenomenon. The phenomenon cannot help obeying it, but *there is some amount of indeterminateness in its operation—a certain limited extent of variation is possible within the bounds of the law;* and as there must be a sufficient reason for every variation in an effect, between the limits within which the principle law leaves it free.[16]

Thornton had, in other words, provided an extra insight to the theory of supply and demand. In Mill's words, "Whoever can teach us this supplementary law, makes a valuable *addition* to the scientific theory of the subject."[17] It is arguable, for this reason alone, that Mill's was not a recantation but a modification or extension of classical wages theory. Thornton merely identified an exception to the general rule that demand increases with cheapness; namely, the case of a demand curve that is vertical over a certain price range. Mill saw a coincidental vertical supply curve and therefore price indeterminacy, as not totally out of the question where small numbers of agents were involved. But,

> Where buyers are counted by thousands, or hundreds, or even scores; in any considerable market—and far more in the general market of the world—it is the next thing

to impossible that more of the commodity would not be asked for at every reduction of price.[18]

Our own reaction at this point of Mill's review was that Thornton's special cases could not possibly apply to the typical labor market because buyers and sellers *are* numerous and the market *is* considerable. In other words, it is next to impossible that more of labor's services should not be asked for at every reduction in its price. Yet, despite Mill's emphasis that Thornton's cases were rare, he proceeded in the last five pages of Part I of his review to suggest that they "may be of very great practical importance in the case which suggested the whole train of thought, the remuneration of labour." He then sets out to "fix our ideas respecting that portion of the law of price which is not provided for by the common theory."[19] That is, he explores the position of unions on the *assumption* that Thornton's special circumstances prevailed. The conditions of demand and supply are assumed to be such as to leave the price partly indeterminate. More than one price is possible that would fulfill the law of supply and demand, and neither sellers nor buyers can be predicted to give way to one another. The precise outcome, Mill proceeds to argue, ultimately depends upon two circumstances: who has the initiative of price, and who can "hold out" the longest.

In the Dutch auction case, the price reached is twenty shillings (see again note 15) because the initiative of making the offer came from the seller, whereas in the English auction (see again note 15) only eighteen shillings was reached because the offer came from the buyer's side. Mill agrees with Thornton that, although the Dutch auction seems an exceptional case, it is normal as regards the widespread course of trade, for as a general rule the initiative of price rests with the dealers. Within the range of a vertical slope in the demand curve, dealers will have no motive to compete with one another because there is room for all of them at the higher price. At the same time, however, buyers were not *compelled* to pay the higher price because a lower one for the same quantity was possible. At this impasse Mill introduces his concept of "holding out" as a key determinant.

The price, in this case (the vertical demand curve) becomes simply a question whether sellers or buyers *hold-out* the longest; and depends on their comparative patience, or on the degree of inconvenience they are respectively put to by delay.[20]

We now reach an important area of discussion wherein Mill believed that Thornton had forced him to qualify his previous theory of wages. Mill agrees with Thornton that the labor market differed in one respect from the market for tangible commodities. In commodities it is the seller, but in labor it is the buyer who has the initiative in setting the price. Although the laborer is the dealer, he is a passive one who faces somebody else's offer—namely the employer's:

Whatever advantage can be derived from the initiative is, therefore, on the side of the employer. And in that contest of endurance between buyer and seller, by which alone, in the excepted case, the price so fixed can be modified, it is almost to say that nothing but a close combination among the employed can give them even a chance of successfully contending against the employers.[21]

But even if labor did take the initiative of the first offer, there is no reason to suppose that this will be sufficient to combat the superior "holding out powers" (i.e., greater wealth) of the employers. But observe that the superiority in "holding out" is relevant only in the case of the vertically sloped demand curve for labor and a coincidental vertically sloped supply curve. Where the demand curve is of the normal, less than vertical, slope, the price is determinate. Any employer who attempts to pay less than *the* market price will lose employees to competitive employers. The superior power of holding out will now be of no avail.[22]

