

DISCUSSION.

Mr. A. J. OGILVY said:—Mr. Johnston's opening statement (condensed) is that cost of production, not demand and supply, primarily determined prices. Later, he qualified that by excluding things the cost of which was determined by scarcity alone, confining it to things which could be increased (indefinitely, I suppose), and where competition operated without restraint. In short that, just as south of the tropics the wind would always blow from the west if there were no land to disturb, and just as every planet's orbit would describe an ellipse if there were no other planets to perturb, so price would always represent cost of production measured in labour if there were no natural scarcity or artificial interference. Mr. Johnston has proved this conclusively, but the case thus qualified seems so plain from the mere statement of it that one was surprised to hear that it required proof, and I suspect that the dispute, where there is any, arises from neither party quite understanding the other's position; for the law of demand and supply and cost of production are not rivals at all, but each is the complement of the other. There is not a farmer or shopkeeper during the bad times whom you will not hear recognising clearly the first half of the law of demand and supply, viz., that people will not go on producing goods for less than their cost of production; and though he may not quite so quickly recognise the second half, viz., that trade competition will not allow anyone to continue getting more than cost of production (plus margin of profit); this is only because business in real life is so full of monopolies, natural and artificial, legitimate and illegitimate, that he takes these disturbances as matters of course, and does not trouble himself to recognise that, where there is a continuous and excessive profit, there *must* be a monopoly of some sort, otherwise other people would have rushed into the business and brought profits down. Still he sees it plainly enough directly it is pointed out. So that he accepts the law of cost of production in full. For all that he sees at the same time that when things that are wanted are plentiful they are cheap, no matter why they are plentiful; and that when they get more plentiful still, no matter why, they get cheaper still, and *vice versa*; and also that if they are less wanted (supply remaining the same), they again also get cheaper. In short, he also believes in the law of demand and supply, and attends chiefly to that as the broader law that includes and covers the cheaper. For the law of demand and supply is this—that just as the steam, as such, is the sole governing power of the movements of the piston-rod, notwithstanding that behind the steam is the fire that creates the steam, so the ratio between demand

and supply, as such, was the sole governing power of the movement of price, notwithstanding that behind demand and supply was cost of production that regulate supply. As the fire can only influence the piston-rod through the steam, so cost of production can only influence price through supply. Only there is this difference, that whereas fire only can create steam, other things besides cost of production determined supply. So that it is demand and supply, as such, only that determine price. To show this, take first reduced cost of production without increase of supply. Suppose I own the Blue John Mine, the only mine in the world that yields Derbyshire spar, and that I discover a way of reducing the cost of the work by half, but do not increase my output, only lessen my expenses, then demand and supply being unaffected the price remains unaltered, notwithstanding the reduced cost of production. Or suppose I discover a process by which I can make silk from mulberry leaves direct and keep my process secret without increasing my output, the same result happens. Now take increased supply without reduction of cost. Suppose a diamond field, where the difficulties of finding the diamonds are so great that only a limited number of people take to the business, and the price of diamonds stands at so much; and suppose now another diamond field, just like it, is discovered elsewhere with just the same difficulties and the same profits; then about the same number of people start diamond hunting there, so the supply of diamonds being doubled the price falls, notwithstanding that cost of production is exactly what it was. A law like this of demand and supply covers all cases, disturbances included, is at least as important as forming, one may say, one that, like cost of production, can only be applied after all disturbing influences have been excluded. Economics, to be worth studying, must be more than an intellectual exercise for the few, it must afford a useful guide for the many; and just as the sailor wants to know not how the winds *would* blow if things were different and there were no land (though that is good and useful, too, in its way), but how and why they do blow so variably, so uncertainly, so bewilderingly, so what the man of the world wants to know is not what prices would be if things were different and there were no disturbing influences, but what does actually determine them under all the innumerable and ever-present influences of natural scarcity, artificial monopoly, privileged obstruction, protective duties, rings, and syndicates, sudden changes of fashion, slow changes of custom, disappearance of species, and a thousand other interfering agencies, all which are not confined to a one per cent. class of articles, but enter more or less at one stage or another into every single article of commerce. And the simple law of demand and supply

covers them all; all at least with (so far as I can see) one solitary exception. As to the exclusion of things the value of which is determined by scarcity, the doctrine of demand and supply is that the value of EVERYTHING is determined by its scarcity as compared with the demand for it. If there is no demand for it it will have no value, no matter how scarce it may be. But the exclusion is evidently meant to apply to things that are wanted, and that are obtainable to a certain extent, yet the supply of which cannot be increased. But the disturbances and interferences with free production are not confined to these articles (if any such articles there be), they appear everywhere. Food, clothing, and houses, for instance, are typical examples of the things that, in theory at any rate, can be increased indefinitely. There is no natural scarcity of these things, but there is a terrible artificial scarcity. This is why we are saddened with the sight of unemployed men, without food, which they could and gladly would produce; without clothes (beyond what is on their backs), which they would gladly make; without homes, which they would gladly build—if they were allowed. All these, and nearly every other theoretically obtainable good thing which men cannot get are scarce because the opportunities to produce them are *made* scarce; and the man who could but may not produce them, if he is to get them at all, must pay a high price for them; not perhaps a high price measured in money, but a high price measured in labour, that is, he must give many more hours' work for them, or for the money to buy them, than he need give but for obstruction. Now we want a law that shall cover all these cases. The law of demand and supply is the only one that does so. Now take the three examples given to dethrone demand and supply from its hitherto recognised position: 1st. Wheat, the demand for which, as indicated by consumption, rose, after 1840, in 47 years by one-third, while its price fell to half. Why? Through the law of demand and supply. Because increased supply (no matter from what cause) had brought down price, and in doing so had stimulated demand. For it was about that time that the prairie lands of North America began pouring their supplies into the English market. It was the increased supply as such, not the diminished cost as such, that produced the result, for if a ring had bought up the imports and held back half, or if foreign war vessels had intercepted half, the price would not have fallen as it did, notwithstanding the diminished cost of production. And here I may say, though it is not strictly relevant to the question before us, that I doubt whether there was any diminished cost of production measured in labour. I doubt much whether it took any less labour to raise a bushel of wheat on the prairie, send it by cart to the railway, by rail to the seaports, and by

sea to the English market, than it did to raise a bushel *at* the English market. A large part of the previous price represented rent. Not that the high rents CAUSED the high price, it was the scarcity that did that; but the landlord got the benefit all the same, and when the increased imports brought down the price, the landlord lost and the consumer gained the difference. As to the next example, meat, the same argument applies. The arts of tinning and freezing meat had been discovered, and shipments of live stock greatly increased. The increased supply, not the reduced cost, checked the rise of price. As to the third example, the increased rate of wages coupled with increased purchasing power, that is too wide a question to enter on here. I content myself with remarking that the increased wage and increased purchasing power were a good deal less than they appear, being largely discounted by increasing rent, by increasing irregularity and uncertainty of employment, and in many, especially in the most conspicuous cases, by contributions to the war fund of the Union, by which the rate of wage was kept up. However, let us keep to the main point, which is that, looking at the matter broadly and taking price as a whole, as it actually is with all its disturbing influences, not as it might be without them, it is demand and supply as such that determines it; cost of production acting only by affecting supply, and so disturbing the ratio, besides being only one factor out of many, though no doubt the chief one, in affecting supply.