CHAPTER VII

THEORY OF CAPITAL

The Function of Capital

In considering the nature and principles of Capital, we enter a distinct branch of our subject. There is no close or necessary connection between the employment of capital and the processes of exchange. Both by the use of capital and by exchange we are enabled vastly to increase the sum of utility which we enjoy; but it is conceivable that we might have the advantages of capital without those of exchange. An isolated man like Alexander Selkirk might feel the benefit of a stock of provisions, tools, and other means of facilitating industry, although cut off from traffic with other men. Economics, then, is not solely the science of Exchange or Value: it is also the science of Capitalisation.

The views which I shall endeavour to establish on this subject are in fundamental agreement with those adopted by Ricardo; but I shall try to put the Theory of Capital in a more simple and consistent
manner than has been the case with some later economists. We are told, with perfect truth, that capital consists of wealth employed to facilitate production; but when economists proceed to enumerate the articles of wealth constituting capital, they obscure the subject. "The capital of a country," says MacCulloch,¹ "consists of those portions of the produce of industry existing in it which may be directly employed either to support human beings, or to facilitate production." Professor Fawcett again says:² "Capital is not confined to the food which feeds the labourers, but includes machinery, buildings, and, in fact, every product due to man's labour which can be applied to assist his industry; but capital which is in the form of food does not perform its functions in the same way as capital that is in the form of machinery: the one is termed circulating capital, the other fixed capital."

The notion of capital assumes a new degree of simplicity as soon as we recognise that what has been called a part is really the whole. Capital, as I regard it, consists merely in the aggregate of those commodities which are required for sustaining labourers of any kind or class engaged in work. A stock of food is the main element of capital; but supplies of clothes, furniture, and all the other articles in common daily use are also necessary parts of capital. The current means of sustenance constitute capital in its free

¹ Principles of Political Economy, p. 100.