CHAPTER II.

PRODUCTION

§ 12. COST OF PRODUCTION. — The Cost of Production of any commodity is equal to the value of the commodities consumed for the purpose of producing it.

The production of any commodity, except the very simplest, say, berries gathered in a wood, necessitates the consumption of other commodities, which would not have been consumed if this new production had not taken place. The production of a pair of boots, for instance, necessitates the consumption of a certain amount of leather and other materials, and the partial consumption (wear and tear) of machinery, tools and buildings. These things are destroyed; they have been transformed into a pair of boots. Everything else co-exists with this new pair of boots. It is the same in all other acts of production.

It may, however, be argued that wages, rent and interest form part of the cost of production. From the standpoint of the individual employer something may be said in favour of this view, so far as it refers to wages. From the national, or social point of view, however, the contention is fallacious throughout. For nothing can possibly enter into the composition, and, therefore, into the cost of a new object, which can coexist with this new object. The wealth paid as rent and interest may manifestly so coexist. It has merely changed hands; the new owners need not consume it, and if they do so, they obviously do not do so for **the purpose of producing the particular commodity in connection with which they received this wealth.**

Wages, it may be admitted, seem to occupy a different position, inasmuch as it may be argued that the vast majority of wage earners could not produce unless they consumed all, or the greater part, of the wealth which they receive as wages. Even if this were true—and it is true in a qualified sense only—it would only prove that wage earners cannot live without consuming a certain amount of wealth. This necessary minimum, *i.e.* sufficient wealth to keep them alive, would, therefore, be consumed by them whether they produced or remained idle. It cannot, therefore, be said to be consumed for the purpose of production. On the contrary, production takes place in order to provide wealth for this consumption. Any other conclusion would be equivalent to the assertion that men always consume wealth for the purpose of production, **whereas it is obvious that men produce for the purpose of consumption.**

Wages, like rent and interest, form no part of the cost of production, but are paid out of the profit on production. (See Chapter V., "Distribution.") In those exceptional cases even, in which production has been profitless (see § 13), wages form no part of the cost of producing the goods, but form part of the cost of monopolising the goods in the hands of the employer, which is the distinctive feature of wage-industry.

The cost of producing that portion of the called-for supply of any commodity which is produced under the most disadvantageous circumstances, is termed the marginal or final cost of the entire volume of the commodity.

§ 13. PROFIT. If the utility and, therefore, the value of a new product exceeds the value of the commodities consumed for the purpose of producing it, the act of production has yielded a Profit. The profit on any act of production, therefore, is equal to the excess value of the new commodity over that of the commodities consumed.

The conception that profit is something additional to rent, interest and wages, and constitutes the peculiar reward of the employer, is not tenable and has been abandoned by economists. For the reward of the employing capitalist is now seen to be composed of interest, insurance against risk, wages of superintendence and, not infrequently, rent or other monopoly charges. The wages of superintendence may be, and in some instances, no doubt, are, excessive. More frequently they are inadequate. In neither case, however, can their amount alter their character.

§ 14. THE LAW OF DIMINISHING RETURN.—After a certain point has been reached in the cultivation of any land, an increase of product cannot be obtained without more than a proportionate application of labour and capital.

That is to say, if a certain field yields 12 bushels of wheat to the acre for the expenditure of labour and capital which we may call 100, the application of 150 need not, of necessity, produce 18 bushels, but might result in the production of 17 bushels only. There always must be a point at which the application of additional labour and capital becomes less profitable than that of previous amounts. If it were otherwise, all the agricultural produce wanted in the world might be derived most profitably from a few square miles of the most fertile land. Whereas the fact is, that where this point—**the point of Diminishing Return**—has been reached, and additional agricultural or mineral produce is required, it may be more profitable to grow it on, or derive it from, other land, even if it be poorer or more distant from the market. **In either case the cost of producing the additional quantity will be higher; but the increase**