So we return once more to thé question of Mill's belief in the general likelihood of a perfectly inelastic demand curve for labor. The question is whether he entertained such a belief because of fixed technical coefficients, as Hollander claims, or because of the market structures implied in Thornton's auction examples. We have already examined and decided against the former possibility. If the special market structure explanation is correct, then Mill could only have been dealing with rare, small number cases and wanted for the sake of scientific completeness to complement the classical analysis by including those exceptional cases. In this sense it is interesting that Mill pleaded guilty to "having accepted the theory *without the qualifications and limitations necessary to make it admissible.*"[23] And the view that Mill saw vertical labor demand curves as the exception rather than the rule is considerably strengthened when we examine Mill's *explicit* belief, revealed in the neglected second part of the Thornton review. To this we now turn.

IV. THORNTON ON LABOR, PART II

We shall now show that the Thornton review ultimately reveals Mill's belief that the demand for labor normally does have a less than vertical slope. Our discussion should help resolve what to some writers is a paradox: that in the last edition of his *Principles,* Mill's earlier views on the wages fund doctrine were not changed. Indeed Mill dismissed the whole controversy in a footnote in the Preface. His opinion there was that revisions in the wages fund theory were "not yet ripe for incorporation in a general treatise on Political Economy."[24]

Mill's main support for trade unions ultimately had nothing to do with a recantation of the wages fund viewed simply as a labor demand theory. He had always had a special argument and one that prevailed and dominated from the first to the last edition of his *Principles.* This separate argument indeed appeared in Mill's review of Thornton's book; but it was in *Part II* of that review. This is the section that has gone largely unnoticed by most writers.[25] In his letter to Cairnes, Mill revealed that this second part was yet to be prepared for the editor of the *Fortnightly* and was to contain the philosophical and moral aspects of the union question. When it finally appeared, however, it contained distinct and important *economic* arguments. And these were connected with Mill's constant preoccupation with the Malthusian principle of population. We shall first examine this part of the Thornton review, and then compare Mill's arguments for trade unions therein with those in the various editions of his *Principles.*

Toward the end of Part II of the Thornton review, Mill finally addressed himself to the following problem:

> However satisfactorily the question may admit of being answered, it still requires to be asked, whether Unionists are justified in seeking a rise of wages for themselves, which will in all probability produce a fall of wages, or loss of employment, to other labourers, their fellow-countrymen. . . . For (as Mr. Thornton recognises) *there is no keeping up wages without limiting the number of competitors for employment.* And all such limitation inflicts distinct evil upon those whom it excludes—upon that great mass of labouring population which is outside the Unions . . . . In what manner is a system which thus operates, to be reconciled either with the obligations of general morality, or with the special regard professed by labouring men for the interest of the labouring class?[26]

Mill had clearly abandoned the special (vertical demand curve) cases. Yet he proceeded to argue two considerations that "in the mind of an upright and public spirited working man" may still make his support of unionism legitimate, even where his actions would exclude other workers. The first was that unions of particular trades were a means of educating the working class elite to pave the way for the day of universal union.[27] There are several difficulties with this argument viewed as a proposition of economic analysis. Here we may note that in any case it is not clear whether Mill was confident that universal unionism could ever be achieved. He had observed in his *Principles* (p. 934) that while unionism was to be welcomed, there were great difficulties in establishing it everywhere: "The multitudes who compose the working class are too numerous and too widely scattered to combine at all, much more to combine effectually. . . . Combinations to keep up wages are sometimes successful in trades where the work people are few in number and collected in a small number of local centres."[28]

It is in the second justification of unionism, placed into the mouth of the "upright and public spirited working man," that Mill appears the most convinced, confident, and, to us, the most astonishing. He describes it as "the Malthusian point of view," and it will be quoted here in full.

