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William Stanley Jevons
The Theory of Political Economy
(1871)

Appendix II:
A Fragment on Capital
Intended to form part of Chapter XXV of the Author's *Principles of Economics*

Capitalisation

THERE is no part of the subject of economics which is at once so important and so difficult to comprehend precisely and correctly as that of capital. Difficult as it may be to trace the intricacies of the theory of value and avoid confusion of ideas, an even greater intricacy and confusion of ideas besets us here.

It is usual to commence the subject by saying that capital is the third requisite of labour-that it consists of an accumulated stock of the produce of past labour applied to promote the production of more wealth. Capital, it has been said by Senior, proceeds from abstinence; and by this word he expresses " that agent, distinct from labour -and the agency of Nature, the concurrence of which is necessary to the existence of capital, and which stands in the same relation to profit as labour does to wages."[1] But according to the view and nomenclature here adopted it would be said that abstinence is capitalisation and capitalisation is abstinence. If there is any enjoyment which we could procure by present labour, but we abstain from enjoyment and use the labour for a distant but greater end, here is proper capitalisation.

1. *Encycl. Metropolitana, 1836 ; separately* printed, Political *Economy, 5th* ed., *1863, p. 59.*

A little consideration will show that to avoid confusion of ideas we ought not to speak of capital but of capitalisation. Capital, if it consists of concrete wealth, is simply a thing, and involves no idea of time; whereas we can have no reference to the use of capital without introducing time as the essence of the matter. It is, in fact, impossible to say what capital is-it is not literally any article or thing, no more than credit is a thing. We ought indeed to use capital in the abstract like credit. The last necessarily involves time; so capital necessarily involves time. It is measured by the utility which certain labour might possess now multiplied by the time of abstinence from its enjoyment. *Credit is* an intangible abstract thing-the power of obtaining loans of property. *So capital is* the power and will of granting loans, also an intangible abstract idea.

It will be apparent after a little reflection that there is really nothing which marks off certain commodities as being by nature capital as compared with other commodities which are not capital. The very same bag of flour may have to change its character according to the mental changes of its owner. Capital is the power of *deferring the fruition of labour* results (Laing) -anything which satisfies the labourer in the present instead of leading him to produce for momentary wants. There is hardly any part of the property of society which may not then contribute towards capitalisation. Little consideration is needed to show that we cannot possibly point to any part of the wealth of the nation and say it is capital. Capital, say [the classical economists], is wealth employed in the production of further wealth. Such is the loaf, they would add, which is given to the productive labourer.

But then until it is actually given we cannot be certain what will be the destination of the loaf. Bread from the same baker's shop may go to feed the hardworking navvy, the idle beggar, the well-to-do annuitant. The bread is the same-the use of it different. It is, then, to its employment, not to the thing itself, that we must apply the idea of capital or capitalisation.

How are we to discriminate between what is capital and what is not? To make a thing before it is wanted and simply keep it on hand involves no advantage of capital. Labour has been sunk in it which might have been otherwise used to facilitate production. To be enabled to work before the result is needed and enjoyed is advantageous because the things can be much more easily and abundantly made, and it is capital which enables this to be done. The aggregate of the capital of the country thus consists of the aggregate of the things which satisfy the wants of individuals . . . . There is no need to say that capital is the produce of past labour. It is simply wealth employed in a particular manner, or with a particular object. It matters not whether it comes from a bread-fruit tree or a well-stocked river.

It is obvious that if each portion of commodity as it came into possession were immediately consumed, there would never be more than an infinitely small quantity in use at any moment . . . . It does not matter so far as we are concerned whether the commodity is in or out of the stomach. Even in the. duration of the effect of a meal there is a small capitalisation.

Advantages of Capitalisation

It is not difficult to see that any advance, even the simplest, in the arts of industry necessitates capitalisation. In the rudest state of society a rude savage supplies each want as it arises. When he is hungry he goes to the forest and catches an animal, or collects grass seeds like the natives of Australia. But unless the savage can count securely on immediate success, he may need capitalisation in its simplest form.

The need of capitalisation arises in many ways only partly related to each other. The rhythmical recurrence of the seasons renders it practically indispensable in the temperate regions which produce a harvest but once a year. Hence a nation in order to be agricultural in such regions must have such a stock of food as will carry it over the interval between one year and the next. As the proverb says-" While the grain groweth the horse starveth," a contingency which must be provided against. Otherwise recourse must be had to inferior and more laborious modes of gaining food.

There are, however, many ways of employing labour with advantage which involve capitalisation. All use of tools comes under this head, for a tool is some instrument made to assist further operations. The labour spent upon the tools did not give immediate good, but only conduced to a greater future good. Many tools last for weeks, months, or years; so that the total labour spent upon them is not repaid till after that interval of time.

