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ECONOMICS AND ETHICS

BY THE SAME AUTHOR

THE MAKERS OF MODERN ITALY

GEORGE CANNING AND HIS TIMES

LORD FALKLAND AND HIS TIMES

THE REMAKING OF MODERN EUROPE

SECOND CHAMBERS

ENGLISH POLITICAL INSTITUTIONS

ENGLAND SINCE WATERLOO (BEING VOL. VII OF OMAN'S *History of England*)

THE ENGLISH LAND SYSTEM

THE EVOLUTION OF PRUSSIA (WITH C. GRANT ROBERTSON)

THE EASTERN QUESTION

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THE EUROPEAN COMMONWEALTH

THE RIGHT TO WORK

SYNDICALISM: POLITICAL AND ECONOMIC

EUROPE AND BEYOND

ECONOMICS AND ETHICS

A TREATISE ON WEALTH AND LIFE

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PREFACE

THE argument of this book is addressed to those who desire to order their daily lives, in the home, in the shop, in the factory, or on the farm, in conformity with the highest ethical standards, or, in more familiar words, to live according to the will of God; and to them only. They constitute, I hope, a large portion of mankind, but be that as it may, I know that there are at present among them many who are sorely perplexed in mind, and gravely disturbed in conscience, by the apparent contradiction between the precepts of Ethics and the laws of Economics. It is my earnest hope that in this book they may find some help towards the solution of their difficulties.

Others, not thus troubled, will, I hope, find here an exposition, as simple as I can make it, of the leading principles of Economic Theory, as understood and expounded by the Classical Economists. But the book is distinguished from any other text-book known to me by the abundance of concrete illustrations, and by occasional excursions into the domain of Economic history. I have throughout attempted to utilize such knowledge as I possess of affairs, particularly of finance and industry, alike for the purpose of supporting the conclusions of Economic Theory by reference to the actual facts of business, and also in the hope of disarming the suspicion still entertained by 'practical' men of the merely theoretical Economist.

How far I have succeeded it is for my readers to judge; but I am entitled to ask that they will bear in mind

the purpose which has inspired the book, and the audience—special but not, I hope, restricted—to which its argument is addressed.

I have incurred, needless to say, innumerable obligations to my predecessors, but I hope I have not omitted from my list of authorities any to whom I am thus indebted, though my Economic studies have ranged so wide, and have extended over so long a time, that I cannot be absolutely sure, and for my unacknowledged debts I must crave pardon. To the list of authorities I have appended a list of the articles which I have contributed, in recent years, on Economic subjects to *Reviews*, not because I have actually incorporated any of those articles in the present volume, but as a form of acknowledgement to the proprietors and editors of those *Reviews* for any otherwise unacknowledged borrowings from my previous writings. To my friends Mr. L. L. Price, late Fellow and Treasurer of Oriel College and Reader in Economic History in the University of Oxford, and Mr. P. E. Roberts, Fellow and Tutor of Worcester College, I am deeply indebted for kind help in the correction of proofs.

J. A. R. MARRIOTT

OXFORD
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ECONOMICS AND ETHICS

ECONOMICS AND ETHICS

BOOK I. INTRODUCTORY

CHAPTER I

ECONOMICS AND ETHICS

'A great nation does not mock Heaven and its Powers, by pretending belief in a revelation which declares the love of money to be the root of *all* evil, and declaring at the same time that it is actuated and intends to be actuated by no other motive.'—RUSKIN, *Sesame*.

'No man can serve two masters, for either he will hate the one and love the other, or else he will hold to the one and despise the other. Ye cannot serve God and mammon.'—*St. Matthew* vi. 24.

'The virtue of the citizen must be relative to the constitution of which he is a member. If then there are many forms of government, it is evident that the virtue of the good citizen cannot be the one perfect virtue. But we say that the good man is he who has perfect virtue. Hence it is evident that the good citizen need not of necessity possess the virtue which makes a good man.—ARISTOTLE, *Politics*, Jowett's translation, III, iv. 3.

Purpose and scope of this book.

IS it possible to be at once a good Christian and an orthodox economist; to be successful in business without contravening the precepts of Christ; to devote oneself wholeheartedly to the service of the State, and yet pay due regard to the paramount claims of Christian morality? In short, are Politics and Economics compatible with Ethics; is the pursuit of wealth consistent with the service of God? These questions are to-day perplexing the minds and troubling the consciences of many men and women who would fain serve God, deal justly with their neighbours, and order their own lives in accordance with the dictates of Christianity. It is in the hope of contributing to their solution that the following pages have been penned.

Prae-Christian teaching on the subject.

The antithesis between God and mammon is much older than the phrase which has familiarized it to Christendom. The philosophers of Ancient Greece were greatly concerned with it, though under a slightly different aspect; they were at pains to discern the true relation between Ethics—the problem of right conduct for the individual, and Politics, the science of the ordering of the State.

Plato.

In the *Republic* of Plato, for example, Politics are entirely subordinated to Ethics. 'The State', writes a modern commentator, 'is to be so fashioned that the influence of its organization may create in the souls of its individual citizens that habit and proportion which is profitable for eternity . . . Justice in the State is a mere image of the true justice which is a condition of the individual soul. The true criterion of a constitution is to be found by asking what training for eternity it affords.'[1] Similarly, in the *Gorgias*, Plato makes the virtue of a citizen consist in the moral improvement of his fellows, not in adding to the material defences of the State, while Socrates consistently maintained that it was impossible to be a good citizen without moral goodness.[2]

Aristotle.

Aristotle's teaching on this matter is somewhat less free from ambiguity. Both in the *Ethics* and in the *Politics* he addresses himself to the question whether the virtue of a good man is the same as that of a good citizen. The citizen is 'good' in proportion as he contributes to the safety and prosperity of the State. But since there are many forms of government, and since the qualities which serve one State are not identical with those required for the service of another, 'it is evident that the virtue of the good citizen cannot be the one perfect virtue, nor need the good citizen of necessity possess the virtue which makes a good man.'[3] In the ideal State the two kinds of virtue may indeed closely approximate, but even there the identification is not complete.

The Hebrew Prophets.

The Hebrew prophets approached the problem from

[1] W. Temple, *Plato and Christianity*, p. 32.
[2] Xenophon, *Memorabilia*, IV, ii. 11.
[3] *Politics*, III, iv. 3.

a different standpoint. To them Ethics and Politics were inseparable. 'Obey my voice and I will be your God, and ye shall be my people; and walk ye in all the ways that I have commanded you that it may be well unto you.'[1] 'What doth the Lord require of thee but to do justly and to love mercy, and to walk humbly with thy God.'[2] These are primarily ethical precepts, yet the Hebrew prophets were not merely preachers but statesmen to whom private morality was the indispensable condition of political stability. Apostasy is punished by expatriation. 'Ye have borne the tabernacle of your Moloch and Chiun your images, the star of your god, which ye made to yourselves. Therefore will I cause you to go into captivity beyond Damascus, said the Lord.'[3]

Christ and Economics.

The teaching of Christ himself on this subject demands more detailed examination.

It is commonly asserted and even assumed that the teaching of the founder of Christianity was in the main what we should now describe as socialistic. Pastor Naumann of Frankfurt, distinguished alike as a theologian and a publicist, declared that Christ is 'on moral grounds a radical enemy of capital'. F. Nitti, the Italian Economist, regarded it as self-evident that 'poverty was an indispensable condition for gaining admission to the kingdom of Heaven'. Rénan affirmed that Christ's conception of the world was 'socialist with a Galilean colouring', while a well-known American writer went so far as to declare that 'no man can read the Gospel without seeing that Jesus regarded industrial wealth as a moral fall and a social violence'.[4] Christ's own teaching and practice are, it is submitted, very far from lending themselves to conclusions so clear-cut or so dogmatically stated. The Christian is indeed warned that he cannot serve God and mammon, but equally he is bidden to render to Caesar the things which are Caesar's,

[1] Jer. vii. 23. [2] Micah vi. 8. [3] Amos v. 26, 27.

[4] These and many other passages to similar effect are quoted in *Jesus Christ and the Social Question* by Professor F. G. Peabody, of Harvard (Macmillan & Co.), cheap edition 1913. To this remarkable book I wish to acknowledge my great indebtedness.

as well as to God the things which are God's. He has obligations to discharge as the citizen of a temporal State, and to the eternal ruler of the universe. Nor may the necessities of day to day existence be ignored: man, it is true, does not live by bread alone, but the multitude must be fed; and the feeding, so the Christian apologists of to-day insist, ought to be on a generous scale. That Christ was deeply concerned in regard to the deceitfulness of riches, as to the effect of great possessions upon the character of the individual, cannot, of course, be denied. Warnings as to the danger likely to accrue from great wealth abound in the Gospels: 'Blessed be ye poor . . . Woe unto you that are rich;' 'How hardly shall they that have riches enter into the kingdom of God', and much more to similar effect. Be it observed, however, that it is the spiritual aspect of the matter upon which Christ lays stress; and not the Economic. It is, according to the version of St. Matthew, the poor *in spirit* who are blessed. St. Luke, who has been described as 'the socialist among the Evangelists', omits the qualifying words. Similarly St. Mark reports Jesus as saying, 'how hard it is for them that *trust* in riches to enter into the kingdom of God', while St. Luke reports the saying in the cruder form already quoted. It cannot, indeed, be questioned that Christ regarded riches as an encumbrance to the spiritual life of the individual. Nevertheless, He insisted that wealth, like other talents, must not be hidden in a napkin: that it is a responsibility for which an account will be required and must be given.

The whole question was, indeed, approached by Him with a reserve and a caution not always imitated by those who claim to speak in His name. When confronted, for example, with the question as to the division of an inheritance, Christ peremptorily declined to be drawn into any discussion of the specific point: 'Man, who made me a judge or a divider over you?' But while avoiding the immediate issue, He proceeded to utter a warning in general terms against the sin of covetousness: 'Take heed, and beware of

covetousness: for a man's life consisteth not in the abundance of the things which he possesseth.' Then, having enunciated this general truth, Christ went on to illustrate it by the parable of the rich man who, embarrassed by the abundance of his harvests, proposed to build larger barns, and, on the strength of his accumulated wealth, to devote the remainder of his days to a life of ease, pleasure, and self-indulgence. We must look a little closer into this parable. Christ was not, of course, deploring the plenteousness of the harvest. The plenteousness of the harvest was evidently an advantage to the community, no less than to the individual. The abundant harvest necessitated bigger farm buildings. To pull down his barns and to build greater was on the part of the farmer merely an act of prudence and common sense. This could not have evoked the reprobation of the Master. Plainly it was the use to which the fortunate farmer proposed to put his wealth. 'Soul, thou hast much goods laid up for many years. Take thine ease, eat, drink, and be merry.' Swift came the Nemesis: 'Fool, this night thy soul shall be required of thee. Then whose shall those things be which thou hast provided?' Finally, the moral is drawn in set terms: 'So is he that layeth up treasure for himself and is not rich toward God.'[1]

The whole incident is eminently characteristic of our Lord's method, and by no one has that method been analysed with greater insight and more acumen than by Professor Peabody of Harvard. 'Whatever social teaching there may be in (the Gospels), and however weighty it may be, the mind of the Teacher was primarily turned another way . . . Jesus does not fling himself into the social issues of his time. He moves through them with a strange tranquillity; not as one who is indifferent to them, but as one whose eye is fixed on an end in which these social problems will find their own solution . . . Jesus will not be diverted by the demand for a social teaching from the special

[1] St. Luke xii. 14 seq.

message of spiritual renewal which he is called to bring . . . In short, Jesus approaches the social question from within; he deals with individuals . . . It is for others to serve the world by organization; he serves it through inspiration. It is for others to offer what the theologians once called a scheme of salvation; the only salvation Jesus offers is through saviours, and saviours are those who have sanctified themselves for others' sakes.'[1]

This truth is emphasized by two modern theologians who, approaching the problem from widely differing angles, nevertheless reach a similar conclusion. 'The Gospel', writes Dr. Harnack, the eminent German critic, 'is not one of social improvement, but of spiritual redemption.' 'Christ', writes an Irish divine, 'proceeded to form his kingdom by the simple method of winning the heart of the individual and then uniting in a brotherhood all whose hearts had been won.'[2]

The attitude of the Church.

Still, the witness is not indeed all on one side. Of late years, indeed, the emphasis, more particularly perhaps in the English branches of the Christian Church, has been quite the other way. Thus the Lambeth Conference of Bishops in 1897 declared: 'Christian opinion ought to condemn the belief that economic conditions are to be left to the action of material causes and mechanical laws.' The Committee of Inquiry, appointed in 1917 by the Archbishop of Canterbury, to report on 'Christianity and Industrial Problems', laid great stress upon the subordination of Economics to Ethics. 'The man who directs his life primarily *to laying up treasures* on earth sins both against himself and against his neighbour.' Again: 'The common assumption that *the attainment of riches* is one of the main ends of man, and that the criterion of social

[1] Professor Rauschenbusch similarly writes: 'Christ was not a social reformer of the modern type . . . He saw the evil in the life of man and their sufferings, but he approached these facts purely from the moral and not from the Economic or Historical point of view.' *Christianity and the Social Crisis*, p. 47.

[2] Archbishop D'Arcy, of Armagh, Primate of Ireland, *Anglican Essays*, p. 4.

organization is its power to facilitate them, is not so much un-Christian as anti-Christian.'[1] 'In such matters', writes the Bishop of Winchester, 'as those of the living wage with adequate leisure and security of employment, the status of the worker within the industry in which he works, the provision of full opportunities for all of education, health, and housing, moral principles which Christianity creates or recognizes, claim to dictate first charges to which the Economic process must submit and conform.'[2] This is unquestionably a large claim, and its implications will demand detailed consideration later on. Meanwhile, the question may be bluntly asked, whether it is sinful to save, whether it is true that the man who lays up treasures on earth sins both against himself and against his neighbours; whether it is an anti-Christian assumption that the attainment of riches is one of the main ends of man. The words italicized in the above quotations unquestionably indicate strong prejudice against the acquisitive arts and against the individual possessor of wealth. Is there any sufficient ground in Christian Ethics for such prejudice? Does not the whole question largely turn upon the meaning of words and the definition of terms? That great possessions may be a dire temptation to the individual has been already frankly admitted; but it is plain that it was from the point of view of a snare to individual character that the solemn warnings of Christ were uttered. The economist, however, is bound to regard the matter less from the standpoint of the individual than of Society. Moreover, it may serve to dispel some prejudices if we translate the biblical terms into their modern equivalents; if we substitute for 'the attainment of riches', the 'production of wealth'; for 'the laying up of treasure', 'the accumulation of capital'. In the production of wealth, the whole community is profoundly and vitally interested. To that production the accumulation of capital is in the modern world an indispensable preliminary. Consequently, the greater

[1] *Christianity and Industrial Problems*, pp. 12-13. [2] *Ibid.* ix.

the amount of treasure laid up, the easier will the conditions of life be for the mass of the people.

Still, the prejudice against the rich man, against the accumulation of wealth, persists. It goes, indeed, so far as to inspire the notion that the man who leaves behind him a large fortune is morally condemned. I cull at random from a daily paper the following words: 'From being a grocer's assistant at —, Mr. — rose to be a prosperous provision merchant. He founded the firm of Preserved Food Manufacturers, bearing his name, and left a fortune of £154,339.' Now it is a question of vital importance, alike for students of Ethics and of Economics, to determine whether Mr. —'s life was from the point of view of the community well spent. Would it have been better for his fellow-men if Mr. — had died the grocer's assistant, 'worth' a few pounds? He would then, one must presume, have avoided the reproach of those who regard the acquisition of money as a sin. As it was, he attained riches, and laid up treasures on earth. In the process of acquisition he may or may not have jeopardized his own soul, but it is important to press the question whether in doing so he sinned against his neighbour as well as against himself.

Trade brings mutual advantages.

If the wealth of one man implies the poverty of another the answer to this question cannot be in doubt. A great moralist has committed himself to this opinion: 'The art of making yourself rich, in the ordinary mercantile economists sense, is equally and necessarily the art of keeping your neighbour poor.'[1] Is Ruskin's statement true? Does it not, rather, depend for its validity on the monstrous and mischievous fallacy, that only one party to a bargain can derive benefit from it; that what one man gains, another must lose. All sound trade rests in truth upon the contrary assumption—an assumption not generally belied—that the exchange of commodities is to the mutual advantage of both parties. Nor are large fortunes as a rule built up upon the poverty of other people. Sometimes they are: but almost

[1] *Unto this Last*, p. 41.

invariably they represent, not a deduction from the wealth of other individuals, but a net addition to the wealth of the community. We are already, however, using terms such as 'wealth', which ought not to be employed without definition, and to that definition we shall, in the next chapter, proceed.

Meanwhile, it may be well to indicate briefly the main purpose and scope of the argument of this book, and the method which it is intended to pursue.

Let it be premised that its pages are addressed not to the learned but to the simple. The economic doctrine it sets forth will not, it is hoped, be deemed open to assault by critics competent to express an opinion. To the impatient reformer it will, perhaps, appear to be old-fashioned. The Marxian Socialist will doubtless deride it as 'bourgeois'. Science, however, takes no account of social distinctions. One may as well speak of 'aristocratic astronomy' or 'proletarian physiology' as of 'middle-class economics'. Truth is truth whether it be proclaimed from the pulpit or the market-place. If the economic hypothesis be unsound let it be displaced; if the conclusions derived from it be erroneous let the error be exposed. At all costs, however, we must avoid the prejudice which is imported into scientific argument by the employment of irrelevant epithets.

To assume authority for the ascertained 'Laws' of a Science is not indeed to claim infallibility for opinions. Opinions will not be obtruded in the following pages more than necessary. Wherever they do emerge they will, of course, offer legitimate targets for criticism. It is, however, permissible to add that they have not been lightly or hastily formed, but are the result of prolonged study and reflection. They have, moreover, been subjected to the test of perpetual re-examination and not infrequent restatement.

The Science of Economics.

The main thesis of the argument advanced in these pages is that economics is primarily a science, the laws of which can be ascertained and formulated; that in so far as they

are 'laws' and not merely the maxims of sciolists or the opinions of commentators they are all-powerful, and can be resisted only under the penalties which attach to disobedience. These laws are, however, relatively few, and as simple as they are significant. Within the sphere of their operation there is, moreover, a large latitude of opinion and a wide choice of alternative policies. In regard to opinions and to practical policy dogmatism is therefore out of place. In opinion men may legitimately differ; laws stand unchallenged and immutable.

Relation to Ethics.

In what relation, if in any, does the Science of Economics stand to Ethics? Ethics is at once a Science and an Art: its function is to investigate the laws of morality and to formulate rules of conduct. Ethics is not merely concerned to ask wherein goodness or justice consists, but how the good or just man should order his life. Plainly the scope or sphere of Ethics is wider than that of Economics; so much so that Economics has sometimes been regarded, and even treated, as a department of Ethics. Not, as I shall presently submit, to the advantage of either. It may well be that in the ultimate analysis of conduct Economic considerations will have to yield to considerations of morality, or even of politics. We may readily admit the truth of the contention that 'industry and Economic activity are not ends in themselves to be pursued without reference to the main ends of human society or by methods inconsistent with it'. To assert that 'the satisfaction of man's material needs which is the function of industry, ought to be ennobled by the spiritual purpose to which it contributes'[1] is indeed to emphasize a truism. Nevertheless, it is doubtful whether the enunciation of such sentiments, indisputable as they may be, carries us much farther in the discussion of practical problems in Economics. For Economics, however widely we may extend its sphere, deals with the material environment of man: 'That industry is a mechanism in which methods of organization

[1] *Report* of the Archbishop's Committee, p. 10.

and social relationships are to be determined by considerations of Economic expediency—this doctrine has for a century had a wide influence in moulding industrial organization and social life.' Against this doctrine the Christian Socialist protests. He regards it as 'distinctly and peculiarly unchristian' and as opposed to the ideals of the New Testament.

Must every consistent follower of Christ do likewise? We are thus brought back to the question with which we started: are the 'laws' of orthodox Economics in conflict with the precepts of Christianity? In this primary question others are evidently involved. What are the things which we are bidden to render to Caesar; what are the things which belong to God? Is it proper or possible in a modern industrial community to recognize the dual allegiance? Is there any logical or scientific delimitation of the respective spheres of authority? How far should the moral law govern the organization of industry or control the mechanism of trade? Does Christianity dictate our commercial duty towards our neighbours? Is the distribution of the product of industry inexorably governed by economic law; or do the problems of wages, of profit, of rent, and interest, include among their essential factors moral as well as economic considerations? How should the man who desires to order his life on ethical principles spend his money? What is the duty of the Christian who is also an Economist in regard to almsgiving? Must he give indiscriminately to him that needeth, or is it his duty at the bidding of scientific charity, to turn away his face occasionally from the poor man? What is his duty in regard to thrift? Must he literally decline to take any thought for the morrow, or is it a bounden duty in the interest of the community to curtail expenditure and to accumulate capital?

These questions are typical of many. Some of them may appear elementary even to the verge of puerility. In reality they go very deep—to the very roots of the conduct of the good man and the good citizen. Nor can they

be answered dogmatically; though dogmatism is unfortunately the key-note of the answers commonly given to these questions alike by the moralist and the economist. Yet the more dogmatic the answers the less do they really satisfy the mind of the genuine seeker of the truth, or ease the conscience of him who would fain walk according to the light.

It is the purpose of the pages that follow, if not to provide ready-made answers to these questions, at least to afford such guidance, as an economist may, to those who are anxious to answer them for themselves.

CHAPTER II

THE SCOPE AND METHOD OF POLITICAL ECONOMY

Political Economy is 'an inquiry into the nature and causes of the wealth of nations.'—ADAM SMITH (1776).

'Writers on Political Economy profess to teach or to investigate the nature of wealth and the laws of its production and distribution.'—JOHN STUART MILL (1848).

'Economics is the study of mankind in the ordinary business of life.'—ALFRED MARSHALL (1891).

'Both in definition of the elements of wealth, and in statement of the laws which govern its distribution, modern political economy has been absolutely incompetent or absolutely false.'—RUSKIN, *Munera Pulveris* (Preface).

Definitions of Political Economy.

PRECISE definition is an essential condition of clear thinking, and without clear thought a right judgment is impossible. By Ethics we understand the science and art of right conduct. Politics is the science and art which deals with the well governing of States and the conduct of human beings as members of an organized community. How shall we define Political Economy or Economics? Prefixed to this chapter are the definitions of certain representative economists from Adam Smith's time to our own. They are, of course, far from being exhaustive. Sismondi, for example, says, 'Political Economy treats of the physical welfare of man so far as it can be the work of Government or the nature and cause of the wealth of nations'.[1] Bastiat defines Political Economy much more narrowly as the 'theory of Exchange'.[2] J. R. McCulloch says, 'Political Economy is the Science of the laws which regulate the production, accumulation, distribution and consumption of those articles or productions that are necessary, useful, or agreeable to man, and which at the

[1] *New Principles of Political Economy*, 1819.
[2] *Harmonies of Political Economy*, 1840.

same time possess exchangeable value'.[1] Walter Bagehot defined Political Economy characteristically as 'the Science of business'. It is, he goes on to say, 'an analysis of that *world so familiar to many Englishmen—the "great commerce"* by which England has become rich . . . And it deals too with the men who carry on that commerce, and who make it possible'.[2] Emile de Laveleye defines Political Economy as 'the science which determines what laws men ought to adopt in order that they may with the least possible exertion procure the greatest abundance of things useful for the satisfaction of their wants, may distribute them justly and consume them rationally'.[3] M. Charles Gide, perhaps the most eminent of French Economists, draws a significant distinction between 'pure Economics' and 'Social Economy'. Pure Economics 'studies the spontaneous relations that arise between men living together as it might study the relations that arise between any bodies whatsoever—"those necessary relations which derive from the nature of things" as Montesquieu said. It does not set out to judge them either from the moral or from the practical point of view, but simply to explain what is. In so far it tries to follow the methods of a natural or even of a mathematical science. On the other hand, social Economy studies rather the voluntary relations that men create among themselves—associations, written laws, institutions of all kinds—with a view to improving them. Its object is to find out the best means of doing this. It partakes therefore more of the character of the moral sciences as seeking what ought to be, and of the arts as seeking what must be done.'[4]

These definitions would seem to raise two questions: First, is Political Economy a science or an art? And, secondly, what is its appropriate sphere and subject-matter? A science is concerned simply with investigation. It seeks to ascertain and to formulate the operation of laws. An

[1] *Principles of Political Economy*, 1849.
[2] *Economic Studies*, 1880.
[3] *Political Economy*, 1882.
[4] *Political Economy*, Eng. trans., 1914.

art, on the other hand, is not theoretical but practical; not content with investigating laws, it teaches men *how to* utilize the materials at their command to the best advantage. In the view of the best authorities Political Economy is pre-eminently a science, though closely related to it stands the art of business. As a science, then, it will in this book be mainly treated. What is the subject-matter of this science? All authorities agree that it is primarily 'wealth', though there is an increasing tendency among modern Economists[1] to emphasize the fact that the proper study of Economics is not wealth, but man in relation to wealth. Provisionally, however, we may define Economics as the science of wealth: the study which investigates the laws of the production, exchange, distribution, and consumption of wealth.

The scope of Economics.

To such a definition there are obvious objections. In the first place it would seem gratuitously to narrow the limits of inquiry, and thus to diminish both the interest and the utility of the study of Economics. How can such a study, it is impatiently asked, be of any practical value either to the social worker or to the business man? But does not a similar objection apply to many of the sciences most highly esteemed? Astronomy, for example, is an exact science, but who would deny its close relation to the art of navigation? Physiology and Chemistry are sciences, a knowledge of which is indispensable to the art of the physician. Similarly, though the science of Economics may not provide a *vade mecum* for the banker or the merchant or the politician, it does, nevertheless, supply a body of knowledge which may well be regarded as indispensable alike in the world of politics and of commerce. The art of business stands in fact in the same relation to the science of Economics as the art of navigation to the science of astronomy.

'Wealth' defined.

Economics, then, is concerned with wealth and with

[1] E. g. Professor Alfred Marshall, and Sir Sydney Chapman. The latter writes: 'Political Economy treats of all the actions of human beings in relation to wealth'.—*Political Economy*, p. 1.

human beings in relation to the production, distribution, exchange, and consumption of wealth. But what is 'wealth'? Wealth is defined by John Stuart Mill as 'all useful or agreeable things which possess exchangeable value; or, in other words, all useful or agreeable things except those which can be obtained in the quantity desired without labour or sacrifice'. 'Wealth' says Walker, 'comprises all articles of value and nothing else'.

These definitions have aroused the scorn of the moralists. Ruskin, for example, declared that the things regarded by the economists as of 'value' are not in reality wealth but illth. Political Economy itself he denounces as 'peculiarly and alone the science of darkness; probably a bastard science', and elsewhere as the science of getting rich.[1] The latter, be it noted in passing, is not merely a libel upon Economics, but a gross misrepresentation of the nature and function of science. Political Economy does not inculcate the love of riches nor the pursuit of wealth. It does not indeed inculcate anything. But it does claim to proceed on an hypothesis. The hypothesis is that all men are moved by the desire to live, and that this desire can be satisfied only by the acquisition of those material objects which are essential to the maintenance of life. Nowhere does Political Economy suggest that the attainment of riches ought to be the exclusive concern of mankind. Much of the current criticism of Economics is therefore irrelevant. Thus we read in the Report of the Archbishop's Committee on *Christianity and Industrial Problems*: 'The pursuit of wealth as an end in itself creates an atmosphere in which right social relations are hardly attainable, and in which it is difficult not only for the rich, but for all classes to enter the kingdom of Heaven.' Again: 'Divorced from spiritual standards, industry is only too likely to degenerate into a struggle to escape poverty, or to obtain riches.' Once more: 'to treat human beings as instruments of production is morally wrong'.[2]

[1] *Unto This Last*, p. 133.
[2] pp. 13, 14, 15.

Is not much of this criticism wholly beside the point? Is it denied, even by Christian moralists, that human beings, whatever be the Economic organization under which they live, must necessarily be 'instruments of production'? 'In the sweat of thy face shalt thou eat bread.' Labour is essential to life, and the end of labour is production. Is it open to question that the production of wealth, or, if the phrase be preferred, the attainment of riches, is one of the main ends of man? Not necessarily the exclusive end, but at least an indispensable condition of terrestrial existence. We know that in fact men are not, in the ordinary affairs of life, actuated solely, or even perhaps mainly, by Economic motives. Love of kin, kind, and country supplies an incentive to human activity more powerful, at times, than love of life itself. Yet all men, so long as they are in the flesh, must have the means of subsistence, and in so far as they work to obtain it, the 'attainment of riches', be the amount great or small, is one of the main ends of man.

Much current criticism irrelevant.

Political Economy, while recognizing and emphasizing this basic fact, does not preach the love of money or even of wealth; it simply assumes that men desire to live; and on that assumption proceeds to investigate the laws which govern the production and exchange and consumption of those material things which sustain and enrich life. Moreover, being a science, it claims the right, for its own purposes, to isolate its phenomena. It does not, on that account, ignore the existence of other phenomena, outside the orbit of its own special investigation. The anatomist is aware that the physiological aspects of the human body are at least as important as its anatomical structure. Because the chemist is concerned with chemical substances he does not refuse to acknowledge the existence of bacteria. Before water can be pronounced to be safe for drinking purposes the sanitary authority will doubtless be well advised to consult both the chemist and the bacteriologist; but that is no reason for confounding two sciences, or for refusing to allow each to isolate its phenomena.

Economic method.

This is the accepted method of the 'abstract' sciences.

But does Economics belong to this category? Is it an 'abstract' science? Is it not essentially a human and a social science which cannot afford to ignore any of the motives which actuate men or any of the forces which mould society? If the scope of Economics is to be thus enlarged the study of Economic phenomena may still be of considerable interest and perhaps of some value, but it will cease to be scientific; it cannot possibly, within the limits of human existence, reach any conclusions or formulate any laws. Its conclusions have indeed been assailed on the ground that they are already so far out of touch with the realities of life that they cease to possess any validity.

The historical method.

Is the criticism sound? Admittedly it has so far affected students of Economics that some of them have preferred altogether to abandon the abstract method; to surrender the 'unreal' hypothesis on which the 'orthodox' economists of the English school proceeded, and to adopt the historical or inductive method. Instead of an assumed, and admittedly partial hypothesis, they have preferred to build up, by the investigation, comparison, and correlation of actual Economic phenomena, an organized body of knowledge. This latter method has obvious advantages: if the investigation could ever be completed the conclusions reached would presumably be purged of the errors incidental to the deductions derived from an hypothesis of limited validity. But could the investigation ever be completed? Would conclusions ever be reached? The phenomena under investigation would be so bewildering in their multiplicity, the motives subjected to analysis so various and even contradictory, that it is doubtful whether it would be possible to reach conclusions at all.

Economic Theory and Economic History.

At this point it is necessary to obtrude a word of caution. We must not confound the historical method of the Economic theorist with the task and function of the Economic historian. The Economic historian does not set out to reach and formulate conclusions but to ascertain and narrate facts. The results of his researches may be of immense value to the Economist, but the functions of the

two are different, and must be carefully distinguished. Work of the highest value has, in recent years, been done in this and other countries in the domain of Economic History: the results attained have been, in some respects, more satisfactory than those which can be put to the credit of the Economic theorist. Nevertheless, the question remains whether it is not well worth while to permit and to encourage the methods preferred by the students of Economic theory. So long as there remains a single human being who is insufficiently fed or inadequately housed or clothed it must be a matter of supreme interest and importance to ascertain the laws which govern the production of wealth, its exchange, distribution, and consumption. Much more must this be the case if, as we are constantly reminded, a considerable proportion of the people, even in a progressive community, such as our own, live on the verge of destitution and under conditions which are a disgrace to a Christian, and indeed to a civilized country. But if this be so, Economic students are entitled to resent the insinuations of certain Christian moralists, and to claim some measure of comprehension for the aims and methods of the science to which they devote themselves.

Economics employs the conditional mood.

A man need not be callous or cold-hearted because he formulates the results obtained by scientific analysis; whether the subject of the analysis be human blood or the phenomena of trade. To affirm that certain consequences will inevitably follow from certain causes, is not to advocate the elimination of the causes. The economist does not or should not employ the categorical imperative. His appropriate mood is the conditional. It is no part of his duty to say: 'do this, or avoid that', but he is entitled to point out that persistence in a particular policy or course of action will produce certain results. A physician is not entitled to say to a patient: 'forswear alcohol'; but it may be his duty to suggest that if his patient desires to avoid gout he will be wise to limit his consumption of port wine. The father of English Economics, Adam Smith, admitted in a famous and oft-quoted passage that 'defence is much more important

than opulence'. Plainly, he was right. National security is preferable to national wealth: but a patriot will strive to attain both objects. Similarly, because human affection is a more admirable quality than a desire for wealth, it does not follow that a man should be discouraged from the primary duty of working to get bread for his children.

The conclusions of Economic Science relative not absolute.

If, however, the claim made in the preceding paragraphs on behalf of the science of Economics be admitted, it is evident that the concession must carry with it a limitation. If Political Economy be permitted for its own scientific purposes to assume an hypothesis which is of limited validity, the conclusions deduced therefrom will similarly possess only a relative authority. Man is assumed to be actuated by the solitary motive of securing subsistence for himself or others; in short of acquiring wealth. Plainly the assumption is only partially true. All conclusions founded upon it will therefore be true only within the limits of the hypothesis. The submission is that the motive is sufficiently universal and sufficiently important to make it worth while to isolate it.

Wealth and value

Before going further, it may, however, be desirable to say something more in regard to the subject-matter of Economics—wealth. Adam Smith was at great pains to expose the fallacy that wealth is synonymous with money. It may be that he was too quick to impute to the mercantilist, opinions which in their crude form many of that school would have repudiated. Yet it can hardly be necessary to revive the controversy, though some traces of the ancient delusion still inhere in current thought. But although wealth is not synonymous with money, there are few circumstances under which money is not wealth. Even the paper currency of Germany still[1] possesses some exchange value. But money is only one of an infinite number of commodities which are included in the catalogue of 'useful and agreeable things'. There are, moreover, many things more valuable than money and there are some things at any rate more important than wealth. The air we breathe,

[1] Written in 1922.

for example, possesses no exchangeable value, but air is not less essential to life than bread. Nor is the wealth element constant in all commodities under all conditions of time and place. Sea-water, for example, has no value as long as it is in the sea. Transferred to a private residence it immediately acquires an exchange value. Blackberries have no value in the economic sense as long as they are growing on bushes in September. Picked and preserved they will be found to possess, in February, considerable value. In both these illustrations, it is labour which has imparted value to commodities otherwise devoid of it. This truth has led some people to suppose that labour alone imparts value to commodities, and that the amount of labour expended upon them is the true measure of their value. This contention will receive notice later on. Meanwhile, we must demand assent to the proposition that wealth comprises all articles of value and nothing else. But what are 'articles of value'? In regard to that question there is considerable difference of opinion even among the 'orthodox' economists. Must we, for example, distinguish between 'value' and 'utility', between 'value in exchange' and 'value in use'? Evidently nothing can be of value which does not possess 'utility', which does not satisfy a want. But does everything which satisfies a want possess 'value'? Can value attach to anything which is not a 'thing', a material object which can become the subject of an exchange? Stanley Jevons,[1] an exceptionally clear thinker, insisted that only those things can be regarded as wealth (that is, as possessing value) which are useful, limited in quantity, and transferable. As to utility there can be no dispute. Is transferability equally an essential element in wealth? Are all immaterial products (as Mill terms them) or personal attributes and endowments to be rigidly excluded from the category? Is the trained voice of a singer, the muscular power of a navvy, the skill of an electrician, the accumulated knowledge and brain-power of a savant, not 'wealth'? All these things though inseparable from the possessor can be placed at the

[1] *The Theory of Political Economy*, 1871.

service of other people, and thus produce for their possessors material objects which in turn can be exchanged.

All these things do, however, possess, in some sense and to varying degrees the element of transferability. But what of the knowledge or skill which while capable of yielding much pleasure to the possessor, cannot, in the language of the market-place, be turned to any practical account? Such knowledge and skill are obviously useful; are they also 'valuable'? They unquestionably fulfil the two conditions laid down, in a modern textbook, by Sir Henry Penson: they have power to satisfy a want and they cannot be obtained without effort.[1] In only a very limited sense, however, do they satisfy a want. A thing which possesses exchangeable value can help towards satisfying not *a* want, but, in greater or less degree, *any* material want. One penny whistle will not exchange for a pianola; but a sufficient quantity of penny whistles will. No amount of knowledge, unless 'turned to account', that is, unless it could satisfy the want of someone other than the possessor, would purchase a penny whistle. To be included in the category of wealth a thing must therefore, be the result of someone's effort—not necessarily the possessor's, and must be capable of satisfying a want not only of the possessor but of some other person whose demand for the commodity or the service is 'effective', in other words, a person who not merely desires the service or commodity but can pay for it. The author who presents to a friend a copy of a book which he cannot sell is not parting with wealth, though the donor may be gratifying his own vanity (in that sense, 'satisfying a want') and also, it may be, giving pleasure to, and thus again satisfying the want of the recipient.

There is, however, considerable danger in the endeavour, legitimate though it may be, to 'bring Political Economy

[1] Sir T. H. Penson, *The Economics of Everyday Life*, pp. 19–21. It is, I think, plain from the illustrations given by Sir H. Penson that by 'satisfying a want' he means much the same as I do; for he makes wealth comprise only 'material objects' and 'services'. Clearly a 'service' must be rendered to someone else.

into conformity with common sense', or to reconcile the language of science with that of the market-place. If a science is entitled to isolate its phenomena, it is plainly not less entitled to define its terms. Economics will, therefore, in these pages, be treated as the science of wealth, and wealth will be understood to comprise all those things and attributes which possess value; for or by which something can be got in exchange.

The claim of Economics.

Once more, however, it is desirable to insist that this austerity of method and rigidity of definition does not involve any claim to pontifical authority or even to pre-eminent consideration. Quite otherwise. Economics is thereby confined to its own limited and modest sphere. Within that sphere Economics must, however, be supreme; it can admit no rival still less a superior. 'There are celestial bodies and bodies terrestrial; but the glory of the celestial is one, and the glory of the terrestrial is another.' Economics deals not with the things of the spirit, but with the things of the flesh. 'The fruit of the Spirit is love, joy, peace, longsuffering, gentleness, goodness, faith, meekness, temperance: against such there is no law'—economic or legislative. But the fruit of the Spirit is not for Economics to gather. Its body is terrestrial; its fruit is wealth.

BOOK II. THE PROBLEM OF PRODUCTION

CHAPTER III

THE SOIL AND ITS PRODUCE

'And God said, Let the earth bring forth grass, the herb yielding seed, and the fruit tree yielding fruit after his kind . . . and it was so.' —*Genesis*, i. 11.

'Whoever can make two ears of corn or two blades of grass grow, where only one grew before, will deserve better of mankind and do more essential service to his country than the whole race of politicians.'—DEAN SWIFT.

'The problem of the land, at its worst, is a bye-one; distribute the earth as you will, the principal question remains inexorable,—Who is to dig it?'—RUSKIN, *Sesame*.

'The institution of property accounts for the conversion of the marshes and forests of our little island into rich agricultural land.' —HAROLD COX.

'The requisites of production are two: labour, and appropriate natural objects. . . . There is another requisite without which no productive operations beyond the rude and scanty beginnings of primitive industry are possible: namely, the stock previously accumulated of the products of former labour. This . . . is termed Capital.'—JOHN STUART MILL.

Production and Distribution.

THE production of wealth, to the largest possible amount at the least possible cost—that is, with the smallest expenditure of human energy—is plainly the primary problem of Political Economy as an art. The laws which govern its production must therefore be the first subject of investigation for the scientific student of Economics. There are indeed those who contend that the problem of distribution is more insistent than that of production. Even ten years ago the contention might well have seemed to possess something of substance.[1] The world has, however, learnt in these last years that however important it may be to secure an equitable distribution of the product of industry, that is a problem which must neces-

[1] Written in 1922.

sarily be postponed until the primary problem of production has been solved. It is folly to dispute about the division of the bear's skin until the bear has been killed. Wealth must be produced before it is distributed. Four short years of war destroyed much of the wealth accumulated by the toil of several generations, and imposed heavy mortgages upon the industry of the future. How shall this wastage be repaired? How shall a depleted earth be replenished? Upon what does the production of wealth depend?

Requisites of production.

Economists are generally agreed that the requisites of production are land, or other appropriate natural objects, and labour. It is, however, impossible to go much beyond the supply of primitive necessities unless and until some portion of the produce derived by labour from the soil has been stored up in order to assist production in the future. Capital is in fact essential to industry, and the extent of industrial and commercial operations is limited by the available supply of capital.

Land.

Of the three requisites of production, land, however, is the most obvious, and in primitive societies a plentiful supply of fertile land is so pre-eminently important to the well-being of a community that current opinion is slow to adapt itself to a state of economic society in which other forms of wealth assume a relatively greater degree of importance. Even so late as the eighteenth century the Physiocrats—the dominant school of Economists in France—taught the doctrine that land is the sole source of wealth. 'Only those labours are truly "productive" which add to the quantity of raw materials available for the purposes of man; and the real annual addition to the wealth of the community consists of the excess of the mass of agricultural products (including, of course, minerals) over their cost of production. On the amount of this "produit net" depends the well-being of the community, and the possibility of its advance in civilization.'[1]

Division of Labour.

Adam Smith, though he came much under the influence

[1] Ingram, *History of Political Economy*, p. 62.

of Quesnay and his disciples, and though he adopted with enthusiasm the principle of *laissez-faire*—the most notable deduction from physiocratic doctrine—was quick to detect the inadequacy of their Economic analysis. 'The capital error of this system', he writes, 'seems to lie in its representing the class of artificers, manufacturers, and merchants as altogether barren and unproductive.'[1] Consistently, therefore, he begins his own *Enquiry into the Nature and Causes of the Wealth of Nations* with an elaborate exposition of the principle of the Division of Labour. 'The greatest improvement in the productive powers of labour and the greater part of the skill, dexterity, and judgment with which it is anywhere directed or applied seem to have been the division of labour.'

The whole argument of Adam Smith's monumental treatise is built up upon this foundation, and may be set forth in a series of propositions: (1) All wealth is derived from labour; (2) the efficiency of labour depends upon a division or specialization; (3) the division of labour—the degree to which industry can be specialized—depends upon the 'extent of the market': (4) the extent of the market depends upon freedom of exchange; (5) freedom of exchange depends, on the one hand, upon the absence of artificial restraints and barriers to commercial intercourse; on the other hand, upon the provision of facilities for transport and means of communication; in short, partly upon the ingenuity of man, partly upon the policy of governments. The policy of Free Trade rests, therefore, upon the principle of the territorial division of labour.

For the moment, however, we are concerned with the principle of specialization merely as contributing to the efficiency of labour and thus to the production of wealth. The differentiation of economic functions and the organization of co-operative effort may be regarded as the two fundamental laws of industrial progress. Robinson Crusoe, in his solitude, marks the irreducible minimum of economic organization. With the arrival of Friday, came the begin-

[1] *Wealth of Nations*, Bk. IV, c. ix.

nings of co-operation and specialization. Adam and Eve represented the principle of differentiation in a rudimentary form; for 'Adam delved and Eve span'. A modern English larder or wardrobe represents the opposite pole: with bread made from wheat grown in Manitoba; butter from Denmark; mutton from New Zealand; beef from the Argentine; coffee from Brazil; sugar from Cuba; tea from China or Ceylon; apples from California; bananas from Jamaica; raisins from Greece; rice from India; dates from Mesopotamia, and so forth. Such is the territorial subdivision of the extractive industries, the raw produce of the soil. Let us note the degree of co-operation of labour before a coat reaches the wardrobe. The wool may have come from a sheep-farm in Australia. Before the wool was shipped at Sydney it involved the co-operation of the capitalist farmer, working his sheep-farm on capital supplied to him possibly from London; of his shepherd, his shearer, with the makers of the tools supplied to them from Sheffield; of a locomotive from Manchester; steel-rails from Middlesbrough—or may be from Belgium; wagons from Gloucester; the co-operation of engineers and porters; and so forth. Then the voyage from Sydney to London; the selling and buying of the wool in London; its transport to Bradford; the organized industries of combers or carders, spinners, and weavers; the purchase of the finished product by the Bradford merchant; its sale to the London merchant; by him to the capitalist tailor; the highly specialized work of several wage earners—cutters, fitters, clerks; to say nothing of carriers, papermakers, stringmakers, and others—before the finished garment reaches the final purchaser. Some of the infinite varieties of the industrial and commercial processes might indeed be eliminated, without the loss of the garment, though probably to the disadvantage of the ultimate purchaser, but unless labour had been applied to the land, and capital had been available for the supply of materials and the temporary sustenance of labour, the coat would not have existed.

The primary essential, then, of production is land. The

earth must bring forth grass; from the soil must spring the herb and the fruit tree. Upon the spontaneous fruits of the earth man can subsist; yet the fruit must be gathered; this implies the application of labour. But the spontaneous yield of the soil may fail; man's life will be brutish and probably short unless he makes some provision against a rainy day; until he learns to refrain from the consumption of the annual yield and begins to save. As soon as he saves he is a capitalist. The yield of the soil may be supplemented by the capture of fish, birds, and beasts. Their capture almost inevitably implies the use of instruments, however rudimentary; the cooking of the quarry begets the invention of other implements. The possessor of instruments and implements is an embryo-capitalist. Without capital no progress is possible in civilization or industry. The highest development of industry and commerce, in technical language the efficiency of production, depends upon a plentiful supply of raw materials, a similar abundance of industrious and skilful labourers, and of cheap capital, above all, perhaps on able and prudent management.

Each of these essential requisites for modern industrial production will in turn demand detailed analysis. We begin with land and the supply of raw materials.

Labour and land.

In primitive societies land is all-important, and the main conditions of primitive society are still reproduced in all new and sparsely populated countries. The colonial pioneer takes little account of anything except the primary elements of land and water. In early times and in unsettled countries land is practically accessible to all, and without price. The earliest stage of civilization is the pastoral. The people feed their flocks and herds on uncultivated land. As soon as the land gives signs of exhaustion, the people move on to a fresh settlement. Some peoples do not emerge, for centuries it may be, from this elementary stage. The Ottoman Turks, for example, remained herdsmen and nomads until, in the middle of the fourteenth century, they crossed the Hellespont. There still lingers in the East

a proverb which says that where the Turk treads the grass never grows. But generally speaking the pastoral stage gives place, before long, to the agricultural, and the moment land begins to be cultivated a new element comes in. The labour of man is mingled with the soil, and the land so cultivated acquires a value beyond that of the prairie. Land is thus, in one sense, a manufactured product; its value depends in no small measure upon the industry and skill applied to the making of it. Every settler in a new country knows to his cost that though land may be had for the asking, the land is of little use to him, and of no value, in the technical sense, until it has been cleared, cleaned, and probably drained. Even so late as the eighteenth century, a considerable portion of the land of England had still to be in this sense 'made', and modern England owes to those who made it a debt of which it is little conscious and which it is slow to acknowledge.

Evolution of the English land system.

It is not relevant to the immediate argument of this book to trace in detail the evolution of the English land system.[1] But the story is so peculiarly suggestive of points at which Economics touches Ethics and at which both are intertwined with Politics that it may not be amiss to devote some pages to it. In the first place it is important to remind ourselves that the existing system is at once relatively modern and, to a large extent, peculiar to this country. Large estates concentrated in comparatively few hands; tenant-farmers, some possessed of large capital and farming their thousands of acres, many more possessed of small capital, and farming from 30 to 300 acres; agricultural labourers owning no land and cultivating for themselves no more than a cottage garden, or it may be an allotment, and living on weekly wages;—such is an outline of the system which, if not peculiar to this country, prevailed in Great Britain to a much larger extent than in any other country in the world.

[1] The subject has been treated by the present writer in *The English Land System: A Sketch of its Evolution in its Bearing upon National Wealth and National Welfare* (John Murray, 1914), which contains full reference to the literature of the subject.

This system was the product of causes, mainly economic, but in part social and political, which have been operating for a thousand years. The historical origins of the English land system are still the subject of acute controversy, but there is no doubt that for at least four centuries, from the eleventh century to the fourteenth, the soil of rural England was occupied by a continuous series of agricultural communities known by the Norman name of *Manors*. Whether the village community of the Middle Ages originated in freedom or in slavery; whether the manorial system represented a progressive degeneration from the free 'mark' of our Teutonic ancestors; or supplied the middle stage in an upward development from slavery to freedom; in short, whether the origin of the manor is to be sought in the Roman *villa*, slave-worked and lord-ruled, or in the free-governing and common-cultivating community described by the writers of the Teutonic school—these are questions of antiquarian interest which are outside the range of the present argument. Whatever their origin, the outstanding features of the manorial system can be discerned with reasonable certainty. The modern hierarchy of landlords, tenant farmers, and labourers was unknown. The property of the manor was vested in a lord, but he was not in the modern sense a landlord. The land itself was divided into two parts: something less than a half consisted of inland or *demesne*, rather more than half was outland, mostly *villenagium*. The agricultural work was done, to a small extent, by hired labour, to a still smaller extent by slaves, but mainly by the villeins, cottars, and bordars; the two latter classes being distinguished from villeins, not only by the smaller size of their holdings, but by the fact that they possessed neither oxen nor any share in the common ploughs. Villeins, cottars, and bordars supplied perhaps 75 per cent of the rural population. They were responsible both for the cultivation of the lord's demesne and of their own holdings. Each of them, besides his cottage in the village street, held a varying portion of the arable land of the manor, besides a portion of the

The Manor.

meadows which were held in severalty until hay harvest, after which they were grazed in common. On the permanent pastures of the manor, the tenants, if proleptically we may so call them, could graze cattle, sheep, and swine, and they also had grazing and turbary rights in the 'waste' and rights of pannage and fuel-getting in the wood.

Dissolution of manorial system.

The manorial system was greatly disturbed, if not entirely broken up, in the latter half of the fourteenth century. How far its dissolution was due to the visitation of the Black Death in 1349, and to the ensuing revolt of the Peasants in 1381, is a matter of controversy which must not detain us. It must suffice to note that by the close of the century the manorial economy, if not destroyed, had been profoundly modified. The commutation of labour services—the essential feature of the mediaeval economy—had begun at least as early as the twelfth century; something resembling our modern farms had also begun to emerge in consequence of the consolidation of the villein-holdings; here and there the tenant-farmer had begun to make his appearance in the village community, and of wage-paid labourers there were already not a few. The *Statute of Merton* (1236) exists to prove that as early as the thirteenth century the lords were already beginning to realize the importance of sheep-farming, and were enclosing for this purpose portions of the common pasture and the untilled waste. Nevertheless, the second half of the fourteenth century marks a catastrophic change in the history of English agriculture: processes already in operation were emphasized and accelerated. The commutation of labour services for rent in money or kind was undoubtedly much more rapid after 1349 than before, and, though there are traces of villeinage to be found even in the later years of the sixteenth century, villeinage as an agricultural and social system had virtually disappeared by the end of the fifteenth, if not by the end of the fourteenth. In place of the feudal hierarchy of lord, freeholder (freeholders had never averaged more than about 4 per cent of the rural population), and villein, there had definitely emerged the

new classes of landlord, tenant-farmer, and landless wage-paid labourers. Whatever the cause, the great mass of the English peasantry had become socially free, but in that process they had somehow or other been divorced from the ownership—or if 'ownership' be too strong a word, from the fixed tenure of the soil.

The sixteenth century: enclosures.

The sixteenth century was remarkable for a second revolution in English agriculture. The outstanding feature of the manorial system was its self-sufficiency. Except in manors contiguous to a town, there was very little external trade or interchange of commodities. Millstones, salt, iron, steel, tar, and canvas were the most important of the articles which every manor had to import. These were paid for by the export of livestock and surplus agricultural produce. But the surplus was, as a rule, scanty; for the most part, each manor was economically independent and self-sufficing.

The sixteenth century initiated the era of commercialism. The geographical discoveries of the later fifteenth century, combined with the blocking of the old trade routes, which had given to the Mediterranean countries their commercial supremacy, placed England in an entirely new position. The habits of its people quickly responded to the geographical change. It was no longer a question of extracting subsistence from a grudging soil, but of securing comforts and even luxuries by international trade. For some time past, English wool had been in great demand in the manufacturing cities of the Netherlands. This demand naturally reacted upon English agriculture, and supplies the key-note to the agrarian revolution of the sixteenth century: agriculture was for the first time commercialized; pasturage to a large extent took the place of tillage, and men were evicted to make room for sheep. The contemporary literature of the sixteenth century is full of lamentation over the social and political results of this economic change. But on such matters the evidence of contemporaries, however valuable as recording impressions, must be accepted with some reserve. It is only the talkers and

writers who record impressions; the memorials of the doers must be sought elsewhere than in books. The testimony of preachers, prophets, and poets is, however, as regards the sixteenth century, singularly concurrent. They all dwell upon the lamentable effects of 'enclosures':

> The devil his workes to worke,
> The towns go down, the land decayes
> Off cornefyldes, playne layes (grass lands)
> Gret men makithe now-a-dayes,
> A shepecott in the Church.

So sang a contemporary poet; the sermons of Bishop Scory and Bishop Latimer preached in the reign of Edward VI were to much the same effect. 'O what a lamentable thing', said the former, 'it is to consider that there are not at this day ten plows whereas were wont to be forty or fifty. Whereas your Majesties progenitors had an hundred men to serve them in time of peace and in time of wars, with their strength, policy, goods and bodies, your Majesty have now scant half so many.' 'Where there were once a great many householders and inhabitants', said the latter, 'there is now but a shepherd and his dog.' Among the prophets, Sir Thomas More was conspicuous for his denunciation of contemporary tendencies. 'Noblemen, and gentlemen, yea and certeyn Abbottes', he writes in the *Utopia*, '... leave no grounde for tillage, thei inclose al into pastures: thei throw doune houses: thei plucke downe townes, and leave nothing standynge, but only the churche to be made a shepehowse.' We need not inquire into the justice of More's insinuation. It is clear that in the agrarian movement of the sixteenth century mere cupidity played, as it is apt to do, a considerable part. Some of the agricultural reformers may have been 'greedy cormorants', mere 'caterpillars of the commonweal', who joined 'lordship to lordship, manor to manor, farm to farm, land to land, pasture to pasture', but such language has been, since the days of the Old Testament, the commonplace of prophetic denunciation. Equally clear is it that many individuals

suffered grievously, as they always do, by the rapidity of the economic changes. It is possible that some of the hardships suffered by the poor were avoidable, and ought to have been avoided, and that some of the advantages might have been secured without the concomitant evils. Nevertheless, that the changes were on balance and, in the long run, to the immense advantage of the community at large, can hardly be doubted by any investigator at once impartial and informed.

Laws: legislative and economic.

It is urged by those who believe in the omnipotence of legislation that more might have been done by the intervention of the Government to improve the lot of innocent sufferers. Yet the Tudor Government was in no wise to blame: they did everything in their power, alike by legislation and by administration, to mitigate the hardships incidental to agrarian changes, the progress of which they could not, in the long run, arrest. We have a long series of statutes sincerely intended for this object: Acts of Parliament were passed in 1514, 1515, 1534, 1536, 1551, 1555, 1563, 1593, 1598, and 1601. Individuals were not to be allowed to keep more than a limited number of sheep, or to engross more than a given amount of land; newly laid pasture was to be restored; the proportion of tillage to pasturage was to be scrupulously maintained. Yet legislation availed little to arrest the dominant tendencies of the agrarian revolution. In despair, the Tudors had recourse to other methods. By the famous *Statute of Apprentices* (1563) Queen Elizabeth endeavoured to fix a scale of prices to secure to the labourer a minimum wage and regular employment and to compensate for the decay of the guilds by enforcing a uniform system of apprenticeships. At considerable self-sacrifice, she renovated the currency which her predecessors had debased. Like her predecessors, she did everything in her power to stimulate private charity and encourage voluntary alms-giving, and finally, in view of the evident inadequacy of these methods, she enacted the famous Poor Law of 1601, which imposed upon the shoulders of the State a vast and direct responsibility for

all such citizens as could not or would not maintain themselves.

That the sufferings of the poor were nevertheless acute cannot, unfortunately, be denied. But it is comforting to note that they were transitory. From the economic upheaval of the sixteenth century England emerged politically braced; socially strengthened; having laid the foundations of an international trade which has since become world-wide; inspired to maritime activity and colonial enterprise; in short, endowed for the first time with those attributes which, in the course of succeeding centuries, transformed the 'third rate isle, half lost among her seas', into a far-flung empire, with a trade coextensive with the world. Net results.