The ignorant and untrained part of the poorer classes (such Unionists may say) will people up to the point which will keep their wages at that miserable rate which the low scale of their ideas and habits makes endurable to them. As long as their minds remain in their present state, our preventing them from competing with us for employment does them no real injury; it only saves ourselves from being brought down to their level. Those whom we exclude are a morally inferior class of labourers to us; their labour is worth less, and their want of prudence and selfrestraint makes them much more active in adding to the population. We do them no wrong by intrenching ourselves behind a barrier, to exclude those who competition would bring down our wages, without more than momentarily raising theirs, but only adding to the total numbers in existence. This is the practical justification, as things are now, of some of the exclusive regulations of Trade Unions. If the majority of their members look upon this state of things, so far as the excluded labourers are concerned, with indifference, and think it enough for the unions to take care of their own members, this is not more culpable in them than is the same indifference in classes more powerful and more privileged by society.[29]

In case the reader feels that Mill did not himself really approve of these words that he had placed in the mouth of another, we shall refer to the first edition of his *Principles* (1848) where this same argument appeared unambiguously in Mill's own words as follows:

But insofar as they do succeed in keeping up the wages of any trade by limiting its numbers, I look upon them as simply intrenching . . . themselves. And I should rejoice if by trade regulations or even by trades' unions, the employments thus specially protected could be multiplied to a much greater extent than experience has shown to be practicable. . . . If indeed the general mass of the people were so improved in their standard of living, as not to press closer against the means of employment than those trades do; if, in other words, there were no greater degree of overcrowding outside the barrier than within it—there would be no need of a barrier, and if it had any effects at all, they must be bad ones; but in that case the barrier would fall of itself, since there would no longer be any motive for keeping it up. On similar grounds, if there were no other escape from that fatal immigration of the Irish, which has done and is doing so much to degrade the condition of our agricultural, and some classes of our town population, I should see no injustice, and the greatest possible expediency, in checking that destructive inroad by prohibitive laws.[30]

And lest there be any lurking doubt that Mill abandoned this view toward the end of his life, we should point out that the same argument prevailed in the last (1871) edition of the *Principles.* It is curious to notice, nevertheless, that for ten years, between 1852 and 1862, Mill did suspend this view. In the third and fourth editions of *Principles* published in those years, Mill argued that:

> The time, however, is passed when the friends of human improvement can look with complacency on the attempts of small sections of the community, where the belonging to the labouring or any other class, to organize a separate class interest in antagonism to the general body of labourers, and to protect that interest by shutting out, even if only by a moral compulsion, all competitors from their more highly paid department. The mass of the people are no longer to be thrown out of the account, as too hopelessly brutal to be capable of benefiting themselves by any opening made for them, and sure only, if admitted into competition, to lower others to their own level. The aim of all efforts should now be, not to keep up the monopoly of separate knots of labourers against the rest, but to raise the moral state and social condition of the whole body; and of this it is an indispensable part that no one should be excluded from the superior advantages of any skilled employment, who have intelligence enough to learn it; and honesty enough to be trusted with it.[31]

In all the editions of the *Principles,* therefore, 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. This assumption alone disqualifies the general application of Thornton's special cases to labor. Mill's major support of trade unions is ultimately based entirely upon different reasoning, namely, the Malthusian argument. And, interestingly enough, this position was connected with his continued emphasis that the *complete* classical economic theory of wages included the factors governing the *supply* of labor as well of those of demand. The above quotations revealing his fear of overpopulation, clearly demonstrate Mill's long-established preoccupation concerning the supply side.

V. Final Considerations

Mill held a still deeper philosophy that transcended his economic defense of unions. In his view, they were necessary, but transitional, institutions. The ultimate goal was industrial partnerships and cooperatives. And these were to encompass the whole economy. These more refined institutions were an end in themselves as well as a means of curbing the growth of population among the working classes. Mill had obviously been impressed by Fawcett's *Westminster Review* argument that strikes to increase wages during a period of high profits were a kind of partnership—albeit a forced one—between workers and employers. To quote Fawcett:

For combinations of labour in the first place compelled the masters to give their workmen a share of the extra profits derived from improved trade. As long as this participation of profits is secured by an actual resort to strikes, the workman is forced upon his master as a partner.