Let us now analyse the motives which may lead to the storing up of wealth:

(1) The greater advantage to be derived from future consumption;
(2) The continuous utility arising from possession in the meantime;
(3) The interest to be gained by investment.

A surplus of. corn in a year of good harvest is naturally laid by to be consumed when the supply is less abundant. The stock may be held either by the producer and consumer or by speculators. In a simple state of society like that of Norway the

farmer stores his own grain in his own granary, and eats it as needed.

It ought to be clearly understood that capitalisation in the sense of long duration of work is never a purpose in itself. It is only a condition which must usually be borne with. Accordingly every improvement which lessens the average interval between labour and utilisation is good as liberating capital for other purposes. For instance, rapid conveyance of goods by railways avoids the long delay of goods which attended their conveyance by road or canal, and saves the investment of capital in the meantime. The manufacturer or dealer can turn over his stock so many more times in the year. As this applies to a large part of the whole floating wealth of the country an equal amount of capital renders more effective services to industry.

There is a general presumption in favour of producing permanent objects; but then these must be objects not merely permanent in form, but *permanent in utility.* To build in a very costly and substantial manner a structure which is only needed for a certain series of years is not only a loss of labour, but it may even occasion labour in removal. It is on this principle that we may somewhat excuse the light building of speculators. Neighbourhoods change, and a house which suits very well now may have to be pulled down fifty years hence. Suppose a house to last fifty years can be built for £3000, but in order to make it last a hundred years an additional £1000 must be spent at first. But had this £1000 been laid by and invested at compound interest at 4 per cent it would at the end of fifty years have become £7107; and even at the end of twenty eight years it would yield enough to rebuild the house in the same manner as before. There must, therefore, be a large gain of comfort, health, beauty, etc., in the costly house in order to repay the superior cost.

Capital Invested in Education

Nothing is more important than to obtain clear ideas of the investment of capital throughout the course of life. How far, for instance, is capital invested in the course of education - a child at an infant school, a boy at a boarding school, a young man at college or reading for the law? Adhering, however, to our principle that deference of enjoyment is the fundamental idea there is no real difficulty.

The sustenance and education of a young child does not return investment because the child is not capable of earning anything. No labour, therefore, is devoted to the future which might be devoted to the present. As to the food and other articles necessary to the subsistence of the child, they are simply so much commodity which the parents are bound to supply. Whether the child is intended to labour in the future or not, the law requires that he shall be maintained, and will in the last resort provide his maintenance in the workhouse.

Mr. Shadwell has very soundly and acutely pointed out that " if we are to suppose that the common rate of wages is the return for the capital expended in maintaining children before they are able to work, we must suppose that parents bring up children with no other object than to secure them a certain position in the world, and that they are not influenced by the pleasure which they themselves derive from the possession of a family.'" Against the cost of any process we must set all advantage or pleasure derived in the course of the process. Now if a considerable part of the parents' pleasure of life arise from the family circle, the expenditure on children repays itself at the moment. The child entering on work is started free from capital liabilities, as it were.

A System of Political Economy, by J. L. Shadwell, 1877, p. 140.

But it is another matter when we come to an age at which earnings may be made. Thus a young man between twenty-one and twenty-five years of age might be earning a salary of, say, £75 a year. If, then, he prefers to read for the law, he forgoes present income in favour of greater future earnings. This is the measure of capitalisation. It is true that he will need maintenance which will probably be £150 a year. This we must suppose he gets from friends, or from previous resources. But although £150 a year be spent, this is not necessarily the measure of capitalisation. A portion may be spent on needless amusements, etc., and is simply expenditure. Another portion, however, spent on fees, books, and necessary expenses is truly capitalised. Is not the measure of capitalisation the difference between what he would spend if not reading and that which he does spend? Thus:-

Reading.	Not Reading
£75 private income.	£75 earnings.
£75 lent by friends.	£75 private income.

Here there is clearly capitalisation to the extent of £75 lent by friends. He is expending that now with the necessity of repaying it in the future, and is forgoing possible immediate earnings of labour.

An artisan employed during the day works also during his evening or leisure hours at making a machine. The measure of capitalisation is simply what he could have earned of immediate wages in those same hours had he not spent the labour on the machine. What is ordinarily called his capital is simply the ordinary wages which he is living upon.

It seems obvious that what is spent upon a man's education ceases to be capital, because it is gone and the result is subject to the *laws of wages:* It is not what has been, but what is. So capital expended in a fixed form ceases to be subject to the laws of interest. It is *free capital* which we have to treat as distinct in its nature, and as *capital* properly speaking. The other things pay rent or wages.