Nevertheless, down to the middle of the eighteenth century England remained a predominantly agricultural country, carrying a small and scattered population, which in the aggregate amounted to less than that of Greater London to-day. Before 1801, the date of the first official census, estimates of population are little better than guesses. But the most probable guess puts the population of England and Wales at just over six millions in the year 1750. Before 1750 the largest decennial increase is supposed to have been 3 per cent; between 1760 and 1770 the increase was 6 per cent; for the next decade, 9 per cent, and between 1791 and 1801, 11 per cent. By 1801 the population of England and Wales amounted to 9,187,176; that of the United Kingdom to 15,570,000. Of the whole people in the middle of the eighteenth century, three-fourths lived *on* the land; but, as will be shown in the next chapter, not wholly *by* it: for every farmer was at once farmer and manufacturer. The description of the 'statesmen' of Cumberland and Westmoreland given by the poet Wordsworth, though in its entirety only applicable to that district, was down to 1750 in considerable measure true of many parts of England. 'The plough of each man was confined to the maintenance of his own family or to the occasional accommodation of his neighbour. Two or three cows furnished each family with milk and cheese . . . corn was grown in these vales The agrarian changes of the eighteenth century.

sufficient upon each estate to furnish bread for each family, no more. . . . Every family spun from its own flock the wool with which it was clothed; a weaver was here and there found among them, and the rest of their wants was supplied by the produce of the yarn which they carded and spun in their own houses and carried to market either under their arms, or more frequently on pack-horses . . . to the most commodious town.'[1] This economy did not and could not survive the industrial revolution, the main features of which will be described in the next chapter. For the moment we are concerned only with the reaction of industrial changes upon the land-system.

Enclosures.

From the agrarian standpoint the eighteenth century, and in particular the reign of George III, was, like the sixteenth century, remarkable for the progress of enclosures. Between 1760 and 1820 no fewer than 3,209 private enclosure Bills were passed by Parliament, and under the authority of those Acts over 6,000,000 acres were enclosed. After 1820 the pace perceptibly slackened; only 340,000 acres were enclosed in George IV's reign, and only 236,000 in the following decade (1830–40). In all, over 8,000,000 acres were enclosed during the eighteenth and nineteenth centuries. The object of these enclosures was, however, the reverse of that which the sixteenth-century reformers had in view. The 'greedy cormorants' of the earlier period were, as we have seen, intent upon the production of wool; the improving landlords of eighteenth century were mainly intent upon the increased production of wheat. The West Riding of Yorkshire wanted all the wool which English farmers could supply, but cotton was rapidly displacing wool as the most important of our textile industries, and the new urban populations, while not despising mutton, were primarily in need of bread.

Improving landlords.

To supply those urban populations with bread, beef, mutton, cheese, butter, and milk, and incidentally to improve their own rent-rolls, was the motive which inspired the scientific agriculturists of the eighteenth century. In

[1] Wordsworth, *Prose Works*, vol. ii, § II, p. 263.

the process, the land of England was, as already hinted, largely remade. A remarkable illustration of this remaking is afforded by the work of Thomas William Coke 'of Norfolk', the first Earl of Leicester. When Coke succeeded in 1776 to the Holkham estates, his annual rent-roll was £2,200. In the course of a generation he had raised it according to his own [1] testimony to no less than £50,000. Much of the land was no better than rabbit-warren, varied by long tracts of shingle and drifting sand on which vegetation other than weeds was impossible. 'The thin sandy soil produced but a scanty yield of rye. Naturally wanting richness, it was still further impoverished by a barbarous system of cropping; no manure was purchased; a few Norfolk sheep with backs like rabbits, and here and there a few half-starved milch cows; the little muck that was produced was miserably poor.' [2] Coke's young bride was warned that the only vegetation that she would find at her new home was 'one blade of grass and two rabbits fighting for it'. This wilderness was converted by the energy and capital, and, above all, by the scientific knowledge and skill of Coke, into a smiling and productive paradise. The Holkham estate was regarded as one of the sights of England, and for half a century few men of distinction visited this country without making the pilgrimage to Holkham, and learning from its lord the secret of the transformation he had wrought. The secret was not obscure. It was revealed in few words: abundant capital; high intelligence; unremitting personal attention; above all, friendly relations between landlord and tenants. During his tenure of the property (1776–1842) Coke expended on improvements, exclusive of the sums spent on his own mansion and domain, no less than £536,992. Never was capital applied to industry with greater advantage to the cultivators or to the community; nor was it unremunerative to the investor. In 1776 the land was let at an average of

Coke 'of Norfolk'.

[1] As reported by Robert Owen in his *Autobiography*, p. 300.
[2] Prothero, *English Farming*, p. 218.

3*s.* per acre. When Robert Owen of New Lanark visited Holkham in the year 1821 the rent had advanced to 25*s.* per acre. But the higher rents meant prosperity for the tenants no less than for the landlord. In the course of a generation, the population of Holkham had increased from under 200 to over 1,000: not a pauper remained on the estate, and the poor house was razed to the ground. Even in the terrible years 1815–17, perhaps the worst crisis through which English agriculture ever passed, Coke's system triumphantly stood the strain. Thus in 1816, the Duke of Bedford, himself one of the most enlightened landlords of the day, wrote to Coke: 'Norfolk is at this moment a splendid exception to the rest of the kingdom, and you must derive infinite satisfaction in the reflection that thirty-eight years of persevering and unwearied efforts in promoting a beneficial system of husbandry should have created such a mass of capital among the tenantry of Norfolk as to enable them to bear up against the evils which are overwhelming every part of the Empire.'

Holkham was, no doubt, especially fortunate in its owner. Yet Coke, though perhaps pre-eminent, was only one of a considerable group of enlightened landowners and agriculturalists who in the course of a century transformed English agriculture. Among them were men like 'Turnip' Townshend (Charles, second Viscount Townshend, 1674–1738), the father of the four-course or Norfolk system; Jethro Tull (1674–1741), the inventor of the drill; Robert Bakewell (1725–94), to whom stock breeding owes a unique debt; Arthur Young (1741–1820), the first Secretary to the Board of Agriculture; and many others.

Social effects of enclosures.

The improvements introduced by these men sounded the death-knell of the old open field system of agriculture, and incidentally went far to extinguish the old English yeoman. The advantages attained were, therefore, purchased at a heavy price. 'Enclosure', write Mr. and Mrs. Hammond, 'was fatal to three classes: the small farmer, the cottager, and the squatter. To all of these classes their common rights were worth more than anything they received in

return.'[1] That is undeniably true; but it may be worth while to put side by side the evidence of two contemporaries, the one a poet, and the other a philosopher. The lament of Goldsmith in his *Deserted Village* is indeed almost too trite for quotation:

> Where then, ah! where shall poverty reside,
> To 'scape the pressure of contiguous pride?
> If to some common's fenceless limits strayed
> He drives his flock to pick the scanty blade,
> Those fenceless fields the sons of wealth divide,
> And e'en the bare worn common is denied.

On the other hand, Jeremy Bentham wrote: 'When we pass over the lands which have undergone this happy change, we are enchanted as with the appearance of a new colony. Harvests, flocks, and smiling habitations have succeeded to the sadness and sterility of the desert. Happy conquests of peaceful industry! noble aggrandisements which inspire no alarms and provoke no enemies!' The contrast presented by these pictures does not necessarily involve any inaccuracy on the part of either artist. Both pictures may have been true; though as a general description one or other, perhaps both, must have been partial; but neither has been completely obliterated. The contrasted point of view has persisted from that day to this: some artists are apt to emphasize the lights, others the shadows of rural life in the *prae* and *post* enclosure days.

Agriculture and Industry.

In favour of the agricultural reformers of the eighteenth century, this however must be said. But for their efforts, the new urban populations brought into being by the industrial revolution must have starved. Down to the close of the Napoleonic wars, Great Britain managed to feed its rapidly increasing population from the produce of its own soil. The cost was heavy, but the people were fed. A century later the same soil was supporting just about the same number of people: fourteen and a half millions out of a total population of forty-seven. The great efforts made

[1] *The Village Labourer*, p. 97.

during the recent war (1914–18) would, according to a high authority,[1] have been sufficient to meet the normal requirements of a population of nineteen millions. But at what cost? In 1913 wheat was thirty shillings a quarter, in 1920 it was over eighty shillings. During the ten years previous to 1914, imported wheat and flour averaged 80·2 per cent of the total consumption of the United Kingdom; the total consumption amounting to about 34,000,000 quarters. By 1919 we had, by great effort, managed to increase the home production to 30 per cent of the total. But it has already fallen back to approximately the pre-war figure. To-day (1922), according to the best authorities, we produce 20 per cent of the wheat and cheese we consume, 30 per cent of the fruit, 40 per cent of the butter, 60 per cent of the meat and eggs, 70–80 per cent of the barley and poultry, and 90–95 per cent of the oats, potatoes, vegetables, and milk.[2]

Wealth, Welfare and Security.

What is the precise significance of these figures? The primary function of land is evidently to yield food, and a system must be judged primarily by its economic results. Yet a land system never has been subjected exclusively to this test. The preachers, prophets, and politicians, who, in the sixteenth century, lamented and denounced the economic changes which they witnessed, never dreamt of applying this obvious test. The common complaints of contemporaries had reference primarily to the human suffering involved in the changes in progress. The preambles to the successive Acts passed by the Tudor Parliament laid special stress upon depopulation and unemployment, the rise of prices, the increase of vagrancy and crime, and the necessity of upholding tillage and husbandry in the interests of national defence. Very similar in tone is Bishop Latimer's oft-quoted lament: 'My father did find the king a harness with himself and his horse while he came to the place that he should receive the king's wages. . . . He kept me to school. . . . He married my sisters at five pounds

[1] Sir Thomas Middleton, *Report of British Association*, 1922.
[2] Sir J. Russell and Sir H. Rew, *ibid.*, 1922.

apiece. . . . He kept hospitality for his poor neighbours and some alms he gave to the poor. And all this he did off the said farm, where he that now hath it . . . is not able to do anything for his Prince, for himself, nor his children, nor give a cup of drink to the poor.' The complaints of contemporary observers at the end of the eighteenth century were not dissimilar from those of the sixteenth. Thus, despite the fact that England emerged from both periods more populous and more wealthy, and in the purely agricultural sense more productive than before, critics were not satisfied. Plainly, then, a land system is expected to subserve purposes other than purely economic. Of other criteria commonly suggested, the following are samples: Does the system of land tenure promote a sound organization of national life? Does it contribute to the social contentment and general well-being of those classes of the community which live and labour upon the land? Does it breed and maintain a population sound in body and mind, and sufficiently numerous to supply the rapid wastage of the great industrial centres? Does it increase the stability of the social fabric and buttress the structure of the State?

'Back to the land.'

Apart, however, from these more or less scientific and theoretical criteria, there is deep down in the heart of man an instinctive attachment to the soil. 'Back to the land' is not only an attractive political cry, it corresponds to one of the strongest and healthiest instincts of human nature. Nor can this instinct be wholly satisfied merely by freedom of access to the soil for purposes of cultivation. Immensely potent is the passion for ownership of however small a fragment of 'God's earth'. This sentiment, like many others equally healthy, is doubtless exploited for political purposes by irresponsible demagogues, and is emphasized by urban teachers and preachers who have more sympathy with human nature than knowledge of the land and its potentialities. Yet the instinct is there; it is intrinsically healthy; and in England it is not satisfied. In the United Kingdom there were only 600,000 people who own more than one acre apiece, and only about 60,000 who own more than

one hundred acres. In Great Britain only about twelve per cent of the half million agricultural holdings are cultivated by owners; in France more than half the agricultural population are proprietors; in Denmark, eighty-two per cent of the occupiers own their farms.

Economics and Politics.

In favour of the English system for England, there was one strong economic presumption: it existed; and it had come into existence to a large extent under the operation of economic forces. But the forces have not been exclusively economic. The concentration of large estates in few hands was, as we have seen, mainly the work of the eighteenth century. It corresponded to the political ascendancy of the great Whig noblemen by whom the revolution of 1688 was mainly brought about, and in whose hands political supremacy remained down to 1832. The exercise of all governmental functions, central and local alike, depended, during this period, upon the possession of land; Knights of the Shire were legally [1] required to possess landed property of the value of £600 a year, and borough members to the value of £300; the qualification for a Justice of the Peace was raised by successive stages from £20 a year in land to £100, except for the sons of Peers and the heirs to landed property; Deputy-lieutenants were required to possess £200 a year in land; Colonels of militia regiments £1,000, Lieutenant-Colonels £600, and so on. Social distinction like the tenure of office and the performance of political functions was inseparable from the possession of land.

Great changes, social, political, and economic, have taken place in the last hundred years. The Parliamentary Reform Bills of 1832, 1867, 1884, 1885, and 1918, have transferred political supremacy from the few to the many. The Local Government Acts of 1834, 1888, and 1894, have tended in the same direction. Political power no longer rests upon the possession of land, nor does social distinction. Alike in Politics and in Society, the great capitalist has to

[1] Porritt (*Unreformed House of Commons*, i. 171–80) says that the property qualification was 'systematically evaded'; even, if this be so, it is hardly less significant.

a large extent ousted the possessor of broad acres, or, to put it at the lowest, shares his throne. Yet the great capitalist is still apt to be attracted to the acquisition of landed property. If his ambitions are merely social, their satisfaction is a matter of indifference to the community. If, on the other hand, the capitalist brings to the ownership of land a high sense of civic duty, combined with experience in business, and technical knowledge of agriculture, the change of proprietorship is calculated to serve the interests of the nation at large. But landownership regarded as a profession demands, like other professions, knowledge and aptitudes which are largely inherited. If the new men are equal to the old in sympathy and knowledge, while greatly superior in command of capital, the change of ownership must be, in a public sense, beneficial. But benefit will not accrue unless the conditions are fulfilled. It remains to be seen whether they will be.

The break-up of large estates.

The ownership of land is not, however, passing only from old magnates to new. Even before the Great War of 1914, a considerable number of tenant farmers were purchasing their farms. During and since the war, the process has been accelerated. If the new cultivating owners are found to possess, not only the capital necessary for the purchase and the ordinary cultivation of their farm, but also sufficient reserve capital to enable them to encounter the vicissitudes of a very precarious occupation, the change may be all to the good. But again, we must await the verdict of experience. The new cultivating owners possess great experience, many of them are acquiring high technical skill; the only real doubt which remains is as to their command of credit and capital.

Population and Subsistence.

Yet another change has to be noted. Few recent developments in agriculture possess greater social significance than the multiplication of allotments. These are now estimated to number more than 1,300,000. That this development should proceed as far as possible unhindered is admittedly of high social and hygienic importance. Nor have the economic results been negligible. It would, how-

ever, be idle, and worse than idle, to ignore the truth that under no conceivable circumstances can the soil of this country feed the teeming population which is now concentrated in these islands. The density of population in Great Britain is at present 480 to the square mile (640 acres), so that the whole standing room of the island is only one and one-third acres for each person. France, with roughly three and one-third acres per head of population, is approximately self-supporting in food production. But, as a recent writer has pointed out, no less than 2½ acres of soil are in France cultivated for each person. The amount of cultivated land in France is thus not very far short of twice the amount which Great Britain could provide for each inhabitant, even if we ploughed up our cities as well as waste land.[1] The same writer points out that the agricultural statistics of Austria and Hungary confirm the evidence of France, that in our latitudes the countries which produce a surplus of food have considerably more than three acres per head, in other words, a density of population less than two hundred to the square mile. These are physical facts which no amount of sympathy can alter and which it were the height of folly to ignore.

Politically, it is important that the land of the country should produce the maximum amount of food of which it is capable, without too much regard for the cost at which it is produced; socially, it is important that ownership should be so far diffused as to give the maximum degree of stability to the commonweal, and at the same time to contribute to the happiness, satisfaction, and general well-being of its individual citizens; but economically the community is interested in the home production of food and other raw materials only in so far as they can be produced at home more cheaply than they can be bought from abroad. If this latter condition be not fulfilled it might be to the public advantage, from the purely economic standpoint, that every acre of agricultural land should become derelict.

[1] Vaughan Cornish, *A Geography of Imperial Defence*, p. 93.

Such a development is in the highest degree unlikely, and even if economic considerations were to bring it within the sphere of possibility, political and social reasons would operate to forbid such a consummation. None the less is it advisable, in the interests of clear thinking, to isolate the issues. A final judgment will give due weight to each; it will take into account the requirements of national defence no less than considerations of opulence, of social contentment and individual happiness. It is conceivable that the interests of the community, broadly estimated, might dictate a policy of artificial encouragement to agriculture; it might be necessary in order to secure the highest possible yield from the soil to consolidate holdings and to apply to the production of food the principles of the factory system without regard to social amenities or the legitimate wishes of individuals; it might, for similar or other reasons, be necessary to effect sweeping changes in tenure: to 'nationalize' the land, or, conversely, to multiply peasant owners at the charge of the State.

Let it not be imagined that any one of these contingencies is regarded as probable, still less as desirable. They are indicated in order to emphasize the argument that it is essential to the formation of a right judgment to study these questions in the dry light of the laboratory, and in scientific isolation, before the considerations appropriate to each aspect of them be combined in the synthesis which should guide opinion and inspire policy.

CHAPTER IV

LABOUR

BRAWN AND BRAIN

'The gods sell us all good things for the price of our labour.'—XENOPHON.

'This we commanded you that if any would not work neither should he eat.'—ST. PAUL (2 Thess. iii. 10).

'The annual labour of every nation is the fund which originally supplied it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour or in what is purchased with that produce from other nations.' ADAM SMITH, *Wealth of Nations.*

'The most important of the sources of gain in productive power . . . is found in that mastership of industry which is created by the division of labour . . . Whatever may be true of politics the industry of the world is not tending toward democracy . . . mastership in industry is the most characteristic fact of the industrial system of to-day.'—F. A. WALKER.

The Universal Law of Work.

IN every community, civilized or uncivilized, backward or advanced, the great mass of the people are, to use the conventional phrase, 'compelled to work for a living'. This is no man-made law, but an inexorable decree of nature. A certain class of contemporary literature teems with references to 'the idle rich', but the phrase is mainly utilized for purposes of economic and political propaganda, and does not correspond to reality. The rich, as will be demonstrated when we pass to the problem of distribution, are relatively few in number; not all the rich are idle, and the few idle rich are living, as a rule, on the products of the labour of their immediate ancestors. There is a Lancashire saying, 'Clogs to clogs in three generations'; and there is more truth embodied in the homely proverb than is generally recognized. It indicates that one generation in three may possibly, though by no means invariably, take their ease. But the fool and his money are soon parted, and it has been shrewdly observed

that it requires almost greater ability and hardly less industry to keep money than to make it.

Most people, then, have to work in order that they may live; but the character of that life, the material comforts which their labour may secure to them vary enormously according to circumstances. Those circumstances, or in technical language the conditions which make for efficiency in production, must now be subjected to closer analysis.

The essential problem, let it be repeated, is to secure the greatest possible amount of wealth with the least expenditure of energy. Work, in itself, is not economically desirable. It may be morally beneficial to character that a man should work, and it may be for the well-being of society, that he should be under necessity to work. But economically work is not a good but an evil. Yet people who are out of work are said to want work. As a fact, they do not; what they want is the product of work: food, warmth, shelter, clothing. It is true that there are some exceptional individuals who, again using a conventional phrase, like work for its own sake; but that is not the natural instinct of mankind. Some people inherit from a long succession of industrious ancestors a superabundant energy which manifests itself in a variety of forms, physical, intellectual, commercial, and so on; but the natural man is averse from work. It is true that many men, although working under the stress of necessity, nevertheless take a pride in their work; but this merely means that the reward they anticipate is not only material comfort or sustenance, but intelligent appreciation. The mass of mankind do not live to work but work to live; and if one man works harder than his fellows, it is in order that he may live better.

The conditions of efficiency of production.

On what conditions then does successful production, or in plainer language, a constant and abundant supply of commodities, depend? Those conditions may be roughly summarized under five main categories. (1) Physical advantages external to man: or the gifts of nature; (2) the endowments and aptitudes of the individual; (3) the

organization and direction of industry; (4) an abundant supply of cheap capital, and the provision of facilities, such as those afforded by banks and credit institutions for obtaining the use of it; and (5) the character of the government; its competence to maintain order, to legislate wisely, and administer firmly, and its ability to carry on the essential work of government at the lowest possible cost to the individual citizen.

Land and raw materials.

Of the first category, something has already been said in the previous chapter. Land, as we have seen, is, if not the exclusive, at any rate the primary source of wealth; and land must be taken to include not merely the ordinary products of agriculture, but all raw materials, and all physical or natural advantages such as abundance and accessibility of water; suitability of climate; and geographical proximity, on the one hand to centres of supply, and on the other to appropriate markets. Labour is, no doubt, the fund from which a community is supplied with the 'necessaries and conveniences of life', but the productivity of labour, its ability to supply necessaries and conveniences, depends in no small degree upon external advantages conferred or denied by nature. Under modern conditions, however, these advantages, though not impartially conferred by nature, are in fact, to a large extent, equalized by the applied resources of civilization.

Labour: conditions of its efficiency.

With the equalization of natural advantages, a greater proportionate degree of importance attaches to the element of labour. This element may, as already hinted, be regarded on the one hand from the point of view of the individual worker, and on the other from that of the organization and direction of the industry to which his labour contributes. The first essential for the worker in almost every sphere of human activity is physical health and strength. Next in importance, and not infrequently of superior importance, is technical skill and aptitude. Such aptitude may of course be acquired. Yet few people are aware in how large a degree even in occupations which appear to be purely mechanical, aptitude is inherited.

Even in these days of elaborate machinery, it is said to take three generations to make a first-rate weaver. And in agriculture—one of the most skilled of all manual occupations—inherited aptitudes count for a great deal. Nor can intellectual and moral qualities be ignored. It is commonly asserted that there is a tendency in these days to educate children 'above their work'. This is not the place appropriate to a discussion of our educational system. It may well be that there is a tendency for education to become too exclusively literary in character, to deal too little with things, too much with words. The result may be to create in the mind of the pupil a distaste for the manual labour to which the great mass of mankind are destined. In passing it may be observed that it is the function of education in the modern State to train the younger generation not only for their part in industry, but also to take their proper share in the duties and responsibilities of citizenship. Still putting these high matters for the moment on one side, it is plain that one of the most important conditions of economic productivity is to be found in the intelligence of the individual worker. Not less important are all those attributes which are grouped together under the word character. Splendid endowments, physical and intellectual, may be rendered entirely nugatory in economic result by the absence of those moral qualities which determine character.

Environment and motive.

There is another class of conditions, partly personal, partly external, which cannot properly be ignored. The efficiency of labour evidently depends to a very large extent upon the spirit in which the work is done, and the conditions which induce on the one hand cheerfulness and hopefulness, or on the other dull dejection. All intelligent organizers of industry now recognize the value of environment, alike in the home and in the factory. The provision of appropriate housing accommodation is, therefore, an essential element in industrial productivity. Such conditions as those which prevail at Bournville,[1] for

[1] The industrial settlement belonging to Messrs. Cadbury & Co., near Birmingham.

example, or at Port Sunlight,[1] may from certain points of view be open to the criticism with which they are frequently assailed. The atmosphere may be to a certain extent artificial, and character may even be dwarfed by an excess of 'paternalism'; but regarded merely from the point of view of physical efficiency, the advantages of good housing and cheerful surroundings cannot be gainsaid. Hopefulness is another essential to good work. No one can be expected to be constantly at his best, either in physical or in intellectual effort, unless he be sustained through long hours of toil by the hope of appropriate reward. Whether that reward takes the form of public approval, or of good wages, or large profits, or of advancement in the hierarchy of business, is for the purposes of the present argument immaterial. To a great artist, satisfaction may come from self-approval; but to the mass of mankind, engaged in highly specialized and generally minutely subdivided industrial processes, the incentive must be of a material kind. Such incentives as are provided in schemes of profit-sharing and the like will be more appropriately discussed in later chapters. At this point it is sufficient to note that hopefulness, however induced, constitutes an important factor in production.

Division of Labour.

Is hopefulness impaired by the modern tendency to the specialization of industry? Adam Smith, as we have seen, laid enormous stress upon the principle of the division of labour, and some degree of specialization is a primary essential of industrial productivity. Specialization may be applied either to employments in general, or to the industrial processes in particular occupations. The former may be more properly described as the co-operation of labour and belongs rather to the subject of the organization of industry, to which we must give special attention later on. The latter may be illustrated by Adam Smith's classical description of the eighteen operations of pin-making or Say's hardly less familiar description of the playing-card industry. So simple a thing as a playing-card is the

[1] The head-quarters of Messrs. Lever Bros., near Liverpool.

resultant of no fewer than seventy distinct operations, and Say described a card manufactory where thirty workmen produced daily 15,500 cards, whereas if each of these workmen were obliged to perform all the operations himself, he would not probably complete more than two cards in a day, or a total of 60 for the thirty workmen.

Advantages of subdivision.

The advantages of the subdivision of labour in this latter sense have become the commonplace of writers on Economic Theory. Subdivision tends to shorten apprenticeship and the time required by the individual workman for perfecting a knowledge of his craft; it ought to develop by the mere process of repetition, skill, and dexterity; it should save time, which is evidently wasted on a large scale if it be necessary for the operative to pass from one operation to another; it should result also in economy of tools, and in prolonging the effective life of machinery. It may even, as is claimed for it, lead to the development of the faculty of inventiveness on the part of a workman who is constantly engaged on the repetition of a highly specialized process. It undoubtedly permits of the employment in a particular trade of persons varying greatly in physical strength, in mental endowments, and in other ways. It thus conduces to the productive employment at its utmost capacity of the aggregate labour power of the community. And as with individuals so with machinery. It not only permits machinery to be kept in constant use, but leads to the adaptation of mechanical processes to each subdivision of the productive system. The advantages claimed for the subdivision of labour in a particular industry are in many cases not less evidently applicable to the distribution of industries among the peoples of different countries, and of several continents. From the purely economic point of view it is obviously a waste of productive effort that one country should devote time and thought and energy to the production of commodities for which owing to natural conditions or acquired characteristics it has no particular aptitude. To take an extreme example: it might be possible for Scotland to produce wine from

grapes grown in hot-houses, but the production would take place at enormous economic cost, and it is far better that Scotland should import her claret from Bordeaux, and export her textiles or machinery, or even her whisky, to pay for it. Nor does it greatly signify if France should not want her whisky or her textiles. Germany may want one or both, and in her turn supply to France the electrical plant or dolls, or anything else, of which France may stand in need. The important thing from the purely economic point of view is plainly that nations like individuals should be set to the tasks, and to those only, which they are best fitted to perform.

These advantages can, however, be secured only on certain conditions and under certain limitations. Some employments, for example, are much more capable of subdivision and specialization than others. An agricultural labourer, whose sole skill consisted in reaping, would find himself unoccupied for the greater part of the year. In proportion as agriculture becomes more 'industrialized', there will obviously be increased opportunity for the application of the principle of the division of labour, but under no conceivable circumstances is it likely to be carried so far in agriculture as, for example, in boot-making, or in engineering.

Division limited by the extent of the market.

There is, however, one limitation which is applicable to all industries. The degree of specialization must depend, as Adam Smith pointed out, upon the extent of the market; by which term, we must of course understand, not a particular locality or building, but 'the whole of any region in which buyers and sellers are in such free intercourse with one another, that the prices of the same goods tend to equality easily and quickly'. This restriction is perhaps most simply illustrated by the retail distributive trade. There are still remote country villages, whose sole distributive agency is 'the village shop'. There you may buy bacon and boots, shirts and sugar, tea and coffee, stamps and spades,—in fact, everything of which the little community has need. The 'market' which the village shop

supplies is so restricted that a specialized store for the supply, let us say, of boots and shoes, could not be maintained. Facilities of transport, the development of motor deliveries and of parcel post, have done more than anything else to extend the market, and so to lead to specialization even in the retail distributive trades. Still, the principle first enunciated by Adam Smith, holds good, that the subdivision of labour or the specialization of industry is limited absolutely by the extent of the market.

The restriction of the market may be due to natural causes, or to the absence of artificial facilities, such as those suggested above, or it may arise from the erection of artificial barriers interposed, perhaps for perfectly valid reasons, between one nation and another. Down to the nineteenth century, Germany was, in a commercial sense, the most backward country in western Europe, and in no part of Germany was industry less advanced than in Prussia. In Prussia alone there were sixty-seven different tariffs embracing no less than 3,800 categories of goods. By degrees, Prussia was commercially unified, and a uniform tariff system was adopted in the form of a *Zollverein*. The lead given by Prussia was followed by other parts of Germany, until in the early 'Forties, the whole of Germany, with the exception of the German part of Austria, was brought into a single Customs Union. The adoption of this *Zollverein* provided the first real impulse to the development of modern industry in Germany.

Disadvantages of division.

The principle of the division of labour is subject to certain drawbacks as well as productive of obvious advantages. Artistic production is, of course, in a category apart. The man who spends his whole industrial life in turning out the legs of a chair is not likely to develop the artistic sense to the same degree as the craftsmen of old, to whom the production of a chair was a single process. Apart, however, from all questions of artistic production, it is possible that manual dexterity may be acquired at the expense of general intelligence, and that the diminution of intelligence may in turn react upon dexterity. In the

modern industrial system, the hand is said to become a 'mere cog in the machine'. As a fact, the human cog is more skilled than is generally supposed. Still, there was substance in the oft-quoted saying of Lemontey: 'It is a poor record of a man's whole life never to have made more than the 18th part of a pin.' Nor did Adam Smith himself neglect to warn his disciples that 'the man whose whole life is spent in performing a few simple operations generally becomes as stupid and ignorant as it is possible for a human creature to become'. How then, can we hope to mitigate the intellectual and moral disadvantages of extreme specialization in industry? Only, it would seem, by taking pains to enable the worker to visualize the product to which he has minutely contributed in its final form (if any product can be accurately described as final), and to estimate its place in the general scheme of economic life.

Ignoble occupations.

Aristotle, in one of the most famous passages of *The Politics* divides occupations into honourable and ignoble (*βαναυσικά*). To the former category there belongs strictly only the pursuit of philosophy and of politics; the craftsman, the merchant, even the professional man, are all tinged with the 'banausia' which excludes the victim from all part in the government of the State. Christian ethics and modern philosophy take a different and a healthier view. They insist that there is intrinsically no such rigid separation between the honourable and the ignoble occupation. On the contrary, any occupation, however seemingly humble, may on certain conditions be exalted in honour. Ethically, everything depends upon the motive; intellectually, everything depends upon the capacity of the individual to idealize his occupation and to see the part in relation to the whole. The work, for example, of the most highly skilled surgeon may be essentially 'banausic' if the sole motive be (as it rarely is) the monetary reward. On the other hand, the work of the scavenger may be highly honourable if it be performed with the consciousness that on the scrupulous fulfilment of a humble task the health of the whole community may depend. The Puritan

ideal was, in this respect, sound; the work, whatever it be, must be done 'as ever in the great Taskmaster's eye'. Nevertheless, it were idle to pretend that it is easy to idealize the common task, or that the man who is engaged throughout life upon making the eighteenth part of a pin can be expected, unless gifted with high imagination, to see the relation of the minute task on which he is employed to the general scheme of the universe.

Economic interdependence.

Apart from moral and intellectual considerations there remains to be considered one conspicuous economic disadvantage incidental to the extreme specialization of industry. The further the principle of subdivision is carried the more dependent does each unit in the industrial process become upon all the other units. This danger is clearly illustrated by the phenomena of industrial disputes. A strike or a lock-out of the moulders may throw out of gear a large part of the engineering industry; a general railway-strike may dislocate the whole trade of the country. And as with industrial strife so with international war. The more dependent in the economic sense one nation becomes upon another, the greater the dislocation involved by an outbreak of hostilities. So serious indeed must the economic dislocation necessarily be that a certain sect of modern philosophers ventured the opinion that the economic interdependence of the nations would render the outbreak of war impossible. Unfortunately, the passions of men have hitherto proved stronger even than the strongest of purely economic motives. The strong man will be disarmed only if a stronger than he cometh. Commerce will not by itself avail to cast out fear, or to appease jealousy and hatred. It may even intensify these passions. Meanwhile, the danger of extreme specialization is one which no statesman can afford either from the economic or the political standpoint wholly to ignore. The phrase 'key industries' may arouse controversial echoes which it is hoped entirely to exclude from these pages. A key industry may be a difficult thing to define: most producers are inclined to claim for the article they

severally produce fundamental importance. But the words, however defined, may serve to remind us that practical politics dictate a limit to the application of the principle of the division of labour hardly less formidable, though much less clearly definable, than the economic limitation imposed by the extent of the market.

Division involves direction.

An extended market is, then, essential to specialization of industry. Yet no specialization, however rudimentary, can take place without organization. Division involves direction. Consequently, the further sub-division is carried the more important becomes the function of management. Thus two contradictory forces are to-day visibly striving for ascendancy: the one making for the 'democratization' of industry; the other tending towards a more autocratic and concentrated control.

The 'democratization' of industry.

No one can fail to sympathize with the desire manifested by many of the manual workers for what is comprehensively though somewhat vaguely described as an improved *status*. The Labour Party in their Report on Reconstruction (1918) put forward the extreme claim: 'The Labour Party insists on Democracy in industry as well as in government. It demands the progressive elimination from the control of industry of the private capitalist, individual or joint-stock; and the setting free of all who work, whether by hand or by brain, for the service of the community, and of the community only. And the Labour Party refuses absolutely to believe that the British people will permanently tolerate any reconstruction or perpetuation of the disorganization, waste, and inefficiency involved in the abandonment of British industry to a jostling crowd of separate private employers.'[1] Even Lord Robert Cecil goes so far as to claim that the wage-earners should have a voice in the management of the concern to which they contribute their labour. 'It seems to me', he writes, 'that from every point of view there would be much to be gained by raising the status of the worker to that of a partner.... And when it is said that the wage-earners should have

[1] *Labour and the New Social Order*, p. 11.

a voice in the management, it is not enough to give them a voice in the settlement of wages and conditions of labour. Conditions of labour largely depend on directive policy. The method in which a business is carried on often automatically settles the wages that can be paid. Moreover, unless the wage-earners are given a share in the responsibility for carrying on a business it is almost impossible for them to consider questions of hours and wages in a broad, practical spirit; and unless they are in a position to obtain, as of right, authoritative information as to the economic position of the undertaking, how can they form a trustworthy judgment on such questions? To exclude the wage-earners from a share in the general management is to destroy the chief psychological value of the proposal.'[1]

A thoughtful, and on the whole moderately worded, memorandom prepared by the Garton Foundation in 1916 puts the same point. 'Industry itself has a human side. The discontent of Labour is not exclusively a matter of wages and hours of work. It is becoming increasingly evident that it is based to a very large extent upon questions of *status* and social conditions.'[2] Nor are these arguments limited to the sphere of English, or even of European industry. There is no American publicist who writes with greater authority or more complete sanity than Dr. Nicholas Murray Butler, President of Columbia University. 'The real Labour problem', he writes, 'as it now presents itself to the people of the United States is this. Can the nation's industries be so organized and administered as to bring to the service of industry the well-tested principles and ideals of political democracy, without overturning the foundations of the Republic and without destroying the only guarantees on which order, liberty, and progress can possibly rest?' And again, 'If we abandon our fondness for abstractions and look at any industrial process just as it is, we quickly discover that it is an enterprise in human co-operation. . . . When this point has been

[1] *The New Outlook*, by Lord Robert Cecil, M.P. (1919).
[2] *Memorandum on the Industrial Situation after the War* (1916), p. 11.

made clear and industry is viewed as a co-operative enterprise in production, then it follows that those who work with their hands, like those who work with their brains and those who work with their savings, are entitled to take part in the organization and direction of the industry and to have a voice in determining the conditions under which their co-operation shall be given and continued.'[1]

That there is considerable force in these contentions no reasonable person will deny. The manual worker of to-day is, in all democratic states, not merely an operative but a citizen; he has been entrusted by the State with a political responsibility not inferior to that of the greatest capitalist, the largest landowner, or the most enterprising director of industry. Moreover, successive Education Acts have given him the key of knowledge. It is not surprising therefore that the wage-earner should manifest some restlessness under an industrial system, the main outlines of which were devised when he had scant education and was excluded from all share of political responsibility.

Mastership in industry.

None the less, we must keep clearly in view the supreme object to the attainment of which industrial organization is directed. It is the common interest of all parties that the aggregate production of commodities should be on the largest possible scale. Under the conditions which prevail in the modern world, the attainment of this object demands the highest directive capacity. For a large number of commodities the market is now co-extensive with the world. Remunerative production depends on an intimate knowledge of that market. If a profit is to be made or an appalling loss to be avoided, decisions must frequently be taken not merely with full knowledge but with the utmost promptitude. The managerial function in industry has consequently never been so supremely important as it is to-day. Walker therefore is probably accurate in saying that 'whatever may be true of politics, the industry of the world is not tending towards democracy, but in the opposite direction. . . . In a community where division of

[1] *The Real Labor Problem*, by Nicholas Murray Butler (1919).

labour has proceeded but a little way, the man of intellect moves but one pair of arms. In a highly-organized industrial system, he moves a thousand. . . . Whether we rejoice or repine at the extension of the principle of mastership in industry, it is the most characteristic fact of the industrial system of to-day. It is likely to gain rather than to lose importance in the years to come.'[1]

The interval which has elapsed since Walker's words were written—some forty years ago—has not impaired their force. Quite the contrary. Yet to insist upon the supreme importance of management in industry is not to deny that there is an increasingly wide domain common to employers and employed. Wise employers and prudent managers will certainly bring into council as far as they possibly can representatives of the manual workers. As regards the internal management of the factory or workshop, the mine or the forge, the opinion of representative workmen is entitled to, and should receive, the utmost consideration. Works committees and councils have already done much, when set up by voluntary agreement, to diminish causes of friction, and by securing internal harmony, to promote aggregate production. The questions which come before such councils for consideration are almost wholly distinct from those commercial or financial problems with which management in the technical sense is more specially concerned.

As will presently be shown in greater detail, management itself is subject to the principle of division of labour. There is, in every large industrial concern, a commercial department concerned with buying and selling; a financial department concerned with accountancy, costing, and the like, besides the industrial department concerned with the processes of production. Nevertheless, ultimate power and responsibility is necessarily confided to an individual, whether he be the general manager, managing-director, chairman of a board, or personal proprietor. Policy must be dictated by him. Yet dictatorship does not imply

[1] *Political Economy*, pp. 74–5.

tyranny; on the contrary, it is compatible with a considerable degree of delegation and decentralization. Even if we assent to Walker's proposition that mastership is increasingly important in the organization of industry, we may none the less concur in the demand put forward on behalf of the manual workers, that within the appropriate sphere they should enjoy an improved status, and be endowed with some responsibility for the conditions under which they and their fellows pass their working lives. The two principles are not incompatible, and to reconcile the 'democracy' demanded by labour with the 'mastership' emphasized by Walker, is to-day the most insistent problem in industrial organization. On its solution depends the possibility of industrial peace.

CHAPTER V

THE ORGANIZATION OF PRODUCTION

THE EVOLUTION OF MODERN INDUSTRY

'The essence of the industrial revolution is the substitution of competition for the mediaeval regulations which have previously controlled the production and distribution of wealth. . . . The slowly dissolving framework of mediaeval industrial life was suddenly broken in pieces by the mighty blows of the steam-engine and the power-loom. With it disappeared, like a dream, those ancient habits of social union and personal affection which had lingered on in the quiet homesteads where master and apprentice worked side by side at the loom and in the forge. Industry was dragged from cottages into factories and cities; the operative who laboured in the mill was parted from the capitalist who owned it; and the struggle for the wealth which machinery promised withered the old bonds of mutual trust, and made competition seem a new and terrible force.'—ARNOLD TOYNBEE.

'The shuttle drops from the fingers of the weaver, and falls into iron hands who ply it faster.'—THOMAS CARLYLE.

'The weaver, whose cottage has been his factory, whose hand-loom had been his only implement, found himself beaten by the great manufacturer whose machinery enabled one pair of hands to do the work of ten men.'—SIR SPENCER WALPOLE.

The existing type of industrial organization.

THE typical unit of the present industrial system is the Joint Stock Company consisting of a body of shareholders whose liability is limited to the amount of their shares in the particular concern, and controlled as to its industrial activities by a Board of Directors who commit executive authority to a salaried manager or a managing-director. To the commercial success of such a concern many parties must contribute; the different categories need not necessarily be exclusive, but they generally comprise: (1) persons who supply the manual labour, and are remunerated by wages; (2) the salaried officials who supply the element of direction; and (3) the shareholders who supply the permanent capital. To these must be added, in the majority of cases, the bankers who provide credit or temporary capital.

Employés. Labour itself subdivides into a multitude of categories. There are the unskilled labourers at the bottom of the hierarchy; the skilled operatives: the mechanics, engineers, and so forth; the stablemen or motormen; the timekeepers, foremen, and overseers; the clerks, accountants, and other officials. Of these, some are classed as 'manual' workers, though as a fact their work may demand high intelligence and much technical ability. These are, as a rule, remunerated by weekly wages and their tenure is precarious, being generally subject to a week's notice. Others receive fixed salaries, with some greater security of tenure. All alike contribute 'labour', though the term has hitherto by usage been confined to manual workers in receipt of weekly wages. Latterly an attempt has been made to enlarge the conception of the term 'labour', and to include in the ranks of the 'workers' salaried clerks and other 'black-coated' officials, as well as those who work in shirt-sleeves or overalls. All are in fact employés, and, as employés, receive a fixed remuneration without reference to the profits earned by the concern in which they are employed. But if they are simply 'employés', so also are all the higher officials of a Limited Company up to and including the general manager. The last named may, of course, be a shareholder in the Company, as, indeed, may any other employé, down to the porters and stablemen. It were much to be desired that all should be: but their remuneration as 'workers' is wholly distinct from any dividend they may receive as shareholders, and does not necessarily, or commonly, bear any relation to it. The general manager, or indeed any other employé may be remunerated partly by fixed salary or wages, and partly by a commission or bonus proportioned to and fluctuating with the aggregate profits of the concern. But such a participation in profits, if extended to all, or to any considerable proportion of the employés, would remove the concern out of the ordinary category which we are now considering.

Employers. The employers are, in such concerns, the shareholders who

provide the capital, and receive interest or profits and, to the extent of their limited liability, bear the burden of losses. Generally the loss falls exclusively upon the 'ordinary' shareholders—the recipients of the 'dividend', that is, the residual profits as well as interest. These distinctions will be more fully explained when we pass from the problem of production to that of distribution; but it may be convenient at this point to observe that the capital of a typical industrial company is generally divided, into: (i) Debentures, carrying a fixed and relatively low rate of interest, but secured, as a rule, by a mortgage on the real property and possibly upon other assets of the Company; (ii) Preference shares, also carrying a fixed but somewhat higher rate of interest, with somewhat less security behind them and with no definite lien upon assets; (iii) Ordinary shares, entitled to receive in the form of a 'dividend' any surplus profits, after the claims for debenture and preference interest have been met. Dividends on 'ordinary' stock are, therefore, something different from interest on mere capital; they represent the remuneration due to those who take the risks inseparable from trade. The different categories of capital may be, and frequently are, further subdivided into 'First' and 'Second' Debentures, or Preference Shares, and into 'Preferred' and 'Deferred' Ordinary Shares; but such subdivisions do not affect the principle underlying the several categories.

One man and family concerns.

Such is, in skeleton, the form of the typical unit of the industrial system of to-day. But though typical it is by no means universal. There still exist businesses of the old-fashioned type, in which the capital is all supplied by an individual who not only owns but manages the concern; or by two or more partners who contribute equal or varying amounts of capital and jointly conduct the business. In such concerns the liability of the single owner or the partners is unlimited. With the view of avoiding so onerous a financial responsibility, and for many other reasons, it is increasingly common to convert such concerns into 'one-man' companies or private companies in which prac-

tically all the share-capital is held respectively by a single individual, by the 'partners', or by the members of a family or group of families. Such conversions can be effected only under conditions laid down in Statutes of increasing stringency, but the law finds it difficult to guard against the evasion of legal conditions and to close all the loop-holes which ingenuity may devise.

Co-partnership concerns.

Other deviations from the normal type are to be found in concerns conducted on the principles of Co-partnership or productive co-operation. In these concerns the operatives are themselves the shareholders, while the management is vested in a Committee, who, like a Board of Directors, appoint their Executive officers. In theory there should be no labour employed which is remunerated solely by wages, and there should be no capitalists who are not contributing labour, either of hand or brain. This ideal, though much to be desired, is rarely attained. A considerable proportion of the capital is 'loan-capital' borrowed, in precisely the same way as a Joint Stock Company borrows on debentures, from outsiders at a fixed and moderate rate of interest.

Nor are the employés, as theoretically they should be, invariably shareholders. Yet the experiments in Co-operation, Co-partnership, and Profit-Sharing, though by no means invariably successful, are of great interest, and demand the earnest attention of all who seek a settlement of the difficulties which at present confront the industrial world. Hitherto the productive effort of co-partnership and co-operative societies has, apart from the supply of commodities to the distributive societies, been on a relatively restricted scale.

Profit-sharing.

The principle of profit-sharing, of supplementing wages by a share in profits, may be regarded as a variant of the co-operative idea, or, perhaps with equal accuracy, as a variant of the Joint Stock system. On the face of it nothing would seem to be more intrinsically just, or more likely to encourage the highest productive effort, than to give to every employé a direct financial interest in the success of the concern to which he contributes his labour.

The reasons which have militated against the successful application of a principle apparently so hopeful will demand and receive consideration in a later chapter.

The experiments in profit-sharing and productive co-operation have been as yet relatively few. The prevailing type of industrial concern is that of the Joint Stock company already described. But it is only in recent years that it has begun to prevail, and it will be well therefore to indicate very briefly the main stages by which the industrial system of to-day has been gradually evolved.

The self-sufficing household.

Down to the later years of the eighteenth century the outstanding characteristic of English life, both in its economic and its social aspect, was its insularity. This insularity was due partly to the lack of means of communication, partly to the extreme simplicity of economic organization, and partly to the general acquiescence in what we should now regard as a low standard of comfort, and to the almost complete absence of any demand for commodities other than those produced by the individual household or in the immediate locality. The first clearly marked stage in the evolution of industry is therefore the self-sufficing household. The description given by Wordsworth of the statesmen of Lakeland was, as already observed, true in many respects of other parts of England. Down to the eighteenth century Southern England was, however, industrially much more advanced than the counties to the north of the Trent. In agriculture the unit, as we have seen, was to be found in the manor, and the manorial organization implied a considerable degree of agricultural co-operation, though each individual household was to a large extent self-sufficing.

The growth of towns.

The growth of town life inevitably introduced in embryonic form the principle of interdependence, though perhaps to a lesser degree than is commonly represented. The typical town was agriculturally dependent upon one or more manors immediately adjacent to it. Oxford, for example, had just outside the city wall the manor of Holywell, and close to the town meadow ('Port Meadow')

was the manor of Binsey. So with other towns.[1] But with the development of town life, there naturally came into existence a distinct class of professional craftsmen; the first crafts to be differentiated being those of the weavers and the smiths. The craftsmen soon realized the necessity of association, if only for purposes of protection against the exactions of the feudal lords or the competition of outsiders. These necessities gave rise at a very early stage in the development of town life to the Merchant Gilds. The mention of these associations is apt to awaken the echoes of historical controversy, but into those disputed questions it is not necessary in the present connexion to intrude. It will suffice to say that the relations between the gild merchant and the town government quickly and naturally became exceedingly intimate. The merchant gild, was the most, and in many cases the only, permanent and substantial association within the town. With the gild therefore, the Crown and the feudal lord found it convenient to deal, while the gild was willing on its part to accept responsibility for the payments respectively due to the Crown and lord, in return for the concession of trading privileges. These privileges were exclusive, both as regards their fellow citizens, and still more as regards 'foreigners', a term which applied not merely to people from oversea, but to the citizens of other towns. In the course of centuries, privilege hardened into protection, and as time went on protection undoubtedly retarded progress. But during the period of urban infancy and adolescence, the gilds were, in the main, beneficent institutions maintaining a reasonably high standard of quality in the commodities produced by their members, and maintaining also the 'just price' demanded by contemporary opinion.

Merchant Gilds.

The Craft Gilds.

The merchant gilds were associations of men who were at once craftsmen and traders. Between the two economic functions there was indeed in early days no differentiation; goods were purchased by the consumer from the people who

[1] This point is illustrated in detail in the late Prof. F. W. Maitland's illuminating work, *Township and Manor*.

produced them. By degrees, however, the merchant or middleman emerged as a distinct economic class, and the process of differentiation gradually brought into being, side by side with the gild merchant, associations of specialized craftsmen. That the craft gilds represented a labour revolt against capitalistic associations is an idea no longer accepted by the best authorities. Even trained economic investigators are liable to be misled by modern analogies, and are apt to read into the history of the past the industrial ideas of the present. The scholar mainly responsible for the once fashionable view that the rise of the craft gilds was due to a successful revolt against the aristocratic exclusiveness of the merchants' gilds was Brentano.[1] But Brentano's generalization was based, as regards England, upon insufficient evidence. The truth would seem to be that as the gild merchant tended to become more closely identified with the municipal organization, the special economic or mercantile functions it had originally performed were gradually relegated to the craft gilds. The earliest mention of a craft gild is to be found in the laws and charters of Henry I, who granted the privileges of association to weavers of London, Oxford, and Winchester. The object of these specialized gilds was primarily to regulate the internal organization of the particular craft or trade. They fixed the hours of labour; they regulated the rate of wages, they laid down rules in regard to the training of apprentices, and did their best to maintain a reasonable standard of efficiency in production, and a 'just price' as between producer and consumer.

Changed conditions in the sixteenth century.

By the sixteenth century the town organization of the Middle Ages was almost completely disintegrated, and under the provisions of the Statute of Apprentices (1562) the State assumed responsibility for the discharge of such functions of the craft gilds as could not yet be dispensed with. The transition from the gild economy to national economy marks an era of immense significance alike in the sphere of politics and of industry. During the Middle Ages there

[1] *English Gilds.*

was no international trade for the simple reason that Europe was not then made up of an aggregate of nations. Town traded with town, and great associations of trading towns, like that of the Hanseatic League, were formed to promote commerce and to protect the privileges of traders.

National economic policy.

As yet, however, the State had not formulated an economic policy, mainly because the State was not as yet identified with the nation. The nation-states-system, as we understand it, began to emerge towards the close of the fifteenth century, and in the course of the four succeeding centuries Europe was exhaustively parcelled out into independent nation-states. The nation-state no sooner came into being than it began to concern itself with the trade of its citizens and the fiscal profit to itself to be derived therefrom. The alliance between governments and merchants led to the development of what is known as the mercantile system. Henry VII was the first of English kings to give serious concern to the problem of international trade. 'He ever strove', wrote Bacon, 'that merchandise being of all crafts the chief craft, and to all men most profitable and necessary, might be the more plentifuller used, haunted, and employed in his realms and dominions.' The same philosophic historian suggests the dominant motive of this new departure: it was less national wealth than national security. Adam Smith in his famous and highly critical analysis of the mercantile system lays too exclusive an emphasis on motives of cupidity. Not only does he confuse the policy of the mercantilists with that of the bullionists and attribute to the former the fallacy of identifying wealth and money, but he underestimates, if he does not wholly ignore, the political motives which inspired the policy of the State. 'Bowing the ancient policy of their estate from consideration of plenty to consideration of power':—Bacon hit the mark more accurately than Adam Smith. The primary purpose of the mercantile system was not so much opulence as defence. It was the old idea of self-sufficiency extended from the unit of the household to the unit of the State.

The mercantile system.

The self-sufficiency of the household may have been due to inexorable economic necessity. The self-sufficiency of the State was due to deliberate policy. Yet mercantilism did not mean commercial isolation. On the contrary, it marks an important stage in the development of international trade. With that development, however, we are at present concerned only so far as it reacted upon the evolution of industry.

The domestic system.

The widening of the market, due partly to the geographical discoveries of the late fifteenth century, partly to the emergence of strong national monarchies and the formation of nation-states, necessarily induced greater specialization in industry. The trader, as distinct from the producer, gradually emerged. Production became, though very slowly, more and more dependent upon capital. Just as we passed from an economy based on the self-sufficing household, to one in which the craft gilds played a leading part, so the break-up of the gild system initiated a third stage of industrial evolution to which the term 'Domestic System' has been somewhat misleadingly applied. 'What I mean', said a witness before a Parliamentary committee, 'by the Domestic System is the little clothiers living in villages or detached places with all their comforts carrying on business with their own capital: every one must have some capital more or less to carry on his trade, and they are in some degree little merchants as well as manufacturers'.[1]

Master, apprentices, and journeymen.

The hierarchy of the Domestic System differed little from that of the craft gilds. At the head of it was the master-manufacturer, something of a capitalist, but working with his hands; the owner perhaps of three or four looms, the employer, it may be, of eight or ten people, men, women, and children. All the processes through which the wool was put—and it is the woollen industry which brought into being the Domestic System, as it had at an earlier stage of industrial evolution, initiated the craft

[1] By a 'manufacturer' was in those days meant not the capitalist employer, but the man who worked with his hands.

gilds—the spinning, the weaving, and in many cases also the dyeing were carried on actually in the house of the manufacturer or in an adjacent shed. His manual work was shared by the apprentices and the journeymen, the latter being wage-earning employés originally working, as the word implies, by the day, but now generally engaged by the year. The apprentices, on the other hand, were bound to the master for a term of service generally fixed at seven years. The system was, in the highest degree, paternal, and the relations between master, apprentice, and journeyman were generally of the most intimate kind. 'Both the apprentices, for whose moral education he was responsible, and the journeymen, were lodged and boarded in the master's house. Between men living in such close and continuous relations . . . the bonds were naturally very intimate. Nor were these bonds loosened when the journeyman married and lived in his own house. The master knew all his affairs, his peculiar wants, his peculiarities, as well as he did before. If the weaver was sick, the master lent him money; if trade was slack he kept him on at a loss. This state of things had its dark side no doubt, but that it existed there is a mass of evidence to prove.' 'Masters and men', said one employer in evidence, 'were in general so joined together in sentiment that they did not wish to be separated if they could help it.' 'The workmen', adds Toynbee, 'corroborated the assertions of the masters.' 'It seldom happens', said a weaver, 'that the small clothiers change their men except in case of sickness or death.'[1]

The Industrial Revolution, *circ.* 1770-1850.

The system thus briefly described persisted until the later decades of the eighteenth century. It was broken up by that series of rapid changes to which in the aggregate the term 'the Industrial Revolution' is now commonly applied. To that revolution there were many sides; its characteristic features were manifested under many aspects. The essence of the revolution consists, however, in the transition from the Domestic to the Factory System. That transition was facilitated, or rather rendered inevitable

[1] Toynbee, *Industrial Revolution*, pp. 182–4.

by a series of mechanical inventions which during the period between 1733 and 1790 succeeded one another with great rapidity. These inventions revolutionized the conditions of our two great staple industries—textiles and iron; they substituted steam for hand-labour as the motive power in manufactures; they initiated the railway-system; and by these means transformed England, which down to the middle of the eighteenth century had been a sparsely populated pasture-farm, into a thickly populated aggregation of towns, the world-centre of manufactures, of commerce, and of finance. At the close of the Napoleonic wars England's supremacy was unchallenged: she was the manufacturer, the carrier, the banker of the world.

The cardinal inventions.

The first of these cardinal inventions was that of the fly-shuttle, which in 1733 was patented by Kay, a weaver of Bury in Lancashire. Hitherto the supply of yarn, which was spun in countless cottages and farm-houses all over the country, had fairly kept pace with the demands of the weavers; for the weaving process, in which the shuttle carrying the weft was passed from hand to hand through the threads of the warp, was exceedingly laborious and slow. But Kay's invention, by which the shuttle was propelled mechanically from side to side doubled the rapidity of the weaving process. The spinners could no longer keep pace with the weavers. Much ingenuity was expended on trying to discover a means of redressing the balance, and at last in 1764, James Hargraves of Blackburn, himself a hand-loom weaver, hit, more or less accidentally, upon the device of the 'Spinning-Jenny'. The Spinning-Jenny made it possible, through the instrumentality of a wheel, to work simultaneously a number of spindles. Moreover, the machine was so simple that it could be worked by children, and an immense impulse was thus given to the spinning industry. Five years later (1769), Richard Arkwright of Cromford took out his patent for a machine which perfected the method of spinning by rollers, and so completed the work begun by Hargreaves. Crompton then combined the principles of Hargreaves'

jenny with Arkwright's water-frame in his 'Muslin Wheel' or 'Mule'. The year (1785) which witnessed the production of Crompton's 'Mule' was memorable also for the invention by Edmund Cartwright, a Kentish parson, of the Power Loom. The machine invented by Cartwright was gradually perfected, until by 1815 there were no fewer than 2,300 power looms in use. All these inventions were, in the first instance, applied to the spinning and weaving of cotton, and consequently it was the cotton industry which led the way in the industrial revolution. By degrees they were adopted in the much older, and at that time more important and conservative, woollen industry, but in a very short time wool had to yield pride of place to cotton. In 1755 only five bags of cotton were imported into Liverpool from America; in 1786, only six bags; by 1837, 1,033,773 bags. In 1782 the total value of cotton goods produced in Britain was only £960,000 as compared with £16,800,000 worth of woollens. By 1882 the value of the latter had not quite trebled (to £46,400,000), while that of cotton had in the course of the same period multiplied ninety-fold (to £95,200,000). The exports of woollens which in 1723 were £2,000,000—one-fourth of the total export trade—had by 1833 risen to £6,539,731. Cotton exports in the same period advanced from £23,253 to £18,486,400.

Water-power and steam.