Mill's adoption of this argument is found in his *Principles* (page 937). Voluntary profit sharing, Fawcett argued, was ultimately preferable to the clumsy and expensive method of continual strikes.[32]

Mill was constantly balancing the arguments for and against unions. He was especially concerned about the danger in their leaders of excessive selfishness, as in their insistence on rigid wage differentials and on demarcation rules. On balance, however, he leaned toward the "idealistic" position. Thornton review through his additional words of support to the "public spirited unionist" seeking self-justification.

On the question of "recantation" other writers have found further special perplexities. Ever since Taussig it has been argued that the wages fund doctrine was never used by most classical writers (and especially those like McCulloch and Torrens, with marked interests in labor economics), to attack trade unions.[33] Yet Mill gives the immediate impression that this is the great problem about the wages fund theory. So one "mystery" of the recantation is why did Mill feel he had to recant even though there was nothing to recant against? Answers can range from the view that he sensed the wages fund theory had anti-union implications, to the view that he had a need to repudiate orthodoxy.

The fact that he had quite a different theory of unions, as we have shown, impels us to the first rather than the second interpretation. Although the wages fund had become incorporated into classical theory in the general context of "supply and demand" reasoning, before Mill there had been no precise notion of a *schedule* of demand and supply prices and no attempt at a definition of a true equilibrium wage.[34] Nevertheless, the wages fund doctrine "contains whatever theory of demand for labor was developed by the classical economists."[35] And because Mill ultimately saw the logical further development of the labor demand theory to have little practical relevance to Thornton's special cases, despite his "dalliance" with them, he did indeed see that the theory, on its own, could have implications unfavorable to unions. And this was so whether we consider the short-run or the long-run case. In the short run, the wages fund theory implied a unitary elasticity of demand. Union restrictions would therefore imply unemployment for some workers. The "scientific logic" of the wages fund remained unimpaired in this sense.

Yet Mill abandoned exclusive reliance on the wages fund, not because it was illogical, but because it was irrelevant to his own special theory of unions and population. He was "recanting" (see the second paragraph of our article) from the "doctrine" that "denied it to be possible that trade unions can raise wages." Mill concluded, via his special theory of the survival, under unions, of the most fit and the most prudent workers, that long-run wages *could* be permanently increased throughout the working population. But it was a shrunken population because of the failure of the initially unfit to survive. So while the (wages fund) theory of demand for labor remained intact, Mill's emphasis was on the fact that wages were also determined by the interaction with *supply*. And his long-run model of unions worked through supply as well as demand. For in the long run labor supply shifted to the left compared to what it would have been in a non-union world.

Classical economists had themselves commonly employed the wages fund doctrine to emphasize the need for population control (rather than to object to trade union action). What Mill did was to add the new argument that unions were a *means* of population control. They had the effect of screening out the most responsible families. Ultimately therefore, Mill was "recanting" from any total analysis that relied on the (wages fund) demand side only. And it is still a problem to know who, among the classical writers, ever pressed such analysis.

Finally, we must consider possible elements of the monopsony model in Mill's reasoning. In his *Principles* (Book V, Ch. 10, p. 937) he argued that associations of laborers "far from being a hindrance to a free market for labour, are the necessary instrumentability of that free market." One possible interpretation of this observation is that, by such means, the transactions costs of labor contracts can be lowered to the benefits of both sides. In this case, however, there is no question of the union restricting entry. It is quite a different reasoning therefore, to Mill's major "Malthusian" argument for "aggressive" trade unions.