In themselves, the inventions of Kay, Hargreaves, Arkwright, and Crompton, might never have dragged industry out of the cottages into the mills. But they all had one characteristic in common: they were all capable of being worked by power. Boulton, James Watt's partner, is said to have remarked to George III: 'I sell, Sire, what all the world wants—power.' But in the first stage of the industrial revolution manufacturing power was obtained not from coal but from water. Hence the new textile mills were to be found mainly in the deep valleys of the West Riding or on the banks of the streams of Derbyshire and Lancashire. Meanwhile James Watt had, as far back as 1765, patented his steam-engine, and, during the last two decades of the eighteenth century, Watt's engines began

with increasing rapidity to be applied to the manufacture of woollen, cotton, and linen goods. The application of steam-power to manufactures led, in time, to the almost complete abandonment of water-power in connexion with the staple manufactures of the country; but the process was a gradual one; only by degrees were the Pennine streams deserted for the coal-fields.

The factory system.

The steam-engine, then, must be regarded as the main agent in the transformation of England. The utilization of water-power practically involved the concentration of industry in factories, but the factories themselves were not necessarily concentrated in towns. On the contrary, they were dispersed along the courses of rivers. When, however, industry passed under the mighty empire of steam, the new factories were almost necessarily erected in close proximity to the coal-fields. It was water-power which had given to Lancashire, the West Riding, and Derbyshire their first start towards industrial supremacy. It was their coal-fields which confirmed it.

Growth and aggregation of population.

Important results followed. Population, hitherto small and scattered, began for the first time to be aggregated into towns, and, under the impulse of the revolution in manufacturing processes, to increase with great rapidity. At the beginning of the eighteenth century 76 per cent of the total population was rural; only 24 per cent of the people lived in cities and market towns. The proportions are now almost exactly reversed. At the end of the seventeenth century Manchester had a population of 6,000 people, and Liverpool of 4,000. Before the end of the nineteenth they each counted over half a million. Defoe, writing in 1725, said, 'The country south of the Trent is by far the largest as well as the richest and most populous.' Excluding the metropolitan counties of Middlesex and Surrey, the most thickly populated counties at that time were, in order, Gloucestershire, Somerset, Wilts, Worcester, Northamptonshire, Herts, and Bucks. The country beyond Trent was not quite in the state of barbarism described by Macaulay, but it was in every

respect more backward than the counties south of that river. The industrial revolution, then, not only led to a rapid increase in population but involved a notable change in its distribution as between country and town; between south and north; and, not least, if we have regard to the United Kingdom as a whole, between Ireland and Great Britain.

The mobility of labour.

Another notable result of the revolution is to be found in the increased mobility of labour. Modern economic theory depends for its validity in large measure upon two assumptions: the mobility of labour and the easy and rapid transferability of capital. Yet as late as 1776 Adam Smith could write, 'A man is of all sorts of luggage the most difficult to be transported.' In his time men were. Down to the end of the eighteenth century, indeed, it was broadly true that where a man was born there he lived and worked and died. This immobility was due partly to restrictions imposed by statute law; partly to the absence of means of transport and communication. The principle of 'settlement' is almost coeval with public provision for the relief of the poor. Under the law of settlement parishes were bound to provide for the poor who could prove continuous residence in the parish for not less than forty days. Consequently, under an Act of 1662 the Justices of the Peace were authorized, in order to prevent alien paupers from becoming chargeable to their several parishes, to order the removal of any person who could not, within a period of forty days from his first settlement in the parish, prove the substantiality of his means of living. The parish officers spent an appreciable portion of their time and energy in hunting down these possible claimants for public charity and procuring their expulsion. Adam Smith denounced the Act of 1662 'as an evident violation of natural liberty and justice', and went so far as to affirm that 'there is scarce a poor man in England of forty years of age who has not in some part of his life felt himself most cruelly oppressed by this ill-contrived law of settlement'.

Still, powerful as was the influence of Statute law, the immobility of labour was due in even greater measure to the absence of means of communication. There were no railways until the third decade of the nineteenth century; the first Act of Parliament to authorize the construction of a canal was passed in 1755, while the roads, with few exceptions, were scandalously bad. 'Good roads', wrote Adam Smith in 1776, 'canals and navigable rivers by diminishing the expenses of carriage, put the remote parts of the country more nearly upon a level with those in the neighbourhood of the towns. They are, on that account, the greatest of all improvements.' Down to the middle of the eighteenth century, little effort was made in that direction. 'On the best lines of communication', writes Macaulay, 'the ruts were deep, the descents precipitous, and the way often such as it was hardly possible to distinguish in the dusk from the unenclosed heath and fen which lay on both sides.... It happened almost every day that coaches stuck fast until a team of cattle could be procured from some neighbouring farm to tug them out of the slough.' Defoe, writing in 1725, bore similar testimony to the badness of English roads, and even by Arthur Young's time things had improved but little. Young's *Tours* (*circ.* 1775) are full of eloquent denunciations of the state of the roads. Referring to the road by the side of which the London and North Western Railway now runs, from Preston for Wigan, he wrote: 'I know not in the whole range of language terms sufficiently expressive to describe this infernal road.' Again: 'If possible this execrable road (Liverpool to Altrincham) is worse than that from Preston.' The economic value of the work accomplished by Telford and McAdam can hardly therefore be exaggerated. Meanwhile, much had been done in the improvement of waterways. The Act of 1755, already mentioned, authorized the construction of a canal from Liverpool to St. Helens; in 1759 the Duke of Bridgwater procured an Act which enabled him with the assistance of James Brindley to construct the canal which still bears his

Means of communication.

Roads.

name; in 1777 the Grand Trunk Canal connecting the Mersey and the Trent was opened; Hull, Liverpool, and Bristol were in the same way connected before long, and in 1792 the Grand Junction Canal connected London, Oxford, and the great Midland towns. So rapidly did the canalization of England proceed, when once it was tardily begun, that by 1837 there were, according to Porter, no less than 4,000 miles of navigable waterway in England.[1] By that time, however, canals had already been reduced to a position of secondary importance by the utilization of the steam-engine for purposes of locomotion, and the consequent initiation (1825) of the railroad system.

Transferability of capital.

Hardly less important than the increased mobility thus imparted to the human factor in industry, and the cheaper and more rapid transport of commodities, was the extension of the idea of credit and banking. The easy transferability of capital was an essential factor in the commercial no less than in the industrial transformation of England. So long as foreign trade was relatively insignificant; so long as agriculture and industry were mainly self-sufficing, there was little demand for the accumulation of capital, and still less for the development of the machinery for rendering it quickly available at any point where it might most be needed. The function of capital in production will, however, demand attention in the next chapter. Here it is only necessary to note the development of the machinery of credit as one of the many manifestations incidental to the industrial revolution.

Results of the Revolution.

At the stupendously important results of that revolution it is only possible in this place to hint. They were partly social, partly political, but fundamentally economic. The economic results were twofold; on the one hand the revolution gave an immense impulse to the arts of production, and went far, for the time being at any rate, to solve that primary problem of economics. On the other hand it may almost be said to have given birth to the problem of

[1] *Progress of the Nation.* To the total of 4,000 miles, the canals contributed 2,200; rivers 1,800.

distribution. Obviously no problem of distribution could arise so long as industry and agriculture was self-sufficing. Nor did the problem become acute under the Domestic System. So long as the mass of the population were not wholly dependent on wages, the sharp distinction between wages and profits evidently did not emerge. It was the division of labour; the clear differentiation of economic functions; the divorce of the wage-paid labourer from the ownership of the soil or its usufruct; the distinction between 'the hand' and the manufacturer: the widening gulf between employé and employer:—it was these things which accentuated, if they did not initiate, the problem of distribution and which emphasized the antagonism between Labour and Capital. Detailed discussion of the intricate problems which then for the first time arose must be postponed. Nor must we dwell upon the social results of the industrial revolution. They followed naturally if not inevitably upon the economic. Under the old system, trade if small was steady, and the recurrent crises which are one of the most disturbing and distressing features of the modern economic order were virtually unknown. Unemployment was not a problem which could present itself to the self-sufficing household. The extent of the market being so limited, the principle of division of labour could not be carried far. Methods of exchange were rudimentary and competition was not acute.

Growth of aggregate production.

Such advantages as inhered in the old order were, however, purchased at a price. The standard of comfort relatively to that of our own day was very low, and the aggregate production of wealth was very small. In 1760 the total exports of this country amounted to 14½ millions, or 39*s.* per head of the population; the imports aggregated about half that amount, £7,290,000, or 21*s.* per head of the population. In 1913 our imports totalled £768,000,000 and our exports (including re-exported commodities) £634,000,000, of which £525,000,000 represented the produce of the United Kingdom. So late as 1800 the total income of the country was estimated only at

£200,000,000, or about £20 per head of the population; by 1913 it had risen, on the lowest estimate, to £2,000,000,000, or about £45 per head of the population. The most generally accepted estimate to-day (1922) is about £3,900,000,000, but is reckoned, of course, in a highly inflated currency.

The above figures may suffice to give some faint idea of the stupendous increase in the productive capacity and the resulting wealth of Great Britain. That increase was achieved by an economic revolution the main features of which have now been, to a considerable extent, reproduced in most of the progressive countries of the world. In view of this revolution, in view of this enormous increase in the aggregate production of wealth, it may seem paradoxical that the problem of distribution, so far from being solved, should actually have been accentuated. Yet the fact remains, and its many implications will demand full consideration in later chapters of this book. Confronted by this problem—by the problems of wages, interest, and profits; confronted by the phenomenon of great wealth cheek by jowl with much poverty; confronted by the problem of unemployment, recurrent at intervals on a great scale, fluctuating, on a smaller scale, according to the seasons or the caprices of fashion; confronted by the spectacle of huge cities, built without plan, their teeming populations crowded into mean streets, worse still into congested alleys and foetid courts, while the populations of the village and the country-side are dwindling decade after decade; confronted by all these things, what wonder that men look back with regret to the relative stability of social and economic conditions in the pre-industrial era: to a population small and spare, and not wholly dependent on wages; not wealthy according to modern standards, but less near than many are now to the margin of subsistence, and above all not subject to recurrent crises, except at intervals of centuries? Yet the regret is as vain as it is natural, for the governing fact of the contrast is to be found in population. A self-contained and self-

sufficing Britain might feed with reasonable regularity and clothe in homely garb its five, seven, or even fourteen millions; it could never have clothed and fed forty millions. Two-thirds of the people to-day live on imported commodities secured to them by exports; the vast volume of foreign trade is dependent on the maintenance and continuous development of an industrial order which has many ugly features, but which, by means of a mechanism marvellously intricate, and, though apt occasionally to get out of gear, wonderfully regular in its working, does provide day-to-day necessaries for the mass of the population, for a large proportion of it reasonable comfort, and, for not a few, luxuries of which no one would have dreamt a short century ago.

CHAPTER VI

CAPITAL

BANKING AND CREDIT

'Lay not up for yourselves treasures upon earth. . . . For where your treasure is, there will your heart be also.'—*St. Matthew* vi. 19, 21.

'The man who directs his life primarily to laying up treasures on earth sins both against himself and against his neighbour.'—*Archbishop's Report.*

'Capital is the factor that makes for progress. . . . It has greatly developed the wealth of communities and their opportunities of using that wealth for encouraging cultured human life; but at every stage of material progress there has been social hardship.'—Dr. W. CUNNINGHAM, *The Progress of Capitalism in England.*

'Industry is limited by capital.'—J. S. MILL (*in 1848*).

'Capital, in its capacity of raw material or instruments, is nothing but inert matter, and of itself absolutely barren. . . . It does not necessarily follow, however, that the portion appropriated by capital in the form of income is a spoliation of the workers.'—GIDE.

'Though the rich have grown richer and more numerous with the aid of capital, the poor have grown richer too. Even the least skilled manual labourer obtains an appreciable share of the extra wealth created by capitalism.'—HAROLD COX.

Capital.

THE primary agents in production are, as we have seen, nature and man, land and labour. There is, however, a third instrument, without which industry cannot emerge from its primitive stage, if indeed it can exist at all. To this third instrument Economists give the name Capital, meaning thereby accumulated wealth or stock. There is no difficulty in apprehending the part played by nature in the production of wealth, nor that of man when he is engaged in manual labour. It is far otherwise with regard to the function of stock or capital. Nor is there unanimity as to the degree of merit, if any, attaching to the person who provides an instrument, admitted by every Economist to be indispensable to the production of wealth.

The mere mention of 'capital' is indeed provocative of embittered controversy. While all the world applauds the energetic application of labour to raw materials: while only the curmudgeon would withhold the appropriate reward of him who toils and spins, it demands some measure of imagination, or at least of initiation into Economic mysteries to apprehend the part played by capital, and to concede either credit or remuneration to the capitalist. Even so eminent an Economist as Mr. Charles Gide is somewhat grudging in his appreciation of the importance of capital. He cannot but emphasize its indispensability: 'The fact that no wealth can be produced without the aid of some other pre-existing wealth is an Economic law the importance of which cannot certainly be exaggerated. Just as fire under ordinary conditions cannot be lighted without some bit of igniting matter (a match, an ember, a steel); just as an explosive mixture cannot go off without the help of a small piece of explosive matter called a fuse; . . . So no wealth can be produced, under normal economic conditions, without the presence of a certain amount of pre-existing wealth.'[1] Nevertheless he deems it necessary to 'get rid of all this phantasmagoria which arouses, not without reason, the Socialist ire'. He is at one with Aristotle in insisting that money does not beget money: 'This mysterious productive power attributed to capital, this generative force that is considered part of its nature is a pure chimaera . . . Capital, in its capacity of raw material or instruments, is nothing but inert matter, and of itself absolutely barren'.[2] Mr. Gide, as we shall see later, is less indifferent to the value of capital than the words here quoted would seem to suggest.

The ethics of saving.

If teachers of Economics utter an uncertain sound in regard to Capital, or at least to those who provide it, can we wonder if teachers of Christian Ethics should be lacking in appreciation of the function of accumulated wealth. They naturally appeal to the injunction of Christ himself:

[1] *Op. cit.*, p. 116.
[2] *Ibid.*, p. 120, but see also c. ix. *infra*.

'Lay not up for yourselves treasures upon earth'. And they improve upon it: 'The man who directs his life primarily to laying up treasures on earth sins both against himself and against his neighbour'.[1]

The miser.

The authors of this dictum may ride off on the word 'primarily'; but even so, is the statement true? Let us take the case least favourable to the argument which it is proposed to submit—that of the miser. The miser is an object of universal contempt, or more properly perhaps of pity; undeniably he is his own worst enemy, and the absorption of mind which leads to concentration on a single unlovely object may be described, in theological language, as a 'sin'. On the Ethical aspect of the matter I do not comment. But is the miser an enemy of Society? Does he necessarily sin against his neighbour? The modern miser does not hoard gold in an old stocking; he is not likely to hoard bank notes or Treasury notes, but were he silly enough to do so he would not thereby sin against his neighbour; on the contrary his folly would tend to contract the currency and thus he would help to reduce prices. Most probably he will invest his savings in good securities and reinvest the interest he derives therefrom; at the worst he will 'keep' his 'money' in a bank, but though he may 'keep' it there, the bank will not. The bank will certainly convert the miser's 'money' into industrial capital, thus oiling the wheels of trade, providing employment, and conferring a substantial benefit upon the whole community.

The miser gets no credit for his abstinence; perhaps he deserves none, since his motive is purely self-regarding. But contrast the social effect of his policy with that of the spendthrift, or even of the 'cheerful giver'. No one is more popular than the man who 'spends his money freely'. He is universally acclaimed as a 'good fellow'. Not even the theologian can reproach him with directing his life primarily to the laying up of treasure on earth. His function is to dissipate it, and in the process he is certain to earn the applause of men.

[1] *Archbishop's Report*, p. 12.

Does he deserve it? Before answering the question it is important to observe that the spendthrift does not 'spend' any more than does the miser who banks or invests his savings. Both spend, but in different ways; and the 'spending' of the miser is almost certain to be more advantageous to society than that of the spendthrift. Something, of course, depends on the manner in which the latter spends. If he simply hands £5 notes to his neighbours, the result of his spending is economically negligible. It merely means that the recipient will be better off, and society no worse off. If on the other hand his generosity takes the form of a series of extravagant banquets, society is the poorer by reason of the diversion of capital and labour into non-productive channels. Much wealth has been actually consumed, and, after its consumption there is, in colloquial phrase, 'nothing to show for it'. The miser 'spends' as much or more than the spendthrift, but it is spent not on immediate consumption, but on the provision of capital, which in time can perform its function only by being consumed. The point is well put by a modern economist who has no special tenderness towards capital or capitalists: 'To the ordinary business man saving, at first sight, seems a merely negative industrial act, i. e. not spending, and putting the non-spent money in a bank. But actually it is as positively an industrial act as spending, Indeed . . . it is spent, but in paying people to make more capital goods instead of paying them to make more consumers' goods. . . . The usual result of saving is to increase the quantity or improve the productive quality of the industrial system.'[1] The spendthrift.

It is with the improvement of the productive quality of the industrial system that we are for the moment exclusively concerned. Of the many problems which lie on the borderland between Ethics and Economics, which cannot indeed be solved in practice without regard to the laws of both, there are few more baffling than the legitimate limits of 'spending' or 'saving'. But that question may be more Capital and Production.

[1] J. A. Hobson, *The Science of Wealth*, pp. 60, 61.

appropriately considered in a later section of this book. Here we are concerned solely with the relation of saving to production, and on that point the economist must needs declare himself with emphasis. 'Capital' as Dr. Cunningham has said 'is the factor which makes for progress'. Nothing is more important alike to the development of industry and to well-being of all classes in the community,—most of all to the class which depends for subsistence upon manual labour, than cheap capital. Capital, however, can never be cheap, in a community which enjoys normal economic health, unless there is a plentiful supply of it. There cannot be a plentiful supply unless (i) the rate of production is high, and (ii) people can be induced, from one motive or another, to postpone the consumption of some portion of the wealth which has accrued from production and to convert it into 'stock' for the purpose of assisting future production.

Housing.

The stronger the inducement held out to the thrifty to postpone consumption the greater the advantages obtained by society at large. Take, for purposes of illustration, two of the most insistent problems of to-day (1922): that of unemployment and that of housing. Neither can be solved without an abundance of capital. Housing Schemes are held up, mainly by reason of the high cost of production: the impossibility of building houses which can be remuneratively let at rents which prospective tenants can afford to pay. Under reconstruction schemes municipalities were encouraged to build houses and to provide the capital for building them by the issue of bonds bearing interest at 6 per cent. The average cost of houses so built was £800 or £900. That meant a capital charge to the municipality of £48 to £54 per annum, or a rent of at least £1 a week to the tenant. Even assuming (what is far from being the case) that building charges were as high twenty years ago as they are to-day, the same houses could have been let at half the rent, for the money could then have been borrowed by the Local Authorities not at 6 per cent but at 3 per cent. The dearness of capital is, therefore, responsible not

less than the high cost of labour, in the one case for the high rents which individual tenants will have to pay if the houses are let at economic rents, or, in the alternative, for the high rates which the whole community will have to bear if they are let at anything less than an economic rent.

Would Socialism solve the difficulty?

A further point deserves, in this connexion, a passing reference. It is frequently assumed that under the reorganized industrial system pictured and demanded by socialists such difficulties as those which recent experience has encountered in the housing problem would disappear. Is the assumption well-founded? The housing policy adopted by the State in 1919–1921 was carried out by a minister with strong socialistic sympathies, and was, in the main, conceived on collectivist principles. The scheme was initiated by the State and was to be executed, for the most part, by Local Authorities: the financial responsibility was imposed upon the tax-payer and the rate-payer. Save for the measure of encouragement offered to the speculative builder—a small concession to individualistic prejudices—wherein would the scheme have differed, either in conception or in execution, had the régime been frankly collectivist? The site-value of the land—in any case a relatively insignificant item—might have been eliminated from the aggregate cost of production—in cash; but if the Socialist State kept its public accounts properly it would have to be reckoned in; the cost of laying out the sites would not have been lessened; nor the cost of the building; materials, concrete, bricks, timber, slates, &c., would have had to be obtained and the labourers would equally have had to be maintained—either by the payment of wages or out of previously accumulated stocks—during the process of construction. The real *cost* of production, whether reckoned in money and paid for in cash or not, would presumably not have been less, and might well have been greater.

Assume the same quantity of houses to have been built. Assume the same demand for them. To whom are they to be assigned? Even with the differentiating element of

relatively high rents, the selection of tenants has, in many cases given rise to heartburning. How much greater the difficulty if the factor of rent had been eliminated, and the new built houses had been open, on equal terms, to all citizens, without consideration of means. The task of selecting applicants would then have called for superhuman qualities of patience and impartiality. But this is a minor detail. The essential point is that not one of the difficulties actually encountered between 1919 and 1921 would have been avoided or even mitigated had the governing principle of the industrial order been collectivist, instead of individualist.

Unemployment.

From the problem of housing we turn to that of unemployment. For unemployment or under-employment all economists are agreed that the only radical remedy is an expansion of trade. The symptoms may be alleviated by schemes of relief, of Government employment and the like, but such schemes must be financed out of the pockets of the tax-payer; in other words by a further charge upon industry; and though expediency (in the highest sense) may compel the application of such remedies, they are only too apt to accentuate the root causes of the disease whose symptoms they are designed to relieve. A genuine demand for labour, emanating from industry, can alone provide a permanent remedy for unemployment. There may indeed be a demand for commodities of various kinds, but the demand can be met only if there is a sufficiency of capital to set labour on the tasks appropriate to the supply of those commodities.

Is a demand for commodities a demand for labour?

That is the real meanings of Mill's cryptic and much criticized aphorism that 'a demand for commodities is not a demand for labour'. The aphorism is indeed half paradox and half truism. Mill's proposition amounts to this: the man who walks into a furniture-dealer's shop and purchases six chairs is merely 'demanding commodities', and is not 'employing' labour; whereas the man who buys wood, leather, and nails and employs a carpenter to make the chairs for him is actually enlarging the area of employment. Thus stated the proposition seems paradoxical. Its validity

would seem really to depend upon the precise nature of the transaction. If the purchaser pays over the counter for the goods he buys, he immediately replaces the capital of the dealer, and enables him to order fresh stock and so to employ labour. If, in short, the transaction is a ready money one it matters little to the labour market whether the would-be purchaser demands commodities or demands labour. If on the other hand the transaction is for credit, the purchaser instead of providing capital himself is simply borrowing the dealer's capital and is conferring no benefit upon the labour market.

The aphorism has perhaps received more attention from Economic critics than it intrinsically deserved, and Mill undoubtedly darkened counsels by an infelicitous selection of illustrations. Yet the discussion has a real bearing upon the nature and functions of capital, and for that reason it has seemed well to refer to it.

Industrial progress, then, does essentially depend upon the ratio between the demand for commodities and the demand for labour; but it depends not less, as will be seen later, upon the nature of the commodities demanded by prospective consumers. Expenditure may be either 'productive', i.e. upon 'consumable goods which by their consumption promote economic efficiency', or 'unproductive', i.e. upon consumable commodities which are, in the economic sense, merely wasteful. For the moment, however, we are concerned not with the consumption of wealth but with the agents or instruments which contribute to its production. Among these an indispensable factor is Capital. Capital, as we have seen, can be accumulated only in proportion as the production of commodities exceeds the immediate demands of the consumers, and in proportion as the would-be consumers are able and willing to postpone the satisfaction to be derived from immediate consumption. Consequently, whatever the validity of the warnings uttered by the moralist as to the spiritual dangers attendant on the accumulation of capital, the Economist must needs applaud the man who lays up

treasure, and acclaim him, whatever his motive, as a benefactor to society.

This being so, Capital, its nature and its functions, naturally occupies a conspicuous place in the classical works on Economic Theory. We may take as typical in this respect the treatises of Adam Smith, of John Stuart Mill, of F. A. Walker, perhaps the most representative of recent American economists, and of Charles Gide, a representative Frenchman.

Adam Smith on Capital.

The Wealth of Nations was published in 1776, and was written, therefore, on the eve of those momentous changes which revolutionized industry and transformed the face of England. This fact renders it the more remarkable that by the intuitive force of genius Adam Smith should have penetrated to the heart of the mystery of capital, should have analysed its nature and explained its functions with a fullness and a precision which even the keenest business men among his countrymen to day—say Lord Weir or Lord Inchcape—would find it difficult to emulate. Starting from his basic principle of the division of labour he shows that the accumulation of stock must in the nature of things be an indispensable preliminary of such division and the process of differentiation must be in 'proportion only as stock is previously more and more accumulated'. Mill has been sharply criticized for insisting that 'industry is limited by capital'; yet, properly understood, the proposition is a truism, and a truism which Adam Smith had anticipated. 'The quantity of industry', wrote the latter, 'not only increases in every country with the increase of the stock which employs it, but in consequence of that increase, the same quantity of industry produces a much greater quantity of goods'.[1]

Adam Smith's analysis of the nature and functions of capital has now become the commonplace of Economic Theory and need not therefore detain us at length. The general stock of any community naturally divides itself, he points out, into three portions, each of which has a

[1] Bk. II, Introd.

distinct function or office. The first is that portion which is reserved for immediate consumption and of which the characteristic is that it affords no revenue or profit. This portion cannot therefore be described as capital, though it is described by Adam Smith as 'stock'. It consists, for example, of private dwelling houses, household furniture, clothes, and various kinds of consumable stores. The second portion is the fixed capital; of which the characteristic is that 'it affords a revenue or profit without circulating or changing masters', and it consists of buildings, machinery, plant, permanent improvements of land, and also (as Adam Smith adds) of the acquired abilities and dexterities of the inhabitants in so far as these produce a revenue to the possessors. The third portion is the circulating capital of which the characteristic is that it affords a revenue only by circulating or changing masters, and is mainly made up of the provisions, materials, and finished work of all kinds that are in the hands of their respective dealers, and of the money by means of which these things are circulated and distributed to the ultimate consumers.

Banking

Of circulating capital money constitutes an important portion. That Adam Smith should have perceived this is not remarkable, but it is remarkable that, writing when he did, he should have been at pains to emphasize the important part played by banking institutions in the development of trade. This precocious perception he doubtless owed, as he owed much else, to the fact that he was a Scotchman. 'I have heard it asserted', he writes, 'that the trade of the city of Glasgow doubled in about fifteen years after the first erection of the banks there, and that the trade of Scotland has more than quadrupled since the first erection of the two public banks of Edinburgh' (1695 and 1727). Adam Smith is too cautious to ascribe the increase of trade in Scotland wholly to the provision of banking facilities, but 'that the banks have contributed a good deal to this increase cannot', he truly says, 'be doubted'.

Perhaps the only point in which Adam Smith betrays

the influence of contemporary opinion is the special importance which he attaches to capital employed in agriculture. His sojourn in France had brought him in contact with the French Physiocrats, and the influence of Quesnay and other leading economists of that school is apparent in much of the argument of the *Wealth of Nations*. Not least in the present connexion. 'No equal capital', he writes, 'puts into motion a greater quantity of productive labour than that of the farmer.... In agriculture Nature labours along with man.' Perhaps his relative indifference to foreign trade as compared with home trade may also to some extent be attributed to contemporary conditions. In the main, however, Adam Smith's whole treatment of the problem of capital is remarkable for its modernity of tone, and for its intelligent anticipation of the part which capital must play in a régime which only became strictly capitalistic long after Adam Smith's day.

J. S. Mill. Mill's *Principles of Political Economy* was published in 1848, a date which may be conveniently taken to indicate the close of that revolutionary period, the opening of which roughly coincided with the publication of Adam Smith's *Wealth of Nations*. Mill, therefore, was in a position to survey the industrial field from an entirely new standpoint. Yet as a fact Mill adds little to the understanding of the nature and function of capital derived from Adam Smith. His fundamental propositions regarding capital are, as we have already seen, truistic, where they are not paradoxical. Firstly: 'industry is limited by Capital'—a proposition on which he insists mainly in order to refute the idea that a government can directly create industry. Secondly, 'Capital is the result of saving.' Thirdly, that in order to reproduce itself 'Capital must be consumed'; and, finally, that 'a demand for commodities is not demand for labour'. These propositions have already been the subject of critical comment and we may therefore pass on to observe that notwithstanding the fact that Mill's economic theory was constructed in full view of the practical experience of the

industrial revolution, he is in some respects more remote from modern thought than Adam Smith himself. Nor is the reason far to seek. Mill wrote in a period of rapid economic transition. The great mechanical inventions had indeed revolutionized the arts of production, and were beginning to revolutionize the means of transport. But the results of the revolution were as yet almost entirely confined to Great Britain; the world at large had not yet passed into the grip of the new industrialism, nor had either commerce or finance become in the modern sense international. It is these things which have so vastly enlarged the power and function of capital. Moreover, Mill wrote nearly ten years before the passing of the Limited Liability Act, which has done more than any single piece of legislation to differentiate the function of the mere capitalist from that of the *entrepreneur* or director of industry. This, however, is a matter which will receive further attention when we pass from the problem of production to that of distribution.

Walker and Gide.

With the work of Walker and Gide we pass into an atmosphere wholly modern, and there is, therefore, nothing remarkable in the fact that they should be at pains to discriminate between the function of capital and that of direction, or should emphasize the importance of banking and credit. In dealing with capital, Gide draws a characteristic distinction between what he describes as 'productive capital', on the one hand, and 'lucrative' or 'rentable' capital on the other. But, since he very properly insists that the essence of capital is to produce a revenue, the distinction would seem to be economically, though not perhaps socially, superfluous. If capital produces a revenue, it must be in the broader sense productive; if it does not, it is difficult to understand how it can be described either as 'lucrative' or indeed as capital. The truth is that Gide, as is natural to a Frenchman, is much more impressed than an Englishman would be by the amount of capital in the hands of mere *rentiers* and still more by the inclination, common to the small investor in France, to confide his savings to

the Government rather than to embark them in industrial enterprises. The interest on Government loans may indeed be described as lucrative rather than productive. It produces a revenue to the investor without, as a rule, adding to the wealth of the community. It represents to the *rentier* a return on capital: but on capital which in a national balance sheet must be entered not as an asset but a debit.

Banking and production.

Both Gide and Walker, and in this they are merely typical of other economists of the modern school, lay great stress upon the place of banking as a contributory element in production. A bank may indeed be described without exaggeration as the nerve centre of the modern industrial system. By its operations mere wealth is transmuted into industrial capital. Into the bank there flow innumerable rivulets of wealth; and from it there issues a broad stream of capital which irrigates the vast field of industry. On the one hand it receives the deposits of its customers; on the other hand, in a variety of forms, but chiefly by means of short loans, it affords temporary accommodation to those of its clients who are engaged in industry and commerce. Some idea of the part which banking operations play in the industrial and commercial life of this country may be conveyed by recent statistics. The total amount of business done by the London banks is indicated by the returns of the clearing-house. These amounted in 1921 to no less a sum than £31,550,530,000. The country clearing-house returns amounted in the same year to £2,975,566,000. Manchester alone had local clearances amounting to £730,937,000, and Liverpool to £439,829,000. The total of 'paid-out capital and reserve' in the banks of the United Kingdom amounted in 1920 to £181,731,000, showing an increase of over £50,000,000 as compared with 1900, and this, despite the fact that the number of banks had decreased, in the same period (owing of course mainly to amalgamations), from 111 to 48. The notes in circulation increased in the same period from £45,623,000 to £187,106,000. The deposit and current accounts amounted to no less (in

1920) than £2,739,155,000, while the 'bills discounted and advances' reached the total of £1,684,716,000.

It is not suggested that the operations represented by these figures relate exclusively to industry or even to commerce. The totals are swollen by the financing of Stock Exchange and other transactions which, though ancillary to the conduct of modern trade and industry are not, in the strict sense, productive. The figures are here quoted merely as affording some rough indication of the immense and increasing part which banks play, in this country, in the development of industry and commerce.

Is English banking ultra-conservative?

Might they not legitimately play an even larger part? There are critics who answer this question with an emphatic affirmative; who maintain that English banking methods are hopelessly 'conservative'; that German banks have afforded facilities to German traders denied to their English competitors, and, in particular, that the policy of amalgamation and the consequent extinction of the private banks, locally directed by local proprietors, has tended to divert capital from industry to finance. That there may be some force in the latter contention it would be premature to deny. The rapid extension of the policy of amalgamation is so recent that it is not yet possible to pronounce with any positiveness upon its permanent effects upon trade. Moreover, it is true that German banks stand in a very different relation to German traders from that which English bankers, faithful to a long and conservative tradition, have thought it prudent to occupy. German banks are, in effect, sleeping partners in the concerns which they finance, sharing their responsibilities in a way and to an extent which no English banker of repute would sanction. But these are questions which would carry us too far into a detailed criticism of banking policy. It is sufficient for our immediate purpose to point to the part which under the modern industrial system banks play in the work of production.

Natural resources harnessed to the service of man; abundant and highly skilled labour; abundant, though not

over-abundant, capital, employed with a due admixture of prudence and courage; the whole system supervised and directed by men of high intellect, vast experience, and a spirit at once conservative and adventurous; these are the factors which contribute to an aggregate of wealth-production hitherto undreamed of in the history of mankind. Yet despite all this elaborate apparatus, despite an organization at once minute and wide-reaching, despite tabulated results which impress and indeed stagger the imagination even of trained statisticians and scientific observers, despite the fact that warehouses are filled to overflowing with the products of workshop and factory, that wharves are encumbered with commodities brought from and destined to every country in the world, there are millions of men, women, and children who even in normal times have never been much above the level of subsistence, while, in abnormal days like our own, there are millions who, unassisted by public or private charity, would fall below it. Carlyle, in Chartist times, was baffled by this paradox: 'England is full of wealth, of multifarious produce, supply for human wants in every kind; yet England is dying of inanition.... In the midst of plethoric plenty the people perish.' The riddle of the sphinx is still unanswered: the failure to answer it still gives vital interest to the problem of distribution.

BOOK III. THE PROBLEM OF DISTRIBUTION

CHAPTER VII

NATURE AND ORIGIN OF THE PROBLEM

'Friend, I do thee no wrong. . . . Take that thine is and go thy way: I will give unto this last even as unto thee.'—*St. Matthew*, xx. 13, 14.

'Christian opinion ought to condemn the belief that economic conditions are to be left to the action of material causes and mechanical laws.'—*Report of Lambeth Conference*, 1897.

'To whatever lower griefs the lower classes labour under, this bitterest and sorest grief now superadds itself: the unendurable conviction that they are unfairly dealt with, that their lot in this world is not founded on right. . . . Our grand question as to the condition of these working men would be: is it just?'—THOMAS CARLYLE, *Essay on Chartism* (1839).

'The wealth of the country, however divided, was insufficient before the war for a general high standard; there is nothing as yet to show that it will be greater in the future.'—PROFESSOR A. L. BOWLEY (1919).

'If we reflect that what is wrong with our economic life is less the unfair distribution of the product (for even if the whole product went to the employed their remuneration would not be greatly increased), and more the inadequate volume and the unsatisfactory organization of our production, we shall realize that our essential material need is an increase in the energy and the volume of production.'—PRINCIPAL ERNEST BARKER (1923).

The problem of distribution.

THUS far, attention has been concentrated upon the problem of production. Inevitably so, since that problem is primary and fundamental. One of the most eminent of contemporary statisticians has recently said: 'There is a great risk of disappointment and failure if there is an attempt to grasp the fruits of progress before the tree that might produce them has been cultivated.'[1] Professor Bowley's warning is not uncalled for. Ever since the industrial revolution the gaze of social reformers has been fixed upon the problem of distribution. Industrial

[1] *Division of the Product of Industry*, p. 97.

unrest has its deepest root in the widely prevalent belief that the present distribution of the product of industry is not in accord with justice. 'Why should the few have so much, and the many so little?' The question is asked with an insistence which, paradoxically it would seem, increases as the material condition of the manual workers improves. That poverty still presses hard on considerable classes is unfortunately true; but it is not among these classes, but among the relatively well-to-do, that complaints are loudest and most bitter.

Nor is the discontent among the latter wholly spontaneous: it is deliberately fomented, in some cases from the highest motives; in others from motives which to most people seem base and mischievous. There are those who honestly believe that discontent is 'Divine', and that it is morally wrong to permit people to acquiesce in a condition of things which seems to them to be the negation of justice and right. There are those, on the other hand, who, inspired merely by 'envy, hatred, and malice', seek to overturn the existing order of society, careless as to what may take its place. Divergent as are motives, the result is convergent: a ground-swell of discontent among the wage-earners of this country, rising at times into a violent storm. The discontent is naturally reflected in economic literature, with the result that economists have largely concentrated attention upon the problem of distribution. To a discussion of that problem, therefore, we now turn.

The division of the product.

The aggregate product of industry is distributed, under the economic conditions of to-day, among four classes: one portion goes to the owner of the land in the form of rent; a second as interest to the persons who supply capital; a third as wages to those who supply labour; and a fourth, in the form of profits, to those who provide the directing skill and take the risks of commercial or industrial enterprise. This basis of division is not entirely logical, still less are the several classes wholly distinct or self-contained; but for the moment the traditional formulae may be accepted.

Analysis of aggregate income.

The aggregate of the incomes of all the residents in the United Kingdom for the year 1911 (the last pre-war census year) was computed at £2,090,000,000, of which £194,000,000 being derived from abroad may be left out of account. The home income was therefore £1,896,000,000. Of this, £1,046,000,000, or 55 per cent, was *earned* by persons whose annual income was less than £160. This sum included £782,000,000 received in wages and £264,000,000 received by persons with salaries of less than £160, and independent workers, small employers, farmers, &c., whose income was similarly under the (then) limit of income-tax exemption. Adding to this £50,000,000 of investment income, annuities, &c., received by persons with less than £160; £12,000,000 paid in Old Age Pensions; about £20,000,000 paid to soldiers and sailors serving abroad; and £26,000,000 classified as 'agricultural income not otherwise included'; we get a total of £1,154,000,000 going to the poorer classes, i.e. to persons with earnings or 'means' of less than £160 a year. Of the remaining £742,000,000, £390,000,000 represents profits from professions and trades (Schedule D), and £130,000,000 salaries of persons with more than £160; £144,000,000 is derived from the ownership of buildings (including the land on which they stand); £34,000,000 from land (including farmhouses and their sites); £15,000,000 from the occupation of lands; £12,000,000 from Government securities, while £17,000,000 is accounted for as 'evading tax or unremitted'.

This aggregate income was shared among 45,220,000 persons, of whom about one-third (15,650,000) were wage-earners; about 1,700,000 were persons in receipt of salaries under £160 per annum, and about 1,200,000 were small shopkeepers, dressmakers, &c., who find their own customers.

Turning to the other end of the economic scale we find 1,150,000 persons liable to income-tax in 1911, a number which has now (1922) increased to about 2,500,000. The estimated number of persons chargeable to super-tax, i.e. with incomes over £5,000, was, in 1913–14, 13,580, while

in 1920–1 the number of persons chargeable, i.e. in receipt of incomes of over £2,000 a year, was 72,307. A further indication of the relative paucity of the 'well-to-do' is afforded by the fact that the number of private dwelling-houses of an annual value over £150 in London or over £100 in the rest of Great Britain was, in 1913–14, only 75,000—a figure significantly congruous with that of super-tax payers.[1]

These figures should supply a wholesome corrective to a great deal of idle talk, careless writing, and malicious propaganda; they may also serve to shorten the argument of the present chapter. What are the broad conclusions which they appear to establish?

The first is that 'the spendable wealth of the nation derived from home industry has been grossly exaggerated'. Dr. Bowley estimates that before the war the average net income of a family, derived from home industry, did not amount to more, for all classes, than £153, or £162 if income from abroad be included; and that 'on the extremest reckoning' not more than £200,000,000 to £250,000,000 out of home-produced income could have been spent by the rich or moderately well-off on anything of the nature of luxury. Supposing the whole of this sum to have been redistributed among the wage-earners it would not have much more than sufficed to bring the wages of adult men and women up to a minimum of 35*s.* 3*d.* weekly for a man and 20*s.* for a woman. This estimate, which, be it noted, is based on pre-war figures, is in substantial agreement with the more recent calculations of another eminent statistician — Sir Josiah Stamp. The latter, writing in 1921, estimated that if all incomes in excess of £250 a year were now pooled, the process, after making allowance for taxation and for the necessary upkeep of business capital—an allowance which

[1] Almost all the above figures are taken from Professor A. L. Bowley's invaluable essay, *The Division of the Product of Industry* (Clarendon Press, 1919), and are the result of minute and painstaking research. The few additional figures I have obtained from strictly official sources.

would equally have to be made if an individualistic system were superseded by collectivism—would result in an additional 5*s.* a week *per family*, for the first year, and about 2*s.* a week in subsequent years. And this is, presumably, on the supposition that the compulsory redistribution thus effected would not reduce the earning will or capacity of the community, but that the same energy and enterprise would be displayed by the captains of industry in order to provide an additional 2*s.* a week per family, as is now displayed under the powerful incentive of self-interest, and in the hope of securing, primarily for themselves or their families, an income in excess of £250 a year, and, incidentally for the community, the advantage of cheaper commodities and an extended area of employment.

Is one man's gain another's loss?

The last point should be emphasized. Heated discussions on the relative advantages of collectivism and individualism, even the more restrained and reasoned disquisitions on the problem of distribution, are apt to proceed on the assumption that a large income means a proportionate increase of self-indulgence, and that the laying up of riches is a benefit only to the nominal possessor. Thus a thoughtful essayist has recently written: 'When a man accumulates great wealth he does in fact appropriate to his own private use a disproportionate share of the good things the earth provides.'[1] A sentence more grotesquely untrue, or, let us say, more eloquent in *suggestio falsi*, it would be difficult to compose. For this reason, but much more because it re-echoes the thought at the back of the mind of many confused thinkers, it is worth while to examine it more closely. The suggestion that the 'earth provides' the good things obtained by great wealth may be passed over as merely rhetorical; though it belongs to a species of rhetoric which is intended to and does evoke prejudice; but the idea that the great wealth of one man necessarily involves the poverty of another, that one man's 'possessions' mean another's 'deprivations', is simply a mischievous fallacy. If success in

[1] *Competition, A Study in Human Motives* (various writers), Macmillan, 1917.

industry were of the same nature as a successful gamble on the turf the assumption would be true. One man's gain is another man's loss. But the same is not necessarily true even of successful speculation on the Stock Exchange. *A* subscribes for the ordinary shares of an industrial company; he sells them to *B* at a 50 per cent profit. They rise to 200 and *B* sells them at that price to *C*. Two men may have made a fortune out of them; but who is the loser by the series of transactions? *C*, the ultimate purchaser, may do even better out of them than *A* or *B*; but his gain is not their loss; or *C* may lose, but his loss is not to the advantage of *A* or *B*.

If this be true of a Stock Exchange transaction, much more is it true of industrial enterprise. The commercial genius of, say, a Leverhulme or a Joicey, may have brought great wealth to them: has it beggared or has it enriched their neighbours? Moreover, the proportion of their total wealth which they or any wealthy man can 'appropriate' in any strict sense to their 'own private use' is fractional. The use of language of this kind is as misleading as it is mischievous. To the ignorant, or even the unimaginative reader, it conjures up, and is intended to conjure up, the picture of Sir Gorgias Midas attended to the door by six flunkeys, selecting one of half a dozen motors awaiting his pleasure; of his lady covered with diamonds and cloaked in furs. Du Maurier's society pictures doubtless corresponded to the realities of his day, as those of his successors faithfully reflect a corner of post-war society with its vulgar and ostentatious profiteers. But although the Midasses and the profiteers are legitimate targets for social satire, and although society would be well rid of them, yet, in an economic sense, they are either negligible or advantageous.

Spending. The amount which Sir Gorgias can personally eat, drink, smoke, or otherwise 'consume' is strictly limited; as a rule, the successful men of business, like other successful men, live personal lives of great simplicity. In the aggregate the amount spent by the rich on 'luxury' may appear to the poor to be large, and, whatever it be, it is, of course, econo-

mically indefensible. It is, however, interesting and curious to observe that the ire of socialists is aroused less by the extravagant expenditure of the rich than by their failure or inability to spend their vast incomes. Thus the late Dr. Scott Holland wrote: 'The owner does not claim what is his own for the sake of using it. [The careful reader will note the ambiguity of the word 'using', by which is apparently meant in this connexion 'consuming' in a personal sense.] For indeed he owns far more than he can ever dream of using. The unhappy multi-millionaire cannot consume, through his own efforts, more than £10,000 a year, as one of them dolefully confessed.'[1] Similarly, Bishop C. Gore: 'Property in some sense is necessary for personality. That is certainly true. Let us therefore be careful to guard against any invasion of the real liberty of persons, let us maintain the right of property "for use".'[2] The late Mr. Keir Hardie was, it would seem, in substantial agreement with these eminent divines: 'A person does not require to be a Socialist to understand that if a disproportionate share of the wealth which is yearly produced by the industry of the nation is allowed to accumulate in the hands of families *to an extent far beyond their capacity to spend* trade must suffer to that extent.'[3] What precisely is the idea connoted by the words I have italicized? Clearly they suggest that if some people have more than they can 'use', wealth is by some malignant and mysterious process withdrawn from circulation. If people accumulate wealth 'beyond their capacity to spend' they must, we are to assume, put it away in an old stocking! But this is to do Mr. Hardie an injustice; there is an alternative: they may put it out to 'usury'. 'Trade', he said, 'is dependent upon the circulation of commodities, and when large sums are yearly extracted from the national income and put out to usury either at home or abroad, just to that extent is the spending power of the people crippled.'[3]

[1] *Property, Its Duties and Rights*, by various authors (Macmillan, 1913), p. 183.

[2] *Ibid.*, p. xviii.

[3] *A Labour Budget*, p. 14.

Mr. Keir Hardie, then, like Dr. Holland and Dr. Gore, has relatively little objection to a man having money so long as he can 'spend' it or 'use' it; but all concur in deprecating what the divines describe as 'property for power', what Mr. Hardie describes as putting out to usury. The economist, as will presently appear, regards the matter differently. To him it seems a matter of profound concern to the community, and in particular to the poor, that the 'spending' or 'use' of wealth should be severely restricted; that as large a proportion as possible of income should be saved or even 'put out to usury'; since they are aware that saving is only another form of spending, albeit a form of greater advantage to the community.[1]

The altruism of saving.

Meanwhile, it is not unimportant to observe that even in the course of the process of 'accumulating great wealth for himself' the millionaire has almost certainly not impoverished but enriched other people. This is not of course invariably the case. The speculator, the financier, the company promoter, does frequently enrich himself at other people's expense. This is morally reprehensible and is unfortunate for the dupes; but from the point of view of national prosperity it matters no more, if no less, than winnings and losses on the turf; nationally regarded it is almost in the nature of a book-keeping transaction. The banker will credit account 'A' and debit account 'B'; the nation is neither richer nor poorer. It may indeed happen that the successful promoter will employ his ill-gotten gains more productively than his hundred dupes would have done; on the other hand it may happen that the victims have withdrawn capital from a productive industry and that the 'promoter' goes off with their savings to Monte Carlo.

Speaking generally, however, the fortune of one means enhanced prosperity for many. This must inevitably be the case with the great captains of industry, by whose efforts wealth is transmuted into capital, a large proportion of which is 'fixed', and is represented by buildings, plant, machinery, &c. Capital, as Gide reminds us, is

[1] Cf. *infra*.

barren unless fructified by labour. This means that few investments will, except in public loans or other 'unproductive' undertakings, produce dividends for the investor unless labour be employed and helps to provide them; even the interest on public loans must indeed be drawn from taxes which must, in the long run, be paid out of the product of industry.

To that product, as we have seen, four economic classes contribute. What proportion of the product goes, in the shape of rent to the landlord; as interest to the capitalist; as profits to the employer; as wages to the employé? This is the problem of distribution—a problem which for the last hundred years has pre-eminently, if illogically, occupied the attention of economists and social reformers.

The genesis of the problem.

Until the close of the eighteenth century this problem had not become acute. A scanty population mainly engaged in supplying by their own labour their own modest needs; a wider diffusion of landowning; greater permanency of tenure; no sharp differentiation of economic functions; no clear-cut distinction between economic classes; relatively few people subsisting wholly upon weekly wages; much of the land unenclosed; no great industrial towns; foreign trade still on a small scale; few economic crises; a certain amount of vagrancy but no serious problem of unemployment—such had been the outstanding characteristics of the economic life of England for centuries prior to the industrial and agrarian revolutions (1780–1830). To the phenomena of that period attention has already been drawn. We are here concerned only with the effect of these revolutions upon the economic problem of distribution. From the agrarian revolution there emerged the agricultural economy which has remained characteristic of England from that day to this: the large landowner; the capitalist tenant-farmer; the landless wage-paid labourer. The industrial revolution gave birth to an urbanized, industrialized, and commercialized community: a land of big factories and warehouses, forges and collieries, with a vast volume of foreign trade. Just as the distance—

social and economic—increased between landlord and tenant, between farmer and labourer, so it increased between the mill-owner and his 'hands', between the commercial magnate, his clerks and warehousemen; in short, between the capitalist and the wage-earner.

Economic changes.

The widening social gulf intensified economic strife. That many of the new capitalists misused the power which the economic revolution had put into their hands cannot be denied. Labour—industrially unorganized and politically unrepresented—was at the mercy of 'capital', and 'capital' not infrequently showed itself merciless. If the teeth of the children are set on edge to-day, it is only fair to remember that their fathers ate sour grapes. Even sourer were the grapes which the children themselves had to eat in the early days of the factory system. The sufferings of the children, worked under insanitary conditions and cruel discipline for twelve to fifteen hours a day, compelled the intervention of the State, and a long series of Factory Acts was the valuable result. The curtailment of hours for women and children automatically restricted the working hours of the men; but wages still remained low, while many of the masters made big fortunes.

Political reform.

Meanwhile, great political changes were in progress. The Parliamentary Reform Act of 1832 bitterly disappointed the hopes of the working-men whose agitation had done much to secure its passing into law. The Act dethroned the territorialist, but only to put the hated capitalist in his place. The wage-earners came to their own in the Acts of 1867 and 1884, by which power was finally transferred from the middle classes to the manual workers. Political enfranchisement tended, however, rather to accentuate than to mitigate economic antagonism. The wage-earner, advanced to the dignity of citizenship, was less disposed than before to accept with contentment the share of the product of industry vouchsafed to him by the employer.

Trade-unionism.

Moreover, the spread of education rendered the artisan, if not more discontented, more articulate. If education

gave him power of expression, the legalization of trade unions, by the Acts of 1871–6, gave him the right to organize. Under the law as it existed at the beginning of the nineteenth century 'any artisan who organized a strike or joined a Trade Union was a criminal and liable on conviction to imprisonment; the strike was a crime, the Trade Union was an unlawful association'.[1] A Royal Commission reported in 1824 strongly against the then existing Combination Laws as both ineffective and mischievous, and by an Act of the same year they were repealed, both for men and for masters. The immediate consequences were so alarming that in 1825 the Legislature intervened and passed an Act by which the old law of conspiracy was reaffirmed but a limited right of combination was permitted. Trade unions thenceforward ceased to be necessarily criminal, though they remained non-legal associations. Consequently their funds, unprotected by the Friendly Societies Act of 1855, were at the mercy of any dishonest official. Nevertheless, trade unions multiplied amazingly between 1825 and 1860. A series of outrages committed by the members of these associations in Manchester, Sheffield, and other towns, in 1866, served to attract public attention to the new movement; a Royal Commission was appointed to investigate the matter, and on its Report the legislation of 1871–5 was largely based. The Acts of 1871 and 1875 not only 'emancipated' trade unions, but by mitigating the severity of the law of conspiracy in their favour placed them in a legally privileged position.

Politically the equal of his employer, endowed with at least a smattering of education, legally emancipated from the law of conspiracy, free to combine to effect an improvement in the conditions of labour, the wage-earner would have been more or less than human if he had not utilized the new weapons placed in his hands to obtain for himself the largest possible share of the joint product of industry.

[1] Dicey, *Law and Public Opinion*, p. 98.

Urbanization.

Many other things have combined to accentuate the problem of distribution and to stimulate the efforts of the wage-earner to adjust the balance in his own favour. The decay of the country-side has brought all classes into the towns; a desire for privacy is regarded as a relic of Victorian prudery; every one seeks to be in the limelight; the development of society journalism; the growth of the restaurant habit; the cultivation of the art of social advertisement; the increasing restlessness, which is partly the result and partly the cause of the rapid improvement in means of locomotion and communication—all these things have contributed to make the luxury of the relatively few more ostentatious and therefore more offensive than it formerly was. The workman is impelled to ask whether the wealth thus ostentatiously displayed has been rightfully earned by its possessors; whether the contribution which capital and brains make to the production of wealth is sufficient to justify the apparent disparity in its distribution.

What answer, if any, has Economics to give to this question?

CHAPTER VIII

RENT

PUBLIC OR PRIVATE OWNERSHIP OF LAND

'The profit of the earth is for all.'—*Eccles.* v. 9.

'The equal right of all men to the use of land is as clear as their equal right to breathe the air—it is a right proclaimed by the fact of their existence.'—HENRY GEORGE.

'Man has the best of claims to the land: that of having made it.'—MICHELET.

'If we once admit that rent can owe its origin to the expenditure of capital [on the improvement of the land] the sharp distinction between land given by Nature, and capital, the accumulated product of past labour, is hopelessly blurred.'—E. CANNAN, *Wealth*, pp. 170–1.

Rent: the Ricardian Theory.

THE revenue derived from an industry or a farm may under certain conditions, go, as we have seen, wholly to one person. In the case, for example, of a peasant proprietor cultivating his farm, unassisted by hired labour, no question of dividing this revenue can arise. But such conditions are, in modern societies, exceptional, and the product, or the profit derived from the sale of it, is generally distributed among four classes of persons: the landlord, the capitalist, the employer, and the employé.

It is with the share obtained by the landlord—technically known as *Rent*—that we are immediately concerned. Rent, according to the definition made classical by Ricardo, is 'that portion of the produce of the earth paid to the landlord for the use of the original and indestructible powers of the soil'. The amount of that share is determined by the value of the given portion of land, as compared with the value of the worst land under cultivation for the supply of the same market at the same time. There will, it is assumed, always be some land, the produce of which will only just pay the expenses of cultivation,—including the profit of the farmer, interest on capital, and

the wages of the labourers,—and the assumption is broadly correct. Such land is said to be on the 'margin of cultivation' and yields no rent. The margin of cultivation is, however, not fixed but variable, and the degree of variation is determined by the market value of the product.

Let it be assumed that the cost of cultivating an acre of wheat-land in England is £4, and that the current price of wheat is 5*s.* a bushel. Plainly it will just pay to cultivate land which will yield 16 bushels to the acre, and such land will be the 'margin'; 14 bushel land must, unless the farmer is prepared for a loss, go out of cultivation; 18 bushel land will on the contrary yield a rent of 2 bushels, or at the assumed price 10*s.* per acre. If the market price of wheat rises to 10*s.* a bushel it will obviously pay to bring into cultivation (assuming that expenses remain constant) land which will yield 8 bushels to the acre, while the rent of 18 bushel land will rise to 10 bushels or £5 an acre. If, on the other hand, the price of wheat falls to 2*s.* 6*d.* a bushel, 32 bushel land will become the margin of cultivation, and only exceptionally good land—land which will yield something in excess of 32 bushels to the acre, will afford a rent to the landlord.

Prices. The history of prices and rents in England goes far to justify the *a priori* conclusions of economic theory. The price of wheat shows, indeed, great variations from year to year, but over long periods of time remains so constant that rents for land let on lease were, in former days, frequently fixed not in terms of money, but of corn. Adam Smith says that the rents which have been reserved in corn have preserved their value much better than those which have been reserved in money.[1] During the Napoleonic Wars there was a rapid rise in prices and an equally rapid rise in rents. According to Porter,[2] rents showed in 1840 a general advance of over 100 per cent as compared with 1790. Essex

[1] 'By the 18th of Elizabeth it was enacted that a third of the rent of all College leases should be reserved in corn.'—*Wealth of Nations*, p. 14.

[2] *Progress of the Nation*, p. 186.

farms which in 1790 were rented at 10*s.* an acre were, in the early 'forties, paying 20*s.*, having in the meantime gone up to 45*s.* or 50*s.* In Berks and Wilts the net advance between the same dates was 114 per cent: from 14*s.* to 30*s.*, rents having, in the war, been up as high as 50*s.* The price of wheat never averaged less than 50*s.* a quarter between 1794 and 1840, except in the years 1822 when it dropped to 44*s.* 7*d.*, in 1834 when it was 46*s.* 2*d.*, and in 1836 when it was 48*s.* 6*d.* In 1800 it averaged 113*s.* 10*d.*, in 1801 119*s.* 6*d.*, and in 1812 126*s.* 6*d.* In the following year (1813) it touched 171*s.* a quarter, though the average price in that year was only 109*s.* 9*d.* Between 1840 and 1883 the price was fairly constant between 40*s.* and 55*s.* a quarter; but after 1883 the fall in wheat prices was rapid and practically continuous down to 1894 when wheat touched its bottom price of 17*s.* 6*d.* per quarter, averaging for the year only 22*s.* 10*d.* Rents followed prices. By 1890 the remissions granted by landlords amounted on the average to not less than thirty per cent, while in the wheat-growing districts they frequently reached seventy-five per cent. After 1895 wheat-prices began to rise slowly but steadily, until in 1909 they averaged 36*s.* 11*d.*, though they fell again to 32*s.* 8*d.* for 1911–13. In 1920 they averaged 80*s.* 10*d.*; in 1921, 71*s.* 6*d*; in 1922 they fell to 47*s.* 10*d.*

Rents.

In the two decades after 1875 the capital value of agricultural land in the United Kingdon fell by nearly fifty per cent,[1] and rents seem to have fallen in equal if not in greater proportion. It is not, however, easy to arrive at a precise estimate of agricultural rents. The gross value of lands in 1911 as revealed by Schedule A of the Income Tax Returns was £42,000,000 as against £59,311,323 in 1880, and the net rent paid by the farmers to landowners,

[1] The value of agricultural capital (not at all the same thing, of course, as the capital value of land) was estimated:

	1840	1922
In England	£1,938 millions	£1,686 millions
France	£1,743 ,,	£3,930 ,,
Germany	£630 ,,	£2,508 ,,

other than themselves, was estimated at £34,000,000.[1] Two points must, however, be borne in mind: that the rent of land as thus estimated includes buildings, and that a very large proportion of the 'rent',—at least 50 per cent, perhaps 70 per cent,—ought in fairness to be reckoned not as rent but as interest on capital actually expended in relatively recent years on permanent improvements. There are indeed those who affirm that in the Ricardian sense, no rent is to-day paid for the use of the original and indestructible powers of the soil.

Be this as it may, two deductions necessarily follow from the acceptance of the Ricardian formula: (1) rent is not a deduction from wages, nor is it (2) an addition to price. 'Corn', as Ricardo said, 'is not high because a rent is paid, but a rent is paid because corn is high.' If all agricultural rent was abolished by Act of Parliament to-morrow, the abolition would not affect the price of wheat nor the price of bread in any degree; nor would it necessarily react favourably upon the wages of agricultural labour. The farmers might, of course, out of their bounty pay higher wages or charge lower prices, but there is no economic reason why they should do either. The price of wheat is determined by the cost of growing that portion of the necessary supply which is grown under the most disadvantageous circumstances. Among these 'circumstances' the most important to-day is the cost of freight between Manitoba and Liverpool. The price of wheat in the English market is therefore determined not by anything which happens or does not happen in England, but by the conditions of production on the Canadian prairies and the cost of freight between Canada and England.

Prejudice against rent.

These facts supply the common ground for all serious students of the subject. Nevertheless popular prejudice against the system of private property in land and against the recognition of that property by the payment of rent unmistakably persists; nor does the prejudice lack

[1] Bowley, *op. cit.*, p. 14. This excludes land held by tenants whose income was under £160 a year.

a measure of support from ethical teachers. It is reflected in ancient law and in ancient literature. The Psalmist of Israel declared that 'The earth is the Lord's and the fulness thereof', the Sabbatical year testified to the conception of Jehovah as the only ultimate owner of the land as well as of its increase. Isaiah denounced the land monopolists: 'Woe unto those who join house to house, who add field to field, till there is no more room.' Nehemiah, after the return from exile, induced the rich nobles to restore to the people 'their lands, their vineyards, their olive-yards and their houses' as well as a small percentage of 'the money, the corn, the wine and the oil' that they had exacted from them.[1]

Passing to more recent days, we have Rousseau writing in his *Discours sur l'Origine de l'Inégalité parmi les Hommes*: 'The first man who, having enclosed a plot of ground took it into his head to say, "This is mine", was the true founder of civil society. What crimes, miseries and horrors might not have been spared to the human race had someone plucked up the stakes and filled the trenches and shouted to his fellows "Beware of listening to this impostor. You are lost if you forget that the earth belongs to no man, and that its fruits are for all".' Rousseau founded a school of which the best known modern disciple was Mr. Henry George. The whole argument of *Progress and Poverty* is founded upon the thesis originally maintained by Rousseau: 'The equal right of all men to the use of land is as clear as their equal right to breathe the air. It is a right proclaimed by the fact of their existence.' We may dismiss such language as nothing more than the rhetoric of pity; but the idea which underlies it is, as we have seen, singularly persistent. Private property in land is represented as being contrary to the 'Law of Nature', and to take rent for that which belongs equally to all men is regarded therefore as a particularly heinous form of robbery.

A detailed discussion of the metaphysical basis of the **Natural rights.**

[1] Nehemiah v. 11.

argument advanced by the Communistic School is beyond the scope of the present treatise. There is no general agreement as to what are 'Natural Rights', nor indeed whether they exist. 'We hear', writes Sir George Cornewall Lewis, 'of original rights, natural rights, indefeasible rights, inalienable rights, inherent rights, where there is no pretence of legislative sanction; indeed, the only object of using these names is to induce the legislature to convert these supposed rights into real rights by giving them the sanction of law. . . . In fact, however, these imprescriptible, inalienable, indefeasible rights, in most cases never have been rights, or if they have, long since were alienated and defeated by the Sovereign power. These various expressions have all taken their origin from the theory of the state of nature, and the social compact: but they are frequently used by persons who have never heard of this absurd and mischievous doctrine, and would perhaps reject it if they knew it. All that these persons mean is that in their opinion the claims which they call rights ought, in sound policy, to be sanctioned by law. It is the duty of such persons to show that sound policy requires what they require; but as this would require a process of reasoning, and as reasoning is often both hard to invent and to understand, they prefer begging the question at issue by employing some of the high-sounding phrases just mentioned.'[1] The appeal to natural rights may therefore be discarded.

The historical argument.

Is the appeal to history more valid? That Society originated in communism has frequently been asserted, but it has not been proved, and the weight of authority would seem to be decidedly opposed to the assertion. 'It appears to me', writes Coulanges, 'exceedingly rash to maintain that the Romans had at first a system of common ownership of land. Such a statement is not supported by any ancient authority.'[2] 'So far back as we can see, the German village', writes F. W. Maitland, 'had a solid core

[1] *Use and Abuse of Political Terms*, pp. 30–1.
[2] *Origin of Property in Land*, p. 105.

of individualism.'[1] And again, 'There is a sense in which English law may be said to have known a full ownership of land long before it knew a full ownership of chattels.'[2] Similarly, Sir Paul Vinogradoff: 'From the very first stages of the English occupation of the island, we have to reckon not merely with small landowners joining in townships on the share-holding system, but also with great landowners possessed of larger tracts of land, and utilizing them according to their wishes and nations.' Writing of ancient Babylonia, Professor Sayce says, 'The most common form of tenure seems to have been that in which a third of the produce went to the landowner.'[3] Of Russia, Ian St. Lewinsky writes: 'In European Russia village communities did not exist in the olden time; they originated and developed only out of private property, and since the sixteenth and seventeenth centuries.'[4] Plainly, it is impossible to found an argument for communism in land on primitive practice.

New countries.

It is, however, unnecessary to have recourse to black letter learning on this subject. Every one knows the conditions which obtain in undeveloped countries to-day. It is men who are in demand; land can be had for the asking: but the land so obtained is of little or no value till labour be expended upon it. Shall the right of property in the land be denied to the man who clears and drains it? To deny it contravenes one of the most ancient of codes, the Laws of Manu, which recites: 'The sages declare a field to belong to him who first cleared it, and a deer to him who first wounded it.' Similarly the French historian, Michelet, declared: 'Man has the best of claims to the land: that of having made it.' If the settler in a new country prefers, instead of 'making' the land himself, to purchase or hire land already 'made', he has no cause to complain, when he

[1] *Domesday Book and Beyond*, p. 346.
[2] *Ibid.*, p. 347.
[3] *Babylonians and Assyrians.*
[4] Quoted by Sir Thomas Whittaker, *Ownership, Tenure, and Taxation of Land*, p. 40—a valuable work by a lamented friend and colleague, to whom my obligations in these paragraphs are heavy.

is called upon to pay for the satisfaction of his preference. A choice, similar in kind though different in degree, is open to the agriculturist in a settled country. He can pay a minimum rent for a poor farm, or a higher rent for better land. In either case his rental, be it observed, includes the use of buildings and other permanent improvements, and in many cases is insufficient to return a moderate rate of interest upon the capital actually expended upon them.

Common sense and Economic theory would seem then to be not very far apart; nor does either diverge widely from Ethics. Nevertheless, the prejudice, quasi-ethical, quasi-economic, is very obstinate. Even Adam Smith, despite his judicial temperament and his unclouded sanity, looks askance upon the landlord as a monopolist and rent-grabber. 'In adjusting the terms of the lease, the landlord endeavours to leave [the tenant] no greater share of the produce than what is sufficient to keep up the stock from which he furnishes the seed, pays the labour, and purchases and maintains the cattle and other instruments of husbandry, together with the ordinary profits of farming stock in the neighbourhood. . . . Whatever part of the produce . . . is over and above this share he naturally endeavours to reserve to himself as the rent of his land. . . . The rent of land considered as the price paid for use of the land is naturally a monopoly price.' [1]

This is the gravamen of the charge: land is an object of universal desire; it is indispensable to life; above all, it is limited in amount. It commands, therefore, a monopoly price. The argument, however, applies in a degree not only to land, but to all private property. If there be any ground for differentiating between land and other forms of property it can only be a matter of degree and not of kind. Other kinds of property are, of course, less palpably limited in amount than the land, for example, of Great Britain, and there is perhaps no other kind of property the distribution of which has so direct and powerful an influence upon human character and national destinies.

[1] *Wealth of Nations*, p. 61.

J. S. Mill would discriminate against land on another ground. Private property, he argues, represents a guarantee to individuals of the fruits of their own labour, skill, and abstinence. Where wealth is provided by human industry, value is an indispensable condition to its existence—to its existence at least in greater quantity than suffices for the producer's own requirements; and the most obvious means of rendering this condition efficacious as a stimulus to industry is to recognize in the producer a right of property in the thing he has produced.[1] Land, not being the product of human labour, this apology for private property in general cannot apply in its integrity to this particular species of property. But is the premise sound? Locke argued on the contrary that although land itself is not the product of human labour, yet it is worthless until it is cleared and cultivated, and the valuable qualities of the land are therefore as much the product of human industry as any other commodity.[2] This is, indeed, admitted by Mill. Moreover, land is in this respect less differentiated from other kinds of wealth than Mill and the socialists are apt to assume. In the case of many other things beside land it is not easy to distinguish that portion of the existing value which is due to human labour and that portion which is the gratuitous gift of nature. Take a dwelling-house. The stone of which it is built, the timber which is employed in its construction, the slates with which it is covered—none of these things are wholly the product of human labour. In almost everything which possesses value, some portion, however minute, is attributable not to man but to the bounty of nature.

J. S. Mill on property in land.

Cairnes, therefore, would seem to be on stronger logical ground when he denies that the right to any species of property depends either upon natural law or upon the fact that it is the product of human labour.[3] If it is proper to recognize the right of the individual to wealth, it is not

The doctrine of social utility.

[1] Cf. *Principles*, Bk. II, c. ii, for full discussion.
[2] *Civil Government*, ii, § 27.
[3] *Essays in Political Economy*, p. 191.

because the individual has created it, but because considerations of expediency dictate the recognition of a legal right. In other words, the defence of private property must be based not upon natural right but upon grounds of social utility. On no other ground can the defence of private property be safely or logically based.

Ought we then on grounds of social utility to discriminate between land and other forms of property. 'The claim of the landowners to the land', writes J. S. Mill, 'is altogether subordinate to the general policy of the State.'[1] That is true; but may not a similar proposition be maintained in regard to all property? Is not the claim to all property 'subordinate to the general policy of the State'? It is not easy to deny it. Yet it is equally undeniable that popular instinct, to say nothing of scientific analysis, does favour some discrimination, though discrimination can, we repeat, only be a matter of degree and not of kind.

The taxation of rent.

If the right of private property in land be denied, it cannot be maintained in regard to any other form of property. Nevertheless, considerations of social utility may require that the exercise of the right shall be subject to greater limitations in the one case than in the other. It is frequently urged, for example, that the taxation of rent may be specially justified on the ground that the value of land tends to increase without the expenditure of labour or the exercise of abstinence on the part of the owner. This argument was strongly urged by Mill. 'Suppose', he writes, 'that there is a kind of income which constantly tends to increase without any exertion or sacrifice on the part of the owners; those owners constituting classes in the community whom the natural course of things progressively enriches consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded if the State should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking

[1] II, ii, § 6.

anything from anybody; it would merely be applying an accession of wealth created by circumstances to the benefit of Society instead of allowing it to become an unearned appendage to the riches of a particular class. Now this is actually the case with rent.' Mill accordingly proposed that the State should absorb what he described as the 'unearned increment'. All land was to be valued, and the present value of all land should be exempt from the tax, but after an interval had elapsed a rough estimate was to be made 'of the spontaneous increase which had accrued to rent since the valuation was made'. Care was to be taken not to touch any increase of income which might be the result of capital expended or industry exerted by the proprietor, but subject to these precautions Mill saw no objection 'to declaring that the future increment of rent should be liable to special taxation'.

'Unearned increment.'

As regards agricultural land, recent experience has, as we have seen, belied Mill's anticipation of a progressive increase of value. On the general question two considerations may, moreover, be urged. If the State claims the right to absorb unearned increment, can it divest itself of the responsibility to compensate in the case of depreciation due not to the fault of the owner, but to a change in economic conditions? Nor is land the only form of wealth which may increase without exertion on the part of the owner. If landlords 'grow richer, as it were, in their sleep, without working, risking, or economizing', is not the same true of investors in other securities? Suppose, for example, that in the year 1871—the date of the last edition of the *Principles* revised by Mill himself—one investor had purchased land to the value of £10,000, and a second investor had put the same amount into Consols, what would have been their respective positions a quarter of a century afterwards? The investor in agricultural land, so far from finding himself in possession of an unearned increment, would have found his capital decreased at least 30 per cent. The investor in Consols would have found his capital increased by an increment, at least equally

unearned, approaching a like amount. On what grounds of abstract justice or social utility could the latter have been exempted from a tax which it was proposed to levy on the former?

Urban rent.

Thus far we have considered only the case of agricultural land, and the rents arising therefrom. There are, however, other kinds of rent: that derived from urban lands, and that which is collected in the form of mining royalties. If there be any validity in the argument in favour of the doctrine of the unearned increment as applied to agricultural land, it certainly applies in far greater degree to building land in urban districts. Nor have economists been slow to emphasize the distinction. Adam Smith, for example, gave his approval to the special taxation of ground-rents as 'a more proper subject of peculiar taxation' than either the rent of houses or the ordinary rent of agricultural land. 'A tax upon ground-rents', he wrote, 'would not raise the rent of houses; it would fall altogether upon the owner of the ground-rent who acts always as a monopolist and exacts the greatest rent that can be got for the use of his ground. . . . The ordinary rent of land is in many cases owing partly at least to the attention and good management of the landlord. A very heavy tax might discourage too much this attention and good management. Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government or the Sovereign which, by protecting the industry either of the whole people or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon, or to make to its owner so much more than compensation for the loss which he might sustain by this use of it. Nothing can be more reasonable than that a fund which owes its existence to the good government of the State should be taxed peculiarly or should contribute something more than the greater part of other funds towards the support of that government.'[1]

Taxation of ground-rents.

Mill cordially agreed with Adam Smith: 'Among the

[1] *Wealth of Nations*, Bk. V, ch. ii.

very few kinds of income which are fit subjects for peculiar taxation, these ground-rents hold the principal place.' Nor does Gide dissent: 'Building grounds situated in towns acquire fantastic surplus values and allow their owners to charge rents, limited only by the capacity of tenants to pay. There is no other value in the world in the original making of which the labour of man is so utterly lacking, nor on the other hand where the action of social causes is so clearly at work.'[1]

The return from the Inland Revenue Report (1920) shows a total revenue from houses, messuages, tenements, etc., of £237,515,365, but this total does not discriminate between the value of the buildings and that of the land on which they are erected. As a fact, in the majority of dwelling-houses, the ground-rent represents only a small proportion of the annual value. But the defence of property in urban land can be based only on two general grounds. The first is, that if on broad considerations of social utility it is advisable to recognize the principle of private property, it is neither expedient nor, in the long run, just to discriminate between different forms of investment or of property. Ground-rents, for example, are held not only in large amounts by rich men, but in very small amounts by poor men. In some parts of England, notably in Lancashire, 'chief rents', as they are locally termed, are regarded as one of the most convenient forms of small investment. To impose upon such investments a tax not imposed, for instance, on Consols would be an act of grave social injustice, and it may be more expedient to allow the wealthy urban landowner to escape exceptional taxation than to impose it upon the small investor. The second consideration applies more particularly to the taxation of agricultural land. It lies in the danger that any discriminating taxation may have social and economic results precisely contrary to those which are intended. 'If', wrote the late Professor Fawcett, 'we have associated with the ownership of land any disability or disadvantage which does not

[1] *Op. cit.*, p. 540.

belong to other kinds of property, a direct discouragement is offered to the investment of capital in the improvement of the soil, whereas, what above all things should be striven after, is to promote the free flow of capital to agriculture.' It is necessary, therefore, to proceed with the utmost caution, less from motives of tenderness towards the claims of individual owners of landed property than from a just appreciation of the best interests of the community.

Mining royalties.

The question of mining royalties, which are in effect a species of ground-rent, may be more briefly dismissed. In the aggregate cost of coal-production royalties form a very small item. In 1913 the aggregate cost of production was 9*s.* 5½*d.* per ton, made up as follows: wages, 6*s.* 10½*d.*; timber and stores, 1*s.* 1*d.*; other costs, 1*s.*; royalties, 6*d.* In January 1921 the aggregate cost was 40*s.* 5·43*d.*, of which wages amounted to 31*s.* 7·01*d.*, while royalties accounted for 7·80*d.* One of the Reports of the Coal Industry (Sankey) Commission estimated that royalties (including wayleaves) amounted in 1913 to 5 per cent of the selling value at the pithead, and in 1918 to about 2½ per cent of that value, but all the Reports, otherwise discordant, concurred in the recommendation that the State should acquire, on payment of fair compensation, the ownership of the minerals.[1] Against such acquisition, provided the compensation be just, no valid reason, either economic or ethical, can be urged. The question still remains, however, whether the transference of the ownership to the State would be of any benefit either to the State, or to the industry, or to the miners.

Plainly the question is fundamental. If the prejudice against rent be valid; if we must abandon either on grounds of natural right or social utility the principle of private property in land and the products of nature, what form of economic organization shall be substituted for it? Broadly, the only alternative is some form of nationalization, or public ownership.

[1] Cmd. 210 (1919).

The single tax.

Henry George and his disciples preferred indeed the method of a single tax on land values to that of nationalization. They proposed to confiscate only the economic rent by means of a tax of 20*s.* in the pound, leaving the landlords in undisputed possession of the improvements effected by them or their predecessors in title. The single tax was advocated not merely as a measure of social justice but as a means of superseding all other forms of taxation, imperial and local alike. Even before the war the demands of the tax-gatherer and rate-collector amounted to more than £360,000,000 a year. A tax of 20*s.* in the pound on land values, urban and rural, including sporting rents, rents from mines, and various miscellaneous items, could not at that time have yielded more than £100,000,000 a year. That amount would, moreover, have included a considerable sum which, so far from being a tax on land values, would have been in reality a tax upon the interest of capital actually sunk in permanent improvements. The conclusive objection to the single tax is, however, that even in the pre-war period the yield would have been wholly inadequate to fulfil the purpose ascribed to it. Still less would it suffice to-day. The single taxer may therefore be ignored.

Land nationalization.

There remains to be considered the argument in favour of complete nationalization. This process might be effected in either of two ways: either by confiscation or by purchase. The way of confiscation cannot be considered. It finds no place in the Bill for land nationalization introduced by the Labour Party in 1921. That Bill proposed to abolish private property in land and to transfer all land in Great Britain, which is not already the property of the Crown or of any public authority, to a newly created ministry of land. But it was specifically provided that compensation should be paid to owners in the form of 5 per cent National Land Stock, redeemable at par after thirty years. The amount of stock paid to each owner was to be 'such as would provide an annual income equal to the present net letting value of the land transferred, such value

being calculated as the reasonable rent of the land for the purposes for which it was used at the time of the transfer.'

To such a proposal no objection can be offered on the score of probity. If the community deliberately decides that it is in the common interest that the ownership of minerals or land should be vested in the State, there is no moral reason against the transfer—always assuming that the compensation is just. But how stands the economic argument? What advantage, social or economic, will accrue to any of the parties concerned? The owner need not be further considered. He may suffer in sentiment, but the feelings of individuals must not count against the common good; in pocket, it is assumed he is not to be damnified, and for any loss of amenities he must, of course, be compensated by the purchasing State, just as a railway company has to pay if it carries a line through a private garden. For the community the transaction would be in the nature of a speculation. If nationalization had been carried out, say in 1870, or when the collectivist doctrine was *in excelsis* in 1919, the speculation would have been a bad one for the State, as it has been for tenants who have lately purchased their farms. Still, if the community wishes to embark in speculation, there is nothing to prevent it: but, unless there are great social or political advantages to be gained, the presumption is decidedly against the adventure. The State is in the position of a trustee, and of a trustee who is peculiarly susceptible to pressure. No prudent trustee speculates, even if the terms of the trust permit.

Position of the Cultivators.

Let it be assumed, however, that the community has decided to take the risk. There still remain to be considered two parties: the cultivators and the consumers. The State, having acquired the ownership of the soil, might decide also to work it; or, alternatively, to lease it out, more or less as at present. In the former case farmers and labourers would alike be superseded by an agricultural civil service, or would perhaps be transformed (if equalitarian principles permitted) into upper division and lower

division employés respectively. Whether the transformation would bring them any material advantage would probably depend, in large measure, upon the complaisance of the general body of tax-payers and their willingness to make up the periodic deficits upon the agricultural service. If that service were conducted on strictly business lines it is in the last degree unlikely that the cultivators, whether 'inspectors' or manual workers, would be any better off than at present—except on one hypothesis. The State might, in the interests of its Agricultural Department, impose protective duties upon imported food-stuffs. It might then pay preferential wages and salaries to its employés, and at the same time balance its accounts. Otherwise, the possibility of either result would be highly problematical.

Methods of nationalization.

But what, then, of the consumer? Before considering his position we must glance at the alternative method. The State might simply step into the shoes of the existing landlords and lease the land to farmers, who would cultivate it as at present with the aid of hired labour. What advantage would the change bring to either class? The farmer would have to deal with a State official instead of with a landlord or an agent; that would be all. If the rent charged was an economic one, the farmer could be no better off than at present, and would probably be much worse. Flexibility and elasticity are not the appropriate characteristics of government officials: 'humanity' in business relations would be a betrayal of trust. If the official did his duty, the last state of the farmer in bad times would be worse than the first. Nor could the State, under the assumed circumstances, interfere, more than it can now, in regard to agricultural wages.

There is, however, another method. The State might reduce rents below the economic level, and at the same time dictate the rate of wages. In that case the taxpayer would suffer, either in his capacity as taxpayer or in that of consumer: probably in both. The farmer would not suffer; but neither would he gain. If, on the other hand, rents were reduced without reference to the rate of wages,

the tenant would be placed in a privileged position. The applicants for farms would far exceed the supply. How would the privileged class be selected? If otherwise than by lot the 'Honours scandal' would pale in comparison with the scandal that would ensue. If by lot, the land and the consumer might suffer.

Position of the Consumer.

The consumer would, in any event, stand little chance of benefit. High protection is the natural complement and corollary of collectivism. Collectivists may ignore this obvious truth, but they would quite certainly be enlightened in no long time by the logic of facts. If the land were nationalized, the State would inevitably find itself on the horns of this dilemma: either it would have to lower rents and consequently (if its accounts were honestly kept) show a deficit on its investment; or it would have to impose substantial protective duties on food-stuffs, and thus penalize the general body of consumers. As things are, landlords, farmers, and agricultural labourers must take their chances with other citizens. State purchase would mean either preference to a particular class, or a fine upon the community at large.

Nationalization of minerals.

Urban land and minerals may be thought to stand in a somewhat different position from agricultural land. There is admittedly a difference of degree. Is there a difference in kind? Except on the broadest ground of the inexpediency of interference with private property it is not easy to controvert the unanimous finding of the Royal Commission presided over by Mr. Justice Sankey.[1] If we were establishing a new State in a new country it might be a reasonable precaution to reserve the right to minerals, although, as a fact, new countries generally respect the rights of prospectors and discoverers. Nor is their motive obscure. It is believed to be for the interest of the community that mines should be discovered; prospecting involves both skill and capital, and the simplest and perhaps the cheapest way of encouraging such enterprise is to allow the discoverer to reap the reward of combined

[1] *Supra*, p. 120.

luck and perseverance. Luck cannot be eliminated from business any more than from life. The taking of risks is essential to industrial progress. Who will take them, if the 'bank' always wins: if the State, while refusing to endow experiment, claims all the rewards of success?

Urban land.

Similar considerations apply to the problem of urban land. If a state could foresee, from its foundation, the precise direction which industrial development would take, it might be wise to retain the fee simple of all the land, and grant concessions to individual citizens only in the form of leases. Modern municipalities have often been blamed for not exhibiting greater foresight and courage in regard to town-planning and the purchase of building sites. But even private speculators make mistakes; is there any reason to suppose that Local Authorities or even Central Departments would be exempt from them? It is, of course, tantalizing to witness the apparently disproportionate reward of mere luck; the failures, some of which may or may not have contributed to ultimate success, are commonly ignored.

Conclusion.

We conclude, then, that, under ordinary circumstances and under the conditions of the modern State, the common interest dictates respect for the legal rights appertaining to private property in land. The rights of individuals cannot indeed be permitted to obstruct the evident advantage of the community; but, if it be deemed necessary or desirable to expropriate them, just compensation must be made. If individuals or the State desire only to enjoy the temporary usufruct of land it is just and expedient that rent should be paid for the enjoyment. In the case of agricultural land so leased the rent will, under normal conditions of free competition, be determined on the one hand by the relative quality and convenience of the land, on the other by the market price of the produce. Economic history confirms the truth of the Ricardian theory. In the case of urban land, the value or rent is determined, under parallel conditions, solely by the ratio between supply and demand. The bargain struck may turn out to the advantage of the lessor or of

the lessee. The growth of industry and the consequent development of towns have, generally speaking, tended to the advantage of urban landlords; but not invariably. Fashion is capricious; neighbourhoods 'decay'; industry deserts particular localities. Envy advertises the prizes, the blanks and the losses are forgotten. Equity will endeavour to strike a balance; practical policy will be dictated by expediency. The system of private property, with its corollaries, possesses unquestionable drawbacks, and in times of civil commotion has contributed to the prevailing unrest, but the deliberate judgment of civilized mankind has hitherto decreed that the advantages of that system on the whole outweigh the drawbacks, and has consequently resolved that even though it may be increasingly necessary to limit its application, the principle shall, in the common interest, be maintained.

CHAPTER IX

THE PRICE OF CAPITAL

'Interest is the compensation paid for the use of capital.'—FRANCIS A. WALKER.

'As something can everywhere be made by the use of money, something ought everywhere to be paid for the use of it.'—ADAM SMITH.

'Lend, hoping for nothing again.'—*St. Luke* vi. 35.

'To wish, like the usurer, to live without labour, is contrary to nature.'—GERSON, *de Contract.*

'Interest is the price of time.'—GIDE.

'If thou lend money to any of My people that is poor, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury.'—*Exodus* xxii. 25.

'Thou shalt not lend money upon usury to thy brother.'—*Deut.* xxiii. 19.

'God has allowed sale; but forbidden usury.'—*The Koran.*

Interest.

LAND is sometimes cultivated or otherwise utilized for profit-making by the owner. More commonly, especially in England, it is hired for these purposes from the owner by the actual cultivator or business man. Consequently *Rent* emerges clearly as a charge upon the gross profits of agriculture or industry. As to *Profits*, also, there can be little risk of failure to discriminate. Every one who engages in business hopes to make profits. If it is a one-man business his 'profits' include and often conceal the wages of labour: his own labour and perhaps that of a wife or children. Much more often 'profits' include and conceal another element: interest on capital. We may, therefore, resolve gross profits into three parts: payment for land-rent; payment for capital (including insurance against the loss of it)—interest; and the reward of skill, or in Mill's phrase 'the wages of superintendence'.

Of these elements interest—the remuneration of capital—is in a sense the most subtle and is certainly the most apt to be ignored. But, since capital is essential to production and to commerce, every business great or small ought to charge itself with something for the remuneration, and, in many cases, also for the repayment, of capital. The itinerant hawker, if he possesses a barrow or trolley, is to that extent a capitalist and for the wholesale purchase of his wares must rely upon his own capital or that of a creditor. For the capital thus employed interest should always be reckoned, and will generally have to be paid.

Prejudice against 'usury'.

This being so, it is the more remarkable that there should ever have existed, still more that there should still in some quarters exist, a prejudice or scruple against the taking of interest. Yet the fact remains, and though unreasonable is not inexplicable. Capitalists—the providers of one of the essential factors in industry—are, as a separate economic class, the product of recent industrial developments. In the Middle Ages the synonym for a money-lender was a usurer; in popular parlance it still is. The dictionary definition of a usurer is 'one who lends money at exorbitant interest', and many States have attempted by legislation to prevent the practice of usury. The mediaeval Church went much further and used all its influence to prohibit absolutely the taking of interest. It was a natural deduction from the patristic teaching on the subject of property, and appeared to have behind it the direct authority alike of Aristotle and of the Gospels. Aristotle, while rejecting the system of Platonic communism, was rigid in his views upon money and trade, and of all forms of money-making he regarded the lending of money at interest as the most hateful. 'The most hated sort of trade, and with the greatest reason, is usury, which makes a gain out of money itself and not from the natural use of it. For money was intended to be used as a medium of exchange, but not to increase at interest. And this term usury (τόκος) which means the birth of money from money, is applied to the breeding of money. . . . Of all

modes of making money this is the most unnatural.'[1] 'Lend, hoping for nothing again' was the injunction of Christ. St. Clement taught that 'the use of all that is in the world ought to be common to all men'; St. Basil that 'the harshest form of covetousness is not even to give things perishable to those who need them'. How then could the lending of money at interest be otherwise than sinful?

The prohibition of interest was at first a disciplinary regulation binding only on the clergy. The Council of Nicaea (A. D. 325) forbade the clergy to take interest on pain of degradation from their clerical office. The prohibition was extended to the laity by the Capitularies of Charles the Great and the Councils of the ninth century. This was in direct conflict with Roman Law which not only permitted loans on interest but provided means for enforcing repayment of capital as well as payment of interest. Probably it was the revived study of Roman Law in the twelfth century which led the Lateran Council of 1179 to ordain that 'manifest usurers shall not be admitted to Communion, nor, if they die in their sin receive Christian burial'. Thus far, as Sir William Ashley[2] observes 'none but spiritual penalties had been threatened against usurers', but Gregory X, in 1274, forbade anyone to let lands or houses to 'foreign' usurers, and ordained that the wills of unrepentant usurers, of usurers who died without making restitution, should be invalid, while in 1311, Clement V ordained that any corporation or individual permitting usury should incur sentence of excommunication.

Legislative restrictions upon interest.

From the fourteenth century, secular legislation began to follow the example of ecclesiastical, but the effort came too late. With the growth in the sixteenth century of foreign trade and the commercialization of agriculture, it was manifestly impossible to maintain the principle of pro-

[1] *Politics* I. x. 5.

[2] The whole subject is admirably treated by him in *Economic History*, vol. i, c. iii.

hibition. The mediaeval doctrine was explained and perhaps justified by the self-sufficiency of the economic system; by the fact that opportunities for the productive investment of capital were exceptional; though less exceptional, perhaps, than has been commonly assumed;[1] by the fact that men as a rule borrowed money, not for the purpose of employing it in trade, but to supply their urgent personal necessities. To charge interest on such loans was regarded as an attempt to take advantage of a brother's misfortune. The Jew might exploit the Christian; for Christian to deal thus with Christian was anathema.

The sinfulness of usury was not, however, confined to the taking of interest; it applied, logically enough, to all transactions in which one man's gain was purchased at the expense of another's loss: in fine, trading in money differed only in degree from other forms of trading *for profit*. Barter was legitimate, since the convenience might be mutual, but exchanges effected through the medium of money incurred the censure of the Canonists.

'Usury' or 'Interest'.

With the advent of the sixteenth century we pass into a new economic atmosphere. The enlargement of the known boundaries of the world; the decline of the œcumenical authority of the Roman Pontiff; the growth of nationalism; the development of international trade; the break-up of the manorial system; the decay of the gilds—all these contributed something to the change of outlook. It was not, however, until the coming of the industrial era in the last years of the eighteenth century that economic theory declared boldly in favour of free trade in money.

State policy in regard to usury.

The State had already found it prudent to substitute the policy of regulation for that of prohibition. A statute of 1545 confessed that statutes against usury had been 'of little force and effect', but though repealing them,

[1] For evidence in support of the qualification suggested in the text, cf. Lipson (*Economic History*, p. 528), who quotes an ordinance of the Leicester Gild (*Records of Leicester*, i. 91): 'it was agreed by the community of the gild that all who are in this gild . . . shall be able to share profits with all from whom they shall have borrowed money, to the half, the third or the fourth part of the profit, as shall best be arranged between the lenders and borrowers.'

it declared all interest above 10 per cent to be unlawful. Edward VI repealed this Act in 1552 and again prohibited all interest, but Elizabeth, in accord with the enlightened economic policy of Burghley, re-enacted the Statute of Henry VIII in 1571, and 10 per cent continued to be the legal maximum until in 1624 James I reduced it to 8. Soon after the Restoration it was further reduced to 6 and by the 12th of Queen Anne to 5 per cent. The price of money fell so rapidly in the first half of the eighteenth century that in 1750 Henry Pelham was able to convert £54,413,433 of National Debt from 4 per cent to (ultimately) 3 per cent and Adam Smith says that even private citizens 'of good credit' were at that time able to borrow at 3½, 4, and 4½ per cent.

Adam Smith on interest.

Adam Smith, though approving of interest on the common-sense ground that 'as something can everywhere be made by the use of money, something ought everywhere to be paid for the use of it' (Bk. ii, ch. iv), and while admitting that prohibition 'instead of preventing, has been found from experience to increase the evil of usury', nevertheless endorsed the policy of regulation. In his opinion the legal maximum 'though it ought to be somewhat above ought not to be much above the lowest market rate'. Otherwise only 'prodigals and projectors' would borrow money. J. S. Mill ruthlessly exposed the fallacy of this timid reasoning, and, sustained by the authority of Jeremy Bentham, urged the total repeal of all regulative legislation. 'No man of ripe years and sound mind, acting freely and with his eyes open ought to be hindered . . . from making such bargain in the way of obtaining money, as he thinks fit.' So Bentham had argued in his *Letters on Usury*, published in 1816. Nevertheless, though, bit by bit, regulation was relaxed, it was not until 1854 that the principle of *laissez-faire* was adopted in its entirety by the Legislature.[1]

The policy of the modern State.

Nor was it sustained. In this, as in other spheres, the

[1] Denmark followed the lead of England in 1855, and Spain, Holland, Norway, Belgium, and other countries shortly afterwards.

triumph of *laissez-faire* was short lived. The last two decades of the nineteenth century witnessed the enactment of laws against 'usurious' interest in Germany, Austria, Switzerland, and other countries, and in 1900 the English Legislature passed the Money-lender's Act, proving in Dicey's opinion, that 'the almost irrebuttable presumption against the usury laws which was created by the reasoning of Bentham has lost its hold over men who have never taken the pains or shown the ability to confute Bentham's arguments'.[1]

France. French law draws a distinction between industrial or commercial loans, when the loan is presumed to be productive and also risky, and *civil* loans, i. e. mortgages or loans for consumption. In the latter case there is a maximum limit of 5 per cent. This limitation is justified by M. Gide who, while admitting that 'it is no longer the needy who borrow from the rich', but the 'rich and powerful who borrow from . . . the savings of the populace, from the peasant's stocking', and that it is the latter who now stand in need of protection, nevertheless insists, with seeming lack of consistency, that 'it is no more of a contradiction to allow liberty as regards the rate of interest, while punishing those who make a profession of lending at a high rate, than it is to allow consumers liberty to drink, while punishing publicans who supply drunken men.'[2]

There is, however, general agreement among economists that the taking of interest is an indispensable and justifiable adjunct of modern industrial development, though the theologians are anxious that the rate should be a 'fair' rate,[3] while the socialists hold that no rate can be fair since all interest is a deduction from the rightful claim of the labourer to the whole product of industry.

What determines the rate of interest? What is a 'fair' rate? Before attempting to answer that question, it would seem desirable to investigate the causes which determine the actual rate.

Interest, be it repeated, is simply the remuneration

[1] *Law and Public Opinion*, p. 33. *Op. cit.*, pp. 556 and 561.
[3] *Archbishop's Report*, p. 106.

earned by capital, and is to be carefully distinguished from 'profits', the earnings of management, though, in practice, it is frequently included in them. The socialist raises the preliminary question why *any* interest should be paid on money? The answer is that industrial interest is not paid on money, but represents a quasi-rent for goods lent. Aristotle has misled countless generations by his verbal objection that money does not breed money, and that interest, therefore, is unnatural. In the modern industrial system it is in reality commodities which breed commodities: money is merely the token of the transaction.

Variations in the rate.

The rate of interest varies, however, from time to time, from place to place, from business to business. That being so, the reasons for the variation should go far to answer the question under investigation. At any given time, in any particular country the rate of interest should tend to equality in different employments, and but for one element in 'interest' it would and does. Yet, if we take any given business conducted on the joint-stock principle we shall probably find that to three classes of capitalists three different rates of interest are paid: to the debenture holders a fixed rate of, say, 6 per cent; to preference shareholders a fixed rate of 7–8 per cent; to 'ordinary' or deferred shareholders a rate which may vary from year to year. The third class are really the owners of the concern and their remuneration includes 'profits' as well as 'pure interest'. The other two classes receive 'interest', but in each case there is an element of insurance against the risk of loss of capital. Eliminate all risk and the rate of debenture interest would not exceed that paid by the State or by a municipality for loans. As a fact the rate of interest obtainable to-day (January 1923) on the debenture of a first-rate English railway company is not much higher than that on Consols, and is less than that on redeemable War Loan.[1] A first-rate industrial debenture returns about

[1] Consols (2½ per cent) stood at 55 (showing 4½ per cent); 5 per cent War Loan (1929–47) at par; Great Western 5 per cent Debentures at 102–5.

5½–6½ per cent: a good preferential stock, with rather less security, 1 to 1½ per cent more: the ordinary stock taking all the risks may return much more or much less. Given equal security the rate of pure interest would tend to equality. Such difference as there is represents insurance. The same consideration accounts for variations between the prevailing rate in one country and another: the rate in Turkey or Persia or Russia, for example, is much above that in London or New York. But it does not account for variations between one period and another.

The history of interest in England.

From the sixteenth century to the middle of the eighteenth the legal maximum of interest, as we have seen, was gradually reduced in accord with the steady decline in the market rate. Almost continuous war, and the increasingly large loans which the State was compelled to raise, naturally depressed public credit and consequently induced a rise in the current rate of interest as the eighteenth century progressed. Thus the average price of 3 per cent Consols from 1761 to 1780 was 82·1; from 1781 to 1800 was 67·2 (the minimum touched during that period being 47 in 1797); and from 1801 to 1820 it was 64·9. From the Peace of 1815 until nearly the close of the century the general tendency of the rate of interest was downward, but the movement was not quite continuous. From 1815 to 1845 interest was falling; rising from 1845 to 1872; falling again from 1872 to 1879. In 1897 Consols (then 2½ per cent) touched the maximum price of 113⅞. Manchester Corporation 3 per cent stock, redeemable in 1941, touched in the same year 113, while the irredeemable 3 per cent Debentures of the London and North Western Railway Company actually reached 122.[1] The general belief, at the time of the Diamond Jubilee, was that money would become cheaper and cheaper. As a fact it has steadily risen in value. Not since 1900 have Consols touched par.

Such are the facts. What is the explanation of them? Broadly one may say that the value of capital depends, like

[1] The Ordinary Stock of the L. and S.W.R. touched in 1898, 236—the highest price, I believe, ever paid for a railway stock in England.

that of other things, on the ratio between the supply and the demand. The demand for capital depends on its productivity, the opportunities for its profitable investment. If trade is expanding, the demand increases, and if the supply were rigidly limited the rate of interest would rise and the price of fixed-interest-bearing securities would fall. The supply of loanable money is, however, not more limited than that of other commodities. Increased demand, if reflected in a higher rate of interest, brings forth an increased supply, by offering an increased inducement to saving.

Interest and Saving.

At this point, however, a psychological factor may intervene to obstruct and even defeat the economic tendency. A rise in the current rate of interest may affect the rate of saving in contradictory ways. The lethargic and complacent *rentier* living, let us say, on £1,000 a year, and satisfied with it, may save less and less as the rate of interest rises. The keen and ambitious man, especially if he be personally engaged in the conduct of industry will, in times of expanding trade, save every farthing he can, in order to increase his capital, even at the expense of his personal convenience. As to the predominant effect economists are not agreed; nor indeed is it easy to assess it when personal psychology supplies so large an element in the calculation. All we can confidently assert is that, so far as the economic motive operates, an increased demand for capital will tend to evoke an increased supply, and that if the supply is excessive interest rates will again tend to decline.

A demand for loanable capital may, however, arise from causes far removed from expanding trade.

The necessities of the individual who resorts to a money-lender and borrows for consumption may, in the present connexion, be ignored. He does not want capital but cash, and the rate he will have to pay for the accommodation is determined by considerations peculiar to the individuals—lender and borrower—concerned in the transaction.

Mortgages.

A mortgage or loan raised on the security of real

property may be regarded as intermediate between industrial and personal borrowing. It may be raised simply for the relief of personal necessities, for meeting family charges upon an estate, or some similar purpose. It may, on the other hand, be simply industrial or commercial, as when a speculative builder mortgages one house to provide capital for further enterprises of a like character, or when a landowner mortgages his property to provide money for agricultural improvements. The rate at which such loans can be effected depends primarily upon the market rate of interest at the time and in the locality, but partly upon the character of the security offered, and partly upon the personal credit of the individual borrower.

State and Municipal Loans.

Governments and local authorities have in recent years effected loans on a colossal scale. Whether such loans can be regarded as capital by the borrowers depends upon their destination. Some States and many municipalities or other local bodies have borrowed largely for what are described, sometimes, with excess of euphemism, as 'reproductive undertakings'. In such cases the public authorities act simply as traders, and employ the money raised by loans as capital for gas, electricity, tramway, harbour, or other similar undertakings. Some municipalities have actually entered into competition with traders as purveyors of milk or bread. Provided the undertakings are commercially remunerative, and the book-keeping strict, no objection from the purely economic standpoint can be taken to the enterprises. Public authorities enjoy, indeed, one great advantage over individuals. Their loans being borrowed upon the security of the taxes or rates as the case may be, can be raised on much better terms. The provisos indicated above are not, however, invariably fulfilled. Strict commercial methods are not always adopted in book-keeping, and a deficit on any particular undertaking can always be made good out of the rates. We are not, however, here concerned with the general argument for or against municipal or State trading, but merely with the question of interest on the loans necessi-

tated by such commercial developments. Simply from the point of view of interest on trading capital public authorities plainly enjoy an advantage (whether legitimate or not is a matter for discussion) over private traders.

War Loans.

By far the largest portion of State loans have, however, been raised not as capital, but for the purpose of immediate consumption in war. Yet the economic effect of such expenditure cannot easily be discriminated from that caused by a trade 'boom'. War is, in the economic sense, a pure luxury; and expenditure on luxuries is admittedly not advantageous for trade. But it is generally advantageous to particular trades, and may even, for the time being, diffuse a sense of general prosperity. A State, with good credit, can command almost unlimited supplies of capital; labour may become relatively scarce and is able therefore to command a high price for its services; the work of production is concentrated on a few objects and those who conduct the indispensable industries and supply the indispensable services reap a rich reward. But it is the case of the spendthrift buying luxuries out of capital. Feverish activity is followed by acute depression as certainly as day is followed by night; not because commodities are no longer required, but because the demand for them is not 'effective', because prices measured in the inflated currency, incidental to a war waged on credit, are so high as to check effective demand, and because capital, depleted by war expenditure, is scarce and dear.

At this point, however, a contradiction obtrudes itself, capital is dear; yet money is so abundant as to be almost valueless. The rate of investment interest is high; while discounts and consequently interest on short loans are low. This contradiction may endure for a season, but in the long run will certainly be corrected. 'Short' money is cheap because trade is stagnant and, consequently, there is little demand for money. Even permanent investments are in the long run affected by the same conditions, but naturally their price responds to them less quickly. Moreover: the other element in interest, the remuneration not for capital, but for risk, becomes powerfully operative when finance and

commerce have alike suffered recent disturbance and have not had time to recover a stable equilibrium. The economist, taking long views, need not, however, pay undue attention to abnormal conditions.

The ethics of interest.

A final question remains: whether interest is a natural product, or a monstrosity; whether it can be justified at all either on economic or ethical grounds?

To the socialist who regards labour as the sole source of wealth the commercial interest of to-day is not less anathema than was 'usury' to the mediaeval churchman. That the capitalist should appropriate in the form of interest any portion of the total product of industry is a denial of the just claims of labour, in short is mere robbery. A simple illustration will, however, demonstrate the fallacy involved in this view. A dozen bottles of port wine of a good but recent vintage may be purchased to-day for 60*s.* and deposited in a cellar. In ten years' time the wine will probably be worth 100*s.* No labour whatever is involved, the increment of value is due simply to the efflux of time. Is it, therefore, unearned? Not at all: the possessor of the 60*s.* might have preferred to purchase 60*s.* worth of beer or milk for immediate consumption. He deliberately prefers an investment in port wine. Is he not, on every ground, entitled to compensation for abstaining from the immediate gratification of his appetite? Meanwhile, his 60*s.* may be many times turned over by the owner of the vineyard, and the intermediate traders, as indeed it would have been had it been paid to the brewer or the farmer.

Böhm-Bawerk on interest.

Can it then be said that the 60*s.* has in ten years' time *produced* an additional 40*s.*? Such a proposition is denied by Böhm-Bawerk, the great Austrian Economist whose work on *Capital and Interest*[1] is very widely accepted as authoritative. Böhm-Bawerk characterized this theory of interest as the 'naïve-productivity' theory, and Smart points out the fallacy of supposing that interest represents payment for the 'use' of capital. 'The true nature of the

[1] Vienna, 1884. English translation by Smart, London, 1890. Cf. also his *Positive Theory of Capital*, 1888.

loan transaction is', he says, 'not that in it we get the use of capital and return it deteriorated, but that we get the capital itself, and consume it, and *pay for* it by a new sum of value which somehow includes interest.'[1]

Rejecting, then, also the socialist theory that interest is mere robbery, and the 'abstinence' theory, Böhm-Bawerk is thrown back on the idea adumbrated by Stanley Jevons in 1871: 'The single and all-important function of capital is', he said, 'to enable the labourer to await the result of any long-lasting work—to put an interval between the beginning and the end of an enterprise.' As Gide tersely expresses it: 'interest is the price of time'. Or we may say with Smart: 'Interest is a premium paid to those who do not present their claims on society in the present. The essence of interest, in short, is Discount. Thus to Böhm-Bawerk interest is nothing more nor less than a particular case of value[2]: the element which seems to him to 'involve the whole truth is the influence of time on the human valuation of goods'.[3]

We conclude, then, that, commercially, interest is justified, since it represents the price of an arrangement mutually convenient to borrower and lender: the lender being willing to postpone the satisfaction presumably derivable from the immediate expenditure of money, and preferring a relatively small income, obtained with a minimum of risk and personal exertion, to a larger income derived from the employment of his own capital in a business, conducted by himself; the borrower, possessing—it may be—little or no money, but brains, energy, and a spirit of adventure. Equally is interest morally justified, since so far from being the monstrous progeny of an unnatural union it is merely a particular illustration of the general law of time-value.

There would seem, then, to be no reason why conscience should disturb the satisfaction derived from a bargain, mutually advantageous to the parties directly concerned, and not less calculated to confer conspicuous benefits upon the community.

[1] Introduction to his translation of Böhm-Bawerk, p. xiv.
[2] Cf. *infra*, c. xii. [3] p. 428.

CHAPTER X

THE PROBLEM OF PROFITS

THE PRICE OF BRAINS

'The revenue derived from . . . stock by the person who manages or employs it is called profit; that derived from it by the person who does not employ it himself but lends it to another is called interest . . .' 'As the usual market rate of interest varies . . . the ordinary profits of stock must vary with it; must sink as it sinks, and rise as it rises . . . High wages of labour and high profits of stock, however, are things which scarce ever go together, except in the peculiar circumstances of new colonies.—ADAM SMITH (1776), pp. 22, 37, 38.

'In all countries and at all times profits depend on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent.—RICARDO, *Principles* (1817), p. 133 (2nd ed.).

'Profits depend on . . . the cost of labour.'—J. S. MILL (1848).

'Profits . . . being a species of the same genus (as rent) do not form a part of the products of industry, and do not cause any diminution of the wages of labour.'—F. A. WALKER (1883).

'Profit is the excess of sale price over cost price' and 'takes the form of remuneration for the labours of co-ordination, management, and the finding of markets, and compensation for risk.'—GIDE (1883).

The Theory of Profits.

FROM the analysis of interest it is an easy and natural transition to the analysis of profits. The older economists were indeed, as we have seen, not sufficiently careful to discriminate between these two shares in the total product of industry. Yet we must not take overmuch credit to ourselves for the insistence, now general, on the distinction between them, since economic theory has done little more than reflect the change which has come over industrial practice. Current phrases such as 'the relations of Capital and Labour' recall the error, and ought to be discarded; the more so as they tend not only to suggest an erroneous and obsolete view of industrial organization, but embitter relations between economic classes. Economic Theory has made no more important contribution to the

cause of industrial harmony than by its insistence upon this more rigorous and more scientific analysis of 'gross profits', and upon the important service rendered to industry, and consequently to the community at large, by the skilful and enterprising organizers of business.

To the share of the total product of industry which is appropriated by this economic class the term *Profits* is now confined.

Adam Smith's views (1776).

Adam Smith, in this as in so many other matters, got a good deal nearer the truth than many of his successors. Yet his treatment of the subject is sadly lacking in lucidity and indeed in consistency. Nevertheless, he does discriminate between the revenue derived from 'stock' by the person who personally manages and employs it, and that obtained by the mere lender of capital. The former he describes as profit, the latter as interest. Still, it is plainly of interest much more than of profit that he is throughout thinking. Thus he maintains that a fall in the rate of profit is the natural effect of trade prosperity 'or of a greater stock being employed in' trade than before; this is clearly true of interest, but not of profit. Nor is it true, as both Adam Smith and Mill insist, that profits 'tend to a minimum'; although interest does. Again: the 'agreeableness or disagreeableness of the employment' may well affect profits; it cannot affect interest.

Ricardo (1817).

Ricardo went wider from the mark than Adam Smith, an aberration the more remarkable in view of the facts that he was himself a professional financier, and that his main contribution to the development of Economic Theory was a particularly luminous analysis of rent. For profit is, as Walker has taught us, only another species of the same genus as rent. The productivity of capital was assumed by Ricardo to be the *source* of profit, while the *rate* of profit was declared to be dependent upon the rate of wages. For 'wages' in this context Mill astutely substituted 'the cost of labour', and so took most of the social sting out of the proposition, and at the same time brought it somewhat nearer to truth.

J. S. Mill (1848).

Mill himself split up profits into three component parts: interest; insurance, or compensation for risk; and remuneration for assiduity and skill in the management of business, or the wages of superintendence. These different compensations might be paid, as he said, to different persons, but it was the underlying (though not necessary) assumption of his theory of profits that all three went, as a rule, to the same person; as indeed, in Mill's time, they did. Thus he was perfectly accurate in saying: 'The control of the operations of industry usually belongs to the person who supplies the whole or the greatest part of the funds by which they are carried on, and who, according to the ordinary arrangement is either alone interested, or is the person most interested (at least directly) in the result.'[1]

The minimum rate of profit must be enough (apart from transitory and exceptional conditions) to afford an equivalent for the abstinence, risk, and exertion implied in the employment of capital. The minimum will vary greatly from time to time and place to place in accordance with the variations in the rate of interest and the security of property. In different employments it will vary according to the risks involved, to the social consideration attaching to the particular employment, and to the skill demanded from the 'undertaker'. Yet, in the long run, the rate of profits tends to an equality in different employments, since capital will be gradually withdrawn from the less and attracted to the more remunerative employments.

Two other points are emphasized by Mill: that profits do not depend upon prices, but do depend (as we have seen) upon the 'cost of labour'; 'cost' being, in its turn, a function of three variables: the efficiency of labour; the real reward or wages of the labourer; and the greater or less cost at which the articles composing that real reward can be produced or procured.

Jevons (1886), and Hermann (1832).

It is mainly on these two latter points that modern economists have directed their critical batteries. Mill's

[1] *Principles* (ed. Ashley), p. 406.

defective analysis, though explained by contemporary facts, is philosophically the less defensible as the German economist F. B. W. von Hermann had in his *Staatswirthschaftliche Untersuchungen*,[1] published as far back as 1832, clearly explained that the gains of the business undertaker included a reward for (i) combining the factors of production; (ii) business policy and plans; (iii) exceptional organizing and managing capacity; (iv) guaranteeing a fixed rate of interest to the capitalist, although his own gains depended on fluctuating prices. Four years later, Nassau William Senior,[2] also, had, by his theories of Interest and Value, thrown out hints which a mind so acute as Mill's might have been expected to seize upon and develop into a theory of profits not very remote from that propounded by modern economists.

Of this theory the essential features are: (i) the complete discrimination between 'profits' and 'interest'; (ii) the elaboration of an analogy between profits and rent; (iii) the absolute repudiation of a ratio between profits and wages; and (iv) the emphasis laid upon the exceptional abilities of the entrepreneur or business manager as the chief determinant of the rate of profits.

F. A. Walker (1883).

For the presentation and popularization of this theory the American School of Economists is entitled to the chief credit. Walker, in particular, propounds it with characteristic lucidity. Just as rent arises from the difference between the fertility of any given unit of land and the worst land under cultivation for the same market at the same time, so the source of profits is to be found in the superior ability of any given entrepreneur as compared with that of his least able competitor who is just able to survive. The latter represents a marginal or 'no profits' line, just as there is land under cultivation which pays no economic rent. The inferior employer will, it is assumed, pay rent, interest, and wages on the same scale as his more able com-

[1] Quoted by Haney, *History of Economic Thought*, p. 511.
[2] *Political Economy* (1836).

petitors, but after the payment of these no surplus remains. He supplies the 'no profits' line, from which the profits of the profit-earning concerns are measured upwards. The assumption of a 'no-profits' line has been sharply criticized, but the facts of industrial life painfully confirm the accuracy of Walker's diagnosis. There is not an industrial centre in England which cannot afford an example of two concerns, engaged in the same trade; supplying the same market; enjoying equal advantage as to location, skilled labour, and so forth; paying identical rates of wages and interest; charging an identical price for their products, and differing only in this—that the one pays a large dividend, and the other a smaller one or none. The sole explanation of the difference is found in the contrasted business abilities of the two entrepreneurs or two boards of directors. If the successful business is a private concern, or if the directors are the owners of all the ordinary share capital, the whole of the net profits accrue naturally to them. If it is a Joint Stock Company of the usual type the 'profits' go in the form of dividend to the ordinary shareholders who have contributed to the concern nothing but capital.

Are Profits justified?

Are they entitled to them? It is plain that, although they have only supplied capital, they are receiving something more than 'interest', the proper remuneration of capital. Interest at a fixed rate may be paid, as we have seen, to debenture holders and preference shareholders who presumably prefer security to speculation—the reasonable certainty of a relatively small but safe income to the chance of a larger one.

In this preference lies the justification of the addition of profits to the interest paid to 'ordinary' shareholders. They might just as well have supplied capital, they probably did supply it, to company 'A', which is a 'no-profits' concern, as to company 'B', which pays 10 or 20 per cent. Be it remarked in passing that the number of joint-stock companies which pay even 10 per cent is very small. In a list of about 700 such companies I find only about three. It is notorious that many private concerns which to their

original proprietors may have returned 20 or 30 per cent make a very different show after their conversion into limited-liability companies. Nor are the reasons obscure. Not infrequently the companies are over-capitalized; a business which has returned 20 per cent on a private capital of £100,000 may very well fail to return 5 per cent on a capital of £500,000. More often they lose the momentum derived from the energy of an exceptionally good entrepreneur who has 'made' the business. A salaried managing director, however zealous and capable, differs nevertheless from a proprietor. Apart from his own salary, which is, of course, a charge upon gross profits, expenses are apt to increase. Wages and salaries may not be at a higher rate, but more people are employed for the same job. Even bonuses and commissions are no effective substitute for the 'master's eye'. The original momentum may last for a time, but it tends to exhaust itself, and with its exhaustion net profits tend to dwindle.

Profits and Dividends.

The very few large dividends paid to the ordinary shareholders in industrial and commercial companies must, therefore, be regarded as compensation for exceptional risks, not necessarily risks incurred in those particular companies, but in the whole field of industrial investment. The *average* return on such investments is indeed very modest; smaller, probably, than that on the preference shares of the same concerns. All business must be, in less or greater degree, speculative. Large profits in one year are only too likely to be followed by small profits or even by a loss in other years. Consequently, well-managed companies show an increasing tendency to place large sums to reserve funds, or even to a special fund for the equalization of dividends. In the large-scale businesses of to-day, engaged in world-commerce, buying, say, in Virginia, selling in Japan, everything depends upon the skill of the entrepreneur. It is small wonder, therefore, that, to exceptional men, salaries, which to the ordinary man seem extravagant, should be paid. That it pays to pay for brains is a business maxim increasingly impressed upon those who, as directors

of industrial concerns, are responsible to a large number of small capitalists.