Mill's contention that unions sharpen the competitiveness of labor markets can alternatively be interpreted to mean that they countervail the tendency to monopsony, an argument that J. R. McCulloch had used in his *Essay on Wages* (1826). Mark Blaug has argued that this part of Mill's reasoning is a "good example of how a wage-fund theorist might combine classical doctrine with sympathy for trade unions."[35] Blaug maintains that Mill's monopsony argument belies his Thornton review interpretation of the wages fund doctrine as denying that unions could raise wages. It is certainly interesting to note that Thornton's special market cases that Mill deals with in the review, were not conventional monopsony situations. The former were models of price indeterminacy based on coincidental vertical supply and demand schedules. The conventional monopsony case, in contrast, is price-determinate; and it does not require vertical (marginal) curves. Nevertheless, in Part II of the Thornton review, where Mill predicts unemployment from union bargaining, he implicitly abandons both the Thornton cases *and* any possibility of strong monopsony. For the latter predicts no unemployment, and even increased employment, after the competition-promoting union has done its job.

Finally, Mill's use of the monopsony argument need not conflict with his interpretation of the wages fund as precluding union-induced wage increases. For in the long run the classical model treats the wages fund as a function of profits. The reduction of "monopsony profits" need be no different from ordinary profit reduction in its long-run depressing effect on the demand for labor.

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NOTES

1. For the most recent discussion, see R. B. Ekelund, "A Short-Run Classical Model of Capital and Wages: Mill's Recantation of the Wages Fund," *Oxford Economic Papers,* XXVIII (March 1976), 22–37. Other recent contributions are W. L. Breit, "The Wages Fund Controversy Revisited," *Canadian Journal of Economics and Political Science,* XXXIII (Nov. 1967), 509–20; S. Gordon, "The Wage Fund Controversy: The Second Round," *History of Political Economy,* V (Spring 1973), 14–35; S. Hollander, "The Role of Fixed Technical Coefficients in the Evolution of the Wages Fund Controversy," *Oxford Economic Papers,* XX (Nov. 1968), 320–41; and P. Schwartz, *The New Political Economy of John Stuart Mill* (Durham: Duke University Press, 1972).

2. J. S. Mill, *Principles of Political Economy,* Ashley, ed. (New York: 1909).

3. D. Ricardo, *Principles of Political Economy and Taxation,* Everyman ed. (London, 1973), Ch. 5, p. 61.

4. It might be argued that implicit in Mill's argument is the possibility of a demand elasticity for labor that lies between unity and zero. The aggregate monetary outlay for labor would then increase after a union negotiated wage increase. In this sense, the wages fund would have been elastic. Note, however, that this shift involves unemployment of some labor. Only if workers shared unemployment equally would it be possible for *all* workers to receive a larger money income. And Mill's argument in Part II of the Thornton review precludes this possibility since he expected excluded workers simply to die off. In addition, the increases in outlays on wages is in *money* terms. The classical wages fund doctrine is in *real* terms. We shall return to this point subsequently.

5. Ekelund, *op. cit.,* p. 22.

6. "Thornton on Labour and Its Claims," p. 644, our italics. Hereafter referred to as "Thornton on Labour."

7. *Ibid.* (our italics).

8. Hollander, *op. cit.*
9. Breit, *op. cit.*
10. In Figure II in Breit's article, the substitution of vertical short-run demand curves for labor does not alter his basic analysis.
11. Taussig, *Wages and Capital, An Examination of the Wages Fund Doctrine* (New York, 1896).
12. "Thornton on Labour," pp. 516–17.
13. Samuel Hollander has informed us that in his forthcoming book on Ricardo he will oppose, with full textual support, the interpretation that Ricardian doctrine assumed a fixed predetermined amount of "corn."
14. Quoted in Ekelund. Original in *The Later Letters of John Stuart Mill, 1849–1873,* F. Mineka and D. Lindley, eds. (Toronto: University of Toronto Press, 1972).
15. The Dutch auction is described by Thornton as a situation in which:

"The fish are divided into lots, each of which is set up at a higher price than the salesman expects to get for it, and he then gradually lowers his terms, until he comes to a price which some bystander is willing to pay rather than not have the lot.... Suppose on one occasion ... the price agreed to is twenty shillings."