The maxim, current in business circles, affords a remarkable confirmation of the accuracy of the analysis supplied by modern Economic Theory. The net profit, be it large or small, represents and rightly rewards the differential skill of the entrepreneur—the person who 'runs' the concern.

Profits, prices, and wages.

It follows that neither the wage-earner nor the consumer has any claim, economic or ethical, to any portion of this net profit. Modern theory teaches that 'profits' are not an element in price, nor a deduction from wages. We have already demonstrated the truth that agricultural rent does not enter into the price of wheat; nor does its payment involve a diminution in agricultural wages. If profits be a species of the same genus as rent, there is no reason why the exceptional reward of exceptional business ability should increase the price, say, of a steam-engine or a pair of gloves, any more than that wheat grown on an exceptionally good farm, rented at £2 an acre, should command a higher price in the Oxford market than wheat from land let at 10s. or from 'no-rent' land. Nor will the labourer on the latter farms expect to receive a lower wage than the labourer on the former. Why should he?

This subject will demand more detailed consideration in the next chapter. Meantime it may be admitted that the saying is a hard one. Equity seems to suggest that the business which is making big profits ought to pay higher wages than the concern which can only just make both ends meet. If it can be shown that the efficiency of labour has contributed to the high profits, then the claim of labour to a share of them is unanswerable. But would labour be willing to accept responsibility for the meagre results of the less prosperous concern?[1] 'The employer', said a French patron, 'owes to the worker more than his wage.' Assuming that to be sound Economics as well as sound Ethics, is the

[1] Cf. *infra*, c. xi.

converse equally true? The answers to these questions belong properly to the next chapter.

Wages of superintendence.

It is, however, a pertinent question whether the problems arising from the position of the entrepreneur should not be similarly deferred. Under the existing type of business organization what are the directors and organizing-directors but salaried officers remunerated by fixed wages? Does their rate of remuneration obey the law of profits or the law of wages? Directors are, indeed, invariably qualified for that position by the holding of shares, though the qualification is often little more than nominal; but, be that as it may, they are essentially trustees for their fellow shareholders elected to look after their interests. As a rule their remuneration as directors bears only a small proportion to their interest in the profits of the concern they direct. With the managing director or general manager it is usually otherwise. He is essentially a salaried official, though incidentally he may also be a shareholder.

The management of business.

This being so, is there any reason why he should serve a board of directors rather than a government department? In plainer English, is there any economic reason against the nationalization of industry? That question has already been considered in another connexion. Here it is only pertinent to remark that the reasons which operate in favour of the success of the private concern as against the joint-stock company would seem to be valid *a fortiori* in favour of the limited company against the government department. The general managers of the great railway companies rendered to the State notable service during the war. Nothing could have exceeded their zeal, nor, from the point of view of the conduct of the war, their success. It must be remembered, however, that, although they were virtually civil servants for the time being, they had been selected for their responsible posts neither by examination nor by government patronage, but by boards of directors; that their success was measured solely by the efficiency of their contribution to a supreme end; and that they had to consider neither economy of

administration nor public convenience. No argument of permanent validity can be drawn from this temporary experiment, although customers and shareholders may be quick to do so. If they do, the conclusion is not likely to be favourable to its prolongation.

There would seem, however, to be every reason, from the point of view of the practical organization of business, why the actual director or manager should be, in some measure at least, a real entrepreneur and not a mere wage-earner. The next chapter will show that the argument might perhaps be pressed further. Meanwhile, we see that of Mill's three elements in 'profits' the first has been eliminated by the isolation of interest; the third seems likely to be eliminated by the very general substitution of a wage-paid superintendent or director for the undertaker; and there remains, therefore, only the intermediate element—compensation for the risk of the loss of capital.

Profits as compensation for risk.

Is this sufficient to justify 'profits'? The answer would seem to depend largely on an actuarial calculation, and such a calculation would not only be singularly interesting and helpful in itself, but would, we may surmise, reveal the fact that on the average the remuneration is not excessive. A simple test may be applied. If it were, excessive capital would rapidly be transferred from the less to the more remunerative investments, thus equalizing the reward. President Hadley, writing from American experience, tells that at a time when interest rates in one of the leading north-western states (of the United States) were quoted in the eastern market at 7 per cent, he took pains to inquire of conservative local bankers what were the actual rates which persons in that locality felt they could safely command. He found that such loans ran at 6 per cent or less. 'The difference of 1 per cent was offered the eastern investor as an insurance against risk. How miserably inadequate it was for the purpose was seen in the collapse two or three years later of the security for a large number of these 7 per cent loans.'[1] The same writer

[1] *Economics*, p. 283.

makes the pertinent observation that it is a common mistake, in treating of the relation of business risk and business profit, to assume that 'profits are an amount paid to the individual capitalist to cover *his* loss. Far from it. They are paid to capitalists as a class for protecting the public against *its* risk of loss. They are charges which the capitalists make, not for insuring themselves, but for insuring society against the losses incident to industrial experiment and industrial progress.'[1]

Functions of the entrepreneur.

Risk, however, is an element in the employment of capital in industry. It claims its due reward. But we are here concerned mainly with the functions of the entrepreneur and the reward due to him. For the business man of exceptional ability hardly any material reward can, under the conditions of modern industry, be extravagant; and not capital only but labour should, each in its several interest, be anxious to employ the highest obtainable skill for the conduct of the industry on which the prosperity, and it may be the livelihood, of both classes depend.

The salaries now obtained by eminent business organizers are startling to those who do not realize the changed conditions of modern industry, but they prove that those who have the control of capital are awakening to the supremely important part played by 'management'. Labour, naturally enough, has been less quick to apprehend this truth. Yet, if labour really understood its own interests, it would be lavish in the remuneration of management, and would do its utmost to encourage the accumulation of capital.

Should the democratization of industry, so ardently desired by labour, ever be attained, labour will have to hire both capital and brains. The larger the accumulation of capital, and the better the security offered for the loan of it, the cheaper will be the price at which it can be hired. Exceptional ability will never be cheap. When, if ever, ability becomes cheap, it will cease to be exceptional. So long as it is exceptional it will command a high price and wise men will probably regard it as cheap at any price.

[1] *Ibid.*, p. 289.

They know that whether the remuneration takes the form of profits or of wages it pays to pay for brains.

Profits and 'surplus value'.

If, as already hinted, these truths are at present hidden from the eyes of those who speak for the manual workers, it is chiefly because they are dazzled by the specious 'doctrine of surplus value', as elaborated by Karl Marx. Not that Marx was the first to enunciate it. As far back as 1824, William Thompson published *An Inquiry into the Principles of the Distribution of Wealth most Conducive to Human Happiness*, in which he maintained the thesis that, as all value was due to labour, labour was entitled to the whole product, though in practice labour obtained a bare subsistence, while the whole of the product above that line was absorbed by rent and profits. This idea was developed in France by Proudhon and in Germany by Rodbertus, but it was Karl Marx who not only elaborated the doctrine but gave to it a momentum which has caused his work *Das Kapital*[1] to be designated and accepted as the 'bible of scientific socialism'.

Karl Marx.

The Marxian theory of value will demand more detailed examination in a later chapter. Here it must suffice to point out that in relation to 'Profits' the thesis which forms the ground-basis of *Capital* is identical with that maintained half a century earlier by Thompson: All wealth is produced by labour, therefore to the labourer all wealth is due. Capital is in reality only labour in an externalized and permanent form. 'The returns to capital out of which great private fortunes are amassed only yield such great accumulation and superfluity because the wage-labourer receives in money-wages less than the full value of the produce of his work, being compelled (by the cast-iron conditions of the existing industrial organization) to let the surplus-value daily fall to the share of the capitalist's profits. The worker receives in wages, on an average, not the full productive value of his day's work, but very much

[1] Vol. I was published in 1867, the second and third being completed after Marx's death (1883) by Friedrich Engels. Vol. II (1885), III, 1894.

less—in fact the bare necessaries of life. Whatever he may produce beyond these necessaries the capitalist pockets. Thus the surplus-value is absorbed in daily driblets by the great sponge of capital, constitutes the profits of the capitalist, and forms eventually an accumulation of capital. . . . So there goes on under the mask of a wage-system, the daily and hourly exploitation of the wage-earners, and capital becomes a vampire, a money-grabber, and a thief'—but, as Marx admits, the capitalist is an innocent thief, being himself merely a cog in the cruel, unjust, inexorable industrial machine.[1]

The Marxian analysis is evidently contradictory to that set forth in the foregoing paragraphs. Yet the contradiction is not incapable of at least partial reconciliation, if the Marxians are willing to include every form of labour—directive and intellectual as well as manual—under the term 'labour'. Even then, interest would be entitled to deduct its appropriate share of the total product; so also would rent; nor could the element of insurance against risk be ignored. The Marxian theory as it stands is both inaccurate and inadequate; ridiculously inadequate if 'labour' be interpreted in the narrower sense. If, however, the function of brain-labour received proper recognition the distance between the socialistic and the orthodox economic doctrines would be substantially abridged. Insurance for risk being accepted as an element in the remuneration for capital, profits in the narrower sense might be altogether eliminated. The 'director' would, like the manual worker, receive his 'wages', and any surplus might be divided between them, in a proportion calculated as nicely as might be, with reference to their respective contributions to the total product. Such a division is, in fact, at the root of the various schemes of 'profit' or 'prosperity-sharing' which are advocated in many quarters and in some have been successfully adopted. But we are already encroaching upon the subject of the next chapter.

[1] Cp. Schäffle, *Quintessence of Socialism*, pp. 25–8.

CHAPTER XI

THE SHARE OF THE WAGE-EARNER

'It is precisely because it is theoretically insoluble that the wage problem is a source of perpetual conflict.'—GIDE.

'The difficulties of determining a just wage are so great that the temptation is overwhelming to ascertain what labour is worth by the easy way of ascertaining what labour will take.'—WILLIAM SMART.

'No workman can permanently get what he considers a living wage, unless the value of the work which he does covers the cost of his standard of living. Wages merely represent an exchange of services.'—HAROLD COX.

'The fundamental wage, or the wage of unskilled labour, should be a living wage—that is, a wage suitable to the development of the physical, moral, and intellectual attributes of the citizens of a free country. But it must be recognized that the degree to which this ideal can be attained must depend on the skill and endeavour of the people. . . . It is idle to hope that the living wage can be based permanently on any given standard of civilization; it is bound to fluctuate at different periods and will depend largely on whether the industries of a country are progressive, stagnant, or retrogressive.'—W. L. HICHENS.

Labour and its wage.

IN the modern industrialized State the great mass of the people are dependent for the means of livelihood upon wages received from an employer. The proportion varies in different countries. In France, for example, it is smaller than in England. In the United Kingdom there were in 1911 15,460,000 out of a population of 45,370,530, or roughly one-third; in France about 10,000,000 out of 39,000,000, or rather more than one-fourth. But it is everywhere large. There can, therefore, be no part of economic theory of more general or vital interest than that which seeks to ascertain and formulate the laws governing the share of the total product of industry obtainable by the wage-earner.

The actual wage-bill in the United Kingdom in 1911 was variously estimated at from £780 millions to £880 millions out of a total income of about £2,000,000,000.

How is that share determined? To answer that question is to ascertain and state the economic theory of wages. The problem of wages.

Is the principle of distribution just? If not, can means be found to counteract the operation of the law? This is the practical problem of wage-adjustment.

Neither problem, the theoretic or the practical, emerges in a primitive society. 'In that original state of things', writes Adam Smith in a famous passage, 'which precedes both the appropriation of land and the accumulation of stock the whole produce of labour belongs to the labourer.'[1] This was what Adam Smith meant by the statement, frequently misunderstood, that 'the produce of labour constitutes the *natural* recompense or wages of labour'. Little progress can be made, however, nor will the total produce be otherwise than meagre, unless and until stock is accumulated to assist future production. But directly that takes place the primitive savage ought, if he kept accounts, to charge himself with interest.

Nor does the problem arise so long as manual labour is mostly supplied by slaves, or by serfs, nor when the social organization is communistic, nor when each family or household is self-sufficing. Wages are in fact the result of a bargain between two free men, each of whom wants something which the other can supply. 'What are the common wages of labour depends everywhere', writes Adam Smith, 'upon the contract usually made between two parties whose interests are by no means the same.'[2] Historically the wage-system began to emerge in rural England with the dissolution of the manorial organization; in the towns with the break-up of the gilds. In the feudal manor there was neither rent nor wages; the organization was based not upon contract but on status: in the gild-organization the journeymen received wages from their masters, but the relation between them was not one of free contract; the rate of remuneration was fixed by the gild, as were the conditions of service and employment. Emergence of wage problem relatively recent.

[1] *Op. cit.*, Bk. I; c. viii, init. [2] *Ibid.*

The English villein achieved his freedom centuries before the continental serfs: the wage-system was at once the sign manual of the social emancipation of the villein and the price he paid for it; he gained his freedom but he lost his land.

Freedom and pauperism.

This premature emancipation of the English peasantry and their divorce from the soil compelled the intervention of the State. Feudalism and pauperism are mutually exclusive: the manorial system, whatever its social shortcomings, did at least provide against destitution. Its premature disintegration in England gave rise to the closely interdependent problems of vagrancy, pauperism, and unemployment. The villeins, taking advantage, very naturally, of the labour shortage caused by the Great Plague of 1349, successfully asserted their right to make the best economic use of their labour. They had their appropriate reward: the ensuing century has been described, not without warrant, as the 'golden age of English labour'. In a spirit anticipatory of Tudor paternalism the King issued in 1349, the *Ordinance of Labourers* and in 1351 Parliament followed suit with the *Statute of Labourers*. The object of both was to arrest the economic tendency: to prevent the payment or receipt of 'excessive wages' and to oblige those to work who were 'willing to beg in idleness rather than by labour to get their living'. Alms to the able-bodied were forbidden, and labourers were ordered to accept service at the rates customary before the dislocation caused by the plague. The Statute was re-enacted, with increasing penalties for disobedience, no less than ten times before the middle of the fifteenth century. But the effort was wholly futile. As almost always happens when legislation puts itself in conflict with economic law, the latter won. The labourer responded to the challenge of the Legislature in the insurrection led by Wat the Tyler in 1381, and successfully asserted his right to sell his labour to the highest bidder; but he bequeathed to posterity a landless proletariat.

Vagrancy

Premature personal freedom begat the problem of

pauperism. The Statute of 1388 contains the germs of all the subsequent Poor Law legislation: the principle of 'settlement'; the prohibition of vagrancy and begging; the distinction between the able-bodied and those 'unable to serve'; the jurisdiction of the Justice of the Peace—all are here; but there is no hint as yet that the State must relieve distress. and unemployment.

The crisis of the fourteenth century recurred with intensified severity in the sixteenth,[1] and the Tudor statesmen showed characteristic courage in confronting it. Agriculture had now become a commercial enterprise and the gilds had gone the way of the manors. There were other factors as well: notably the debasement and depreciation of the currency. Out of a mass of remedial legislation two statutes stand out pre-eminent: the *Statute of Artificers* (1563) and the Poor Law of 1601. The former was nothing less than a complete labour code which attempted to fix a scale of prices, to compensate for the decadence of the gilds by enforcing a uniform system of apprenticeships, and, from our present standpoint most important of all, to secure to the labourer a minimum wage and regular employment. Under the Poor Law of 1601 the State for the first time accepted a vast and direct responsibility for the maintenance of all such citizens as could not or would not maintain themselves. The 'lusty and able of body' were to be 'set on work'; the impotent poor to be relieved; the children to be apprenticed to trades. Social legislation of the Tudors.

The State, therefore, was grappling energetically, if not wholly successfully, with the practical problems of employment and wages; but the economists had not as yet made any attempt to formulate a theory of wages, or to analyse the laws which govern the labourer's share in the product of industry. The theory of wages.

Adam Smith deals with the problem with characteristic robustness, objectivity, and common sense; but, though many of the doctrines elaborated by later economists are Adam Smith and wages.

[1] Cf. *supra*, p. 32.

deducible from his disjointed statements, he himself abstains, perhaps prudently, from any attempt to weave them into a coherent and connected theory. Here, as elsewhere, he is the pioneer, cautiously feeling his way. He begins, however, as we have seen, with the elliptical and incautious statement that 'the produce of labour constitutes the natural wages of labour', though he quickly corrects it by the assertion that wages everywhere depend upon a bargain between two parties 'whose interests are by no means the same'.[1] Perhaps the nearest approach to a definite theory is to be found in the statement that the wages 'of the inferior classes of workmen' are 'necessarily regulated by two different circumstances: the demand for labour, and the ordinary or average price of provisions'. The price of necessaries determines the minimum rate of wages: by 'necessaries' being understood 'whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without'.[2] The 'standard of comfort' theory begins to emerge.

The wages-fund theory.

So also does the wages-fund theory. 'The demand for those who live by wages cannot increase but in proportion to the increase of the funds which are destined to the payment of wages.' Nay more: it 'necessarily increases with the increase of the revenue and stock [elsewhere 'the national wealth'] of every country and cannot possibly increase without it'.[3] Malthus, Senior, and Mill had not far to go for the genesis of the doctrine they elaborated. Wages in England were, as Adam Smith conclusively showed, well above the mere subsistence level in his day; but they tended to be still higher in countries which though less rich than England were developing even more rapidly; as in the English colonies. The thing to be dreaded from the labourer's point of view is the stationary state when the 'hands would naturally multiply beyond their employment' and then 'the competition of the labourers and the interest of the masters would soon reduce [wages] to the lowest rate which is consistent with common humanity'.

[1] Bk. V, c. ii, art. iii. [2] Bk. I, c. viii. [3] *Ibid.*

Still worse would their condition be in a decaying country, where (and 'this perhaps is nearly the present state of Bengal') 'want, famine, and mortality' would prevail 'till the number of inhabitants in the country was reduced to what could easily be maintained by the revenue and stock which remained in it'.[1] Again Malthus is implicit in Adam Smith.

Malthus and Ricardo.

In Malthus, however, the wages-fund doctrine takes more definite shape. It was based upon two assumptions, both of them seemingly justified by the circumstances of the day: first, that the total food produce of any given country is a rigidly fixed amount; and, secondly, that of the total produce a fixed proportion, no less and no more, will go to the wage-earners.[2] Ricardo, though credited with the formulation of an 'iron law of wages' did not hold that the wage-fund was rigidly fixed. The rate of wages, he held, was in inverse ratio to that of profits, but the labourers had it in their power, by raising the standard of comfort, to raise the minimum rate. 'The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them. There cannot be a better security against a redundant population. In those countries where the labouring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries.'[3] No modern socialist or trade unionist would quarrel with this view.

James and J. S. Mill.

James Mill, while adopting the principle of the wages-fund, so far modified it as to substitute capital for food as the determinant of wages. 'Universally then we may affirm, other things remaining the same, that if the ratio which capital and population bear to one another remains the same, wages will remain the same; if the ratio which

[1] *Ibid.*

[2] Cf. *Essay on Population*, Bk. III, c. v; IV, c. iii. The first edition of the Essay was published in 1798.

[3] *Principles* (1821), c. v.

capital bears to population increases, wages will rise; if the ratio which population bears to capital increases, wages will fall.'[1] Instead of 'capital' Senior[2] speaks of the 'fund for the maintenance of labour', but he added nothing essential to the theory, the final statement of which is found in John Stuart Mill. The doctrine is set forth in its most precise form, not in the *Principles*, but in the article in the *Fortnightly Review*[3] containing Mill's famous retractation. 'There is supposed to be, at any given instant, a sum of wealth, which is unconditionally devoted to the payment of wages of 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 no less, they cannot but obtain. So that the sum to be divided being fixed, the wages of each depend solely upon the divisor, the number of participants.'

J. S. Mill's retractation.

Mill pleads guilty to having 'along with the world in general' accepted this theory 'without the qualifications and limitations necessary to make it admissible'. His conversion was effected partly by the practical demonstration afforded by the growing influence of trade unionism that wages could be raised by the action of trade combination, partly by the attack delivered upon the theory by F. D. Longe,[4] W. T. Thornton,[5] and others. They denied the existence of any fixed fund destined for the payment of labour, apart from the produce of labour itself, and equally denied that the labouring population of a country constituted at any given time a 'supply of labour', to which the whole of such a fund must, under a system of competition, be unconditionally paid.

Cairnes and Fawcett.

The guns carried by Longe and Thornton were not very

[1] *Elements of Political Economy* (1821), c. ii, § 2.
[2] 1830. [3] May 1869.
[4] *A Refutation of the Wage-Fund Theory of Political Economy as enunciated by Mr. Mill, M.P., and Mr. Fawcett, M.P.* (1866).
[5] *Labour, its wrongful Claims and rightful Dues* (1869).

heavy, and the attack was largely directed against a position which no one had maintained. Mill's precipitate retreat is, therefore, a little difficult to understand. Probably it was due less to a philosophical conversion than to his growing appreciation of the influence of trade unions and his increasing sympathy with 'labour'. Be that as it may, Cairnes was not deterred from a vigorous restatement of the wages-fund theory[1]: nor did Henry Fawcett, despite his general adherence to Mill, join him in his recantation. 'The remuneration', writes Fawcett, 'which is intended to be given to the labourer is capital; therefore those only can exert a demand for labour who can apply capital for the remuneration of labour, and the greater the amount of capital to be applied in this manner the greater will be the demand for labour.'[2] The statement is, perhaps, somewhat elliptical, but properly understood it would seem to express not only a truth but a truism. That wages are, if not 'paid', at least advanced out of capital is surely undeniable; but it is essential to insist that the capital fund out of which they are advanced, so far from being a fixed and predetermined amount, is peculiarly elastic. Its amount depends partly on the effectiveness of the demand put forward by those who want commodities but cannot directly employ labour; partly on the prospects of remuneration held out to the potential capitalist; but largely also on the efficiency of labour itself, out of whose product the fund is perennially renewed.

Such a restatement would appear to reconcile all that was really essential in the theory of the wages-fund with the substance of the 'product' theory as expounded with conspicuous ability by Francis A. Walker.

Walker's theory of wages.

In his treatise on *The Wages Question* (1876) Walker put forward an original theory of wages, and further defined it in his *Political Economy* (1883). He boldly denied that wages have any necessary relation to a capital fund. The rate of wages, he argued, was determined not by the amount

[1] *Some Leading Principles of Political Economy*, Pt. II, § 1.
[2] *Manual* (8th edit.), p. 139.

of capital at the command of the employer, but by the productivity of labour itself. Fortified by American experience, he maintained that wages were not invariably advanced out of capital but were often actually paid out of the realized product. But even when they were advanced out of capital they were really paid out of the product. Nor does an increase of population—capital remaining stationary—necessarily involve a decrease in the rate of wages. On the contrary, it may conduce to such improvements in the division of labour and the union of forces in production as to increase the product and therefore raise the rate of wages without any increase of capital. Thus wages depend far less upon capital than upon the industrial quality of the wage-earner. But Walker's most startling assertion was that the wage-earner is the residual claimant to the product of industry: that after the payment of rent, interest, and profits the residue goes and must go to the general body of wage-earners. Walker's claim goes even farther: 'every invention in mechanics, every discovery in the chemical art . . . inures directly and immediately to their benefit'. Thus the wage-earners' share is residual in the sense that 'even if any one or all of the other parties to production become so engaged in any given increase of the product as to become entitled to an enhanced share in its distribution, their shares still remain subject to determination by positive reasons, while wages receive the benefit of all that is left over after the other claimants are satisfied'.[1]

Whether we can accept Walker's attractive theory in all its completeness and rigidity or no, this much of it is, as I have already hinted, undeniable: the amount of the aggregate fund out of which labour is remunerated is, in very large measure, determined by the productivity of labour itself. The practical importance of the doctrine lies in this: that so far as this is the case labour has not merely a moral right to any surplus which can be shown to be due to its productivity, but under the operation of

[1] *Political Economy*, pp. 251, 253.

economic law will be able to assert it. The practical difficulty evidently consists in precise discrimination: but it is by no means hopeless to anticipate a considerable degree of approximation to this ideal analysis.

Wages since 1880.

In fact, the average wage per earner, in this country, increased, in the thirty-three years preceding the war, at almost exactly the same rate as the average of all incomes. It is true that in 1880 wages received 41½ per cent of the total national income (£465,000,000 out of £1,125,000,000) and in 1913 only 35½ per cent; but the difference went not to the income-tax-paying class but to the intermediate class of salaried and independent workers with less than £160 a year. 'Property' received 37½ per cent of the national income in 1880: 'labour and services' 62½ per cent, and the proportions were exactly maintained in 1913; though 'property' obtained a diminished share of the home product, and only maintained its proportion by an increased income from abroad. Manual labourers have been a diminishing proportion of the population, but the work of direction, distribution, and exchange has absorbed a larger proportion. This result Dr. Bowley ascribes partly to 'the increasing services of capital to production', and partly to 'the increased intelligence of labour'.[1]

Ethical aspects of the wage problem.

The actual remuneration of labour was not, however, satisfactory, and economists no less than moralists would gladly have seen it, if possible, increased. Nevertheless, the economist is entitled to ask that the moralist, before uttering his shrill denunciation of the existing system, should be at pains both to ascertain the facts and to apprehend the operation of theoretical laws. The moralist, for example, insists that wages should be a 'first charge' upon the product of industry. Is there any industry in which it is not? Philosophically wages may be the residual claimant to the ultimate surplus, but that does not imply that in practice wages are not a 'first charge'. Interest may fall into arrears, dividends may be passed, rent even may remain unpaid, but the 'first charge' is punctually levied, it is

[1] *The Change in the Distribution of the National Income*, pp. 16–27.

advanced week by week, and whether the product be ultimately realized at a profit, or a loss, or even if, owing for instance to a fire, it is actually destroyed before it can be sold, the wage-earner has been clothed, fed, and housed out of—not the product of the week to week labour—but the product of previous labour, accumulated and conserved by the help of capital. But by 'first charges' the moralists mean, of course, something more than this. 'The first charge upon every industry should be the payment of a sufficient wage to enable the worker to maintain himself and his family in health and honour with such a margin of leisure as will permit reasonable recreation and the development of mind and spirit', and 'not only adequate payment during employment, but continuity of employment'. Moreover: 'it is the duty of the nation to take without delay such steps as may be necessary to secure these objects', and, 'the duty of Christian men and women to press' for them.[1]

All are agreed that these things are pre-eminently desirable, and that it is a moral duty to strive for their accomplishment. But if Walker and his school are right, as they would seem fundamentally to be; if the 'productivity' theory of wages be sound, these matters are largely (though not exclusively) in the hands of the wage-earners. Their best efforts may be, and sometimes are, impeded by unskilful management, by the stupidity or indolence of the entrepreneur, but the amount of the wages-fund, and, therefore, the rate of wages, depends primarily upon the productivity of labour—in the widest connotation of that term.

The State in relation to Labour.

The Christian socialists invoke the assistance of the State to secure the objects which they, in common with others, desire. It has not been withheld. A prolonged series of Factory and Workshop Acts, Truck Acts, the Conciliation Act of 1896, the Industrial Courts Act of 1919, and, from the present point of view most important of all, the Trade Boards Acts of 1909 and 1918 (not to mention many others)

[1] *Archbishop's Report*, pp. 105, 75.

sufficiently testify to the anxiety of the State to secure better conditions of work and a 'just' wage for the manual workers. Nor must the fact be ignored that the State has shown its solicitude for their interests, by providing out of general taxation or rates gratuitous education for the young and pensions for the aged, by contributing to sickness and unemployment insurance, and by compelling employers to pay compensation for accidents. How far legislation of this character, involving high taxation and heavy rates to which the wage-earners themselves contribute, is effectual in raising *real* wages may be an open question, but evidently it proves that the social conscience of the State is not dormant.

Trade Boards.

The Trade Boards Acts represent an attempt to raise not real but nominal wages. According to a Report issued by the Ministry of Reconstruction in 1919 the attempt would appear to have been successful. 'The general effect of the Act has been to raise wages, to stimulate organization on the part of employers and employed, and to improve the efficiency of industry. It would appear that the general policy of the Trade Boards has been to establish a minimum wage as high as the existing circumstances of the trade permit, and to raise the minima as more efficient methods and more economical organization are introduced.' The same *Report* predicts that 'the question of wages will never be allowed to return to the position of ten years ago when the Government had no concern in it. A policy will be pursued of stimulating production and at the same time of securing to the worker a fair share of the product.' At the same time it prudently recalls the truth that 'wages, salaries, and incomes all depend finally on the total volume of the internal and external trade of the country, and the total income derived from it'.[1]

State regulation of wages.

The policy of State regulation of wages must still be regarded as experimental, but the application of the principle has been rapidly extended. Under the Act of 1909 only four trades—ready-made and wholesale bespoke tailoring, paper

[1] *Reconstruction Problems*, 19, pp. 3, 14.

box-making, chain-making, and machine-made lace and net finishing—were affected. Under the Trade Boards Provisional Orders Confirmation Act of 1913 seven boards have been set up, and under the Act of 1920 forty-eight. In all no fewer than 3,000,000 workpeople are now covered by the operations of trade boards. Rates of wages fixed by them have legal force, failure to pay the rate is punishable by criminal procedure, and orders made under the Act apply statutorily to all firms engaged in the trade. Despite the optimistic and *ex-parte* Report of the Ministry of Reconstruction, it would seem to be premature to pronounce upon the scientific results of a very interesting experiment. That economists must watch them closely, and with sympathy, goes without saying.

The effect of State interference with hours and wages in the great staple industries, such as agriculture and coal-mining, and in the railway service is even more ambiguous. The Agricultural Wages Board set up under the ill-fated Corn Production Act of 1917 was abolished as from October 1921, and the regulation of wages is now left to conciliation committees composed of representatives of employers and employed. The wages of railway servants are determined by a National Wages Board set up under the Act of 1921. The coal mines, like the railways, passed under government control during the great war, and decontrol was in this case unhappily accompanied by great labour convulsions. Probably in no other industry do wages bear so large a proportion to the total cost of production, and the machinery for their adjustment is necessarily, therefore, both elaborate and delicate. A principle has now (1922) been agreed which is applied by a National Board for the Coal Industry, and by District Boards which operate in each of the thirteen districts into which Great Britain is, for this purpose, divided. The wages are based upon the working results of the industry in each district and are periodically readjusted.

Joint Industrial Councils.

Thus, in three great industries, two of which were actually nationalized during the war, while the third was specially protected and regulated by the State, wages are

now determined by boards representative of employers and employed. The building trade has its National Wages and Conditions Council; the iron and steel industry has fourteen Conciliation, Arbitration, and Wages Boards, and there are now few important industries in which the principle of Joint Industrial Councils, on the lines suggested by the Whitley Committee, has not been accepted. Down to the end of 1920 seventy-three such councils had been established, covering, together with the interim industrial reconstruction committees, 3,500,000 workpeople.

Industrial Courts Act, 1919.

The State, while encouraging all these efforts for securing industrial harmony, takes no direct part, with the exceptions already noted, either in operating the machinery or enforcing the awards. Where, as in England, employers and employed are alike, for the most part, well organized and keenly alert, it is better so; but the abnormal conditions induced by the war and by its cessation seemed to many to justify such a measure of interference as was embodied in the Industrial Courts Act, 1919. This Act empowered the Ministry of Labour to employ three methods for the settlement of industrial disputes: (1) conciliation; (2) arbitration; (3) investigation, or court of inquiry. It further swept away all the elements of compulsion in arbitration which had been necessitated by war conditions, and set up a permanent Court of thirteen persons, engaged 'solely and exclusively in industrial arbitration'. Of the 914 cases of industrial disputes settled, during the year 1920, by the several methods entrusted to the Ministry of Labour, 628 were settled by arbitration and 286 by conciliation. Of the former, 540 were due to awards of the Industrial Court, 75 of single arbitrators, and 15 of *ad hoc* boards of arbitration.[1] Dr. Macnamara, a recent Minister of Labour, would seem, therefore, to have some ground for the optimistic view that there is emerging 'a change in the method of settling wage problems that is going to bear the happiest and most fruitful results in the future'.

That his prediction may be justified to the hilt will be

[1] Gee, *Industrial Year Book*, p. 688.

the sincere hope of all persons of goodwill. But the practical adjustment of wages disputes is one problem; the theoretical determination of the laws which define the limits within which such adjustments are possible is another. The distinction should be observed both by moralists and economists. It is vain either for the State or for philanthropic individuals to attempt that which is economically impossible; but economists on their part will be wise, in view of the development of economic thought on the subject treated in this chapter, to beware of dogmatism. If, however, as I incline to believe, the theory propounded by Walker and Jevons is sound, optimism is justified by science. The increased productivity of labour will, apart from temporary fluctuations, be reflected in the upward tendency of wages, and that without detriment to the interests of those who provide the other requisites of production. Whether enhanced wages will command an increase in the necessaries and comforts of life will depend, however, on considerations which remain to be investigated. Of these determinants the most important is the value of the commodities which labour helps to supply, and which, in return, it demands. To the problem of exchange or value we must, therefore, proceed.

BOOK IV. THE PROBLEM OF EXCHANGE

CHAPTER XII

VALUE AND PRICE

'Value is the life-giving power of anything; cost the quantity of labour required to produce it; price the quantity of labour which its possessor will take in exchange for it.'—RUSKIN, *Munera Pulveris.*

'Value only indicates the relation or ratio of quantities which pass in an act of exchange. . . . Every free act of exchange must imply increase of utility.'—STANLEY JEVONS, *Principles*, p. 51.

'Of everything which we possess there are two uses: both belong to the thing as such, but not in the same manner, for one is the proper and the other is the improper or secondary use of it. For example, a shoe is used for wear, and is used for exchange.'—ARISTOTLE, *Politics*, I. ix. 3.

'The exchange value of every offered commodity depends . . . on the education of buyers, and on all the moral elements by which their disposition to buy this or that is formed.'—RUSKIN, *Unto This Last*, p. 113.

'Want' the basis of Economics.

THE basis of Economics, it has been truly said, is human want. Man desires something and in order to get it will, if necessary, give something: it may be his own labour, or goods of which he has become in one way or another possessed. So fundamental is this process that some have actually proposed to abandon the term *Economics*—the science and art of household management, and substitute for it the term *Catallactics*—the Science of Exchange. To do so would, it is submitted, be to perpetrate an error as gratuitous as it is grave. Yet the preceding chapters should have made it clear that implicit in the argument with which they were concerned is a problem not hitherto discussed—the problem of relative values or exchange. Acutely conscious of this difficulty some economists have preferred to treat the problem of value

before discussing that of distribution, or even that of production. Desire does logically precede production; it is to satisfy a want that man works. Yet the traditional order of treatment would seem to be justified. Production is stimulated by wants, but the satisfaction of wants does not necessarily involve exchange. The production or acquisition of commodities is the fundamental fact in Economics. Under the modern industrial system the distribution of the product, or its equivalent in money, follows hard upon production, but only after the commodity has been produced or acquired does the desire to exchange some portion of it arise.

Nevertheless, the problems to which the exchange or circulation of commodities gives rise are so important, alike from the standpoint of scientific economics and from that of social well-being, that they demand close analysis.

Value and utility.

The older school of economists were wont to distinguish between two kinds of *value*: value in use, and value in exchange. Evidently there is a wide distinction. Some of the most satisfying things are free to all without payment and without price—for example the air we breathe, or beautiful natural scenery. Many things may yield to their possessor satisfaction which is out of all proportion to the satisfaction which they would yield to any one else. A knife given to me by a dead comrade may possess such value to me that I would not, as the phrase goes, exchange it for its weight in gold. But these are sentimental values with which the economist, as such, is in no way concerned. For them it is better to employ the term utility.

Ruskin and 'Values'.

Ruskin, at war with orthodox economics, contends that, owing to the false teaching of the economists, the world at large has got a perverted or inverted sense of values. 'Value', according to his definition, is 'the life-giving power of anything'. As a definition of value, however, this is misleadingly wide; as a definition of utility unnecessarily narrow. The old gun-metal watch given to me on my tenth birthday by my father may be 'valuable' to me beyond the price of rubies; yet its life-giving power is

negligible or nil, though its utility is high. Ruskin's criticism is, therefore, not so much unsound as irrelevant. The economist, without at all depreciating the 'value' to Mr. Ruskin, and maybe to many others of the things which he prizes, is clearly entitled to define his own terms; and the term value will, therefore, be used in this treatise, in accordance with the best modern usage, as 'the power which an article confers upon its possessor, irrespective of legal authority or personal sentiments of commanding, in exchange for itself, the labour or the products of the labour, of others'.[1] Elliptically we may define it as *power-in-exchange.*

Exchange is clearly a primitive instinct in man, for the schoolboy, who reproduces primitive instincts with singular fidelity, invariably wants to 'swop' his own possessions for those of his mates. Immediately, however, there arises the question: On what terms? How many marbles will he give in exchange for one apple? Why not several apples for one marble? If *B* demands for his apple more marbles than *A* thinks it 'worth', the exchange will not take place. But what considerations decide *A* and *B* in determining the relative 'worth' of apples and marbles?

This raises one of the most important and one of the most difficult problems in Economic Science. Why should so much of commodity 'A' exchange for so much of commodity 'B'. What, in fine, determines value?

Theories of Value.

To this question the answers suggested by different writers vary almost indefinitely: but most of the answers may be classified under four main heads: (i) that value is absolute or intrinsic; (ii) that it depends upon the amount or quality of labour expended upon the commodities respectively given and received in exchange; (iii) that it is measured by cost of production—in which, of course, labour is an important ingredient; and (iv) that it depends upon the final or marginal utility possessed by the commodities which are the subject of exchange for those who exchange them.

[1] Walker, *Political Economy*, p. 81.

Intrinsic Value.

The theory of intrinsic or absolute value may be dismissed with brief consideration: since we have agreed that the term 'value' is to be restricted to things which possess power in exchange. But the philosophers from Plato to Ruskin have shown great reluctance to abandon the idea of value inherent in a commodity, apart from its power to command the supply of some other commodity or service. Aristotle, though recognizing the exchange value of commodities regards this as a secondary or even improper use of them. 'Of everything which we possess there are', he said, 'two uses: both belong to the thing as such, but not in the same manner, for one is the proper and the other is the improper or secondary use of it. For example, a shoe is used for wear, and is used for exchange; both are uses of the shoe. He who gives a shoe in exchange for money or food to him who wants one, does indeed use the shoe as a shoe, but this is not its proper or primary purpose, for a shoe is not made to be an object of barter.'[1] A literal observance of this precept would evidently compel every one to make his own shoes, and indeed everything else which he needs; since, if one man is to specialize in the making of shoes he must obtain in exchange for his own products at least the wherewithal to live.

'Verum Pretium.'

The Romans, in the laws of the Twelve Tables left the determination of value or price to the higgling of the market; in fact, to the free play of supply and demand; but gradually there crept in the ethical idea of the *verum pretium* or just price. Mediaeval theory developed this notion of justice. Thus Aquinas wrote: 'If either the price exceeds the value, or conversely the value exceeds the price of the thing the balance of justice is destroyed.' Yet both the Emperor Diocletian, who attempted by his edict *De pretiis rerum venalium* to fix exchange values, and the later scholastic philosopher, might have learnt from Cicero a more correct view. Cicero, indeed, came very near to the modern doctrine of final utility when he wrote: 'The only limit to the value of such things [bronze statues] is

[1] *Politics*, I. c. 9.

the desire which any one has for them, for it is difficult to set bounds to the price, unless you first set bounds to the wish.'[1] But the Middle Ages clung tenaciously, and, in view of the prevailing economic conditions, not perhaps illogically, to the idea of the *verum pretium* or absolute value.

The Labour Theory.

That idea could not, however, stand against the growing commercialism of the modern era. It became essential to formulate the laws which determine value in exchange or market price. Still Adam Smith paid so much deference to the ethical principle as to distinguish between 'natural' or normal price, and market price. 'When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.'[2] But it must be observed that 'the natural price itself varies with the natural rate of each of the component parts of wages, profit, and rent'. The market price may be either above, or below, or exactly the same as the natural price, to which, however, it tends to approximate. Exchange value is determined, according to Adam Smith, by 'the quantity of labour which it enables the [the seller] to purchase or command. Labour therefore is the real measure of the exchangeable value of all commodities. The real price of everything, what every thing really costs to the man who wants to acquire it is the toil and trouble of acquiring it'. Underlying this passage there are, it will be noted, two distinct ideas: that labour is at once the determinant of value, and the measure of value. But a difficulty at once suggests itself: how is labour itself to be assessed: by quantity or quality? Adam Smith himself demonstrates the variations in the degree of skill or hardship attaching to labour in different occupations, but in taking labour as the universal measure of value he has in view the average unit of worth of

[1] *De Beneficio*, IV. xxv.

[2] Bk. I, c. vii.

the average labourer. Even so, the analysis is far from adequate or precise.

Marx's Theory.

Moreover, it has had a mischievous influence upon some of Adam Smith's successors. Ricardo went very near to formulating a pure labour-cost theory of value. He speaks of labour as 'being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities'. Marx, anxious, as we have seen, to prove that capital is a thief, reaping where it has not sown, absorbing all the value of commodities in excess of the bare subsistence wage which is necessary to enable the labourer to live and to reproduce his kind, seizes eagerly upon the admissions of Adam Smith and Ricardo. 'The value of a commodity', says Marx, 'is determined by the quantity of labour expended during its production.' But to Marx, as to Ricardo, we must put the question, What precisely is meant by 'quantity of labour'? and indeed by 'labour'? Does the term include labour of brain as well as of hand?

The difficulty was not unperceived, but it was not solved. 'It is not very easy to find', says Adam Smith, 'any accurate measure either of hardship or ingenuity.' Ricardo thought that 'the estimation in which different qualities of labour are held comes down to be adjusted in the market with sufficient precision for all practical purposes'. But that is precisely what does not happen. If it did, half our industrial troubles would find an easy solution. They arise in largest measure from the difficulty of equating different kinds of labour; of assessing the relative value of a unit of labour expended, say by the chemist and the miner, by the barrister and the bricklayer. Marx thought that he had solved the difficulty by reducing the different kinds of labour to a common measure of units of 'socially necessary labour'. 'The labour time socially necessary is that required to produce an article under the normal condition of production, and with the average degree of skill and intensity prevalent at the time.' This conclusion would seem to be not very far removed from that of Adam Smith;

though the Scotchman brought his theory into the realm of reality by assigning great practical importance to the higgling of the market, while the Frankfurt philosopher did not.

Plainly, then, the labour theory fails to supply a sufficient explanation of the fact.

Mill's Theory.

It was the merit of Mill to have perceived that no single explanation will cover all the different cases. There are, indeed, two conditions applicable to all cases: first, there can be no value without utility; no one will give anything for something which he does not want. If desire exists, however weak it may be, the thing possesses utility; and, secondly, there must be some degree of difficulty of attainment. A thing which can be obtained gratuitously and without any effort cannot possess value. But difficulty of attainment varies in respect of (i) things which cannot, under any circumstances be reproduced, the supply of which is, therefore, absolutely limited; (ii) commodities which can be reproduced, in practically unlimited quantities, without an increase in cost of production; and (iii) commodities which can be reproduced, but subject to the law of diminishing returns, in other words, at increased cost. Mill took no account of a fourth and very important category including commodities, the cost of reproducing which diminishes with the increase of demand for them. The practice of 'dumping'—or selling goods in a foreign market at a price below that which prevails for the same goods in the country where they are produced—arises from the operation of this law of increasing returns. In agriculture a point is reached relatively quickly, at which increased expenditure of capital and labour ceases to be rewarded by proportionately increased returns. In many manufacturng processes, under modern conditions, the tendency is for cost of production to diminish in proportion to increase of demand. The second of Mill's three categories may, therefore, be absorbed into the category of goods subject to a law of increasing returns. In the case of all goods included under the two latter categories, value, according to Mill, depends upon cost of production.

This theory must, however, in any case be modified to the extent of substituting for 'production', 'reproduction'. Suppose that the cost of producing steel rails has risen by 50 per cent owing to a rise in the wages of miners or engineers, or to any other cause, who would sell his stock, under normal conditions, at the cost of production? Similarly, if the cost of production had fallen 50 per cent, what purchaser would pay a price which would cover the actual cost?

Articles not susceptible of reproduction.

But what determines the value of commodities which come under Mill's first category: articles which cannot be reproduced at all—a Vandyk portrait, for instance; an autograph letter of Cromwell's; the first folio of Shakespeare? Here, says Mill, the determinant of value must be the ratio between demand and supply.

Supply and demand.

In the very broadest sense this is true; but in Mill's, as in all the older theories of value, there lurked an insidious tendency to approach the problem too much from the side of supply, and to give insufficient consideration to the element of demand. It matters not at all what it may have cost to produce a given article, if there be no demand for it. If the demand exists the value may be high, even though it should have cost nothing to produce it. Mill was quick to perceive this truth in relation to articles which could not be reproduced. May it not apply also and equally to articles which can be reproduced; in fact, to everything which is exchanged?

Utility theory of value.

The answer to this question supplies the clue to the modern theory of value as expounded by Jevons and the Austrian School of Economists. What matters the quantity or quality of labour expended upon a given article? What matters the cost of producing it? 'If it be not fair for me, what care I how fair it be?' Value is not merely objective: but subjective; price is determined by the mind of the buyer and the mind of the seller. As a general rule, and in the case of most commodities, a seller will not accept an exchange which does not at least remunerate him for the cost of producing the article he parts with. If the

demand for a reproducible commodity is insufficient in intensity to cover the cost of reproduction, that particular article of commerce will not be reproduced, and a merchant or manufacturer may be compelled to clear his existing stock at a loss. Skill in the difficult art of 'cutting losses' is unquestionably one of the most indispensable qualifications for commercial success. But Economic Theory has regard not to temporary crises—though the Art of Business is closely concerned with them—but to permanent conditions. Except under the stress of transitory circumstances market price will not fall below normal price.

How much market price may exceed normal price will depend partly upon the disposition of the purchaser, partly upon that of the vendor; most of all upon the activity of competition. The more closely a particular article approximates to monopoly, the less will competition operate, the greater the temptation to combination among sellers, the better the opportunity for the formation of 'rings' and 'trusts'.

Trusts and Trade Unions.

To say that trusts or combinations, whether of employers or employés, are under no circumstances justifiable would be ridiculous. Adam Smith declared that 'masters are always and everywhere in a sort of tacit but uniform combination' to keep down the ratio of wages. It was perfectly natural that the wage-earners, so soon as they were legally permitted to do so—and even before—should combine to defeat that manœuvre. It may be thought by some that the pendulum has swung over far in the opposite direction, but so long as economic weapons are, on one side or the other, employed only for the attainment of economic objects, a prudent legislature will interfere as little as it can, without sacrifice of the largest public interest. If competition is active and an impartial legislature is vigilant to prevent artificial interference with the free play of this most wholesome and life-giving economic agent, there is little permanent danger of the supremacy of combinations on a scale detrimental to the public interest. Behind the walls of a protective tariff, whether the protection be

afforded to capital or to labour, or under restrictions imposed on one side or the other by a timid or partial legislature, anything may happen. Reference to this matter must here, however, be confined to the influence of interference, whether that interference comes from the State, or from the illegitimate combination of sellers or buyers, upon exchange values.

Monopolies.

The value of articles or service which are affected by monopoly or semi-monopoly depends absolutely upon the equation of supply and demand. But it is important to observe that both factors of the equation are more variable than is commonly supposed. The supply of pictures by Vandyk is not, of course—cynicism apart—unlimited. But even of Vandyks the 'supply' depends largely on the demand. If the demand is weak the supply will be small. As the demand increases, so will the supply,—up to a relatively remote point. If the average price for a Vandyk be £100, the temptation to possessors of Vandyks to put their pictures upon the market is relatively slight. If the price were rapidly to advance to £1,000, many possessors of a Vandyk would consider whether the satisfaction of ownership was equal to the satisfaction to be otherwise obtained from £1,000. If the price further advanced to £100,000 not a possessor of a Vandyk would remain unperturbed. Probably every Vandyk in the world would come into the market, with the result that the supply would exceed the demand—the effective demand—and prices would fall rapidly until equilibrium was reached.

Final utility.

The truth perceived by Mill and his school in relation to Vandyks has been revealed to later economists as a truth of universal applicability. Stanley Jevons and the Austrian school—Menger,[1] Wieser, and Böhm-Bawerk in particular—have generally got the credit for effecting what was hardly less than a revolution in economic thought. Not unjustly as regards the scientific formulation of the Theory of Final or Marginal Utility. But it remains doubtful whether that

[1] Carl Menger's *Grundsätze der Volkswirtschaftslehre* was published in the same year as Jevons's *Theory* (1871).

formulation has not tended rather to darken than to clarify counsel. Ruskin, after his manner, was careless as to consistency of exposition. Thus he will expound, with impartial emphasis, a labour theory of value on one page ('the exchangeable value of a commodity is that of the labour required to produce it, multiplied into the force of the demand for it'[1]); the *verum pretium* on another ('the value of a thing is independent of opinion and of quantity'[2]); yet I do not know of a clearer exposition of the Final Utility theory than the following: 'Price depends on four variable quantities: A, the quantity of wish the purchaser has for the thing; opposed to α, the quantity of wish the seller has to keep it. B, the quantity of labour the purchaser can afford to obtain the thing; opposed to β, the quantity of labour the seller can afford to keep it. These quantities are operative only in excess; i. e. the quantity of wish (A) means the quantity of wish for this thing, above wish for other things; and the quantity of work (B) means the quantity which can be spared to get this thing from the quantity needed to get other things.'[3]

Unto This Last, however, was published only in 1860. As far back as 1776, Condillac, a French contemporary of Adam Smith's, wrote: 'The value of things increases by scarcity and diminishes by abundance. It may even by abundance diminish to a point where it disappears. A thing that is superabundant will be without value wherever it cannot be turned to account, since it will then be absolutely useless.' In 1834 an Englishman, W. F. Lloyd, published a remarkable *Lecture on the Notion of Value*, in which he clearly distinguished between 'abstract' (total) utility and 'special' (marginal) utility[3] illustrating the latter by the case of a hungry man, to whom the supply of successive ounces of bread are of diminishing utility. 'Value', he says, 'in its ultimate sense, signifies a feeling of mind which shows itself always at the margin of separation

[1] *Unto This Last*, p. 81. [2] *Ibid.*, p. 118.
[3] *Ibid.*, p. 136.

between satisfied and unsatisfied wants'.[1] This comes very near to the modern theory of marginal utility.

That theory affirms (i) that value is determined by subjective utility; (ii) that the utility of successive units of a given commodity gradually decreases, since the intensity of a want diminishes as the number of units possessed increases; and (iii) that it is the utility of the last unit possessed (the least useful since it corresponds to the least intense desire) which determines and limits the utility of all the others.[2] A hungry man would pay very highly for two eggs, something less for a third, and for a sixth very little. If he and the possessor of six eggs were alone in the world the value of each egg would be determined not by the value of the first but by that of the sixth. Or as Wieser, the Austrian economist neatly expresses it: 'The value of a supply of similar goods is equal to the sum of the items multiplied by the marginal utility.' But to every exchange there must be two parties. There is a marginal utility to the buyer and a marginal utility to the seller. If A's desire to possess the sixth egg is represented by 3*d.*, while B's willingness to part with it is represented by a minimum price of 4*d.*, no exchange will take place, and the fifth egg will represent the marginal utility and will change hands say at 5*d.* Hence both demand and supply are, as we have seen in the case of the Vandyk picture, elastic, one might almost say conditional, terms. So long as the minimum price of a bicycle was £20, the demand was limited, say, to 1,000 persons. A diminution of price to £10, would perhaps encourage 1,000,000 persons to try to secure one. In the case of a bicycle, the supply of which is, up to a point, subject to the law of increasing returns, the mere increase of effective demand would bring down the price: supply and demand thus reacting upon each other until equilibrium was reached.

The doctrine of marginal utility is then of universal validity. One small qualification only would seem to be necessary. There are clearly some articles the value of

[1] Cp. Haney, p. 529. [2] Gide, p. 55.

each unit of which increases instead of diminishing in proportion as wants are satisfied. A collector, for instance, of first editions, who already possessed twelve out of twenty of the works of a given author will increase his price the nearer he gets to the goal of his ambition, until he will probably be willing to give twenty times as much for the twentieth volume as he gave for the first. But this is an exceptional case which need not deter us from giving a general assent to the truth of the theory.

Reconciliation.

One question remains to be answered: Does acceptance of the Utility doctrine necessarily exclude the older cost of production theory? Dr. Alfred Marshall would answer in the negative. He declares that the theory of value is like the keystone of an arch and is maintained in position on the one side by marginal utility and on the other by cost of production. Ultimately, the exchange value of by far the greater number of commodities is limited by cost of reproduction. Within that ultimate limit the precise terms upon which the exchange is effected depend upon marginal utility.

Ethical aspects of the problem.

In considering the problem of exchange we have thus far been concerned solely with the operation of Economic laws. We have attempted to discover an answer to the question how those laws will, in fact, operate on the hypothesis that all parties are actuated by economic motives. Can this matter be allowed to rest there? Will the moralist be satisfied that it should? Ought men and women, who desire to deal justly with their neighbours, to act as Economic law suggests that they will? Is it morally right to attempt, under all circumstances, to sell at the highest price a purchaser can be induced to pay, and to buy as cheaply as you possibly can? May the juristic maxims be accepted as a guide to commercial transactions? Will it suffice to add to *caveat emptor, caveat vendor*?

Was the *pretium verum* no more than mediaeval superstition?

The State has already decided that in certain cases the *emptor* cannot be left without protection in regard to his purchases. By enacting laws against adulteration, for example, the State admits the validity of the assumption that buyer and seller are not always on equal terms. If both were omniscient the protection afforded to the buyer would be impertinent and superfluous; but, as a fact, the seller is, or may be presumed to be, an expert, the buyer cannot be a universal expert. But there are cases where the converse is true. An expert dealer purchases from an ignorant cottager a bit of old furniture or old china at what he knows to be a tithe of its market value. The price measures the willingness of the seller to sell; the law of utility is not violated; but can such a transaction be defended before the tribunal of ethics? Plainly, it cannot. Every right-minded person would condemn it.

Would the verdict be different if one dealer was buying from another? Presumably it would; and for two reasons: firstly, the two men might be presumed to be on equal terms; if one was more ignorant than the other, he might fairly be made to suffer for his inadequate professional equipment. Secondly, the seller would be protected by the fact that he would expect and presumably would get his own profit on the transaction. Cost of production —or its equivalent, the prime cost of the commodity to the seller—would limit the sphere within which the law of utility would operate. If the seller obtained his anticipated profit, what matter to him if the purchaser were subsequently able to make a much larger, or even an exceptional, profit? Is it indeed possible to lay down rules as to what may be regarded as the limit of 'legitimate' profits? It is, of course, only in exceptional cases, such as that imagined in the illustration that the question can arise. Costs of production on the one side, free competition on the other, may be trusted to avert, in ordinary cases and in the long run, any danger of 'illegitimate' profits.

Sweated labour.

It will, however, be remembered that normal price is such as will cover the normal cost of production. Plainly, 'sweated' labour does not contribute an adequate amount to the aggregate cost of production. Of the underpaid labour the ultimate purchaser of the commodities may or may not get the advantage. Is he morally justified in taking it? But how can he know or be expected to know that 'it isn't linen he's wearing, it's human creatures' lives'? Various devices have been adopted by well-meaning persons and societies to meet this difficulty, and to enlighten the individual purchaser on the conditions under which the goods he proposes to purchase have been produced. But the efforts have been on a relatively small scale and have not been uniformly successful.

An attempt has consequently been made to meet the difficulty, as we have seen, from the other end. The State has introduced and has established Trade Boards for the regulation of wages in those industries which afford special opportunities to the less scrupulous employers for the exploitation of cheap labour. To the economic results of this experiment reference has already been made.[1]

Apart from the product of sweated labour, and certain exceptional cases to which reference has been made, it would seem to be reasonable and safe to leave the determination of value to the operation of economic laws as expounded above. Those laws operate over the whole of the vast area of trade, save only in an obscure and relatively unimportant corner; and their operation is in the main consistent not only with law but with equity. There are, of course, circumstances under which the buyer or seller is not really free to accept or refuse the bargain suggested: when owing to urgent necessity the scales are heavily weighted against the one party or the other. Where that is the case the State may legitimately intervene to secure the reality of freedom to all parties, even if it be at the sacrifice of the semblance of liberty to individuals. But plainly, it is to the common advantage that the

[1] See *supra*, p. 163.

deviations from the general rule should be as rare as possible, that each case should be closely scrutinized, and that deviation should be permitted only when the case in favour of it is, on the merits, exceptionally strong. Very seldom does dishonesty prove to be in the long run the best policy. The works of darkness may flourish for a while; but iniquity rarely yields a steady dividend. The ignorant and the weak may fairly claim protection from the State, but folly had best be left to learn its unpalatable lesson in the only effective school.

CHAPTER XIII

THE MECHANISM OF EXCHANGE

MONEY

'The use of substances of intrinsic value as the materials of a currency, is a barbarism; . . . it is, however, still necessary partly as a mechanical check on arbitrary issues, partly as a means of exchange, with foreign nations. In proportion to the extension of civilization, and increase of trustworthiness in Governments it will cease.'—RUSKIN, *Munera Pulveris*.

'The only currency that is of practical and everyday importance is that which is endorsed with the virtue of universal acceptability'.—HARTLEY WITHERS, *Meaning of Money*.

IT was the purpose of the previous chapter to explain why so much of one commodity exchanges for so much of another. But barter is cumbrous and inconvenient; in the complex commercial life of to-day commodities are rarely exchanged directly for commodities. One of the primary needs of all communities which have advanced beyond the most primitive stage is, therefore, to discover some one commodity which will serve as a common denominator of value, and if possible as a common medium of exchange as well.

Money.

Money serves the double purpose: it provides a convenient measure of value and also a medium through which the exchange of commodities can be easily effected. But despite the social convenience attaching to the use of it, moralists have from the first regarded it with profound suspicion. True, it was not money but the love of money which St. Paul denounced as the root of all evil.[1] Aristotle was less careful to discriminate: 'Originating in the use of coin, the art of money-making is generally thought to be concerned with it: . . . for coin is the starting-

[1] 1 Timothy vi. 10.

point and the goal of exchange.'[1] If the argument of the preceding chapter be sound, Aristotle is, in this matter, entirely in error. The starting-point and the goal of exchange is the satisfaction of human wants, a process in no way dependent upon the use of any medium of exchange. Yet the prejudice persists, chiefly, we may surmise, owing to the vulgar identification of money and wealth, and the ostentatious exhibition of wealth by the lavish expenditure of 'money'.

Nevertheless, the convenience of money is admitted. Price is but value expressed in terms of a single commodity. What shall that commodity be?

Money substitutes.

Various things have been at different times selected for this purpose. Cattle and flocks were in primitive times so commonly selected that the Latin word for money *pecunia* recalls by its etymology the form (*pecus*=cattle) which money took. The armour of Diomede, as Homer tells us, cost nine oxen; that of Glaucus one hundred. Salt was taken as the medium of exchange in Abyssinia; shells in some parts of India; tobacco in Virginia; sugar in some of the West Indian islands; dried cod in Newfoundland; and elsewhere nails, iron bars, or hides. But on the whole the metals have for obvious reasons been generally preferred. The ancient Spartans used iron: the ancient Romans copper, but the world has now mainly concentrated upon silver and gold, and paper which represents gold or silver.

A medium of exchange.

What reasons can be assigned for this choice? It is plainly desirable that the medium selected should be portable, and for that reason should possess high value in small bulk. Oxen are valuable but not portable. It should also be malleable—of a substance that will easily take a stamp indicative of its value: that rules out sugar; and divisible in such a way that the sum of the pieces has a value equal to that of the individual mass; that rules out diamonds; and durable, so as to stand plenty of wear and tear without losing value. Moreover, since the medium selected should serve not only as a measure

[1] *Politics*, I. ix.

of value for commodities now in the market, but as a standard for payments extending over a long period, as, for instance, long leases, it should also be stable: not liable to rapid fluctuations in value. But the quality most essential of all is that it should be desirable—something which at all times and under all circumstances every one will be glad to possess, and therefore to give in exchange for it their own superfluities.

Gold and silver coinage.

It is evident that silver, and still more gold, possesses most if not all these qualities in high degree, and certainly more of them in combination than any other commodity which has as yet been suggested for use as 'money'. They are convenient to handle and carry; they are coinable, malleable, and divisible; they are, especially when combined with a judicious admixture of alloy, very durable, and their durability contributes to their stability, since a year's production of silver or gold will bear but a small proportion to the aggregate stock. Above all, they possess both utility and value. They are eagerly desired for purposes other than service as coins, and consequently they are generally, but not quite invariably, of high value in exchange. Aristotle, doubtless, makes an effective rhetorical point when he says: 'He who is rich in coin may often be in want of necessary food. But how can that be wealth of which a man may have a great abundance and yet perish with hunger, like Midas in the fable, whose insatiable prayer turned everything that was set before him into gold?' Even gold, therefore, cannot be said to possess intrinsic value. Can anything else? Most people are ready, under most circumstances to give something in exchange for plums or apples: yet a surfeit of plums is not unknown. Valueless in Worcestershire, they may still, however, possess value in Manchester. But the same would be true of Midas's gold. Valueless in the desert, it would nevertheless have commanded its price in Alexandria.

Tabular standards.

Gold then is not invariable in value. Consequently it does not afford a perfectly satisfactory standard for deferred payments. There is no absolute guarantee that, if land is

let to-day on a building lease for ninety-nine years, the £50 receivable as rent to-day will represent the same value in exchange ninety or even fifty, or even twenty, or even five years, or even five months hence. The possessors of 'fixed' incomes have been made painfully conscious of this truth since 1914. To the discerning it was apparent before that date. It has, therefore, been suggested that long-dated bargains should be based not upon a single commodity, but upon several staple commodities in combination. It is contended that by this means the value-fluctuations of the several constituent articles will be neutralized and a reliable standard be obtained. Units of, say, coal, wheat, potatoes, sugar, tea, cotton, silk, wool, are taken at the current market price of the day, to make up 100. Variations in price are then marked in percentages.

Index-numbers.

This device of an *index-number* has long been familiar to statisticians, and is undeniably of high scientific value. It has, of late years, been adopted for the purpose of affording a basis for variations in the rate of wages. Thus in January 1918, the Board of Trade index-number for retail prices was computed at 190, or 90 per cent above the prices current for the same commodities in July 1914. The figure rose, without appreciable reactions, until in October 1920 it reached a maximum point of 276, since when, it has fallen, equally steadily, to 177, in January 1923. The retail index-figure as computed by the Board of Trade has shown noticeable variations from the wholesale index-number which reached a maximum of 325 in March 1920, and declined rather steeply to a minimum of 163 in September 1922. This variation need not, for the moment, detain us; but we may in passing note that the compilation of a cost-of-living index by the Ministry of Labour and the adjustment of wage-rates on that basis, through failing to give complete satisfaction either to those who pay or those who receive wages, has nevertheless done something to minimize industrial friction during a period of falling wages.

Objection to index-numbers.

The novel experiment has, however, been attacked from

two points of view: socialists maintaining that the basis of calculation is too narrow, and that the resulting figure is unduly favourable to employers: while orthodox statisticians and economists complain, with greater reason, that to base wages at all upon cost of living, without reference to production, must necessarily encourage false hopes among wage-earners, and must lead to unemployment and industrial disaster. The argument is, however, somewhat beyond the scope of our immediate inquiry and cannot therefore be pursued. Enough to say that it is generally agreed that while the device of a cost-of-living index, if scientifically employed, may be helpful in promoting industrial harmony in a period of abnormal fluctuations in prices, a tabular or multiple standard is too complex for adoption in ordinary commercial intercourse.

Bimetallism.

Is it, however necessary, on that account, to rely upon a single metal as a standard of value? Would it not help to ensure greater stability in values, and facilitate the interchange of commodities between countries which adopt different standards of value, if at least two metals, gold and silver, were yoked together in the service of international commerce? The implied argument derives considerable force from two facts: first, that so long as Paris maintained an open mint for both gold and silver at a fixed ratio of $15\frac{1}{2}$ to 1, the relative value of the two metals remained constant, and gold-using and silver-using countries were enabled to trade without the disturbing factor of widely fluctuating currencies. Secondly, it is true that since 1873, when Paris closed her mint to the free coinage of silver, the ratio between gold and silver has varied frequently and rapidly, with no little inconvenience, say, to the gold-using cotton-spinners of Lancashire and the rupee-using merchants of Bombay.

Great Britain, by demonetizing silver in 1816, placed the currency of this country on a single gold basis. Had other countries followed suit the wide divergence in the relative value of gold and silver would, no doubt, have manifested itself very quickly; but as France and the Latin Union—

Italy, Belgium, Switzerland, and Greece—kept open their mints for the free coinage of silver and gold at a fixed ratio, the whole world practically retained a joint standard. Germany, perceiving the great prosperity of England, and rightly or wrongly attributing that prosperity to the single gold standard, decided to take advantage of her victory over France in 1870–71 to require payment of the indemnity in gold and to close her own mints to silver. France was consequently compelled, in self-defence, to do likewise, and the Latin Union and the United States also immediately followed suit.

Gold or silver mono-metallism.

Thus was the joint-standard broken down, and the world was divided into the two opposing camps of gold-using and silver-using states. That grave inconvenience was thus caused to international trade cannot be questioned; but it is still a matter of acute controversy whether it would be desirable, or even possible, to re-establish, by combined legislative action, the double or joint-standard. Why, it is asked, should governments be more successful in fixing the relative value of gold and silver than in fixing that of cotton and potatoes? The argument is not conclusive, since no one doubts that governments can and do influence, in considerable degree, the demand for gold or silver by coining one or both metals into money and by conferring upon the money so coined the power of legal tender. Yet, on the other hand, it remains true that in the last analysis, the relative value of gold and silver is determined by considerations similar to, if not identical with, those which, as we have seen, determine the value of commodities at large.

Currency disturbances, *temp.* Elizabeth.

The re-discovery of the New World and the development of the silver mines of Mexico and Peru contributed a very important factor to the economic crisis of the later sixteenth century. The purchasing power of silver—the value of silver in relation to other commodities—declined rapidly, with results disastrous to the interests of all consumers, and especially to the poorer classes. Nor were the results exclusively economic. Insufficient attention has been paid to the effect of currency inflation upon the

constitutional crisis of the seventeenth century. The Stuart kings were expected by Parliament to maintain the State upon an income which might have been adequate before the depreciation in the value of silver, but which, after the steep rise in prices, compelled them, with highly significant results, to apply to Parliament to relieve their necessities.

Financial crisis of 1797.

At the end of the eighteenth century another severe crisis was brought about by the French war, and the consequent depletion of the gold reserves of the Bank of England. The Government was compelled to intervene and to prohibit cash payments. As in the Great War of 1914–18, paper superseded coin as the medium of exchange; but the paper was issued by the Bank, not by the Government. For some years commendable restraint was exercised in the issue of paper, but this restraint broke down in the later years of the Great War, and the over-issue of paper money inevitably led to an inflation of prices. In 1810 there were £25,000,000 of notes in circulation, and the premium on gold rose to £8 7*s.* 8*d.* per cent; in 1813 the premium rose to £29 4*s.* 1*d.*, and the gold value of a five-pound note fell to £3 10*s.* Soon after the Peace a Committee was appointed to consider the state of the circulating medium and the continuance of the Bank Restriction Act. This committee, presided over by Sir Robert Peel, reported in favour of the gradual resumption of cash payments, and the Bullion Act of 1819 embodied the recommendations of the committee. So strong, however, was the position of the Bank of England that cash payments were in fact resumed on May 1, 1821, two years before the stipulated date. That the resumption inflicted some temporary hardship on individuals cannot be denied, but it is none the less certain that few Acts have contributed more directly to the stability of English commerce and the maintenance of English credit than the Bullion Act of 1819. Yet one thing was still lacking, though the Act established the principle that all bank-notes should, on demand, be payable in gold, the Legislature did

nothing to secure that the practice should correspond with the precept. Consequently, the numerous country banks which, during the period of restriction, had come into existence, frequently failed to meet their note obligations, and during two financial crises, those of 1825 and 1839, the Bank of England itself was exposed to considerable danger. Sir Robert Peel who, in 1841, had become Prime Minister, was anxious to complete the work so well begun in 1819, and in 1844 he succeeded in passing into law the Bank Charter Act.

The Bank Charter Act.

That famous Act contained three main provisions. By the first the Banking Department of the Bank of England was absolutely separated from the Issue Department, and the latter was placed under stringent regulations. By the second, the convertibility of all notes issued by the Bank was secured. The Bank was allowed to issue £14,000,000 of notes (the amount dictated by experience) against Government securities, but for every note issued beyond that amount, the Bank was compelled to retain bullion, of which 75 per cent was to be gold. By the third, the note issue of other banks was severely restricted. Private and Joint Stock banks established after the date of the Act were forbidden to issue notes at all; old-established banks were limited to an aggregate issue of £8,500,000—the average amount in circulation during the years which immediately preceded the passing of the Act.

The principle of this Act has been subjected to almost continuous criticism; but despite the fact that it had to be suspended during the monetary crises of 1847, 1857, and 1866, and that the Government were prepared to suspend it again, had it proved necessary, in the Baring crisis of 1890 and, once more, in the autumn of 1914, experience has proved the soundness of the principle it enshrined, and has vindicated the prescient wisdom of Lord Overstone, who inspired, and Sir Robert Peel, who carried it. For nearly a century it has been the proud boast of the Bank of England that its notes will 'go anywhere', and, within the limits of their face value, will 'do anything'.

Gold discoveries.

In 1853–4 a fresh disturbance in the relations of currency and prices was threatened by the largely increased output of gold resulting from the opening up of mines in Australia and California. During the decade 1830–40, the annual output of gold was about £2,750,000. In 1853–4 it rose to £26,000,000. Prices inevitably rose, but the rise was less than might have been anticipated owing to the fact that trade was developing with great rapidity. Consequently, the ratio of currency to trade was less exaggerated than would otherwise have been the case. For it cannot be too clearly understood that inflation and deflation are not absolute but relative terms. A large increase in currency, whether the currency be gold, silver, or paper, does not necessarily lead to the depreciation of money or, inversely, to an appreciation in the prices of commodities. If the volume of trade expands in a ratio equal to the expansion of the currency, the latter will maintain its value and prices will remain stable. Inflation takes place only when currency is issued in excess of the trade demand for it. Deflation ensues when the volume of trade increases disproportionately to the currency.

Paper money.

These considerations lead naturally to the question of paper money. The only serious competitor to gold and silver, among the civilized nations of the modern world, is some form of paper. A paper currency may take the form of bank-notes or Treasury notes, of cheques, or bills of exchange. A bank-note was, in its original form, simply a receipt for metal deposited with the goldsmiths. The receipt thus issued took the form of a promise to pay on demand gold or silver, as the case might be, and so passed as currency. Then ensued a vastly important development. 'Some ingenious goldsmith conceived the epoch-making notion of giving notes, not only to those who had deposited metal, but to those who came to borrow it, and so founded modern banking.'[1] This fertile device was carried, as we have seen, too far during the period 1797–1821 when banks were, by law, prohibited from paying

[1] Hartley Withers, *The Meaning of Money*, p. 24.

gold on demand in exchange for their notes. But the spread of the disease was arrested by the Bullion Act of 1819, and an effective safeguard against its recurrence was imposed in 1844 by the Bank Charter Act.

Treasury Notes.

A second form of paper currency with which during these last years most modern countries have become familiar is that of Government notes, known in this country as Currency or Treasury Notes. Since August 1914 this form of currency has, to all intents and purposes, entirely superseded the use of gold. But the precise economic effects of the large issue of this paper are still a matter of controversy. The facts may, however, be briefly stated. The amount of gold currency at the end of July 1914 was estimated at £120,000,000, exclusive of the reserve of gold held by the Bank of England against notes. In addition to that, the amount of Bank of England notes in circulation amounted to £28,306,350, again exclusive of gold in reserve. In December 1918 the Treasury note circulation amounted to £311,000,000, the bank-note circulation to £68,200,000, or a total currency of £379,200,000 as compared with £148,000,000 in July 1914. When we note that in the same period wholesale prices had advanced by 136 per cent, it is difficult to refuse to recognize an intimate connexion between the volume of currency and the price of commodities.

How far is 'Paper' 'good' money?

A question at this point emerges: how far paper notes can be regarded as 'good money'? The conventional answer used to be that while 'convertible' notes—notes which being based upon gold could on demand be exchanged for gold—were sound money, inconvertible paper was not. The theoretical distinction had this much of practical justification: that the temptation to issue paper in excess of the commercial demand is almost irresistible. A gold basis, scrupulously preserved, necessarily averts this danger. Unscrupulous governments find, in the issue of inconvertible paper money, an easy means of raising loans, and by continual indulgence in the same vice a still easier means of repudiating their obligations for repayment of

the principal, or even for payment of interest. Artificial inflation of the currency is practically tantamount to a cancellation of indebtedness. Nevertheless, the abuse of a practical expedient must not be permitted to confound or conceal an unassailable theory. The value of money, whether it be coin or paper, depends, be it repeated, upon the ratio between the supply of and the demand for it. Coined money may and does depreciate if the supply of it exceeds the demand. Paper money may appreciate if the demand exceeds the supply. It is not, therefore, the element of inconvertibility which tends to depreciation, but the certainty that inconvertibility will tempt to excess of issue; and the knowledge that few governments, even the most scrupulous, can, in times of difficulty, resist the temptation.

Cheques.

Bank-notes and currency notes do not, however, exhaust the varieties of paper money. However strict the State restrictions upon the issue of 'notes', the bankers and the commercial community can effectually evade them by the use of cheques. A bank cheque is in some respects a more convenient form of currency even than bank-notes; but between the two there is this difference. The acceptability of the bank-note depends solely upon the credit of the issuing bank or Government; the acceptability of a cheque depends not only upon the credit of the bank on which it is drawn, but also upon the credit of the person who signs it. Evidently, therefore, a cheque will have only a relatively limited range of currency. Yet the enormous volume of trade which is now transacted by this method is proved by the fact that for the year 1921 the Clearing House Returns were £34,526,096,000. Speaking generally, cheques have a very brief currency, and do not in the aggregate exceed the amount deposited by the drawers in the banks on which they are drawn. Except at a time of crisis they would never remotely approach it, and the experience of bankers enables them to calculate, to a nicety, what amount of legal currency it is necessary for them to retain in order to meet the ordinary demands of their customers. The

balance between that sum and the deposits is utilized by the banks for commercial purposes, and it is from such utilization that profits are derived. Mr. Withers, however, utters a warning which should be heeded: 'The cheque like the bank-note is at once cash and credit, and it cannot be too early stated and understood that every credit operation implies a possible cash transaction, and that prudent banking consists in making due allowance for cash demands involved by the creation of credit.'[1]

Bills of Exchange.

A third form of paper currency, and for purposes of high commerce the most important, is the Bill of Exchange. A Bill of Exchange is merely an order addressed to an individual or a bank to pay a certain sum on a certain date in a certain place. It thus differs from an ordinary cheque in three respects: The time of payment is deferred; the place of payment is usually distant; and thirdly, during the period of currency and before the time for payment matures the Bill passes from hand to hand, and so far as the names endorsed on the back of the Bill carry credit, the Bill itself may perform all the functions of ordinary currency. Such Bills are, as a rule, issued against actual commodities in transit from place to place. The following is a common form: 'Ninety days after sight pay this first of Exchange (second and third not paid) to the order of —— the sum of £10,321 6*s*. 6*d*. sterling, value of same, as per advice, against ten thousand bags of coffee per S.S. "Victoria" to Rotterdam. To Messrs. ————, London.' Directly such a Bill is issued it may, provided that the drawer has credit, become currency; but for what amount? Evidently the value of a Bill drawn in Rio on London will not be the same in Rio as it will in London. Whether that value will be more or less than the face value; i. e. whether the Bill is at a premium or a discount, will depend upon considerations which must be discussed in connexion with the problem of international trade. It is equally plain that its value to-day will be something less than its value ninety days hence. If the holder of such a Bill

[1] Hartley Withers, *The Meaning of Money*, p. 36.

wants immediate cash for it, he will attempt to discount it. The amount which he will receive to-day for a three months' Bill will depend, assuming the Bill to be first-rate, upon the present value of money.

The value of money.

The 'value of money' is, however, an ambiguous term. Two meanings are in reality attached to it. First, it means the purchasing power of money as measured in commodities. With this we have already sufficiently dealt. Secondly, it means the amount which will have to be paid by a person who desires to borrow money, or, inversely, the amount which can be obtained by a person who has money to lend. The value of money in this second sense is determined absolutely by the ratio between the demand for and the supply of it. Money is said to be 'cheap' when the supply is large and the demand small, and conversely it is said to be 'dear' when the opposite conditions prevail. The price of money is indicated, though not determined, by the rate at which the Bank of England is, on any given day, prepared to discount Bills. The Bank rate, so frequently quoted, is, in fact, the rate of discount, which in its turn determines the rate of interest. Thus, in June 1914, the Bank of England rate of discount was 3 per cent. In the months of crisis which followed it rapidly advanced to 10 per cent; it is now (1922), after considerable intermediate variations back at 3 per cent. The relatively low rate in 1914 was due, mainly, to an abundant supply of loanable money; the low rate to-day is due to the prevailing depression in trade and consequent lack of demand for credit. When trade is brisk, the demand for money wherewith to transact it naturally increases. If the increased demand is only commensurate with an increased supply of money, no increase in the rate takes place. Conversely, if for any reason there is an increase in the available supply without a corresponding increase in trade activity, the rate of discount and of interest tends to fall.

Short loans.

In this connexion it is, however, noteworthy that the value of 'short money', that is of money at call or but for short periods of time, appears to have little relation to the

rate of interest obtainable on more or less permanent investments. Money may be almost unusable in the money market at a moment when, on the Stock Exchange, securities are low and the prevailing rate of interest, therefore, comparatively high. Ultimately, some reconciliation must take place. If money continues 'cheap' for any length of time, the abundance of the supply must gradually have a favourable effect upon the price of securities. But bankers, financiers, and other dealers in money must keep a considerable proportion of their assets in a liquid form; in other words, they must be able to realize them at very short notice. The ordinary investor is in a different position. He has regard less to the day-to-day market value of the securities purchased than to the prospect of regular dividends and the safety of the capital he has invested, over a considerable period of time. Still, the 'dearness' or 'cheapness' of money cannot, in the long run, fail to exercise an important influence upon Stock Exchange values.

The value of money and trade.

Even greater and more important is the influence of this factor upon commerce and industry. If bad trade tends to cheapen the money, cheap money tends to improve trade. The part played by banks in the production and distribution and exchange of commodities has been already considered. The assistance thus rendered takes the form of a loan or overdraft. The terms on which it is rendered depend (apart from the credit of the borrower) upon the condition of the money market, to which the Bank of England rate of discount may be accepted as a rough index. The action of the Directors of the Bank in raising or lowering the official rate is rarely exempt from criticism, and it sometimes happens that there is considerable disparity between the official rate and that prevailing in the open market. On the whole, however, the commercial community have reason to be grateful to the Directors for the skill and prudence with which their delicate duties are generally performed. Their supreme concern is to keep the financial ship of State on an even keel: to discourage the rash

speculation which leads inevitably to crises, while, at the same time, affording every possible assistance to legitimate enterprise.

Relation to Ethics.

The operations of Lombard Street and the policy of Threadneedle Street may seem to be somewhat remote from Economic Theory and still more from practical Ethics. Yet there is in truth no department of Economic Science in which law is more inexorable than in regard to the problems of money and currency. About the application of principles to practice there may indeed be legitimate difference of opinion; but the principles themselves are immutable, and a clear apprehension of them is essential alike to intelligent criticism and to right conduct. No man is adequately endowed for the day-to-day duties of citizenship, much less for the direction of commercial or industrial enterprise, who is content to remain ignorant of the laws of value, or the theory of money. Nor is any ethical teacher entitled to express an opinion on an economic problem unless he has been at pains to master them. Christ was not in fact confronted by complex economic problems; but from His method of dealing with those who sought to elicit his opinion on social questions, it is safe to infer that had He been He would have firmly refused to travel beyond the self-imposed limits of His mission. Profoundly skilled in the analysis of human motives He consistently refrained from the expression of opinion on questions which lay beyond the limits of His province. Those who to-day claim to speak in His name have, it may be urged, a more difficult task, and a more extended responsibility. The plea may be conceded; but the concession seems only to reinforce the main contention of this book, that enlarged responsibilities involve also additional obligations. Not the least urgent of those obligations is the duty to look before they leap, and, in particular, to study before they speak. The theory

of value and price is less complex than it has sometimes been made to appear; but it demands for its apprehension clear thinking and adequate appreciation of the issues involved. The love of money may be the root of all evil; but to misunderstand the true functions of money, to assign to them less or greater importance than they actually possess, is simply to darken counsel, to excite prejudice, and to embitter social relations. Knowledge here as elsewhere is the portico to the temple of charity.

CHAPTER XIV

THE PROBLEM OF INTERNATIONAL TRADE

THE THEORY OF FOREIGN EXCHANGE

'It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. . . . If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.'—ADAM SMITH (1776), p. 184.

'Nothing can be bought from strangers except with native products.'—J. B. SAY (1803).

'I would indicate as the distinguishing characteristic of my system *Nationality* . . . . a system which is not founded on bottomless cosmopolitanism, but on the nature of things, the lessons of history, and the requirements of the nations.'—FRIEDRICH LIST (1841), Eng. trans., p. xxix.

'The Political Economist has no more call to preach free trade as the policy of nations than the physiologist to advocate monogamy as a legal institution.'—F. A. WALKER, p. 23 (1883).

'Free Trade and Protection are only means to the achievement of national and imperial aims.'—J. SHIELD NICHOLSON, *A Project of Empire*, p. ix (1909).

International values.

WE must now proceed to consider the question how far the laws of value and the theory of money as formulated in the preceding chapters are applicable to the exchange of commodities and the liquidation of indebtedness between country and country. It should at the outset be noted that in fact exchanges are not between country and country but between individuals in different countries. The question, however, remains, whether the value of commodities so exchanged is determined by the laws which operate in domestic transactions. J. S. Mill perceived that his theory of value, depending in the main upon cost of production, did not operate internationally, and that as regards international values we must therefore

fall back upon another formula. The value of an imported commodity is, he argued, determined not by the cost of producing that article in the country of origin, but upon the cost of producing the article which is exported in exchange for it; or, more precisely, the aggregate cost of production of the whole volume of exported and imported commodities respectively. Assuming that the total trade between England and France consisted of champagne exported from France and coal exported from England, the value of champagne in England and of coal in France would depend upon the cost of producing not those articles themselves, but the articles taken in exchange. But, this explanation being obviously inadequate, though not, as far as it went, inaccurate, there was added to it the further consideration that international values depended upon the relative strength of demand, e.g. for English coal in France and for champagne in England. By those who have followed the argument of the preceding chapters it will be readily perceived that this latter consideration brings us near to the doctrine of marginal utility. That doctrine would seem, therefore, if it be accepted as explanatory of values at all, to be of universal validity.

International Exchange.

For purposes of ordinary commerce, whether national or international, values have, however, to be translated into prices. Financial obligations have to be discharged in money. This transaction is relatively simple as between two individuals in the same town; a slight complication is introduced if money has to be transmitted to a distant town in the same country; a much more serious complication arises when the transaction involves the sending of money from one country to another. Not only is it expensive and risky to transmit the coin, but the coin of one country is not legal currency in another; consequently the importer will have to devise a means of paying his debt to the exporter in the currency of the exporter's country. In short he must buy foreign money. An English wine merchant must buy francs, lire, or marks, as the case may

be. At what price, reckoned in English currency, will he be able to do so? If the mutual indebtedness of England and France exactly balanced, the price of their respective currencies would be at '*par*'. This rarely or never happened, consequently the coin of one country does not exchange for the coin of another at 'par of exchange'. By the par of exchange is meant 'the fixed intrinsic value of the currency unit of one country expressed in terms of the currency of another which uses the same metal of standard value'.[1] In England an ounce troy of standard gold is coined into $3\frac{2}{4}\frac{9}{8}\frac{9}{0}$ sovereigns, so the price in currency of an ounce of gold is £3 17*s.* 10½*d.* French law requires that 155 twenty-franc pieces shall be coined from 1 kilogram of gold nine-tenths fine. We can therefore ascertain arithmetically the ratio of the sovereign to the franc. That ratio is 1 to 25·2215. Thus the par of exchange is said to be $25\frac{1}{2}$. By a similar process the ratio between the sovereign and the German gold mark was established at 1 to 20·43. But the actual rate at which an English sovereign will exchange for French francs or German marks has always varied somewhat, and of late years has varied widely, from the theoretical par of exchange.

Coinage.

The question may naturally arise, why different countries should thus have complicated their international trade transactions? To the simple it would appear evident that half the world's difficulties would be solved by the adoption of a universal coinage. To this device there are, however, two practical obstacles. The *amour propre* of a self-conscious nation invariably demands a distinctive coinage just as it demands a distinctive postage stamp. Financial greed confirms the promptings of patriotism. All States, monarchical and democratic, have sought to derive a revenue from the sale of stamps and from the issue of coinage. A private coinage was one of the most prized of the privileges of the feudal nobility; the feudal lords were deprived of the privilege by the Crown; but kings, lords, and peoples have all imposed a charge known as

[1] Clare, *The A. B.C. of Foreign Exchanges.*

seignorage upon the issue of authorized money. No State, even for the convenience of its merchants, is likely therefore to abandon its distinctive coinage. Even if it did, the difficulty would still remain of transmitting coin from one country to another for the liquidation of commercial liabilities. Some coin must inevitably pass, unless imports and exports between any two countries should happen exactly to balance. Even so, the individuals between whom the transactions actually took place would have to seek some means of satisfying their respective creditors. As a fact the transmission of coin has been to a very large extent avoided by the use of Bills of Exchange.

Foreign Bills of Exchange.

In domestic commerce the present value of a sound Bill of Exchange depends entirely upon the date of its maturity. In foreign Bills of Exchange we have to add to the element of time the complicating element of distance. The value in Paris of a Bill of Exchange drawn on London will depend simply upon the ratio between the demand for such bills and the supply of them. The demand for them will depend upon the amount of English goods which, having been supplied to France, have to be paid for by Frenchmen in English money. The supply of bills will depend upon the amount of French goods sold to England. Every Frenchman, who has bought English cotton or English coal, will need to purchase in France a bill drawn on London. Every Frenchman who has sold champagne to England will have such a bill to dispose of. It is improbable that things will work out so neatly that the wine merchant of Rheims, having sold £1,000 worth of wine to a merchant in England, will wish to purchase £1,000 worth of coal in Cardiff, or cotton in Manchester. If not, he will sell his bill to an intermediary or broker in Paris, who will re-sell it to a French coal-merchant. But what price will the broker give to the wine-merchant and demand from the coal-merchant? The price will depend upon the balance of trade. If the value of French champagne sold to England exceeds the value of English coal sold to France, there will evidently be an excess of bills drawn on London.

Conversely, there will be in London a deficiency of bills drawn on Paris. Consequently, in the last resort, the balance, large or small, will have to be liquidated by the transmission of gold. Every Englishman owing money in France will naturally be anxious to avoid the risk and expense of transmitting gold, and will therefore be willing to pay for a Bill of Exchange, which will discharge his debt, something in excess of its face value, and the competition for such bills will force them up to a premium. If the balance of trade be on the other side the bills will plainly be at a discount. But the premium can never exceed the cost of transmitting coin. For transactions between New York and Liverpool, or Manchester and Bombay, the expense of transmission will obviously be much greater, and the range of premiums and discounts proportionately wider. For it is hardly necessary to add that the causes which operate to put a premium upon bills in one country will conversely operate to reduce bills to a discount in the corresponding country.

Such, in simple terms, is the principle of international exchange. That principle can best be understood by keeping a firm grip upon a few elementary truths which it may be desirable to reiterate. First, that all trade is, at bottom, barter, and consists in the exchange of commodities for commodities. Secondly, that barter being at best a clumsy method, mankind has from the earliest days had recourse to a medium of exchange. Thirdly, that the ever-increasing division of labour, the extension of trade, and the opening up of distant markets, have called into existence a complicated machinery, the primary object of which is to avoid the trouble and expense of the use and transmission of coined money. This object is attained by a mutual cancellation of indebtedness. The machinery is seen at work in its simplest form at a country bank. If every one in a given town employed the same banker no coin need ever pass except for very small payments. In large business no coin ever does pass except in payment of a small balance on vast international transactions. What the

banker does for domestic trade, the bill-broker does for international trade. He cancels mutual indebtedness. Lastly, it is essentially and fundamentally the balance of trade which determines the rate of exchange between country and country, though in that case the rate is also accidentally determined by currency variations. At bottom, however, all trade is barter.

Foreign trade and fiscal policy.

I. Mercantilism.

International trade has only developed on a large scale during the last four centuries. During that period three theories have successfully dominated national policy in regard to foreign trade. The first of these theories was that of the mercantilists. The mercantilists rose to prominence in most of the progressive countries of Europe in the sixteenth century, and reached the zenith of their influence in the latter half of the seventeenth century during the ministry of Colbert in France. Adam Smith's vigorous exposure of the fallacies of mercantilism has led to some misunderstanding of the objects at which the disciples of that school aimed. Mercantilism, despite its name, was not exclusively nor perhaps mainly inspired by commercial motives. It was concerned as much or more with national security and power as with national wealth. Whether or not the theory was guilty of the error of confounding wealth with money, the disciples of the school were certainly so far impressed with the political advantage of accumulating a plentiful supply of the precious metals (nor could the advantage in those days be gainsaid) that they sought to secure what was known as 'a favourable balance of trade'. This doctrine assumed that the country which exported to a greater value than it imported commodities would receive the balance in bullion. This assumption led to the imposition of a protective tariff, but the duties were imposed less with the object of obtaining a revenue than of excluding foreign products, and thus necessitating the import of bullion.

II. Free Trade.

The mercantilist doctrine and its resulting fiscal policy were naturally assailed with great vehemence by Adam Smith. Paradoxically, Adam Smith was not himself

oblivious of the political danger which might conceivably accrue from the complete abandonment of a mercantilism. Defence, as he pointed out in a famous phrase, is more important than opulence. That was, in effect, the mercantilist case. But, on the purely economic side, mercantilism, Colbertism, or protection, was undoubtedly open to the objections so acutely perceived and so vigorously exposed by Adam Smith. Applying to international trade his fundamental principle of division of labour, he argued that all the world would benefit if each national unit were to devote itself to the production of those commodities to which it was, by nature, best adapted, and freely exchanged its own products for the products of other national units. In the realm of practical affairs, Pitt, Peel, and Gladstone enthusiastically espoused the doctrines of Adam Smith, with the result that in England the policy of free trade displaced that of protection, as the theory of *laissez-faire* superseded that of mercantilism. But the commercial lead so rapidly established by England did quite as much to alarm its neighbours and competitors as to encourage imitation. Free trade, it was argued, might well conduce to the prosperity of a country so wealthy and so peculiarly situated as England, but less fortunately situated and more backward countries could not afford the luxury. Other causes, mainly nationalist and political, combined to induce a considerable reaction against the theory of *laissez-faire*, especially in countries where the practice of protection had never been abandoned. On the side of theory, the publication in 1841 of Friedrich List's *National Political Economy* proved a very effective counterblast to Adam Smith's cosmopolitan doctrine. On the side of practice the rapid progress of Germany seemed to suggest that industrial prosperity was at least not incompatible with high protection.

III. Protection.

Between 1880 and 1910 the foreign trade of Germany increased by no less than 174 per cent. During the same period that of the United States, also under a high protective tariff, increased by 125 per cent. Yet no conclusive

argument can be drawn from these figures as the foreign trade of Belgium, with its free-trade policy increased, during the same period, by no less than 165 per cent. Protectionist France, on the other hand, could show an increase of only 57 per cent, and free-trade England an increase of 74 per cent. Plainly, therefore, fiscal policy affords an inadequate explanation of the facts. England may take comfort from the fact that it is impossible for a country, which has so long led in the race for commercial supremacy, to show so large a percentage increase as relatively new countries like Germany and the United States. France, on the other hand, may derive such comfort as she can from the fact that to a country with a stationary population, and a population which is in an exceptional degree self-sufficing, foreign trade is a factor in commercial prosperity of relative insignificance.

The issue.

It would, however, be disingenuous to deny that the apostles of Free Trade, whether in theory or in practice, had been compelled, by the events of the last half century, to adopt a somewhat less confident and dogmatic tone. Nor has Protection ever lacked advocates even in free-trade England. The argument for Protection is not, however, by any means, exclusively economic. The mercantilists, as we have seen, were inspired more by political than by fiscal considerations. Free Trade, it is argued, is inconsistent with that spirit of Nationalism which has certainly been one of the most potent factors in moulding the destinies of the modern world. Nor is it more consistent with that regard for the weaker brethren which mere humanitarianism, to say nothing of Christian ethics, would enjoin. Free trade is frankly based upon the competitive principle. The doctrine seemed to derive substantial support in the middle years of the nineteenth century from biological research and from the triumph of the Darwinian theory. But the survival of the fittest would seem to involve, at least in commerce if not in the animal kingdom, the disappearance of the less fit. To Carlyle *laissez-faire* seemed to resolve itself, in practice,

into 'the devil take the hindmost'. The humanitarianism or paternal spirit invoked by social reformers like Lord Shaftesbury, Charles Kingsley, John Ruskin, and others of like views, has undoubtedly in the last half century exercised an immense influence in England and elsewhere upon the policy of the State. Social legislation has reflected the marked reaction against the doctrine of *laissez-faire*. This reaction or movement towards a widening of the sphere of governmental interference would seem to be in complete harmony with the growing influence of Protection. It is therefore curious, not to say paradoxical, that the advocates of State interference in domestic affairs should almost invariably, in England at any rate, be pronounced Free Traders. John Ruskin, for example, announced himself in *Unto This Last* as 'an utterly fearless and unscrupulous Free Trader'. He refused to admit even the idea of reciprocity. 'Let other nations if they like keep their ports shut; every wise nation will throw its own open'.[1] Nevertheless, with characteristic inconsistency, Ruskin denounced the principle of competition, and refused to contemplate the idea that agriculture should ever be permitted to fall into decline, or that England should concentrate her economic activities upon the production of cotton and coal.

Protection v. Free Trade.

Yet in the Protectionist armoury there is no stronger weapon than that supplied by the argument in favour of maintaining a judicious variety of industries. It cannot indeed be denied that the principle of division of labour, carried to its logical conclusion, might very well condemn any given community to the production of a single commodity. Were the whole world to adopt the policy of Free Trade, England, for example, might be found to possess no relative advantage over other countries save in the production of coal. To reduce the whole of England to a coal-field might conceivably be to her economic advantage, but it is difficult to understand how such a consummation could be reconciled with the doctrine of beauty which Ruskin

[1] p. 97.

never tired of preaching. Another favourite argument of the Protectionist, particularly potent at periods when the problem of unemployment looms large in the public eye, is the duty of finding employment rather for your own people than for the foreigner. The argument is undoubtedly impressive, but the Free Trader does not admit it to be conclusive. Protection, he contends, may alter the distribution of employment, but cannot increase the aggregate amount of it. The exclusion of foreign gloves, for example, may lead to more regular employment for English glove-makers. If, however, the consumers of English gloves are compelled to pay more for their gloves, they will have so much the less to spend upon their hats or their shirts. A protective duty on gloves may therefore, while increasing employment in Worcester or Yeovil, throw out of employment the hat-manufacturers of Stockport, and may close down some of the linen mills of Belfast.

'Make the foreigner pay.'

The Protectionist, however, is ready with his *riposte*. If Protection should fail to relieve unemployment, it will at least mitigate the burden of taxation. If foreign goods penetrate into English markets you can, at least, make the foreign producer pay for the privilege he enjoys and so relieve the burdens imposed upon your own industries. This argument deserves and will receive further consideration when we pass to the problem of taxation. Here it must suffice to observe that the question of the incidence of any given tax cannot be quite so summarily dismissed. The general consensus of economic opinion inclines to the view that the burden of taxation cannot be so easily transferred from the consumer to the producer; but much depends on circumstances, and further consideration of this difficult problem must be deferred. There remains an argument which is almost purely political: namely, that a protective tariff can be utilized in order to give a preference to your friends as against your enemies, and more particularly to your relations, even at the expense of your friends. The argument for Imperial preference, so strongly urged by the late Mr. Joseph Chamberlain, and cautiously

readmitted into English fiscal policy by the efforts of his son,[1] makes a natural and a wide appeal, and cannot be set aside on purely economic grounds.

Result of Free Trade.

These are among the factors which have undoubtedly contributed to a weakening of the Free Trade position even in the country of its origin. No economist can say positively and dogmatically that they ought not to be permitted to prevail. He is, however, entitled, nay impelled, to point out that it would be difficult, if not impossible, for Great Britain now to retrace its fiscal steps, without a large redistribution if not an appreciable diminution of the existing population. The pursuance for three consecutive generations of the policy of Free Trade has, in combination with other economic tendencies, produced three striking results. First, it has led to an increase of population wholly disproportionate to the land-area and to the ability of the soil to maintain the population planted upon it. As already pointed out, the soil of Great Britain, if cleared of all buildings and divided up to the last inch of mountain and waste, would give to every person now living upon it $1\frac{1}{3}$ acres. Secondly, the territorial division of labour has led to the concentration of a very large proportion of the population in cities, and in mining villages. In short, Free Trade has largely contributed to the urbanization of England. Thirdly, a large proportion of the population, something between a half and two-thirds, has become wholly dependent for its daily subsistence upon imported food.

Imports and Exports.

The vast volume of imports, largely food and raw material, can be paid for only by a correspondingly vast volume of exports. The possibility of exporting English products depends, however, very much upon two factors: on the one hand, upon the ability of Great Britain to absorb imports from abroad; and, secondly, upon the ability to produce her cottons, woollens, machinery, and coal, at prices which her foreign customers can afford to pay. The imposition of a protective duty upon foreign foodstuffs

[1] In the Budget of 1919.

would admittedly increase the price of food to the English consumer. If it failed to produce this effect, the protective duty would afford no encouragement to English agriculture. If it did produce this effect, it would necessarily enhance the cost of living, and recent experience has conclusively demonstrated that a rise in the cost of living involves a rise in the rate of wages. But of all the elements in the production-cost of commodities, as in the cost of their distribution and transport, wages are by far the most important. Consequently, every rise in the rate of wages diminishes the power of Great Britain to sell her products abroad, and conversely the willingness of the overseas producer of food to supply the necessities of the British population.

History of.

Yet the statistics of our foreign trade appear, at first sight, to throw some doubt upon the accuracy of these deductions. For a long time past, the value of English imports has greatly exceeded the value of exports. It was not always thus. In the year 1355, the value of exports was £294,000 or 2*s.* 6*d.* per head of the inhabitants as compared with £120,000 of imports or 1*s.* per head. Under James I exports were valued at £2,091,000 or 8*s.* 3*d.* per head; imports at £2,140,000 or 8*s.* per head. By the close of the seventeenth century exports led by only one penny, 15*s.* 1*d.* to 15*s.*; and though the volume of trade largely increased in the course of the eighteenth century this precision of balance was not seriously impaired. During the nineteenth century the balance tilted increasingly in favour of imports. Since the full effect of the industrial revolution, combined with the Free Trade policy, has been reflected in the statistics of foreign trade, there has been an ever-growing disparity. Thus, forty years ago (1882), British exports amounted to £214,060,000, or £6 17*s.* per inhabitant; imports to £348,000,000 or £9 16*s.* per head. By 1905 the total of exports reached £329,816,614; of imports £565,019,917. For 1913, exports were £525,245,289 and imports £768,734,739.

Conflicting deductions.

The facts are indisputable; the disparity is evident, but

very different are the interpretations suggested respectively by Protectionists and Free Traders. The Protectionist is apt to argue that such a disparity indicates extreme debility and proves that Great Britain must be living on her capital; plunging like a reckless spendthrift down the slippery slope of extravagance towards the yawning abyss of bankruptcy. The Free Trader is more optimistic. If the foreigner is willing to supply us with so large an amount of his products for a quantity of ours so comparatively small, we should be only too grateful and rejoice that the industrial activities of England command so generous a remuneration. Neither interpretation, as we shall see, discloses the real facts of the situation. In passing, however, it may be observed that the phenomenon is not peculiar to England, nor indeed to Free Trade countries. For the half decade between 1908 and 1912 the imports of France, excluding goods in transit, amounted to 35,077,000,000 francs, her exports 29,716,000,000—an average disparity of over 1,000,000,000 francs. Yet France is reckoned to be substantially self-sufficing.

Invisible Exports.

The explanation of the apparent paradox is simple. The excess of imports is far from indicating an easy descent to Avernus, partly because the phenomenon is more apparent than real. The analogy of the individual spendthrift is wholly irrelevant. We are not living beyond our income nor encroaching upon capital. On the contrary we were, prior to the war, steadily adding to the volume of our foreign investments, to the amount perhaps of £100,000,000 a year, and thus strengthening our position as a creditor country. Nor does the analogy of the individual trader serve any better. We were not buying more than we sold. The simple truth is that all we bought was visible; that much that we sold was invisible.

Freights.

The earnings of shipping and other mercantile services are alone reckoned to amount to about £100,000,000 a year in excess of the corresponding payments due from this country to foreigners. A simple illustration will elucidate this point. 1,000 tons of coal are shipped from Cardiff to

Montreal at 10s. a ton (f.o.b.). The declared value of the export, is, therefore, £500. By the time the coal is landed at Montreal it is worth, say, £1,000. To pay for it Canada exports £1,000 worth of wheat. On its arrival at Cardiff the wheat is worth £1,500. On that single transaction the disparity between exports and imports is, therefore, £1,000. The difference has gone into the pockets (mostly English) of the shipowners and the mercantile marine. Plainly, in such a case (purposely exaggerated), the disparity has not spelt a loss to England.

Foreign investments.

A second source of invisible payment for imports is or was to be found in the interest due on English capital invested in overseas countries. The amount of the capital was commonly reckoned, before the war, at about £4,000,000,000, and the interest at from £170,000,000 to £190,000,000. Not the whole of that interest was remitted to England in the shape of commodities, but a large proportion of it was, the balance being reinvested overseas, and thus further strengthening our credit.[1]

Other items.

A third explanation was supplied by Mr. Joseph Chamberlain in one of the most famous of his early speeches (1881). A Birmingham manufacturer exports to Nigeria brass deities, each valued at 10s.; he sells them to African chiefs at £3 apiece, and with the proceeds he purchases rubber which on reaching England is valued at £4. Export 10s.; import £4; but the disparity implies no disadvantage to English traders.

Other, but less important items, which contribute to the volume of invisible exports, are supplied by the commissions earned by the overseas operations of bankers and brokers; and by the profits on tourists, estimated in the case of France at £16,000,000; of Italy at £14,000,000, and of Switzerland—perhaps too modestly—at £8,000,000. Under this head, the balance would probably be against England, and certainly against the United States of America.[2]

[1] Gide (*op. cit.*, p. 333) estimates the pre-war revenue of France from foreign investments at from £60,000,000 to £80,000,000.

[2] *Ibid.*, p. 334.

The explanation offered in the preceding paragraph is not exhaustive, but it may suffice to dispel the alarm manifested by protectionists when confronted with the figures of foreign trade. One final and conclusive argument may, nevertheless, be added; not free-trade England only, nor protectionist France exhibits this phenomenon; the aggregate value of the world's imports was, in 1904, estimated to be 4 milliards of francs in excess of the world's exports. There is, needless to say, more than one important country which shows a balance the other way. The United States, for example, exported in 1921, £389½ millions more than she imported, or if bullion be added no less than £530 millions. Argentina was £154½ millions in excess. But these facts make more remarkable the aggregate excess of world's imports. Yet the phenomenon, though superficially unintelligible, is really susceptible, in the light of the explanations furnished in the preceding paragraphs, of a simple explanation. *Quantities* must exactly balance, except for losses in transit: but it is not quantities but *values* with which we have been concerned, and as Gide pertinently points out it is not surprising that the goods imported—that is to say goods at their destination—represent a greater value than the goods exported—that is to say goods at their starting-point.[1]

Ethical Issues.

It remains to ask, in conformity with the plan of this book, whether there are any ethical issues involved in the general problem of international trade? We may at once exclude discussion as to the morality of particular trades, such as the traffic in human beings; in opium; in noxious drugs; the sale of alcoholic liquors or firearms to 'backward' peoples, and the like. If, on ethical grounds, it be decided that such trade is wrong, it must, however great the economic advantage which may accrue from it, be

[1] *Ibid.*, p. 333.

denounced and abandoned. There is no commingling of the issues: no balance between contradictory contentions can be struck.

Fiscal policy and ethical problems.

It is otherwise with the problem of Free Trade and Protection. Here it is often necessary for the practical statesman to weigh the political argument against the economic, and for the moralist to equate ethical and economic values. For instance, adherence to a policy of Free Trade might conceivably lead to the extinction of the agricultural industry; the country side might then be left completely derelict save as a pleasure ground, and the whole working population be swept into the towns. The politician might therefore intervene with the plea that a sturdy agricultural population was essential to the security of the State; the student of eugenics or hygienics might insist that a teeming countryside was important on grounds of public health; while the moralist might condemn the concentration of the people in cities. It might be that none of these pleas would prove of sufficient weight to counterbalance the economic advantages derivable from an international division of industries which condemned England to supply the world with coal and cotton. It might be otherwise. But such considerations are at least capable of equation; and the statesman is, as a fact, consciously or unconsciously, perpetually equating them.

Commerce and Peace.

An even wider issue was raised in the earlier campaigns of the Manchester School. Bright and Cobden believed that in preaching the faith of Free Trade they were also making straight the path for peace between the peoples. The free-traders were not 'cotton spinners all'; Cobdenism had its idealism as well as its commercialism; the breaking down of fiscal barriers was only to be a prelude to the proclamation of a universal peace. Those who

> Dipt into the future, far as human eye could see,
> Saw the vision of the world and all the wonder that would be,
> Saw the heavens fill with commerce, argosies of magic sails,

Pilots of the purple twilight dropping down with costly bales,
Till the war drum throbbed no longer, and the battle flags were furled
In the parliament of man, the federation of the world.

The dream which inspired the Manchester School found its apotheosis in the International Exhibition of 1851. The great building of glass which temporarily housed the products of many peoples was to be a permanent temple dedicated to Peace. To the high-priests of the new cult Tennyson addressed his famous adjuration:

O ye the wise who think, the wise who reign,
From growing commerce loose her latest chain,
And let the fair white-wing'd peacemaker fly
To happy havens under all the sky,
And mix the seasons and the golden hours,
Till each man find his own in all men's good
And all men work in noble brotherhood,
Breaking their mailèd fleets and armèd towers,
And ruling by obeying Nature's powers,
And gathering all the fruits of earth,
And crowned with all her flowers.

But the drama faded. The initiation of a free-trade policy in England found few imitators. So far were the 'wise who reigned' from loosing Commerce's latest chain that they reimposed the shackles with increased determination, and busily occupied themselves in building higher and higher the massive walls of protective tariffs. Behind the walls built by Bismarck according to the plans of List, Roon and Moltke constructed their great camps and armed the entire nation. Other continental powers preferred to follow the military lead of Germany rather than the economic lead of England.

Militarism and Protection.

Was there, however, any causal connexion between militarism and Protection? Would the great armies have not been raised in equal numbers even if the Governments had followed the lead of the English free-traders? It might have been so; we cannot tell. But there is one observation which seems to be pertinent in this connexion.

Protection does not necessarily involve prohibition. As a fact, the military Powers derived a large revenue from customs duties. Militarism combined with Free Trade would have necessitated heavy direct taxation. Would the peoples who submissively paid their indirect taxes for the support of large armies have been equally docile if subjected, on a commensurate scale, to direct taxation? Again we are in the realm of hypothesis, but the questions may at least serve to suggest a possible connexion between the ethical convictions of the Pacifists and their economic policy of international trade.

It may well be that the time is not yet ripe either for universal free trade, or for universal disarmament. But the disciples of the Manchester School, even if their proposals were premature and their policy was carried out with undue precipitancy, were at least rigidly logical. They hoped for and expected the reign of peace, and they desired to accelerate its advent by throwing down all commercial barriers, and by treating the whole world as a fiscal unit. They failed; but who shall say that their success might not have averted Armageddon?

BOOK V.

THE PROBLEM OF CONSUMPTION

CHAPTER XV

SPENDING, SAVING, AND GIVING

THE USE OF WEALTH

'A true theory of consumption is the keystone of political economy.'—J. N. KEYNES. *Scope and Method of Political Economy*, p. 107 (1891).

'I have fearlessly declared your so-called science of Political Economy to be no science; because, namely, it has omitted the study of exactly the most important branch of the business—the study of *spending*.—RUSKIN, *Crown of Wild Olive*, § 77 (1869).

'It matters far less for the future greatness of a nation what is the sum of its wealth to-day, than what are the habits of its people in the daily consumption of that wealth.'—F. A. WALKER (1883).

'Jesus being not a deviser of social programmes does not enter into the question of the economics of thrift; but as an inspirer of personal lives offers a teaching which has a distinct bearing upon the ethics of saving. The reason which that teaching would emphasize for encouraging the saving of money is not that it makes more money, but that it makes better men.'—PROFESSOR F. P. PEABODY.

The problem of consumption.

THERE is a broad distinction between 'what is' and 'what ought to be', and throughout this book an attempt has been made to observe it. In regard to the production, the distribution, and the exchange of goods we can discern certain uniformities which we designate as 'laws'. The uniformities are, however, of a broad and general character, and within the generous boundaries of their operation, there is ample room for the exercise of human will; for an endeavour to bring the transactions of everyday life into conformity with ethical maxims, with 'what ought to be'. But the bounds though generous are inexorable. In the department of Economics to which we now pass, the limits, though not less inexorable, are even more generous, for we have now to consider the problems connected with the consumption of wealth, or in less technical

language the use which is and ought to be made of the commodities which the processes of production, distribution, and exchange place in the hands of individuals, or of the State, acting on behalf of the community. But it is with individuals that we are primarily, in this matter beyond all others, concerned, since the State can have no wealth to expend, save by the complaisance or through the coercion of individual citizens.

The 'use of wealth'.

There is, perhaps, no portion of our subject where Ethics are so closely and so obviously interwoven with Economics. But because the two strands so closely intermingle there is all the more reason to be precise in discrimination; and at the outset we must notice a possible source of confusion. The 'right use of wealth' is a common theme for the moralist; but the homilies of the preacher are generally addressed to those who are conventionally regarded as 'wealthy'—the man who has great possessions. The Economist is concerned with the pennies of the poor, not less than with the pounds of the opulent. To him the crumbs which fall to Lazarus are, in their degree, as much wealth as the rich banquets of Dives. The proper utilization of wealth by those who individually have little of it is, indeed, of supreme concern to the economist since they are many in number, and their aggregate consumption is consequently so large. For example, of the total consumption of alcohol in 1921, 79·3 per cent was consumed as beer, presumably the drink of the 'poor'; 17·5 as spirits, and only 3·2 per cent as wine, cider, and perry. None the less, the expenditure of the 'rich' must receive careful consideration in this chapter.

Consumption as a department of Economic Theory.

It is a truism to say that the end and purpose and completion of production is consumption. Money burns a hole in the pockets of a schoolboy. No one would grow strawberries if no one would eat them. Consumption, therefore, must govern production. Human desire, if translated into effective demand, is at the root of all Economic science. It seems, therefore, the more remarkable that this department of Economics should have received less specific attention, and should have been less subjected to

separate analysis, than the processes discussed in the preceding chapters of this book. But it will be observed, on the one hand, that this comparative neglect is perfectly consistent with the classical theories of value which laid stress upon Labour, cost of production, or supply, rather than demand; on the other hand, that the problem of consumption is really implicit in those of production, exchange, and distribution. The place assigned to the first would seem, therefore, to be a matter rather of convenience of arrangement than of economic principle. Nevertheless, it is not without significance that the more recent economic treatises, such as those of Walker and Gide, should have treated the problem of consumption specifically and apart.

Ruskin on consumption.

Ruskin, after his manner, made great play with the supposed delinquencies and deficiences of the orthodox economists in this regard: 'they had utterly neglected the study of spending'. Thus he wrote in *The Crown of Wild Olive* as late as 1869. But he had already in *Unto this Last* made the same point with similar emphasis. 'Economists usually speak as if there were no good in consumption absolute. So far from this being so, consumption absolute is the end, crown, and perfection of production, and wise consumption is a far more difficult art than wise production. Twenty people can gain money for one who can use it; and the vital question for individual and for nation is never "how much do they make", but "to what purpose do they spend".' And again: 'the final object of political economy is to get good method of consumption and a great quantity of consumption'. And once more: 'It is the manner and issue of consumption which are the real tests of production. Production doth not consist in things laboriously made, but in things serviceably consumable; and a question for the nation is, not how much labour it employs, but how much life it produces. For as consumption is the end and aim of production, so life is the end and aim of consumption.'[1] As so commonly happened, Ruskin emphasized an important truth, but deemed it necessary in doing so to ignore or depreciate

[1] *Unto This Last*, pp. 144, 150, 155.

the work of his predecessors. 'Consumption', wrote Adam Smith, 'is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to prove it.' It was, indeed, one of the main counts in Adam Smith's indictment of the mercantilists that the interest of the consumer was so constantly in their system sacrificed to that of the producer, and that they seemed to regard production and not consumption as the ultimate end and object of all industry and commerce.[1] The French economist, J. B. Say (1803), and the Russian economist, Henry Storch (1815), treated the consumption of wealth as a definite division of the subject. N. W. Senior emphasized the point that wealth is 'produced for the purpose of being made use of', and even J. S. Mill, by his insistence on the distinction between productive and unproductive labour, implicity recognized the importance of consumption. Still, Ruskin here, as elsewhere, did good service by emphasizing the point, the importance of which, though not ignored, had perhaps been somewhat inadequately enunciated.