This type of sale is then compared to the English auction wherein:

"the operation would have commenced by some bystander making a bid, which others might have successively exceeded, until a price was arrived at beyond which no one but the actual bidder could afford ... very possibly it might be only eighteen shillings. [Thus] in the same market ... the same lot of fish might fetch two very different prices." (Quoted in Mill, "Thornton on Labour and Its Claims," *Fortnightly Review,* 1869.)

For an excellent discussion of the Dutch auction, see Breit, *op. cit.* Breit points to the error of logic in Thornton's conclusion that he had disproved the law of supply and demand and shows that the special cases of Thornton require some very specious assumptions to arrive at these results.
16. Mill, "Thornton on Labour," p. 637 (our italics).
17. *Ibid.* (italics in the original).
18. *Ibid.*
19. *Ibid.*, pp. 642–43.
20. *Ibid.* (our italics). This idea was neither new nor novel. T. J. Dunning had written in 1860 (Trades' Unions and Strikes: Their Philosophy and Intention) when:

"he who can stand out longest in the bargain will be sure to command his own terms, the workmen combine to put themselves on something like an equality in the bargain for the sale of their labour with their employers." [Quoted in Schwartz, *The New Political Economy of J. S. Mill* (Durham: Duke University Press, 1972), p. 89.]

It is interesting to note that it was the fish sellers in the Dutch auction who had less chance of holding out since their commodity was perishable; yet they secured the highest price.
21. Mill, "Thornton on Labour," p. 643.
22. Schwartz (1969) argues (p. 92) that Thornton need not have attacked supply and demand with his special cases because his argument "was strong enough when he said that the labour market was imperfect because of the perishable character of the commodity 'labour.' " It was not surprising, Schwartz continues, that, in his review, Mill should concur with Thornton's belief that only a combination of employees can give them a chance of successfully holding out. But Schwartz seems to have overlooked that Mill's concurrence with this view is confined exclusively to one of Thornton's special cases. Mill agrees with Thornton only "*If* it should turn out that the price of labour falls within one of the exceptional cases—the case which the law of equality between demand and supply does not provide for because several prices all agree in satisfying the law." [Mill, "Thornton on Labour," p. 643, (italics added).] In fact, as we shall show, Mill eventually decides that labor was *not* an exceptional case.
23. Mill, "Thornton on Labour" (our italics).
24. *Principles of Political Economy,* 7th ed. (London: 1871), xxxi (Ashley ed.).

William Breit, *op. cit.*, is a notable exception in *not* showing surprise at the footnote in Mill's last Preface.

25. Notable exceptions are W. H. Hutt, *The Theory of Collective Bargaining* (Glencoe: Illinois Free Press, 1954); and Samuel Hollander, "State and Vocational Training," *Southern Economic Journal,* XXXIV (April 1968).

26. Mill, "Thornton on Labour," p. 663. The words (in our italics) contain the important *economic* arguments or assumptions that contrast with those in Part II of Mill's review.

27. Henry Fawcett had earlier argued that through the use of combinations, workers "have been until within a few years the helpless victims of unjust laws and oppressive taxation. Now they are regarded as a great power in the State, and are appealed to as such" (*Westminster Review,* 1860). In this same article Fawcett offers the personal observation that union leadership is quite well versed in the profit outlook of the employing firm. To this he juxtaposes the condition of the agricultural laborer who knows not of the power to be gained through combination.

28. Mill, *Principles,* p. 934.

29. Mill, "Thornton on Labour," p. 664.

30. Mill, *Principles,* 1st ed., p. 403.

31. Mill, *Principles,* 3rd and 4th eds., p. 403.

32. If unionism was to be seen as a transitional institution, and a temporary training ground for responsibility, then Fawcett's argument should presumably have pointed to a similar readiness of the workers to share in the *losses* whenever they occurred; for profits can be negative. There is, however, no satisfactory discussion of this contingency in Fawcett's or Mill's work.

33. Mark Blaug, *Economic Theory in Retrospect* (Homewood, Illinois: Irwin, 1968), p. 187.

34. *Ibid.,* p. 187.

35. *Ibid.,* p. 188.

36. *Ibid.,* p. 188.