Waste. There is, however, little danger that what are now known as the 'Dynamics' of wealth will ever again be neglected; least of all when an attempt is made to treat of the Ethics as well as the Economics of Wealth. The very word 'Economics', properly the 'ordering of the household', would seem to recall attention to this aspect of the subject. The household is, indeed, specially concerned with the art of wise spending and the avoidance of waste. But what is waste? Strictly regarded, everything is waste which is not productively consumed, nor can anything be productively consumed except by someone who is himself a productive labourer; nor is anything productively consumed, even by a productive worker, which is in excess of necessaries. This statement compels us, however, to give a somewhat extended connotation both to 'productive' and to 'necessaries'. The whole subject is indeed of considerable

[1] *Wealth of Nations*, iv, c. 8.

complexity. Even the straitest economic Pharisees would admit that anyone is doing productive work who produces any commodity or renders any service in return for which he can obtain anything of value. The moralist, on the other hand, would be inclined both to extend and to narrow this definition. He would regard as essentially productive much work for which nothing ever has been, or ever will be, given in exchange. The laborious research of a Casaubon, for example, frequently turns out to possess no exchange value. On the other hand, the moralist would refuse to apply a term so honourable to much work and many services for which there is an eager competitive demand.

Essential national services.

Perhaps it may help to unravel a complicated issue if we recall the experience gained during the recent war. During that period the whole nation was mobilized for public service. Economic truths were accentuated, familiarized, and, in a sense, simplified by the entire concentration of the activities of a whole community on one supreme task. People rightly looked askance upon anyone who was obviously on personal pleasure bent, and hardly less upon those who merely ministered to pleasure or luxury. Thus, long before conscription was applied, every patriotic citizen released his footman and his younger gardeners. A more delicate and more difficult question was raised by the exemption, say, of a young teacher, a young actor, or a curate. Was the amusement of the people an essential national service during war-time? Was even the teaching of the young, or the cure of souls? Many people will answer all three questions in the affirmative. Some may answer one or more in the negative; and for every answer, even though contradictory, there may be something to be said. It might reasonably be agreed that it was a real national service to keep up the spirits and to sustain the morale of the home-workers, and that even the men at the front would be inspired and comforted by the thought that those whom they had left at home, whether to work or merely to wait, were not deprived of the consolations of religion or even of the distractions of entertainment. That those who were at work in laboratory

or mine, in office or factory, were doing service not less essential to the winning of victory than the men at the front—even if the former obtained for their service a reward grossly disproportionate as compared with the latter—will not and cannot be denied. The essential point is, however, that during those years of strain and stress, every man and woman of conscience put to himself the question: Is my expenditure of energy and time the most effective and economical from the point of view of attaining the one object which really matters? As time went on that question was answered for all, except the aged, by the imperative orders of the State. Similarly, the problem of economic consumption was also temporarily solved by State action; the principle of sumptuary legislation was applied to the minutest detail of daily existence; in short, the whole resources of the State were mobilized for victory.

The mobilization of national resources in peace-time.

How far are the lessons inculcated by war-time experience applicable to peace? It would, of course, be sheer affectation to suggest that the same rigid standard of 'productive labour' or necessary consumption should be applied in time of peace. But economists and moralists are agreed that even if the connotation of 'necessity' and 'productive' be greatly enlarged the same principle must be rigidly applied to peace-time as to war. Only those who work, who contribute to the State some form of national service, are in strictness entitled to eat.

What is essential Service?

To many who have watched an August crowd at Vichy, or Aix, or Karlsbad, the thought must have often occurred—for what purposes are these people being cured? Would the world be worse off if an earthquake were to swallow them *en masse*? Evidently in answering that question we must discriminate. Among the crowd at Llandrindod, or Harrogate, or Aix, or Vichy, may be many men and women still capable of effective service and productive labour in the strict economic sense. There may be many again whom, for social or domestic reasons, it is important to restore to health and vigour. Even the confirmed invalid, bed-ridden and helpless, may be performing, either actively or passively,

essential national service; it may be only by the influence of a beautiful character; it may be simply by the example of suffering patiently endured; it may be merely as an object of unselfish devotion and altruistic service from others. Plainly, this is a matter on which a dogmatic decision were out of place. But it is also of the highest significance, both economic and ethical, to consider very carefully how far it is justifiable to provide even necessaries for entirely unnecessary people; how far it is justifiable to provide anything beyond necessaries for anyone; and finally, how 'necessary' and 'necessaries' are to be defined.

Necessaries and luxuries.

It may clear the path of a difficult argument if we deal first with points on which we may assume a general agreement. First, there may quite well be overwhelming reason, social or ethical, for keeping alive 'unnecessary' people, that is, people who are incapable of rendering any economic service, but there cannot be any economic reason for doing this; though we must be exceedingly careful as to the definition of 'economic service', before, even on economic grounds, we condemn such persons to euthanasia. Secondly, it cannot be economically justifiable to provide luxuries, or even necessaries, in excess for anyone. Thirdly, it is not economically sound or ethically right that any person, necessary or unnecessary, should have luxuries while effective workers lack any of those things which conduce to efficiency. Fourthly, it is on every ground important to enlarge the desires of men, or in other words to raise the standard of comfort. As Professor Roscher has truly said: 'A much greater number and the longer continuance of his wants are among the most striking differences between man and the brute. While the lower animals have no wants but necessities, and while their aggregate wants even in the longest series of generations admit of no qualitative increase, the circle of man's wants is susceptible of indefinite extension. And, indeed, every advance in culture made by man finds expression in an increase in the number and in the keenness of his rational wants.'

Is luxury good for trade?

A good deal may be thought to turn upon the interpreta-

tion of the epithet 'rational'. But even so it is perhaps dangerous to assume that the aphorisms enunciated above will command universal assent. Expenditure on commodities, which are admittedly not necessary and even conspicuously luxurious, is frequently justified on the ground that such expenditure is good for trade. That fallacy has been with many others, for all time, exposed by the genius of Bastiat. The hilarious undergraduate who goes round a College quadrangle smashing every pane of glass within his reach is indulging a taste for luxury, and the money expended on repairing the damage he has wrought will certainly give satisfaction to the glaziers. Thus luxury of window-breaking is certainly good for a particular trade. Similarly, the fashionable costumiers of Bond Street or the Rue de la Paix undoubtedly derive great benefit from what is generally called a 'good season' in London. But the problem which economists have to solve is how far such expenditure is good, not for particular trades, but for trade: how far it tends to increase the aggregate wealth of the community. One admission may, at the outset, be made. It is quite conceivable that it may stimulate productive labour to permit a considerable latitude in expenditure to those who succeed in the economic race. To incite the industry and then deny to the industrious the fruits of toil, even if the fruits be over-rich and over-abundant, would be as absurd ethically as it would be economically disastrous. But, things being as they are, the faithful steward will scrutinize very closely all expenditure beyond that which can obtain economic justification. Whether or not we can in law assent to the principle of absolute ownership, no scrupulous or high-minded man can regard himself as otherwise than a steward or trustee of those goods with which he is temporarily endowed.

Modes of expenditure.

It may be asked, however, what a man is to do with his income if he does not spend it? Every one spends his income; but the difference between the wise man and the fool lies in the skill with which he discriminates between the several objects of expenditure. Even saving, as we

have already argued, is only another method of spending. No one, as already observed, is likely to applaud the methods of the miser nor to commend his motives. Nevertheless the economic effects of miserly saving are less injurious to the community than those of the popular spendthrift. Yet even in regard to the expenditure of the spendthrift it is necessary carefully to discriminate. Some spendthrifts are economically much less injurious to Society than others. For the mere gambler no moralist has ever had a good word. 'Gambler,' says St. Cyprian, 'who ever thou art, thou sayest that thou art a Christian, but indeed thou art not.' 'It is not possible', says a modern writer, 'to bring gambling within the list of pleasures consistent with our three principles—(1) that we should set our hearts on the true riches; (2) that we are God's trustees for all we possess; and (3) that we are to consider the good of others in what we do with our money. As a matter of fact, if our minds are really set on the true riches, we shall find no pleasure in gambling; if we live as God's trustees, we shall not feel entitled to risk any money on it, and as members of the one family of God we shall not care to get money one from another in any such way.'[1] Of betting, Charles Kingsley said, 'Look at it upwards, downwards, sideways, inside out, and you will never make anything out of betting save this, that it is taking advantage of your neighbour's supposed ignorance.'[2]

Gambling as a form of spending.

Yet to the economist, there are ways of spending money much more reprehensible than betting and gambling. Only in a very small degree, if at all, can the mere gambler, playing cards, let us say, for high points, be said to divert labour into unproductive channels for the supply of his luxuries. Gambling is, in the economic sense, purely negative. It does not, of course, increase the aggregate supply of wealth, nor, on the other hand, does it diminish it. It may involve moral delinquency, and it can work economic benefit only on the unlikely hypothesis that the

[1] *Personal Expenditure*, by Archdeacon Page Cox, p. 11.
[2] Quoted *ibid.*

money lost or gained passes from relatively irresponsible hands into more responsible and prudent stewardship. The gambler who consistently won at cards, or even on the balance, and who carefully invested his winnings would be a distinct and direct benefactor to Society: but the specimen is certainly not common. Still, the person who plays whist for threepenny points may at least lay this flattering unction to his soul that he stands at the bar of economic opinion in less disgrace than the man who drinks a second glass of beer, or a second cup of tea, where one would have amply sufficed to sustain him in full vigour of body and mind.[1]

It may be asked whether it is morally right or economically sound that anyone should have the wherewithal to gamble or expend wealth on luxuries when so many are still deficient in the supply of necessaries of life. Such a question raises once more the problem already discussed of the distribution or the redistribution of wealth. But without re-entering upon that question it is pertinent to observe that by no means all the expenditure even of the poor is necessarily 'productive'. Quite otherwise. The amount spent, for example, upon alcoholic liquors, mostly, as we have seen, by the relatively poor, reached in 1920 the stupendous total of £469,700,000 or £10 per head of the whole population men, women, and children; or £16 16*s*. per adult (over 21). The economic ideal would be that every citizen should be engaged in 'productive' work, and that every productive worker should spend just so much as, and no more than, would suffice to keep him at the highest possible point of fitness, physical, moral, and intellectual, for the performance of his particular job.

Danger of overproduction?

An objection may be raised, that if this ideal were realized, production would rapidly overtake consumption, and that the marts of the world would be congested with unsaleable commodities. But the apprehension is groundless. That it is possible that a particular commodity may in a particular

[1] I do not, of course, enter upon the disputable question, whether even one is necessary or conducive to that end.

place be produced in excess goes without saying. Universal overproduction is, however, a contradiction in terms. Every producer is a consumer, and the whole world would be better off if every consumer were a producer. England is suffering severely from under-employment to-day (1922), not because her foreign competitors are producing too much, but because they are producing too little, and are consequently unable to utilize the products which England would be delighted to supply, were there any effective demand for the goods. For mere desire is not demand, unless the demand is substantiated by the ability to gratify.

Illusory.

Precisely the same principle applies, of course, to the home market. Suppose that the agriculturists of Norfolk could double the yield of barley. Their increased output would enable them to purchase more cottons from Oldham, more woollens from Bradford, more agricultural implements from Suffolk. Increased production of cotton, wool, and machinery would in turn increase the demand for houses of a superior type, for bicycles, perhaps for motor-cars: in short would raise the general standard of comfort. There is no consummation more to be desired alike on economic and on social grounds. 'Comfort', however, is a misleading term; culture (were its associations less unpopular) would better express the idea; life, perhaps, best of all. The consumption of wealth means the utilization of all those things which possess value; it is very far from meaning destruction. To utilize wealth in the building of a house, the purchase of furniture, of pictures, of books is 'consumption': but so far from diminishing such expenditure will presumably increase the aggregate wealth of the community.

The waste of war.

War, on the contrary, involves not only destruction, but sheer waste on a colossal scale. That the wastage may be morally or politically justified goes without saying; but from the economic standpoint it is a pure luxury. Like expenditure on other luxuries it is apt to bring great profit to particular trades, but it needed not recent ex-

perience to prove that the aggregate wealth of the community is not thereby increased but grievously diminished, and that, while trades flourish, trade is certain to languish. If the war does not happen to involve the destruction, to any appreciable extent, of fixed capital, (as, for instance, a war fought in Afghanistan or even in South Africa), the recovery from its effects may be rapid. The extra effort required to repair the wastage may, if fixed capital be intact, go far to compensate for the work of destruction; though modern wars are apt to leave a heritage of debt, the burden of which constitutes a mortgage upon industry, so long as the debt remains unliquidated. The 'luxury' of a war involves, moreover, a general lowering of the standard of 'comfort'. This effect may be temporarily disguised. It is commonly asserted, for example, that never was the standard of comfort among the poor in England so high as during the great war. That may well be true; but the high wages were paid for commodities which were unproductively consumed; they were paid not out of the product but out of borrowed capital, the interest on which and its repayment will impose a terrible burden upon industry for generations to come.

War debt.

It is small wonder that amateur financiers should attempt to discover a new way to pay old debts, by means of a capital levy, the scaling down of interest, or the deliberate depreciation of the currency by an over-issue of paper money. But such quack remedies, though superficially alluring, are only too likely to react prejudicially upon the patient's constitution. While affording relief to local symptoms they may fatally injure the vital organs of the body politic. To drop metaphor, the adoption of any one of these devices might well deal such a blow at national credit as would far more than counterbalance any possible advantage which might accrue to trade from relief of taxation.

The vital necessity of the moment is production. Unless production is stimulated there can be no demand for labour. But production necessitates capital, and the adequate provision of capital depends largely upon credit. Men will

not be induced to curtail expenditure upon luxuries, except by the well-grounded expectation that such abstinence will meet with its appropriate reward: nor must the reward be gratuitously jeopardized by harassing legislation, still less withheld by confiscatory policy.

The State in relation to consumption.

The part which the State may legitimately play in relation to expenditure, private as well as public, and therefore to 'consumption', may be more conveniently discussed in the next section. Plainly it might, if its policy were wisely inspired, prove very important. Since war is waste, it follows that expenditure upon preparations for war can be justified only in so far as they tend to ensure peace. How far armaments do in fact contribute to that end is a question upon which it would not, in the present context, be permissible to enter. What is true of war is true, as we shall see, of many other items of public expenditure. To the economist these must stand or fall according as they contribute to an economic end.

Almsgiving and charity.

There is, however, one item of private expenditure, some reference to which seems to be required in a chapter devoted to the problem of spending. It is that which relates to charity and almsgiving. Christian Ethics would seem to leave Christians in little doubt as to their duty in this regard. 'Give to him that asketh thee', is Christ's own precept as reported by St. Matthew.[1] 'Whoso hath this world's goods, and beholdeth his brother in need, and shutteth up his compassion from him, how doth the love of God abide in him?' asks St. John.[2] Lawgivers, psalmists, and prophets had inculcated a similar lesson before the coming of Christ. 'Thou shalt surely open thine hand unto thy brother, to thy needy, and to thy poor, in thy land.'[3] 'Blessed is he that considereth the poor.'[4] 'Is not this the fast that I have chosen?... to deal thy bread to the hungry, and that thou bring the poor that are cast out to thy house.'[5] And much more to similar effect. Moreover, human instinct concurs with ethical precept.

[1] v. 42. [2] 1 John iii. 17. [3] Deut. xv. 11.
[4] Ps. xli. 1. [5] Isa. lviii. 6, 7.

To give to him that asketh is, to the average man, much easier than to turn away his face either from beggar or borrower. Is the easier also the better way?

This question raises problems both of conduct and of theory, which cannot be lightly dismissed. We are considering, be it remembered, how wealth, in the interests of the whole community, can be most advantageously used. Alike from the economic and the ethical standpoint the idea of stewardship is fundamental: the good citizen and the good man is therefore constrained to employ that which is legally his own, for the common benefit. His giving, no less than his spending, must always be governed by this dominant principle. How will he translate it into practice?

A bottomless purse?

No purse, even the longest, is bottomless. Consequently the giver, even the most cheerful, is bound to reflect that every penny which he gives is drawn from one of two sources. It may, on the one hand, be subtracted from his own unproductive expenditure upon personal luxuries. If that is the case, and as long as it is the case, the charitable impulse may, so far as the interests of the community are concerned, be indulged safely and without limit. It matters nothing whether a particular shilling is unproductively spent by *A* or by *B*; by the inhabitant of a mansion in Berkeley Square or the occupant of a bed in a Salvation Army shelter. The beggar may even spend it more productively than the millionaire, and in that case the community will be the gainer. On the other hand, it is possible that the charitable expenditure of the rich man may be withdrawn not from the fund set aside for personal expenditure but from that which is intended for the augmentation of capital. We have, indeed, assumed that the faithful steward will have already restricted his personal expenditure within the narrowest possible limits. On that assumption, every shilling given in charity will be withdrawn from potential savings, and in that case the question necessarily obtrudes itself, Which is the better way? Which of the two methods—that of charity, or that of augmentation of the capital fund out of which as we

have seen wages are, at any rate in the first instance, paid —is likely to be more permanently helpful to those whom the charitable person desires to help? The only perfectly safe rule is that charities should constitute a charge upon the funds set aside for personal expenses. In that case, whatever be the results upon giver and recipient respectively, there will be little danger of injury to the community.

Poor Relief.

It is, however, impossible to consider the problem of charity without some reference to the very large sums which are now taken in the form of taxes and rates out of the pockets of individuals for the relief of the poor, and for various forms of what is now officially termed 'Public Assistance'. The aggregate amount so expended has, in recent years, increased with appalling rapidity. On Poor Relief alone over £39,000,000 was expended in Great Britain out of rates in 1921–2. In 1701 the amount expended (in England and Wales) was less than £1,000,000. In 1802 it was something over £4,000,000, and in 1901 about £11,500,000. Taken by themselves, these figures might not, in view of the increase of population, give rise to any special apprehension, but since 1901 the legislature has been busy on the work of social reform, with schemes for the improvement, in a multitude of directions, of the condition of the poorer classes. It might, therefore, have been anticipated that the growth of expenditure upon Public Assistance would have been reflected in the diminution of expenditure on pauperism. The institution of a comprehensive scheme of health insurance and of a large scheme of unemployment insurance; the imposition upon employers of a legal liability to compensate their workmen for injuries arising out of their employment; a scheme of old age pensions; above all, the provision of education gratuitously for all classes who choose to avail themselves of it—reforms which touch the life of the poor at so many important points—might have been expected, and were, in fact, commended to Parliament in the hope and expectation that they would tend to diminish, if not extinguish, the expenditure on pauperism.

Public assistance.

The results have been, in this regard, profoundly disappointing. In 1891 the expenditure on public education for Great Britain was about £11,500,000; on poor relief about £9,500,000. In 1921 the expenditure on education amounted to over £106,000,000; that on poor relief, as we have seen, to nearly £40,000,000. It is now reckoned that after every reasonable deduction has been made, after excluding about £90,000,000 per annum paid for war pensions, a sum of about £200,000,000 per annum, an amount equal to the total national expenditure before the war, is now expended by the State and local authorities upon various forms of Public Assistance.

The State and Public Charity.

The bearing of these facts upon the problem under discussion in this chapter need hardly be emphasized. They mean that every man, who could be reasonably described as rich, is to-day contributing, under compulsion it is true, but none the less contributing, perhaps one-fifth of his total income to various objects which may fairly be described as 'charitable'. The poor man is also, of course, contributing, but for reasons to be explained presently the amount of his contribution is less easily computed; and, further, he is not only a contributor but a recipient. Yet the question still remains whether the conscientious steward should regard himself as thereby absolved from the Christian duty of alms-giving. The demands of the tax-collector and the rate-collector do not, of course, exhaust his charitable obligations. He is, in addition, called upon to contribute to the support, almost certainly of voluntary hospitals, probably of various activities connected with the religious denomination to which he may belong, as well as to the social recreations enjoyed by his poorer neighbours in the form of games, allotment associations, and what not. There can be few persons among the classes liable to the full rate of income-tax who are not called upon to pay out at least a fourth of their income in voluntary or compulsory assistance to their neighbours. This is, be it noted, exclusive of that portion of their taxes and rates which may properly

be regarded as a form of insurance for their own persons and property, the expenditure upon defence, the maintenance of public order, the promotion of public health, and similar objects.

Yet the warning voice cannot be ignored. 'When ye shall have done all the things that are commanded you, say We are unprofitable servants; we have done that which it was our duty to do.' 'Stewardship', says one of the most level-headed of modern ethical teachers, 'is not mere shrewdness, or enterprise, or success; it is the superadded and uncommercial fidelity which discovers among the interests of Mammon an opportunity for the generous and personal service of God. A business man may so administer his affairs that they shall be either a social peril or a social advantage, an obstruction to the general welfare or a channel of Christian benevolence. If the business principles to which one conforms are honourable; if his dealings with his employés are just, consistent, and personal; if his prosperity brings reward to all concerned in procuring it; if his adversity is shared by employer with employed, and the distinction of hands and head is merged in the corporate responsibility of all—such a person may not be known as a philanthropist but merely as a working-man with whom one wants to work, and his stewardship may not be charity in its technical sense, and may, indeed, lose much of its worth if it becomes tainted with the patronage or condescension of charity. Yet, even if such conscientiousness in business is not charity, it at least makes unnecessary much of what is known as charity, and corrects, in its own sphere, those derangements of the business world which bring as their consequences poverty and the need of its relief. Thus the roots of charity lie in the larger problem of the industrial order, and the most unquestionable and most effective philanthropy is to be found in industrial justice, progress, and peace. The doctrine of stewardship does not exclude other ways of caring for the poor, but it lays as the foundation of judicious charity the scrupulous adminis- Stewardship.

tration of one's own business as a contribution to the kingdom of God.'[1]

To some more ardent and more generous spirits the argument of this chapter may have seemed inhuman, cold-blooded, over-calculated. It may be so; but the duty of the economist seems to be clear: to analyse the facts with such accuracy as he can, and to leave it to those who are responsible for the conduct of their own lives to draw such deductions as they may. They will, however, do well constantly to bear in mind the fundamental truth, that, though the nimble sixpence may do the work of the slow shilling, neither the sixpence nor the shilling can be spent twice over unless it is spent reproductively. In still plainer English, unless it is saved.

[1] Peabody, *op. cit.*, p. 85.

BOOK VI. THE ECONOMIC FUNCTIONS OF THE STATE

CHAPTER XVI

NATIONAL EXPENDITURE AND PUBLIC FINANCE

'The blessing of Judah and Issachar will never meet: that the same people should be both the lion's whelp and the ass between burdens; neither will it be that a people overlaid with taxes should ever become valiant and martial.'—BACON.

'All taxes are confiscation.'—JOSEPH HUME.

'The State is entitled to claim all the services and property of its subjects for the accomplishment of whatever aims it prescribes to itself.'—C. F. BASTABLE.

'The great evil of taxation is to be found not so much in any selection of its objects as in the general amount of its effects taken collectively.—RICARDO.

'Good finance consists more in the spending than in the collecting of revenue.'—W. E. GLADSTONE.

Taxation.

THE preceding chapter dealt with the problem of personal expenditure; but only a portion of each person's income, be the portion large or small, is at the disposal of the individual to spend, to save, or to give. A portion of it, in these days a very large proportion, is intercepted by the State, either directly in the form of a Demand Note from the Inland Revenue or the local authority; or indirectly by a tax upon commodities in general use. No civilized State can wholly avoid the imposition of taxes, but the enormous growth of public expenditure is a peculiar characteristic of the modern State.

A modern device.

In the Middle Ages taxes were relatively few and light. For the actual expenses of public administration the sovereign was responsible, and down to the fifteenth century the maxim held good that 'The King should live of his own'. In other words, the expenses of government were, for the most part, met out of the profits of Crown

lands, and the revenue which came to the Crown as the fount of justice and as supreme feudal lord. It needs no argument to prove that even so the administration was none the less a charge upon the community, but it was happily, or unhappily, disguised, and was consequently less resented than the more ostentatious demands of the modern Publican.

Mediaeval revenue.

Another form of taxation was represented in early times by personal service: the service of the vassal to his lord; of the serf or villein to the tenant-in-chief; the ancient obligation to repair bridges, roads, and walls—the kind of service which still survives in some countries in the form of *corvée*. To these sources of income, direct and indirect, the mediaeval sovereigns in course of time added the products of licences to trade. It was for the king to admit or to exclude foreign goods from his realm, or to permit or prevent the export of the products of his own people. Thence came the customary dues or customs, and to these was added much later the excise.[1] Sovereigns, whether monarchical or republican, were wont to make some profit also out of projects of a commercial or mercantile character. Republics were specially inclined to banking as a source of revenue; kings began to look to the carrying of mails as a service which might yield profit to themselves.

The Civil List.

Not until after the Revolution of 1688 was a differentiated revenue voted by Parliament to the Crown. Until then the king bore the whole charge of government; and between the royal revenue and the national revenue there was no distinction. To William III, however, Parliament voted a revenue of £1,200,000 a year, of which £700,000 was appropriated to the support of the royal household, the personal expenses of the king, the payment of civil officers, &c., the rest being appropriated to the more general expenses of administration. But all the king's servants, from the highest to the lowest, were still regarded as

[1] In the seventeenth century under the Commonwealth.

appanages of the royal household, and their salaries were paid out of the Civil List.

In 1849 regular estimates for the civil service were, for the first time, presented to Parliament, and national expenditure was thus finally differentiated from the personal expenses of the sovereign.

Democracy and expenditure.

By that time the influence of the first Reform Act upon expenditure was beginning to be perceptible, though it was not until after the third (1884–5) that the expenses of civil administration began to increase with such startling rapidity. As late as 1792 the total amount of tax revenue was well under £20,000,000. For the next twenty-five years we were involved in large expenditure for war, though the greatest amount raised by taxes and loans in any single year during the Napoleonic War was £108,397,645 (1813). By 1817 expenditure was down to £52,000,000, and by 1835 to £45,893,369. After 1835 expenditure rose steadily, though not very fast. Mr. Gladstone and other careful husbandmen did their best to check the tendency of popularly elected legislatures to prodigality. To Mr. Gladstone, indeed, public economy was a moral issue. 'All excess in public expenditure', he was wont to insist, 'beyond the legitimate wants of the country is not only a pecuniary waste but a great political, and above all, a great moral evil. It is characteristic of the mischiefs that arise from financial prodigality, that they creep onwards with a noiseless and stealthy step; that they commonly remain unseen and unfelt until they have reached a magnitude absolutely overwhelming.' Yet in 1850 the total national expenditure for the United Kingdom was only £55,800,000, or £2 per head of the inhabitants. In 1870 it was £75,400,000, in 1887 £87,420,000, and in 1894 £100,933,000. It rose to £205,000,000 in 1901,[1] but was gradually reduced by 1906 to £150,000,000. In 1913 it was just under £200,000,000. In the same year the expenditure on rates (England and Wales) was £71,276,000. In 1921 the total national expenditure was nearly £1,100,000,000, and the

[1] As a result of the South African War.

local expenditure for England, Wales, and Scotland was £192,000,000.

Present national expenditure.

It is desirable to analyse this expenditure more closely. Public expenditure is divided into two categories: (1) The Consolidated Fund Services, and (2) Supply Services. In the Budget under review (1921–2) the total vote for consolidated fund services amounted to £359,880,000, of which £332,294,000 was appropriated to national debt services, mainly of course to interest on war debt. In the second category, supply services, the principal items were: fighting services (£189,000,440) and miscellaneous civil services (£449,700,000). In the latter item were included charges for pensions £112,153,151 and various charges arising out of the war such as payment to the railways (£76,000,000), corn production guarantee (£19,400,000), coal mines subsidy (£10,000,000), and similar items which it is hoped may never recur. Of items, which may be regarded as more or less permanent, much the largest was that for public education which claimed £65,885,309. To this must be added, in order to obtain the correct figure for the public charge of national education, £40,297,000 contributed by the local rates, making a total charge on rates and taxes combined for this purpose of over £106,000,000.

Other large items in the Budget under review were £23,000,000 for housing subsidies and housing advances, £26,000,000 for old age pensions, nearly £20,000,000 for the Ministry of Health Insurance, and over £38,000,000 for the Ministry of Labour and unemployment grants. Reference has already been made to the very large sums which are now expended on various forms of public assistance, partly out of taxes and partly out of rates.

The limits of State action.

The question naturally obtrudes itself, whether these figures suggest that the State has assumed burdens arising out of activities which are beyond the legitimate limits of State action. The problem as to the proper functions of the State is not new. From time immemorial it has exercised the minds of philosophers and economists, and indeed of all who are interested in problems of

government, of conduct, of religion, and of life. It is in truth the fundamental question in political science. In attempting a summary answer, we must guard against two possible misconceptions. There can plainly be no question as to the legal limit of State action, for to suggest such a limit is a contradiction in terms. It is true that under constitutions such as that of the United States of America, the competence of the legislature is very strictly defined by the Instrument of Government. But no limit can be assigned to the powers which the sovereign (wherever sovereignty may reside) can confer upon those who act in its name. Nor can there be any question of the ultimate end of the State. That question, as Austin long ago pointed out, can be answered only in one way; it must be to promote the good of mankind, and in particular of the community represented by the State. But the ultimate end being assumed it is pertinent to inquire what are the means which the State should adopt for its promotion.

Views of philosophers.

Plato insisted that the great object of the State is the moral character of its citizens: ἀρετή is the end to which all laws ought to look. 'A State', says Aristotle, 'exists for the sake of a good life, and not for the sake of life only. . . . Nor does a State exist for the sake of alliance and security from injustice, nor yet for the sake of exchange and mutual intercourse. . . . Virtue must be the care of a State which truly deserves the name.'[1] 'In a Christian Commonwealth', wrote Burke, 'the Church and State are one and the same thing.' Dr. Thomas Arnold, in his Inaugural Lecture as Regius Professor of Modern History at Oxford, said, 'It does not seem easy to conceive that a nation can have any other object than that which is the highest object in it; if it can, then the attribute of sovereignty, which is inseparable from nationality, becomes the dominion of an evil principle. . . . That end appears to be the promoting and securing a nation's highest happiness; so we must express it in its most general formula; but under the most favourable combination of circumstances,

[1] *Politics*, III. ix.

this same end is conceived and expressed more purely as the setting forth God's glory by doing his appointed work.'[1] On the other hand Locke, in a famous passage, maintained, that 'The great and chief end, therefore, of men's uniting int Commonwealths and putting themselves under government is the preservation of their property'.[2] Humboldt, writing it is true under a government so oppressive that he had great difficulty in finding a publisher bold enough to issue his book, declared that 'all solicitude on the part of the State for the positive welfare of its citizens is mischievous'.[3] Even John Stuart Mill, though tending, as he confessed, towards socialism, was hardly less emphatic as to the dangers of State interference than Humboldt, or than such a notorious apostle of *laissez-faire* as Herbert Spencer. 'All tendency', wrote Mill, 'on the part of public authorities to stretch their interference and assume a power of any sort which can easily be dispensed with, should be regarded with unremitting jealousy.' 'Perhaps', he added, 'this is even more important in a democracy than in any other form of political society, because, where public opinion is sovereign, an individual who is oppressed by the sovereign does not, as in most other states of things, find a rival to which he can appeal for relief or, at all events, for sympathy.'[4]

The argument must not, however, be pursued in this place. If it were we should probably arrive at the conclusion that there is no absolute answer as to the true limits of State interference, but that each question as it arises must be decided on its merits, and with constant reference to the contemporary condition of society. There are evidently conditions under which the State is morally compelled to assume functions, which in a more advanced state of society are not merely superfluous but mischievous. Where education is widely diffused, and the ruled may fairly claim equality of culture with the ruler, 'let alone' should, as Mill insists, be the general principle, since every

[1] December 1841.
[2] *Civil Government*, c. ix.
[3] *Sphere of Government*, c. ii.
[4] *Political Economy*, p. 945.

departure from it, unless required by some great good, is a certain evil.

Public expenditure.

Still, restrict the functions of the modern State as we will, a very large revenue is required even for the performance of those elementary duties which every one agrees must be imposed on the public authority. In order to obtain that revenue it is, under modern conditions, inevitable, that the public authority, be it the State or a municipality, or other subordinate authority, should extract from the pockets of the individual citizen a considerable sum. A problem at all times painful is particularly so in modern England where the State has deemed it right to impose upon the individual a direct fiscal burden, much heavier than those which are borne by the citizens of other contemporary States. In 1922, the burden of taxation in England was £17 per head,[1] as compared with 448·5 francs per head in France, $13·8 per head in the United States, about 1,500 marks per head in Germany, 281 lire in Italy and 179 francs in Belgium.[2]

Two questions emerge: first, how the money is actually raised in England, and secondly, whether the method of raising it conforms to the canons of taxation as generally accepted by economists. It may be convenient to take these questions in inverse order.

Is taxation an unredeemed evil?

There is, however, a general proposition laid down with characteristic emphasis by a modern statesman which seems to demand some preliminary consideration. It affirms that 'Taxation, raise it how you may, and guide it how you will, is a gross and unredeemed evil'.[3] Assent to this as a general proposition will hardly be withheld, yet there may perhaps be some exceptions. Where, for example, the government is very much in advance of the governed, as in a British Protectorate, taxation may possibly serve a beneficent purpose, economic no less than ethical, by taking out

[1] To this must be added £4 9*s*. 6*d*. per head for rates.
[2] House of Commons, Official Report, 4th August 1922.
[3] Winston Churchill, *Address to the Liverpool Reform Association*, 1908.

of the pockets of the tax-payers money which, if left there, would not fructify but be applied to wasteful and unproductive expenditure. The same principle may, indeed, apply, at times, in more advanced communities. It lies at the root of all sumptuary legislation, and in any given case it may still be arguable whether it may or may not apply. Plainly, it ought not to be applicable in an advanced and educated democracy where, *ex hypothesi*, the tax-payers are at least as enlightened as those who impose taxes. Yet even here there are those who still maintain its applicability.

Taxation and 'temperance'.

Another possible exception will be present to the minds of most thoughtful people. The financial equilibrium of this country rests very largely upon the indulgence of its citizens in alcohol and tobacco. The net receipts from the beer duty in 1921–2 were nearly £122,000,000, from the spirit duty (customs and excise) nearly £53,000,000, and from wine about £2,750,000, making in all about £178,000,000 from alcoholic liquors. Tobacco and snuff yielded about £55,000,000. Other heavy items under customs and excise were: sugar about £135,000,000; tea about £17,500,000; and entertainments about £10,000,000. With the last items we are not, however, except for purposes of comparison, immediately concerned. In regard to the imposts upon the consumption of alcohol and tobacco, many people are inclined to ask whether taxation, so far from being a necessary evil, is not actually promoting a moral end by the curtailment of indulgence in these luxuries. It is far from certain whether the taxation of drink and tobacco does, in fact, promote 'Temperance', that is self-control, in any true sense. But unquestionably it does make intemperance more expensive, and it renders the man who drinks even one glass of beer or smokes one cigarette per day less able to expend money on the purchase of bread or beef or boots. But even if it be assumed that taxation does check, and check to the common advantage, the consumption of alcohol and tobacco, it nevertheless remains true that this is not the object with which the taxation is imposed. Taxation, let it be clearly understood,

is imposed for the purpose of obtaining a revenue. 'It is, of course, fortunate', wrote the late Professor Henry Fawcett, 'if the tax effects another subsidiary object and improves the morality of the people. But if the revenue raised by the spirit duties should not be wanted, no one but a fanatic would think of retaining those duties merely for the sake of discouraging drunkenness.'[1] No one would, of course, be so foolish as to suggest that the State ought to encourage drinking in order to provide a revenue. But no financier worth his salary would be so stupid as to allege that you ought to tax drink in order to make people sober. There are other and better ways of attaining that desirable object—ways which are free from the evils inherent in all taxation.

Taxation and the equalization of wealth.

But it may be said, and often is, that taxation is a potent and legitimate instrument for equalizing the distribution of wealth, for depriving the rich of their ill-gotten gains, and ameliorating the condition of the poor. This sentence, or at any rate, the latter half of it, represents a very attractive ideal, but it remains a question, as already argued in an earlier section of this book, how far that ideal can be realized by taxation. To deprive the rich of their gain, well or ill-gotten, is a task within the competence of very moderate ability. To make the rich poorer is, as we have seen, an easy task; but it is far from certain that the impoverishment of the rich will alleviate the burdens of the poor. But, be the suggestion feasible or not, it presupposes an erroneous view of the object of taxation. 'There is only one justification for taxation, and only one advantage to be got out of taxes, and that is revenue. Certain sections of opinion believe that taxes can themselves be made of great vivifying and reproductive benefit. There is the view of those who like taxation for spite. I believe it is wrong and unjust to tax any person, however rich, with the object of making him poorer. The attempt is made to-day in every oriental monarchy, and the result in all cases where it it has been tried has been

[1] *Political Economy*, p. 534.

the same—elusive capital has floated away, and no net which government can set up has been able to stop it. Scarcely any money has resulted to the State as a result of the taxation, and infinite injury has been done to commerce and to credit in the process.'[1] These are wise words, though it may be open to question whether a point essentially sound can now be unreservedly endorsed. But they may serve to substantiate the proposition that taxation, however imposed, ought to be regarded as an evil even if a necessary evil. Necessary, it undeniably is; and we may pass to consider the question whether it is possible to formulate any rules or precepts which should govern the method of its imposition.

Adam Smith's canons.

Adam Smith, in a classical chapter, laid down four canons, which have been generally accepted:

(1) 'The subjects of every State ought to contribute to the support of the Government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.'

(2) 'The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person.'

(3) 'Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.'

(4) 'Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.'

These four maxims may be summarized as: (1) equality, (2) certainty, (3) conveniency, (4) economy, in taxation.

[1] Winston Churchill, *ibid.*

As to the last three, little question or controversy seems to arise. Certainty of taxation is the best safeguard against peculation or corruption. Uncertainty places in the hands of the officials or agents of the Government an instrument for the oppression of the people. Nothing contributed more powerfully to the outbreak of revolution in France towards the close of the eighteenth century than the system of taxation, and still more perhaps, the method or lack of method in collecting it. Not only did the main burden of taxation fall upon the comparatively poor, but the method of collecting taxes drove the tax-payers to desperation. Many of the most important taxes were farmed, and taxation thus became a terrible instrument of tyranny and corruption. A similar system of farming still survives in many oriental monarchies. From any such scandal the English system is entirely free. Large as the aggregate amount of taxation in this country unfortunately is, the English tax-payer has at least the satisfaction of knowing how much the State officials can legally demand, and also of being reasonably assured that the money taken out of his pockets does, as a fact, go to the objects to which it has been designated by the representatives of the tax-payers in Parliament. **Certainty.**

The 'convenience' of the tax-payer similarly demands little illustration. This canon is commonly invoked as an argument in favour of indirect taxation, and it is not inappropriate in that connexion. To make your contribution to the Government at the moment when you purchase an ounce of tobacco or a pound of tea undoubtedly has the advantage of convenience. It has also another advantage: you can altogether avoid taxation either by neglecting to purchase, or by neglecting to pay for your purchase. As regards direct taxation the convenience of the tax-payer is in England consulted, as far as possible, by the revenue officials responsible for the collection of income-tax, super-tax, and estate duties. Such payments are, rarely, in the conventional sense, convenient, but consideration and courtesy, on the part of officials, can render them as little **Convenience.**

irksome as possible; and these amenities are not often withheld.

Economy. It is evidently a matter of great importance that the scheme of taxation should be so devised as to bring in the largest possible net revenue to the State. The cost of collection should, therefore, be kept as low as is consistent with probity and efficiency; nor is there, in this respect, much ground for complaint. The Post Office costs, indeed, nearly £66,000,000, but the Post Office is a 'mercantile project', and although in 1921–2 it showed a loss of nearly £10,000,000, the circumstances were exceptional, and the 'project' generally yields a moderate profit to the State. Whether the profit is as large, or the service provided so efficient, as would be the case under private management is a question which must not now detain us. It is creditable to the public service that the vast revenue yielded to the State by Customs and Excise is collected at a cost of £6,750,000, and that collected by the Inland Revenue at a cost of £7,440,000. The corresponding figures for 1913–14 were £2,431,000 and £2,052,000 respectively.

The canon of economy places a veto upon many of the sources of revenue annually suggested to the Chancellor of the Exchequer, and has been responsible for the discontinuance of others, the equity of which appeared to be unassailable. What more equitable method could be devised for the upkeep of roads than the imposition of tolls? The impost was inconvenient, even perhaps vexatious, to the wayfarer, but the conclusive reason for the abolition of tolls was the expense involved in the maintenance of toll-bars. Many an ingenious suggestion for the tapping of new sources of revenue has been turned down for a similar reason. The amateur financier is quick to perceive the productiveness of a given imposition: but he is apt to overlook the debit side of the account. It is a primary duty of the expert officials of the Treasury to estimate not gross revenue only, but net revenue as well. To take out of the pockets of the people a large sum is good business for the public exchequer only so long as the process is not

disproportionately expensive. The canons of certainty, convenience, and economy are, however, so obvious that they raise no controversy, and call for no elaborate illustration.

Equality.

It is far otherwise with regard to the canon of equality. How is taxation to be adjusted in order to conform to this principle? Is it suggested, for example, that the principle would be observed if a person with £500 a year were to pay ten times as much as a person with £50; and a person with £5,000 a year ten times as much as a person with £500? If this is 'Equality' it would be easy to secure it by a single tax, say an income-tax of 10s. in the pound. The person with £50 a year would pay £25, with £500 £250, and with £5,000 £2,500. But does anyone pretend that anything except arithmetical equality would be attained by such means? To deprive a person with £500 a year of half his income, might be a great hardship, but it would entail nothing like the same degree of sacrifice as to take £25 from a person with £50. Or could equality be secured by exclusive resort to indirect taxation—by raising the whole revenue required by duties on tea, sugar, alcohol, tobacco, &c.? Obviously this would be even more unequal in its incidence than a single direct tax, since such commodities constitute a far larger proportion in the expenditure of the poorer classes than of the rich.

Such a simple solution of the problem of equality must therefore be abandoned. But, even supposing that it were possible to secure equality of contribution, would that mean that payment were made in proportion to means or to ability? Take two barristers, each with £1,000 a year, the first, unmarried, and living in chambers in the Temple; the second, married, with children, and maintaining a modest household. To ask each of these to contribute £250 a year to the State would be mathematically equal but clearly inequitable. Nor would the injustice be diminished, but rather greatly exaggerated, if expenditure were substituted for income as the basis of calculation of ability to pay. Expenditure has, indeed, been suggested, and from one

point of view there is much to be said for it, since it would penalize the extravagant and encourage the thrifty. So far it would doubly serve a beneficient purpose, but on the other hand taxation so calculated would fall with crushing severity upon the person compelled, by no fault of his own, to incur heavy expenditure. Equality, then, would seem to be a somewhat distant ideal, but in England we have sought to attain it in two ways: first by variety of taxation, and, in particular, by maintaining a due proportion between direct and indirect taxation; and, secondly, by graduation of the direct taxes. On both these points something must be said, but it may be well, before saying it, to indicate the main sources from which, as a fact, the revenue of the State is at present derived. In order to preserve the possibility of comparison, the Budget for the year 1921–2 is selected. But since it may be hoped that this Budget presents exceptional features, we place side by side the Budget 1913–14.

	1921–2.	*1913–14.*
	£	£
Customs	130,052,000	35,200,000
Excise	194,291,000	38,850,000
Total indirect taxes	324,343,000	74,050,000
Estate, &c., duties	52,191,000	26,750,000
Stamps	19,638,000	9,800,000
Land-tax and House duty	2,590,000	2,700,000
Property and Income-tax	398,887,000	45,950,000
Land value duties	—	750,000
Excess profits duty	30,452,000	
Corporation tax	17,516,000	
Motor vehicle duties	11,096,000	
Total direct taxes	532,370,000	85,950,000
Non-Tax Revenue.		
Post Office and Telephone service	56,400,000	30,625,000
Crown lands	820,000	530,000
Receipts from Suez Canal shares and sundry loans	13,807,000	1,370,000
Miscellaneous and special receipts	197,140,000	2,300,000
Total Revenue	1124,880,000	194,825,000

Direct and indirect taxation.

These figures suggest some interesting reflections. The first concerns the proportion between direct and indirect taxation. There are few questions in fiscal science which have provoked more controversy than the precise definition of these terms, and there is nothing that has been more hotly debated than the proportion that one form of taxation should bear to the other. For our present purpose we may define a direct tax as one which is ultimately paid or is intended to be paid by the person from whom it is collected; while an indirect tax is one which is levied on one person with the avowed intention that the actual burden shall be passed on to another. But definition does not really determine incidence. It is often far from easy to predict upon whom a given impost will ultimately fall. Yet it is reasonably certain that custom duties imposed upon commodities which cannot be produced at home are paid ultimately by the consumer. Similarly the excise duties on beer, spirits, &c., are with almost though not quite equal certainty also paid by the consumer. In England, therefore, where it has become an accepted fiscal canon that custom duties should be imposed (with few exceptions) only upon commodities which are not in competition with similar products of home manufacture, we may be fairly confident that custom and excise duties do really fall upon the consumer of the commodities thus charged.

Import duties.

When we pass to consider the incidence of duties on imported commodities which are in competition with home products, we pass at once into the realm of acute controversy. The Protectionist contends that the impost falls upon the seller, that is the foreigner; the Free Trader contends that the tax is paid by the English consumer. It would seem, however, to be doubtful whether any general answer to the question, Who pays? can cover all the cases. The incidence of the tax will depend upon the relative keenness and anxiety of the producer to sell, and of the consumer to buy. In fact we are thrown back upon that doctrine of marginal utility which has already been fully discussed in a previous section of the present work. In the

case of commodities which are regarded as necessaries, an import duty will almost certainly fall upon the consumer. This must not be taken as a conclusive argument against the imposition of such a duty; it merely attempts to locate its incidence. On the other hand, it seems equally probable that an import duty imposed upon commodities which are produced under the law of increasing returns will be paid in large measure, if not entirely, by the producer. A foreign manufacturer, producing under the stress of keen competition and anxious to utilize his machinery to the very utmost of its capacity, will be willing to forgo some portion of his profit in order to effect an entrance to a protected market.

'Dumping.'

This principle is, indeed, at the root of the phenomenon colloquially known as 'dumping'. Dumped commodities are those which are sold in a foreign country to which they are exported at a price below that obtained for them in the country of origin. There is no reason, either economic or moral, why a manufacturer should not in this way dispose of his surplus products, and the consumer may well congratulate himself that he is able to purchase them on terms so favourable. On the other hand, it must be a matter for deliberation on the part of a responsible statesman whether the practice of dumping ought properly to be encouraged or even permitted. If the device is adopted with the intention of destroying a home industry, and driving a legitimate competitor out of the market, there would seem to be ample justification for the imposition of a countervailing duty in order to defeat a device which, though temporarily advantageous to the consumer, may ultimately prove to be not less injurious to him than to the producer whose ruin it had compassed. It is not, however, for the economist to lay down rules for the guidance of the statesman. Practical policy is the exclusive domain of the latter. The economist can only, to the best of his ability, analyse probable effects and leave it to the statesman to apply principles to practice.

Monopolies and competitive products.

The distinction between monopolies and competitive products as well as that between luxuries and necessaries must, however, be carefully observed. A duty upon

champagne or claret, imported from France into England, will certainly fall upon the English consumer. A duty on German beer might, on the other hand, be paid at least in part, by the German exporter. French wine is in the nature of a monopoly, German beer is not. Similarly, the duty on American or Canadian wheat imported into Germany is wholly paid by the German consumer. A duty on Bradford woollens or Sheffield steel may, on the other hand, fall in part upon the producers of those articles. In such cases the law of marginal utility is obviously very actively operative. A word must be added as to the taxation of luxuries. It is frequently urged that it would be more equitable to concentrate taxation, say, upon the champagne of the rich, so as to relieve taxation upon the tea which is mostly consumed by the poor. The moralist cannot withhold assent from such a principle, but the economist is compelled to point out that the object of taxation is to raise a revenue. The taxation of luxuries may be wholly justifiable, but it is not serious business; for the rich are few, the poor are many. It might be equitable to collect the railway passenger duty wholly from those who travel first class, but the result would be a complete absence of revenue. The rich are already few enough; to tax them out of existence might be ethically desirable, but would not be fiscally remunerative.

Luxuries and necessaries.

So much for the incidence of indirect taxation. The incidence of direct taxation is commonly regarded as a much simpler problem. Yet it is by no means so entirely devoid of complexity as many people suppose. Much would seem to depend upon the source from which the direct taxes are actually paid. The simple faith of one of the pioneers of the Labour Party dictated a system of taxation which should secure 'that the rich should have less to hoard up or to squander on riotous living, whilst the poor should have more wherewith to purchase the common necessaries of life'.[1] Every one will agree that it is eminently desirable that the poor should have more to spend upon necessaries,

The incidence of direct taxation.

[1] Keir Hardie, *A Labour Budget.*

but it will not escape notice that the exponent of this creed is indifferent whether the result of the taxation of the rich be to curtail their expenditure on riotous living or to diminish the amount of their 'hoard'. If the direct taxes are paid out of revenue which would otherwise be spent on riotous living no possible harm could, as we have already indicated, accrue to the community. If, on the other hand, they are paid out of the 'hoard' the payment must entail a grievous loss to the community, and in particular to that portion of it which is dependent upon wages. If the State can, by its fiscal system, or otherwise, curtail unproductive expenditure and divert the money thus obtained into productive channels, the benefit is unquestionable. More generally, however, taxation involves a restriction of productive expenditure and a diversion of potential industrial capital into channels which, however innocent or morally justifiable, represent, in an economic sense, sheer waste.

The recent history of direct and indirect taxation.

To return, however, to the problem as to the due proportion between direct and indirect taxation as a means of securing equality of contribution. The history of English taxation during the last eighty years is, on this point, curiously significant. The following table speaks for itself:

	Indirect per cent.	Direct per cent.
1841	73	27
1851	67	33
1861	62	38
1871	61	39
1881	60	40
1891	55·7	44·3
1901	47·5	52·5
1911	42·7	57·3
1917	28[1]	72[1]
1919	18[1]	82[1]

This series of figures suggests obvious reflections. In the first place it will be noticed, that when Sir Robert Peel came into power in 1841 the indirect taxes contributed 73 per cent of the revenue, and that the proportion is now, as nearly as may be, reversed. Another point is the

[1] This is reckoning Excess Profits Tax as direct.

remarkable continuity of the transition from the old financial system to the new. A third is its very gradual character. Until the war there was no violent jump. A final reflection raises a point which no serious-minded person can contemplate without misgiving. In 1841 the heavier fiscal burden lay upon classes which had no direct share in the government of the Commonwealth. That was plainly inequitable. To-day the main burden is borne, assuming that the generally accepted view as to the incidence of direct taxation is correct, by an exceedingly limited class whose influence upon the determination of public policy is rapidly diminishing. In no other great State, ancient or modern, has the problem of rising expenditure been faced, says Sir Bernard Mallet, 'with so scrupulous and even sensitive a regard for the tax-paying capacity of the wage-earners'.[1]

Is the tendency sound?

The question arises whether we have been over-sensitive; whether it is politically sound to divorce political so largely from financial responsibility. But this is again a problem for the statesman. It may, however, be pertinent to add that it is generally reckoned that one-fifth of the total of indirect taxation is paid by those who also pay income-tax. If this estimate be correct, it follows that more than 85 per cent of the whole fiscal burden of the State is shouldered to-day by a very small minority of the population. The number of income-tax payers is 2,400,000,[2] while those who also contribute to super-tax is only about 72,000.[3] That over 80 per cent of taxation should fall upon this relatively small class may be fiscally advantageous to the State, but it is at least open to question whether, in a broader sense, it is either politically or economically sound.

[1] *British Budgets*, p. x.

[2] The number of individuals above the exemption limit of income was (1921-2) 5,000,000, but of these 2,600,000 were exempted by reason of allowances for wife, children, &c.

[3] The number of super-tax payers was (1913-14) 13,937, but the lowering of the exemption limit by stages, from £5,000 to £2,000, combined with the devaluation of money has raised the number to over 70,000.

Graduation of income-tax.

Within the ranks of the income-tax payers an attempt is now made to temper the wind to the shorn sheep in two ways: (1) by differentiating between 'earned' and 'investment' income; and (2) by applying the principle of graduation. The system now adopted in England is based upon the recommendation of a Royal Commission which reported so lately as 1920. Incomes derived from investments are wholly exempt up to £135 or up to £150 if derived entirely from earnings. The joint income of a man and a wife is similarly exempt up to £225 and £250 respectively. The remainder of the income is known as taxable income. On the first £225 of a person's taxable income the tax is levied at only half the standard rate. Thus if as, at present (1922), the standard rate is 5*s.*, the tax is levied only at the rate of 2*s.* 6*d.* in the £, on the amount exceeding the exemption limit. There are also further abatements for children and dependents. The 'effective' rate for a married couple with three children and a total income of £500, derived wholly from earnings, is 8*d.* in the £; for a single person with the same income 2*s.* 0½*d.*; with £1,000 it is respectively 2*s.* 4½*d.* and 3*s.* 3*d.*; with £2,000 3*s.* 5*d.* and 3*s.* 10½*d.* This ingenious plan attains the twofold purpose of differentiating between the sources of income and graduating the tax on the successive portions of the aggregate. That the principle of graduation is equitable can hardly be questioned. The iniquity of mere arithmetical equality has been demonstrated in a previous paragraph. If equality of sacrifice be the object at which we should aim, there is no better means of attaining it than by graduation, and the scheme now adopted of a standard rate of tax, so adjusted by means of abatements as to vary the 'effective' rate by easy graduations, is both simpler and fairer than that which it has superseded.[1]

Earned and unearned incomes.

Of more disputable advantage is the principle of dif-

[1] The old plan was to graduate the *rate* according to aggregate income.

ferentiation between 'earned' and 'unearned' (or as it is now less infelicitously termed 'investment') income. Such differentiation, which dates only from the Budget of 1907, is defended on the ground that a temporary income ought not, in equity, to be taxed at the same rate as a permanent income which can be transmitted to descendants. But, as Mill pointed out, there is a conclusive answer to this argument: the income which lasts only for ten or twenty years is only taxed for ten or twenty years; the permanent income is taxed for ever. Moreover, to differentiate to the disadvantage of investment income must necessarily be a discouragement to saving. 'No income-tax is really just from which savings are not exempted.' To tax investment income at a higher rate would seem, then, to be trebly unjust: for 'savings' are first taxed as 'earned income'; the income derived from them is then taxed as 'investment income'; and, thirdly, a portion of the invested capital is finally confiscated by the operation of the 'death' duties—a triple penalty upon thrift. To the question of the taxation of capital we must next pass.

Taxation of capital.

All property passing at death is now subject to a variety of duties, known collectively as the Death Duties which, in 1921–2, yielded to the exchequer no less than £52,000,000. The estate duties vary from 1 per cent on estates valued at less than £500 up to 40 per cent on those exceeding £2,000,000. Legacy and succession duties are also graduated according to the degree of consanguinity of the legatee. All such duties are levied upon capital, and according to all rules of sound finance the revenue derived from them ought to be hypothecated to the discharge of capital obligations, in other words to the repayment of debt. So long as death duties are treated as revenue in the same sense as income-tax, financiers will be open to the charge of balancing the Budget by dipping into capital. The same criticism is applicable to one of the largest items on the revenue side of the accounts for 1921–2, in which 'miscellaneous and special receipts' amounted to no less than £197,140,000. Of this sum nearly £171,000,000 represented

'special receipts' arising from the liquidation of war assets. To this total the repayment of the principal of loans to Dominions and allies contributed over £15,000,000; the Disposals and Liquidation Commission (chiefly from the sale of surplus war stores) nearly £43,000,000; and the Shipping Liquidation Commission over £30,000,000. These are mostly sources of revenue which will soon be exhausted, but their inclusion in the national balance sheet vividly illustrates a notable weakness in the State account-keeping. The whole account is on a cash basis; there is no distinction between capital and income, and, in fine, no real balance sheet. Plainly, every penny received from the sale of war stores, still more perhaps all repaid loans, ought to have gone to the extinction of debt, which they helped to pile up. Excuses for the course actually followed might be and were offered, nor did they lack plausibility, but strict accountancy undoubtedly demanded that such receipts should have been treated as repaid capital.

Discussion of a topic so fugitive is, however, not permissible, except in so far as it illustrates the imperfect apprehension, even in high financial circles, of an important distinction—that between capital and income. A similar confusion may be partially responsible for the proposal to make a levy upon capital. Such a levy imposed solely for the purpose of paying off the national debt, or a large part of it, might be economically justified; imposed as a device for securing additional revenue to meet current expenditure it would be open to all the objections urged against death duties, and to others as well.

Capital levy.

Death duties are, as we have seen, deducted from capital; yet they have proved a lucrative source of revenue. Why not, then, apply the same principle to the capital of the living? That a debt of £8,000,000,000 imposes a terrible burden upon industry is undeniable. Is it not worth an heroic effort to extinguish it? If so, is not a levy on capital at once the simplest and the most equitable and the most economical method of achieving that purpose?

Three questions seem to arise: is the proposal (i) feasible;

(ii) economically expedient; (iii) morally just? That the State could impose a levy on capital is undeniable, though the analogy of the death duties is by no means conclusive. How much would the Inland Revenue collect from death duties if every person possessed of property were to die simultaneously? It is only because they do not, that it is possible to realize sufficient capital to pay the duties. If, however, there were no buyers, the capital would be valueless. But why not allow the State to impound the actual securities, mortgage deeds, shares, and so forth? The suggestion is feasible; but, how, in the absence of buyers, could the State realize the securities? Yet, even if it failed, could it not receive the income? Undeniably. But such income would operate only like a sinking fund as a means to cancel a capital debt: and income could be secured as it is, by an income-tax without the conscription of accumulated wealth. Of questionable expediency from the fiscal standpoint such a levy would also be grossly unjust. Why should those who to-day stand possessed of wealth be deprived of a large proportion of it in order to relieve those who may begin to accumulate to-morrow? We are still paying interest on the debt incurred in fighting Napoleon. Is it otherwise than just that posterity should bear some part of the burden entailed by the Great War? Moreover the impost would be wholly inequitable as between one citizen and another. *A* goes to the Bar, and after forty years of industry retires on his modest savings of £20,000 invested at 5 per cent. *B* goes into the Civil Service, and after a similar period of service, retires on a pension of £1,000 a year. A levy on capital would deprive *A* of, say, 25 per cent of his capital, and a quarter of his income. *B*'s income, similarly earned, remains intact. Meanwhile, *A*'s sacrifice of capital would have actually increased *B*'s net income.

An alternative to high income-tax.

For the most cogent argument advanced in favour of a capital levy is that it would be actually a good bargain for the payers of income-tax. Assume that the total accumulated wealth is £24,000,000,000 and that an *average*

tax of 25 per cent (graduated from a much smaller percentage on smaller fortunes to a much larger one on bigger fortunes) would therefore yield £6,000,000,000. This would cancel an equivalent amount of debt and would thus reduce the debt charge by £300,000,000 a year—the equivalent of an income-tax of roughly 6*s.* in the £. Thus a man with a fortune of £100,000 invested at 5 per cent, who before the operation enjoyed a gross income of £5,000 reduced by a 6*s.* income-tax to £3,500 net, would, after the operation, receive 5 per cent on £75,000, or a net income of £3,750—a clear gain of £250 a year.

The argument is alluring, but its validity rests upon several assumptions: (i) that the levy will not in the first case average more than 25 per cent; (ii) that the proceeds of the levy would be strictly applied to the extinction of debt; (iii) that, even if successful, the expedient will not be repeated for purposes other than debt redemption; (iv) that the saving in national expenditure thus effected would inure exclusively to the benefit of the income-tax payers; (v) that the income-tax will not be reimposed. Unless these assumptions are granted, and the consequential results are guaranteed, the whole structure of the argument topples over. But, even if the assumptions are not in themselves ridiculous, who is to guarantee the fulfilment of the bargain with the income-tax payer? The Chancellor of the Exchequer may propose a capital levy as an alternative to an income-tax, or to part of it, to-day, and this Parliament may endorse the bargain. But neither ministers nor Parliaments last for ever. What of the Ministry and the Parliament of to-morrow? Even distinguished economists want both to eat their cake and to have it. 'I want', said one in effect, '*both* a capital levy *and* a high income-tax.'[1] Precisely: but is it physically possible to obtain a yield from both? Capital which has been 'conscripted' will no longer yield an income to the possessor. An income-tax of

[1] J. A. Hobson, ap. *Manchester Guardian*, 26th January 1918.

even 20*s.* in the £ would, therefore, on that portion of capital yield nothing to the State. Valuations for death duties would be similarly diminished. Even an omnipotent State cannot conscript capital from a living citizen to-day and conscript the same capital on the death of the citizen to-morrow.

An appeal to experience.

A capital levy is not an impracticable proposition. It is not beyond the capacity of fiscal experts to devise a scheme.[1] But its expediency is much more disputable. Financial short cuts have an irresistible attraction for certain temperaments, but the experienced wayfarer is apt to shun them. History has not left us without witness on this project. The forced loan decreed by the Directory in France in 1795 was virtually a capital levy, since the interest was payable in assignats. The loan yielded only one-thirtieth of the amount on which the Directory had reckoned (20,000,000 francs out of 600,000,000), and after producing widespread ruin the expedient was abandoned. More recent experience has proved that the mere threat of a levy on capital is capable of producing grave disturbance if not disaster. In 1922, 88,000 voters in the Swiss Confederation initiated a proposal to levy a tax on capital, graduated from 8 per cent on fortunes of £3,200 up to 60 per cent on fortunes over £120,000. On submission to the electorate the proposal was defeated by an overwhelming majority, but the mere possibility of its acceptance caused something like a panic. Swiss securities were transferred in large amounts to foreigners; values rapidly declined, and in a single week withdrawals of bank deposits exceeded 100,000,000 francs.

Conclusion.

But further discussion of this project would be disproportionate. If the view taken in this book on the supreme importance of encouraging the accumulation of capital be sound, it follows that anything which disturbs credit, discourages the thrifty, or alarms the investor, must

[1] Cf. *Report of Select Committee on War Wealth* (1920). [Cmd. 594.]

react disastrously upon the production of wealth. Taxation there must be; but true statesmanship will endeavour to restrict public expenditure and therefore taxation to the minimum compatible with national security and the well-being of all sections of the community. The fiscal system should be equitable as between individuals, as little burdensome as may be to trade, and above all encouraging to enterprise and to thrift.

CHAPTER XVII

THE STATE IN RELATION TO INDUSTRY

COLLECTIVISM AND PRIVATE ENTERPRISE
STATE-CONTROL AND LAISSEZ-FAIRE

'A government cannot have too much of the kind of activity which does not impede, but aids and stimulates individual exertion and development. The mischief begins when, instead of calling forth the activities and powers of individuals and bodies it substitutes its own activity for theirs.'—J. S. MILL on *Liberty* (1859).

'Whether we hold that the Will of God or that the happiness of Man supplies the final end of human conduct, we may yet discover in [a] regard to posterity a firm platform on which to rest *axiomata media* that shall serve us in seeking to judge of the right or wrong of any piece of legislation . . . and ask . . . whether it tends to ennoble or degrade, to enrich or impoverish the generations of Englishmen that shall yet arise when we are gone and forgotten.'—DR. W. CUNNINGHAM (1885).

'Fifty years ago nearly all political enthusiasm in England ran in the direction of Free Trade, and the restriction in every form of Government interference. The dominant note in all countries is now a desire to enlarge the sphere of State action and control in nearly all departments of industrial life.'—W. E. H. LECKY (1896).

'I do not think you can point to a single case where it can be said that workmen working for the commune, either the local one or the national one, work more heartily, work harder, or increase the output in comparison with their fellows who are working for a syndicate—not one.'—D. LLOYD-GEORGE (1919).

'Only where the influence of Christ so prevails in the world that men learn to live and work as children of God and, in love, to serve one another, shall we be saved from a selfish individualism or a degrading collectivism.'—ARCHBISHOP D'ARCY (of Armagh) on *Christian Liberty* (1923).

'It is doubtful, perhaps more than doubtful, whether the State can increase production by undertaking it on its own account, or by creating great public corporations (or guilds) for its undertaking. . . . The State is not an Economic Society, at any rate primarily; nor is it primarily concerned with economic problems.'—ERNEST BARKER (1923).

The functions of the State.

EVERY Government requires a revenue; but taxation does not exhaust the economic activities of the modern State. On the contrary, the State touches at innumerable points the industrial life of its citizens.

Whether its intrusion is for good or evil is, as we have seen, a moot question, but the tendency towards the multiplication of the functions of the State shows no sign of slackening, nor is it confined to any one country, nor any single continent. We must, however, concentrate our attention upon the phenomenon as it reveals itself in England.

In a variety of ways, some of which have been already noticed, State[1] action exerts a powerful influence not only upon the production of wealth, but upon the distribution and exchange of the product. That influence may be exerted by regulating or restricting the activities of individuals, or by stimulating them; or by the participation of the State itself in the work of production or distribution.

Conservation.

One plain duty which rests upon the State is that of national husbandry; to conserve national resources, with regard not only to the immediate interests of a passing generation, but of posterity. Faithful stewardship implies a duty to the heirs not less than to the life-tenants. Such a duty opens out a wide vista of responsibilities: but a few obvious illustrations must suffice. Thus the State cannot afford to neglect such matters as afforestation, coast erosion, the pollution of rivers and estuaries, the waste or reckless exhaustion of 'power' in any form; the preservation of ancient monuments, historic buildings, beauty spots, and open spaces, and all that makes for the amenity of the national life. Some have contended that the State should intervene to prevent the exhaustion of agricultural land, of coal supplies, of fisheries, and the like; and at least one State does concern itself with the problem of race-suicide, while elsewhere there are those who would invoke the aid of the State in controlling the birth-rate. These are disputable matters, but the most extreme apostle of *laissez-faire* would admit that it is the right and the duty of the State to take a longer and larger view of the economic well-being of the community than that which individual self-interest may dictate.

[1] The 'State' must be taken throughout this chapter to include subordinate local authorities.

Production.

In regard to production the intervention of the State may take several forms. The State may itself engage in industry, either in competition with private enterprise, or to its exclusion; or it may, by bounties or tariffs, by the publication of the results of scientific research, and in other ways stimulate, assist, and encourage the productive activities of individual citizens; or it may, in the interests of the whole community or of a defenceless section (if any such there be), regulate and control the operations of industry. The first of these forms involves the adoption of the principle of collectivism, nationalization, or State socialism, and will be considered presently. The second is too obvious to call for illustration, but examples may be found in such legislation as the Agricultural Holdings Acts, the Seed Supply (Ireland) Act, the Ground Game Act, or in the supply of capital for the dye industry, for the cultivation of beet sugar, or for oil production—though these Acts and subventions might have been dictated by motives other than that of commercial production.

State control.

More often the State has interfered with productive industry by way of control and regulation. It was the condition of the child-workers in the new cotton mills of Lancashire which first compelled the intervention of the State, and led to a long series of Factories and Workshops and Mines Acts which have limited the employment of children and women. In the case of mines the State has directly restricted the hours of labour of adult men; elsewhere a similar result has indirectly ensued from the restrictions imposed upon the employment of children and women. That State control has improved the conditions in factories and workshops out of recognition admits of no question. It is not indeed easy for us of a later generation to understand the vehemence with which the earlier Factory Acts were opposed by the disciples of the Manchester School in early Victorian days. There is, however, this to be said. The Benthamites had found it no easy task to emancipate industry from the shackles which mediaeval regulations had fastened upon it, and they were naturally

fearful lest they should, in another form, be reimposed. Experience has to a large extent dissipated these fears; increased safety, secured by minute regulation and frequent inspection, improved sanitation, greater solicitude for the comfort and recreation of employés, have hitherto certainly not impaired production, while contributing as certainly to the well-being of millions of manual workers. But whether the limitation of the working-day of adult workers can be economically justified still remains to be proved.

Indirect intervention.

In many other ways the State has, during the last half-century, indirectly interfered with the conduct of industry: by imposing on employers liability for accidents to their workmen; by compelling employers and employed to contribute towards the State schemes of insurance against sickness and unemployment; by insisting on regulations to ensure the safety of those who go down to the sea in ships; by the encouragement of town-planning and the provision of artisan's dwellings; even by the provision of gratuitous education.

Some of these things may be thought to touch production somewhat remotely; but they all involve taxation, and taxation is primarily a charge upon industry. Still more remote is the provision of various amenities of life by public authorities: baths and washhouses; libraries, museums, and art galleries; parks, open spaces, golf links, and other means of recreation. Perhaps even the Bank Holidays Act should be included in this category.

The State and exchange.

That it is the function of the State to provide a medium of exchange is not denied even by the most pronounced individualist, but it should be observed that the use of cheques and bills of exchange has in effect considerably impinged upon the monopoly of the Government. In the Middle Ages, as we have seen, the State—and still more the subordinate law-making bodies within the State—not only provided a medium of exchange, but attempted to fix the terms of exchange. At times, the modern State also has felt itself compelled to fix prices; but the unfortunate

consequences of this occasional intrusion into the commercial domain is well illustrated by the recent history of the Irish land question, and by the confusion which at present (1922) exists in the building industry in England. Mr. Gladstone's Irish Land Act of 1881 conferred upon the sitting tenants a privileged position to which many of them were in no wise entitled, and created a dual ownership from the inconveniences of which the only satisfactory means of escape were found in land purchase. Lord Ashbourne and Mr. George Wyndham brought good out of evil; in much the same way as Stein and Hardenberg solved the problem of dual ownership in Prussia. How the British Legislature is going to evolve order out of the chaos created by the war-time Rent Restriction Acts, still (1922) remains to be seen. The *iustum pretium* is a thing after which philanthropists still hanker; the attempt to fix it by State action is apt to increase confusion.

The State and the problem of distribution.

We are already, it will be observed, passing from the function of the State in the domain of exchange to its interference in that of distribution. The State has, at times, concerned itself with the problem of interest as with that of rent. But, as we have seen, the attempt to control the rate of interest and to prevent 'usury' is apt to embarrass the poor borrower even more than the opulent lender. Floating money will find its own level, generally to the mutual convenience of lenders and borrowers, if left to itself. To impose penalties upon the taking of 'excessive' interest is very likely, as Adam Smith pointed out, actually to raise the price of accommodation for the person who is desperately in need of it. He is compelled not only to pay the usurer for the loan of money, but to compensate him for the risk of detection in an illegal transaction. For, while the borrower must, *ex hypothesi*, borrow, there is no compulsion upon the usurer to lend on terms which he regards as inadequate to his risks.

This is indeed a commonplace, and the only excuse for insisting upon it is, that the moral to be drawn from it

extends, as the sagacious reader will perceive, far beyond the transaction immediately under analysis.

The Money-lenders Act of 1900 is, however, of minor significance. With the rate of interest, in the larger sense, the State does not attempt to interfere. Nor, as a rule, with profits. To this rule war-time afforded an exception. It was perfectly natural that at the height of that heroic struggle public opinion should have insisted that when men were giving their lives for their country it was indecent that huge profits should accrue to individuals who were engaged in the supply of war-materials or other necessaries of national existence. At the moment when military conscription was imposed public opinion would probably have supported the application of the same principle both to profits and to wages. The opportunity was lost, and did not recur. The taxation of 'excess' profits was ultimately adopted, but too timidly and too tardily, though it is fair to add that when adopted it disappointed many expectations and undoubtedly contributed both to inflation and to waste. Had the principle of equal national sacrifice—so far as equation was possible—been adopted in military service, in industrial labour, in industrial and governmental direction, and for capital, there would have been less heart-burning, less expenditure, and a smaller legacy of debt. The disastrous legacy is not confined to the money debt.

The State and wages.

Long before the war there was in some quarters a demand for a statutory minimum wage. Many wage-earners were and are honestly convinced that nothing but the selfishness of employers stands in the way of a substantial increment in the general rate of wages. War experience strengthened the conviction. The State with its 'bottomless' purse became directly or indirectly responsible for the wages-bill which was proportionately swollen. What wonder that, after the cessation of war-time conditions, when wages are inevitably tending towards an economic level, the demand for a national minimum should be renewed? The State, as we have seen,[1] has already by the setting up of Trade

[1] Cf. *supra*, p. 163.

Boards, gone some way towards an acceptance of the principle, in certain trades and industries. But, as in the case of the money-lender, so in that of the employer, the State may impose its maxima and minima, but it cannot compel the former to lend or the latter to employ. It may bring the horse to the water; it cannot make him drink. Every decent person desires that a 'fair' day's wage should be paid for a 'fair' day's work. But what is 'fair'? Even if the amount could be precisely ascertained, how can the State ensure that the industry should be able to pay it? 'Wages' are far from being synonymous with 'earnings'. A rise in wages may mean a diminution of employment;—a truth which would be realized much more acutely than it is if we were in the habit of taking the family instead of the individual as the unit of average earnings.

Nationalization.

A statutory minimum wage leads by irresistible logic to statutory prices, or alternatively to subsidies or to protective tariffs,—perhaps to all three; and the recognition of this truth has driven some people to accept, some as a counsel of despair, others as a counsel of perfection, the suggestion that the State should itself become the sole employer of labour, the sole director of industry, the sole distributor of commodities: in short that industry should be 'nationalized'.

We have already considered this solution of the problem of industry from more than one angle. It remains, therefore, only to summarize the argument as applicable to the economic interests of the nation as a whole.

The plan.

The proposal is that on a given day, or by successive stages, the State should acquire—whether by purchase or by a simpler and ruder method—and stand possessed of, all the land, minerals, houses, factories, furnaces, 'works', shops, ships, railways, tramways, colleges, schools, 'undertakings' (e. g. for the supply of gas, water, electricity), all plant, machinery, stock-in-trade, banks, securities (whether representing home or foreign investments)—in short, the entire wealth, property real and personal, capital fixed and circulating, at present belonging to individual citizens of every class.

The State would then proceed to organize the whole community in one vast civil service, assigning to each citizen his appropriate task, industrial, commercial, agricultural, intellectual, educational, or what not; paying him his appropriate remuneration, either in the form of money, or labour-cheques, or perhaps in kind; and providing him with all that he needs for bodily and mental subsistence.

Moral aspects.

Let it be repeated that provided the existing owners of property were fairly compensated there can be no objection, on moral grounds, to such proposals. State socialism is no more immoral than individualism, or syndicalism. These different schemes for the economic organization of the community must be judged, each on its merits, and primarily upon economic merits. For this is certain. Unless it were supposed that a socialistic or syndicalistic polity would secure a higher average standard of comfort to the individual citizen, little more would be heard of the proposals, save conceivably from two quarters. 'Good' people might still think it worth while to make some economic sacrifice—a sacrifice, be it observed which is to fall, *ex hypothesi*, upon *all* classes—for the sake of the ethical advantages which might be supposed to accrue from equality of conditions. 'Bad' people might, from motives of hatred and envy, rejoice in the impoverishment of the rich even if it brought no enrichment of the poor. But it is not with such arguments that we are immediately concerned.

The indictment.

Some advocates of socialism are, however, convinced that the change they desire would bring great economic advantage, at any rate to those who are at present included in the ranks of the 'less fortunate'. The existing organization has, they contend, hopelessly broken down; 'capitalism' has brought agriculture to ruin; it cannot provide the people with regular employment; nor with decent habitations; nor with reasonable health; nor with adequate wages; it has failed to secure industrial harmony at home; it is responsible for war between the peoples.

How far true?

Is the indictment true? It is certainly true that private enterprise has not brought about the millennium. But is

the economic system responsible for the failure or do the reasons go deeper?

Let it be observed that no Government could make itself responsible for the economic organization of society unless it were entrusted with the power to assign to each member of the community his task, and with the power to say,—a still graver responsibility,—whether any given member of the community should be there at all. In plain words: industrial conscription and birth-control are the inevitable concomitants of any complete system of communism or even of State socialism. It is not suggested that this consideration affords any conclusive argument against either system: but the facts must be faced. The wage-earners must not imagine that socialism is consistent with freedom to choose their own employment: to accept work or to refuse it; to strike for higher wages or better conditions. They may, or may not, enjoy more of the good things of life under the despotism of the State, but a despotism it must needs be. True, the 'State' will be what they make it; but even a trade union works through an executive and officials. Can an industrial democracy do otherwise? You may insist on a rigid application of the eminently democratic principle of rotation of office. He who serves to-day may give orders to-morrow. Whether rotation will make for industrial efficiency is a moot question: but it would evidently satisfy the craving for social and political equality. If, however, it did not secure efficiency, the 'ghastly failures of capitalism' might conceivably reappear under collectivism.

The economic test.

The standard of comfort can be raised only by increased production of those commodities which contribute to comfort. The sole question which the economist has to answer is whether there is a reasonable probability that a socialistic regime would produce greater economic efficiency, whether as a result of the abolition of capitalism there would be more to go round?

The answer to these questions would, in some measure, depend upon the method by which the transition was effected

from the one system to the other. Such is the socialist's contention. We frankly admit, they say, that if heavy compensation has to be paid to existing owners, the new Socialist State would start with an encumbrance of debt for which no improvement in economic efficiency could compensate.

Would nationalization pay?

Let us then, in deference to this objection, waive all question of compensation, and, for argument's sake, make the new State a present of all the land, fixed capital, buildings, &c. It might similarly acquire all the property held by foreigners in England; it could hardly expect to be endowed with the capital invested by Englishmen abroad. There would then be no rent to pay and no interest; these items might be wiped off the national balance sheet. But rent and interest really represent a portion, continuously recreated, of the product of industry; it cannot therefore be assumed that the rents at present paid to landlords, or the interest paid to *rentiers*, would necessarily be transferred to the new Commonwealth. If agriculture and industry continued to yield them they would be at the disposal of the State; not otherwise; and experience of the economic results of public enterprise combines with *a priori* probability to suggest grave doubts, to say the least, whether land would continue under State management to yield a rent, or capital to produce interest. That result might equally ensue, if the new State were burdened with the payment of annuities to expropriated owners; and confiscation would to that extent be more convenient than compensation. But the point which, in the interests of the great mass of the citizens, it is important to ascertain is whether the national dividend would suffice to pay them higher remuneration, either in cash or kind, than that which, on the average, they now receive. Here we are in the realm of conjecture.

The teachings of experience.

The only guidance obtainable is that from the actual results of communistic or collectivist experiments. We are forbidden to found an argument for or against socialism upon the experience of Bolshevist Russia; since bolshevism

is said to be the antithesis of socialism; while collectivist experiments have only been partial, and have been generally conducted in the unsympathetic environment of predominant private enterprise. That is true; but how far the environment has impaired or assisted the experiments is more doubtful. So far as experience can be trusted we are compelled to infer that public enterprises are more extravagant in management, less fruitful in profits, not more conducive to industrial harmony, and on the whole less productive of public convenience than similar enterprises under private management. Communism is wholly discredited alike by the experiment in Russia and by that of William Lane's settlement in Paraguay.[1] State socialism can be judged only by experiments in nationalization or municipalization, hitherto tried on a relatively small scale, and by war-time experience when circumstances were abnormal.

Nationalization.

No one doubts that a particular industry might be nationalized with advantage to all classes concerned in it: provided it was not required to stand on its own feet. High wages could, for instance, be paid to miners or railway servants, and even fair compensation to the shareholders, under a nationalized scheme, without necessarily raising prices or charges to the consumer, but only if the State were prepared to subsidize those industries. So soon as the principle was universally applied to all industries the subsidies must necessarily cease: since they could only be paid to one industry out of the profits of another. The high wages paid during the recent war were largely paid by the State either out of capital borrowed from individuals, or by means of depreciated paper. Such expedients could not be indefinitely relied upon; nor relied upon even temporarily, if the principle of nationalization were universally adopted. Herein lies the fallacy of arguing from the particular. One firm, say in the engineering industry, may be earning large profits, and paying large dividends. Immediately, the case is quoted, and there is a demand for higher wages throughout the industry. The industry as a whole cannot afford

[1] Cf. Stewart Grahame, *Where Socialism Failed*, John Murray (1912).

to pay them, though one or two firms can. Then, if the industry be essential to national life, the 'nation' it is argued must pay. Why, asks the revolutionary socialist, should each industry be required to pay its way? 'The army does not pay its way. . . . There is then no reason in the nature of things why the coal industry should pay its way. . . . Suppose that the coal industry, though necessary, is financially and permanently bankrupt; then the living wage, for the workers in it should, in Labour's view, be taken from the superabundance of other industries.'[1] But suppose that the railways should go the way of coal? And iron and steel follow the railways into bankruptcy? And the textile trades the metal trades? And agriculture become involved in the common ruin? Whence would come the funds to provide—to say nothing of profits or interest—a 'living wage' for the manual workers?

State control in the Great War.

Are the suppositions fantastic; are these suggestions remote from reality? Would that they were. The facts are too serious. The coal industry, under Government control, was brought to the verge of bankruptcy, and involved the nation in a loss of £26,000,000. The net receipts of the railways which in 1913 totalled over £48,000,000, and yielded to the proprietors, on the average, a modest dividend of about $4\frac{1}{4}$ per cent shrank in the year 1920–1 (the last full year of Government control) to a little over £2,000,000. Agriculture, in the same year (1921), claimed from the State nearly £20,000,000 in redemption of the pledges contained in the Corn Production Act. If these things were done in the green tree, what shall be done in the bay? The deficiences in these three essential industries were met out of 'the superabundance of the profits of other industries'—or perhaps partly out of the taxation of capital. But that is a process which cannot be indefinitely prolonged, and would very quickly be arrested if industry in general were nationalized.

[1] Gerald Gould, ap. *Fortnightly Review*, July 1921, and cf. his *The Coming Revolution*.

Ethical aspect of socialism.

It may be urged, however, that the strongest argument for socialization is not economic but ethical. Unquestionably, the progress made in recent years by the socialist party has been due to the success with which it has appealed to some of the most estimable qualities in man: to pity, to unselfishness, to the charity that suffereth long and is kind. It cannot be right, say kindly folk, that some should have so much wealth, and many so little; that the few should wallow in luxury, and the masses should have a bare subsistence. No right-minded person could indeed acquiesce for an instant in the present condition of things, were it proved that by any redistribution of wealth the lower levels of society could be substantially or permanently raised. Acquiescence is only possible if we are convinced that compulsorily to deprive the rich of their superfluities would mean for the poor not a levelling up but a levelling down, and that nothing can permanently raise the general standard of comfort except a much larger aggregate production of commodities.

Consequently, the solution of the ethical problem is dependent upon the solution of the economic. Pity may not be misplaced, but the true benefactor of society is the courageous and enterprising captain of industry, or the humble cultivator of the fields, who, by persistent toil, can make two blades of grass grow where one grew before. He truly deserves better of mankind, not only than 'the whole race of politicians', but than all the socialist propagandists and all the preachers of altruism. The socialist, Christian or otherwise, ought to regard with gratitude and admiration the daring pioneer who risks his own capital—and other people's—in some great adventure which, if successful, will bring wealth not merely to himself but to society. It is a fallacy to imagine that the most selfish of millionaires can monopolize the advantages of the wealth he creates or possesses. He can only utilize it by sharing it; unshared it is as dust. And this from no motives of altruism, but under the stern law of economic necessity.

A new heart.

Socialism would fail even more lamentably than capitalism,

unless, under the new regime, the industrial captains were stimulated by the social motive to greater enterprise and more perfect organization, and unless the industrial privates were by the same motive induced to work harder for the community than they now do for themselves. Given this change of heart and conduct, socialism would be not only safe but assured of success; but might it not then also be superfluous?

It will be objected, however, that to expend criticism upon the proposals of State socialism is to waste words; that the bureaucratic type of socialism has passed into the limbo of Victorian superstitions; and that all the vital forces of socialism are now enlisted under the banner of syndicalism or of the guild type of socialism. There is substance in this objection.

Syndicalism.

Socialists have themselves been guilty in this matter of some disingenuousness. They ask for 'nationalization'; but nationalization, as worked out in legislative detail in the projects recently submitted to Parliament, is very remote from that bureaucratic type of socialism which has for so long been familiar to readers of Fabian literature. The socialist of to-day aims at replacing the private employer or limited company, not by the State and an industrial Civil Service, but by the workers of a particular industry or by a guild organization. Thus the ultimate objective of the miners was stated by the extreme section to be the elimination of the employer and the building up of an organization which would 'ultimately take over the mining industry and carry it on in the interests of the workers.'[1] Nationalization, it was clearly perceived and candidly confessed, 'does not lead in this direction, but simply makes a National Trust, with all the force of the Government behind it, whose one concern will be to see that the industry is run in such a way as to pay the interest on the bonds, with which the coal-owners are paid out, and to extract as much more profit as possible, in order to relieve the taxation of other landlords and capitalists. Our own concern is to see that those who

[1] *The Miner's Next Step* (1912).

create the value receive it.'[1] That is perfectly frank; but the parliamentary socialists are more astute. Their plan as revealed in Bills, already drafted, is to utilize the resources of the State to buy out the existing owners of the coal mines, the railways, and so on, but, having done that, to hand over the actual control and management of each nationalized industry to joint councils, in which 'Labour' would presumably predominate. They are quick to perceive that State socialism, as formerly understood, would mean no more than the substitution of one master for another, the domination of a bureaucracy, at once soulless and omnipotent, instead of a number of more or less squeezable individuals or companies, who may be as devoid as the State itself of any tincture of humanity, but who cannot employ the military resources of the State to effect their selfish economic purpose.

The true test.

If a gild, or a workers' soviet, or a joint committee can produce better results than State control or private enterprise, there is every reason, from the consumer's point of view, for hoping that they may have the opportunity of demonstrating their ability. The great thing to be desired is that the experiment should be facilitated. The manual workers have, in the trade unions and the co-operative societies, the command of large funds. If they have faith in their principles, let a portion of those funds be applied to the experiment. Capitalists, small as well as large, are taking from day to day industrial risks. To take risks is indeed essential to industrial progress. The co-operative societies have, in certain fields, shown themselves able to command great administrative ability. So, in other fields, have the trade unions. If the syndicalist or gild theory be economically sound, the disciples of those cults ought not to shrink from the obvious test. As things are, they would have to compete with private enterprise. But why not? The main indictment against capitalism is that it has failed to 'produce the goods'. If syndicalism or gild socialism can succeed, the consumers will have good reason to rejoice in their success.

[1] *Ibid.*, p. 29.

Gild socialism.

Syndicalism and gild socialism are alike and equally opposed both to private trading and to State socialism; but between them there is an essential difference. The syndicalist would have the 'workers' take over the complete control and management of each industry, but has not, it would seem, decided whether the 'workers' are or are not to include the technical, managerial, and administrative staffs. Nor would the consumer be represented on the board. The industry would be run in the interests of the workers, but as all workers in one industry are consumers of the products of the other industries, some compromise might, on this point, be effected.

The gild socialist would include every grade of worker, manual and intellectual, and would also safeguard the interest of the consumer, by fixing prices in conjunction with a consumers' organization. About all this there would seem to be an air of artificiality, but there can be no possible objection to experiment,[1] and if the experiment succeeds so much the better for all parties, including the privately managed concerns which will be stimulated by competition to greater and greater efficiency.

Malthus and the law of population.

Behind all these schemes of social improvement there still looms, however, the ghost of Malthus. In 1793 William Godwin published a work in which he maintained that all human ills were due to the imperfection of human government and institutions. Given good laws and good government there was, he held, no reason why man should not attain to a perfect existence on earth.[2] Four years later he published in his *Inquirer* a collection of essays, to one of which on *Avarice and Prodigality* Malthus was moved to reply. In the first edition (1798) of his famous *Essay on Population* Malthus contended that such perfection could never be realized, because human misery was the result not of human injustice and bad government

[1] At least one such experiment has been launched in the building industry, and the results will be watched with sympathetic interest.

[2] *Inquiry concerning Political Justice and Its Influence on Morals and Happiness.*

but of an inexorable law of nature: that population tends to outstrip subsistence. That result is averted only by the operation of the 'positive checks' of misery and vice. Alarmed by the inferences naturally drawn from this startling proposition, Malthus—no latter-day Herod, but a kindly clergyman and a Cambridge wrangler to boot—hastened, in a second edition, 'to soften some of the harsher conclusions of the first essay', and to add to the positive checks of misery and vice a third, 'preventive check' of moral restraint or abstinence from marriage.

Detailed discussion of the Malthusian principle would be out of place in the present work,[1] but it may be summarily said, that even if it be true, that while subsistence increases arithmetically population increases in geometrical ratio, the world regarded as a unit has given no sign as yet that it is unequal to the task of sustaining the world-population. If, however, any particular country be regarded in isolation, the truth of Malthus's proposition has been indisputably demonstrated. Before the establishment of British rule in India, wars, almost incessant, combined with vice and disease to keep a teeming population within the limits of subsistence. The *Pax Britannica* imposed by the British *Raj* combined with sanitary regulations to diminish the death-rate. Recurrent famines were the result which the teaching of Malthus would have led us to anticipate. Scientific study of this economic phenomenon, and marvellous administrative ability in dealing with it, have gone far to counteract the earlier effects of British beneficence. Still, India has supplied a sinister reminder that, if administrative vigilance were relaxed, nature might again reassert herself, and afford a disagreeable justification of the apprehensions entertained by Malthus.

The situation today.

Nor is it possible, altogether apart from the mathematical law formulated by Malthus, to ignore the fact that in

[1] For Malthus, reference may be made to James Bonar, *Malthus and His Work* (Macmillan, 1885). The more important chapters of the Essays of 1798 and 1803 have been reprinted in convenient form in *Economic Classics* (ed. Ashley) (Macmillan, 1895). Cf. also E. Cannan, *Theories of Production and Distribution* (1892).

England we are to-day confronted by a highly artificial situation. The wonderful advances registered since Adam Smith's day in the processes of production, more particularly in the textile and steel and iron industries, made England for two generations the workshop of the world. A parallel development in facilities of transport brought to the industrial workers an adequate supply of cheap food. Agriculture was suffered to decay; Englishmen ceased to speed the plough, and the rural villages were deserted for the new mining districts, for the black country, and the factory towns. A successful blockade of English ports would, therefore, compel abject surrender. Perhaps we were nearer to it in 1917 than is commonly realized. But, be that as it may, it is plain that the English soil, however intensively cultivated, could now sustain the English population only, if at all, at a prohibitive cost.

The redistribution of population.

Yet there are empty spaces, in the Oversea Dominions of the British Crown, which are in urgent need of human cultivators. National security and economic expediency combine to demand a redistribution of the man power of the Empire. Unless the empty spaces of Australia and Canada are quickly filled with Englishmen, they will be filled by others. If they are filled by Englishmen the migrants will not only supply the home-land with abundance of food, but will offer to the industrial workers in England the best of all markets for the disposal of their manufactured products. Nothing, therefore, can contribute so effectively to the progress of Imperial trade as the development of Imperial settlement. The migrant is trebly blessed: he is blessed himself in the opening opportunities of a fuller, freer, and richer life; he blesses the land he leaves, and he blesses the land to which he goes.

The State and emigration.

Nor is the theme irrelevant to the main argument of the present chapter. Mill included the control of emigration among his short list of exceptions to the general policy of *laissez-faire*: 'Besides the importation of corn, there is another resource which can be invoked by a nation, whose increasing numbers press hard, not against their capital,

but against the productive capacity of their land: I mean emigration, especially in the form of colonization. . . . The removal of population from the overcrowded to the unoccupied parts of the earth's surface is one of those works of eminent social usefulness, which *most require and which at the same time* best repay, the intervention of Government.'[1] These words are remarkable, not only as coming from Mill, but from any Englishman at a time when the Imperial pulse was at its feeblest; when even Disraeli could think and speak of our Colonial possessions as a 'millstone round our necks'; when the 'weary Titan' was groaning under a 'burden', of which the Manchester School was anxious only to be rid.

Much has happened since Mill wrote (1848), not only to quicken the Imperial pulse, but also to add emphasis to the purely economic reasons for encouraging migration from the heart of the Empire to the lands which are 'Daughters no more but Sisters and doubly Daughters so'. So lately as thirty years ago the main stream of emigration from this country flowed to the United States of America. It is now directed to the Dominions. The spaces are wider there; the welcome warmer, and the commercial reaction upon the trade of the mother-land much more direct and more important; for the amount of British goods purchased per head in the U.S.A. is only 8*s.* 2*d.*, compared with 44*s.* 4*d.* per head in Canada; with £4 5*s.* 11*d.* in South Africa; £8 7*s.* 4*d.* in Australia, and £12 4*s.* 5*d.* in New Zealand.

Empire Settlement Act, 1922.

The Empire Settlement Act, passed by the Imperial Parliament in 1922, marks a modest step forward in a sound policy. The broad effect of the war, as regards migration, was to mulct the Dominions of nearly 2,000,000 British subjects, and to throw a corresponding burden upon the already congested labour market of the homeland. Acting in close and cordial co-operation with the Governments of the Dominions, and other various voluntary agencies at home—notably the Salvation Army, the Church Army, and Dr. Barnardo's Homes—the Imperial Government is

[1] *Op. cit.*, pp. 197, 970.

now making an effort, which needs to be not spasmodic but sustained, to readjust the balance of population.

The teeming population of urbanized England must buy its food largely from abroad, and therefore must find oversea markets for its own products. The overseas portions of the Empire can sell them the food and buy their goods; but they could sell more and buy more, if they were not so sparsely peopled. For whereas Great Britain has 480 inhabitants to the square mile and England no fewer than 670, Canada has only 2·7, Australia 1·8, and New Zealand 1·7. The policy of some of the Dominions in regard to immigration has, in the past, not always been enlightened; the exclusive spirit both in regard to men and goods has tended to dominate politics; but there are now unmistakable indications that the blunder has been realized and will, as far as possible, be repaired.

Voluntary agencies can do much: individual initiative will do more: but this is pre-eminently a work in which Government may legitimately do something. At the moment (1922) it is indeed a choice between different objects of public expenditure: and the economist, as well as the moralist, may fairly demand that the Legislature should consider whether a large portion of the money now being expended on the relief of the unemployed at home might not be diverted with far greater hope of permanent utility to the assistance of inter-imperial migration.[1] The principle of national husbandry, in the largest sense, would seem to sanction this method of conserving the most valuable of all our resources—human capital. And here at least Ethics, Politics, and Economics are in complete harmony: individual well-being, national security, public health, and the wealth of nations, would all derive inestimable advantage from persistence in a policy of carefully conducted migration. Public money invested in this enterprise would infallibly yield a rich return; and the dividend

[1] The sum provided in the Empire Settlement Act was £1,500,000 for the first and £3,000,000 for the next fifteen years. £100,000,000 is at present (1922) the estimated annual cost of 'unemployment'.

would not be merely or mainly material. But discussion of this question is relevant only in illustration of a general principle.

Democracy and socialism.

The principle involved is that of the proper sphere of the economic activities of the State. It has been said that no limits can be assigned to it since socialism is the natural complement of democracy. It is certainly true that, with the development of political democracy, larger functions in the economic sphere have been entrusted to the State as representing the community. This is natural. When the people are the State, in a governmental sense, they are naturally less mistrustful of State interference. Yet they will do well to reflect that the State must act through individual agents, whether it be in the command of an army, in the management of farm or factory, or in the direction of education. It must beware, then, of the subtle danger pointed out, in his famous essay on *Liberty*, by Mill. 'The worth of a State, in the long run, is the worth of the individuals composing it; and a State which postpones the interests of *their* mental expansion and elevation to a little more of administrative skill, . . . in the details of business; a State which dwarfs its men, in order that they may be more docile instruments in its hands, even for beneficent purposes, will find that with small men no great thing can really be accomplished; and that the perfection of machinery to which it has sacrificed everything will in the end avail it nothing, for want of the vital power which, in order that the machine might work more smoothly, it has preferred to banish.'[1] The sole question then for the community to decide is one of expediency: will they be better served by individuals, or groups of individuals, animated by a spirit of rivalry and competition; or by a single organization inspired, no doubt, by zealous concern for the common weal, but not under the stimulus which is derived from competition or personal ambition?

A dogmatic answer to this question is inadmissible.

[1] *Liberty*, fin.

Only experience can decide. The results of experience are, on the one side, manifold and manifest: on the other, though not entirely lacking, they are few and disputable. It were, as already said, much to be desired that they should be multiplied by experiment.

One final reflection. The community now possesses a real safeguard in the controlling and supervising authority of the State. In a socialized society, *Quis custodiet custodes*? It is not suggested that socialism would transmute dogs into wolves: but all would be hirelings. What then of the sheep? The best of men are not fallible. At present they are not merely stimulated to activity by self-interest and competition; they are closely watched by an outside authority. 'The proper function of the State', it has been truly said, 'is not to manage and coerce every one, but to control, assist, instruct, protect individualist forces'.[1] If the omnipotent State were to take upon itself the performance of every function, economic as well as governmental, who would control or assist, or indeed coerce?

Conclusion.

The subject is, however, inexhaustible and fitter for many volumes than for a single chapter. Yet whether we reach a conclusion or not, we must needs bring this chapter and this volume to a close. It is well that the existing condition of society should arouse questioning and even discontent. In the presence of much poverty and suffering callous acquiescence, on the part of the more fortunate, would argue selfishness and sin. But if the greedy and covetous need to be reminded of the stern precepts of Christ, not less do the generous and warm-hearted require to take heed of grave warnings of philosophy and experience. If it be true that deliberate legislative enactments produce unsuspected reactions and consequences that impair and even neutralize the benefits they are intended to confer, it is equally true that the less considered and less deliberate acts

[1] *Vox Clamantis*, p. 200.

of individuals are apt to defeat their own purposes. Enthusiasm is said to be like fire, a good servant but a bad master. Undisciplined compassion may work much havoc. We have not less need of knowledge than of charity. 'Life is more than meat, and the body than raiment', yet raiment and meat are alike essential to life. Between the laws of wealth and the precepts of morality there is, in the last analysis, no contradiction. But ethical practice is conditioned by the operation of economic law, and, in the one case as in the other, the wages of disobedience is death.

APPENDIX A

LIST OF BOOKS

[The following list is, in no wise, intended as an exhaustive bibliography, for the literature of the subject, in this and other countries, is immense. It is offered (i) as an acknowledgement of the obligations I have incurred; and (ii) as a guide to the reading of those who may wish to carry their study further.]

I. ECONOMIC THEORY

Adam Smith, *Wealth of Nations* (1776) ed. Nicholson.—References are to Nicholson's edition, but the best edition is Cannan's (2 vols., 1904); works on *Political Economy*, by David Ricardo (1817); T. R. Malthus (1820); N. W. Senior (1836); F. List (*National System*, 1841); J. S. Mill (ed. W. J. Ashley) (1848); H. C. Carey (*Principles of Social Science*, 1857-60); Stanley Jevons (1871); J. E. Cairnes (1874); Ch. Gide (1883); F. A. Walker (1883); Simon N. Patten (*Premises*, 1885); F. Bastiat, *Essays* (Eng. trs. 1893); F. von Wieser (*Natural Value*, 1889); Eugen von Böhm-Bawerk (*Capital and Interest*, 1884, trs. Smart); Karl Menger, *Grundsätze der Volkswirtschaftslehre* (1871); S. Newcomb (1885); Alfred Marshall (1890); A. T. Hadley (1896); J. B. Clark (*Distribution of Wealth*, 1899); H. Sidgwick (1901); N. J. Pierson (Eng. trs. fr. Dutch) (1902); T. N. Carver (1904); J. N. Keynes (*Scope and Method*, 1904); E. R. A. Seligman (1905); R. T. Ely (1908); J. Shield Nicholson (1909); F. W. Taussig (1911); A. C. Pigou (1912); H. R. Seager (1913). Among many shorter introductory works mention may be made of: T. H. Penson, *Economics of Everyday Life*; J. Bonar (*Elements*); S. J. Chapman (*Outlines*); H. Clay (*For the General Reader*); H. Fawcett (*Manual*); E. Cannan (*Wealth*); J. A. Hobson (*Science of Wealth*); Ely and Wicker's *Elementary Principles* (ed. L. L. Price) (1915).

II. HISTORY OF ECONOMIC THOUGHT

L. H. Haney, *Hist. of Econ. Thought* (revised edition, 1920: an invaluable book of reference); Gide-Rist, *Histoire des Doctrines économiques* (1909, Eng. trs., 1915); L. L. Price, *Short Hist. of P. E. in England* (11th ed. 1922); E. Cannan, *Theories of Production and Distrib. in Eng.* (1893); J. Blanqui, *Hist. of P. E. in Europe* (1837, Eng. trs., 1880); Travers Twiss, *View of the Progress of P. E.* (1847); W. Roscher, *Geschichte der Nationalökonomik in Deutschland* (1874); L. Cossa, *Introduction to the Study of P. E.* (trs. of Italian original, 1893); J. K. Ingram, *Hist. of P. E.* (1888); Walter Bagehot, *Economic Studies* (1895).

III. ECONOMIC HISTORY

Porter, *Progress of the Nation* (1847), and new ed. Hirst (1912); A. Toynbee, *Industrial Revolution* (1884); P. Mantoux, *La Révolution industrielle*; W. J. Ashley, *Economic History* (1888); *Surveys* (1900); *Economic Organization* (1914); W. Cunningham, *English Industry and Commerce* (1885, and many subsequent works); L. L. Price, *Commerce and Industry* (1900); Townshend Warner, *Landmarks* (1899); J. E. T. Rogers, *Economic Interpretation* (1888); E. Lipson, *Introduction* (1915); *Select Documents* (ed. Bland, &c.) (1914); W. Smart, *Annals of the Nineteenth Century*; Mrs. Lilian Knowles, *Industrial and Commercial Revolutions* (1921).

(*a*) *For the English Land System*

R. E. Prothero (Lord Ernle): *English Farming Past and Present* (1912).
A. H. Johnson: *Disappearance of the Small Landowner* (1909).
J. A. R. Marriott: *English Land System* (1914).
H. Grisewood and E. Robins: *Land and the Politicians* (1914).
Nasse: *Agricultural Community of the Middle Ages* (Eng. tr. 1871).
P. Vinogradoff: *Villainage in England* (1892, and other works).
E. C. K. Gonner: *Common Land and Enclosure* (1912).
R. H. Tawney: *Agrarian Problem in the Sixteenth Century* (1912).
Mrs. Stirling: *Coke of Norfolk* (1902).
J. Shield Nicholson: *Rents, Wages, and Profits in Agriculture* (1906).
R. Lennard: *English Agricultural Wages* (1914).

(*b*) *Manufacturing Revolution: Wage Questions, &c.*

'Alfred': *Hist. of Factory Movement* (1857).
Jevons: *State in Relation to Labour* (1882).
Hutchins and Harrison: *Factory Legislation* (2nd ed., 1911).
Mr. and Mrs. Webb: *Hist. of Trade Unionism* (1894).
——: *Industrial Democracy* (1897).
——: *Problems of Industry* (1898).
Mr. and Mrs. Hammond: *Town Labourer* (1917).
G. H. D. Cole: *World of Labour* (1913).
Levy: *Economic Liberalism* (Eng. tr., 1913).
——: *Monopoly and Competition* (Eng. tr., 1911).
C. R. Fay: *Copartnership in Industry* (1913).
——: *Life and Labour in the Nineteenth Century* (1920).
E. Halévy: *Le Peuple anglais au XIX^e Siècle.*
D. F. Schloss: *Methods of Industrial Remuneration* (3rd ed., 1898).
L. L. Price: *Industrial Peace* (1887).
Lord Askwith: *Industrial Problems and Disputes* (1920).
Co-operative Wholesale Society's Annual (annual).

(Much of the important information is in 'Blue Books'; Reports of Royal Commissions, &c.)

IV. APPLIED ECONOMICS

(*a*) *Socialism, &c.*

W. Graham: *Socialism New and Old* (1891).
A. Schäffle: *The Quintessence of Socialism* (Eng. tr., 1889).
Lord Avebury: *National and Municipal Trading* (1907).
Report of Royal Commission on Municipal Trading (305 of 1900).
G. C. Field: *Guild Socialism* (1920).

Douglas Knoop: *Municipal Trading* (1912).
K. Marx: *Capital* (Eng. tr., 1897).
J. S. Nicholson: *The Revival of Marxism* (1920).
G. Gould: *The Coming Revolution* (1920).
E. Faguet: *The Cult of Incompetence* (Eng. tr. 1911).
S. Grahame: *Where Socialism Failed* (1912).
W. H. Mallock: *Critical Examination of Socialism* (1908).
——: *Social Reform* (1914).
E. Laveleye: *Socialism of To-day* (n.d.).
M. Beer: *History of British Socialism* (1919–20).
Henry George: *Progress and Poverty* (1882).
A. Menger: *The Right to the whole Produce of Labour* (Eng. tr., 1899).
E. Bellamy: *Looking Backward* (1889).
John Rae: *Contemporary Socialism* (2nd ed., 1891).
W. Sombart: *Sozialismus* (1908).
T. Kirkup: *Hist. of Socialism* (5th ed., 1913).
R. Flint: *Socialism* (1895).
W. Pember Reeves: *State Experiments in Australia and New Zealand* (1902).
P. Leroy Beaulieu: *Le Collectivisme* (4th ed., 1903).
J. Ramsay Macdonald: *Socialism* (1907).
T. Mackay (ed.): *A Plea for Liberty* (1894).
Sir L. C. Money: *Triumph of Nationalization* (1920).
A. J. Penty: *Guilds and the Social Crisis* (1919).
S. G. Hobson: *National Guilds* (1920).
Lord Emmott: *Nationalization of Industry* (1920).

(*b*) *Trusts, Monopolies, &c.*

J. B. Clark: *The Problem of Monopoly* (1904).
——: *The Control of Trusts* (1912).
R. T. Ely: *Monopolist Trusts* (1902).
H. W. Macrosty: *Trusts and the State* (1901).
——: *The Trust Movement in British Industry* (1907).
J. S. Jeans: *Trusts, Pools, and Corners* (1894).
J. W. Jenks: *The Trust Problem* (1900).
F. Pierce: *The Tariff and the Trusts* (1907).
J. M. Bonham: *Industrial Liberty* (1888).

(*c*) *Poor Law, Pauperism, and Pensions*

H. Fawcett: *Pauperism: its Causes and Remedies* (1871).
C. O. S.: *Old Age Pensions* (1903).
C. Booth: *Pauperism and the Endowment of Old Age* (1892).
——: *The Aged Poor* (1894).
C. S. Loch: *Pauperism and Old Age Pensions* (1895).
G. Drage: *Problem of Aged Poor* (1895).
B. S. Rowntree: *Poverty: A Study of Town Life* (1908).
R. Hunter: *Poverty* (1905).
M. Loane: *Queen's Poor* (1906).
T. W. Fowle: *The Poor Law* (1881).
E. Sellers: *Foreign Solutions of P. L. Problems* (1908).
Miss Leonard: *Early History of Poor Relief* (1900).
Aschrott and Preston-Thomas: *English Poor Law System* (1888).
Reports of Royal Commission of 1834 (reprinted 1885) *and 1909*; and on *Old Age Pensions* (1898).
G. Lubbock: *Some Poor Relief Questions* (1895).
St. Loe Strachey (ed.): *Manufacture of Paupers* (1906).

(*d*) *Foreign Trade*

Lord Morley: *Life of Cobden* (2 vols., 1881).
G. Armitage Smith: *Free Trade Movement* (1903).
L. Levi: *Hist. of British Commerce* (1872).
G. Schmoller: *The Mercantile System* (Eng. tr., 1884).
T. H. Farrer: *Free Trade* (4th ed., 1887).
——: *State in Relation to Trade* (1883).
C. F. Bastable: *Theory of International Trade* (4th ed., 1903).
J. A. Hobson: *International Trade* (1904).
Viscount Goschen: *Theory of Foreign Exchanges* (1861)
Henry Fawcett: *Free Trade and Protection* (1878).
A. Montgredien: *Hist. of Free Trade in England* (1881).
Schanz: *Englische Handels-Politik* (1881, Leipzig).
Sir L. Mallet: *Free Exchange* (1891).
S. N. Patten: *The Economic Basis of Protection* (1890).
Sir W. J. Ashley: *The Tariff Problem* (1903).
Sir V. Caillard: *Imperial Fiscal Reform* (1903).
W. Cunningham: *Rise and Decline of the Free Trade Movement* (1904).
L. S. Amery: *Fundamental Fallacies of Free Trade* (1906).
J. W. Welsford: *The Strength of Nations* (1907).
W. Smart: *The Return to Protection* (1904).
Reports of the Tariff Commission (Non-official).

(*e*) *Finance, Taxation, Currency, and Statistics*

Walter Bagehot: *Lombard Street* (1873).
Stanley Jevons: *Money* (1875).
Hartley Withers: *The Meaning of Money* (1909).
——: *Money Changing* (1913).
——: *War and Lombard Street* (1915).
——: *International Finance* (1916).
——: *Poverty and Waste* (1914).
——: *Stocks and Shares* (1910).
——: *Our Money and the State* (1917).
——: *The Case for Capitalism* (1920).
C. F. Bastable: *Public Finance* (1892).
S. Dowell: *Hist. of Taxation and Taxes*, 4 vols. (2nd ed., 1888).
Sir Stafford Northcote: *Twenty Years of Financial Policy* (1862)
Sir Bernard Mallet: *British Budgets, 1887–1913* (1913).
E. Cannan: *Hist. of Local Rates* (1912).
E. R. A. Seligman: *Essays in Taxation* (new ed., 1913).
Sir Robert Giffen: *Statistics* (1913).
——: *Essays in Finance* (1880).
H. S. Foxwell: *Papers on Current Finance* (1919).
J. W. Grice: *National and Local Finance* (1910).
R. Jones: *The Nature and First Principle of Taxation* (1914).
A. L. Bowley: *Wages in the United Kingdom* (1900).
——: *Prices and Wages, 1914–20* (1921).
——: *The Division of the Product of Industry* (1919).
——: *The Change in the Distribution of the National Income, 1880–1913* (1920).
——: *Elements of Statistics.*
W. Smart: *Distribution of the National Income* (1912).
M. G. Mulhall: *Dictionary of Statistics* (1886).
J. S. Nicholson: *War Finance* (1918).
A. W. Kirkaldy: *British Finance, 1914–21* (1921).

Hon. R. H. Brand: *War and National Finance* (1922).
Finance Accounts of the United Kingdom (88 of 1922 and annual).
Statistical Abstract (Cmd. 1246 and annual).
Lynden Macassey: *Labour Policy, False and True* (1922).
Harold Cox: *Economic Liberty* (1920).
J. H. Jones: *Social Economics* (1920).
A. Shadwell: *Industrial Efficiency* (1906).
Sir Josiah Stamp: *The Fundamental Principles of Taxation* (1921).
——: *British Incomes* (1916).

V. ETHICS AND ECONOMICS

Christianity and Industrial Problems (The Report of the Archbishops' Fifth Committee of Enquiry. Cited as Archbishops' Report) (1919).
F. G. Peabody: *Jesus Christ and the Social Question* (1900).
——: *The Approach to the Social Question* (1909).
Bishop B. F. Westcott: *Christian Social Union Addresses* (1903).
George Haw (ed.): *Religious Doubts of Democracy* (1904).
W. Cunningham: *Christianity and Economic Science* (1914).
W. Rauschenbusch: *Christianity and the Social Crisis* (1907).
A. C. Headlam: *The Church and Industrial Questions* (1919).
F. Nitti: *Catholic Socialism* (1895).
W. Cunningham: *Socialism and Christianity* (1910).
——: *Christianity and Politics* (1916).
C. E. Raven: *Christian Socialism* (1920).
P. E. Gardner: *Evolution in Christian Ethics* (1918).
D. G. Ritchie: *Studies in Political and Social Ethics* (1902).
R. J. Campbell: *Christianity and the Social Order* (1907).
A. V. Woodworth: *Christian Socialism in England* (1903).
L. T. Hobhouse: *The Elements of Social Justice* (1922).
Bishop C. Gore and others: *Property, its Duties and Rights* (1913).
Bishop W. Temple and others: *Competition* (1917).
John Ruskin: *Unto this Last* (1862).
——: *Sesame and Lilies* (1865).
——: *Time and Tide* (1868).
——: *Munera Pulveris* (1872).
——: *A Joy for Ever* (1857).
——: *Fors Clavigera* (1871–1884).
J. A. Hobson: *John Ruskin, Social Reformer* (1898).
Sir E. T. Cook: *Life of Ruskin* (1911).
J. W. Graham: *The Harvest of Ruskin* (1920).
Sir Henry Jones: *The Working Faith of the Social Reformer* (1910).

APPENDIX B

Appended is a list of the principal articles, contributed by the author to periodical literature, on subjects dealt with in this volume.

Fortnightly Review.

'Municipal Socialism.'	Dec. 1902
'Adam Smith and Some Problems of Today.'	Dec. 1904

Fortnightly Review.

'The English Land System. I.'	Sept. 1913
' " " " " II.'	Oct. 1913
' " " " " III.'	Dec. 1913
' " " " " IV.'	Mar. 1914
'Private Thrift and Public Expenditure.'	Aug. 1915
'Economics and War.'	Jan. 1916
'Political Syndicalism.'	Mar. 1919
'The Problem of Liberty.'	Nov. 1919
'National Finance: The Budget of 1920.'	June 1920
'Evolution or Revolution?'	Jan. 1921
'The Problem of Unemployment.'	Mar. 1921
'The State and the Railways. I.'	June 1921
' " " " " " II.'	July 1921
'The Economics of Communism.'	Sept. 1921
'Public Assistance and National Decay.'	Sept. 1922
'Industrial Unrest and Insurance by Industries.'	Nov. 1922
'Capitalism, Communism, and Unemployment.'	Jan. 1923
'Poverty, Pauperism, and Public Assistance.'	Mar. 1923

Nineteenth Century and After.

'The Right to Work.'	June 1908
'The Great Inquest' (Report of Poor Law Commission, 1909)	April 1909
'Syndicalism and Socialism.'	Nov. 1912
'The Problem of Poverty.'	June 1913
'The Thrift Campaign.'	Feb. 1916
'War Finance: The Fourth War Budget.'	May 1916
' " " : The Fifth War Budget.'	June 1917
'The Power of the Purse.'	Aug. 1917
'The Conscription of Wealth.'	Feb. 1918
'The Right to Idle.'	May 1919
'An Historic Budget.'	June 1919
'The Aftermath of War.'	Aug. 1919
'Nationalisers and the Nation.'	Oct. 1919
'Nationalization.'	Mar. 1920

Other Reviews.

'National Expenditure.' *Edinburgh Review*, July 1918.
'A Capital Levy.' *Review of Reviews*, Nov. 1919.
'Parliament and Finance.' *Edinburgh Review*, Jan. 1920.
'The Industrial Outlook.' *Contemporary Review*, Aug. 1921.
'God and Mammon.' *Hibbert Journal*, Oct. 1922.
'Ruskin's Economics.' *Cornhill*, April 1923.
'Industry and Finance, I, II, III, IV.' *Fair Play*, May 5, 12, June 2, 30, 1921.
'A Pyschological Budget' (Budget of 1922). *Fair Play*, May 11, 1922.
'Empire Settlement and Empire Trade, I, II, III.' *Fair Play*, Jan. 18, Jan. 25, Feb. 1, 1923.

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