ELEMENTS OF POLITICAL ECONOMY.

JAMES BONAR

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PREFACE

This book gives a general outline of the leading principles of political economy as they are illustrated in the commercial life of modern peoples, and of our own nation more particularly.

It is no more than the beginning of a study; but perhaps it may be sufficiently lucid to induce some readers to carry out the study for themselves and help others to do the like.

J. B.

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CONTENTS

CHAPTER III

CAPITAL

CHAPTER IV

WAGES AND RENT

CHAPTER V

PROFITS AND INCOME

CHAPTER VI

THE COMMERCIAL COMMONWEALTH

CHAPTER VII

PRINCIPLES OF TAXATION

CHAPTER VIII

DIRECT TAXES

CHAPTER IX

RATES

POLITICAL ECONOMY

CHAPTER I

GENERAL OUTLINE

What Economy and Political Economy are. What Wealth is. Economy of Societies not merely Economy of Individual "writ large." Abstract consideration of Certain Motives desirable. Craving for Comforts. Consumption and Final Utility. Division of Labour. Extent of the Market. Value. Difficulties of Barter. Money. Barter not Superseded. Main elements of Modern Economy. Whence Differences in Value? Abundance and Scarcity partly dependent on Cost. Cost Varies partly with the Market. Value not explainable by Cost—involves Desire *plus* Limit. Why Value not simply equal to Cost. With Division of Labour, not only Supply, and Demand, and Labour, but Capital, Profits, Wages. Capital—what it involves. Relation to Time—Phenomenon of Interest. Profits. Rent. Separation of Functions not same as Distinction of them. The Separation perhaps not the Final Economy. Technical Advance irrevocable and universal. Tendency, in spite of Governments, of the whole world to become One Country.

What Economy and Political Economy are.— In its narrowest and earliest sense, economy is housekeeping (Œconomy, οἰκονομία), the husbanding of the material resources of the family, what we now call domestic economy. In its widest and latest sense, economy is the husbanding of any and every kind of resources, material or mental, warlike or peaceful. When this general idea of the husbanding of resources is applied to societies, we have political economy.

Political economy is the husbanding of the external resources of human societies; and the study of political economy, in spite of the adjective political, concerns the whole body politic—not only, or even mainly, the government. It only deals with the government of a country so far as the government influences the economy of the nation. It deals with separate citizens and households only so far as they also affect the whole society of which they are a part. As an endeavour after science, it investigates the broad general causes that determine the nature of a nation's material resources, that tend to increase or lessen their amount, and that tend towards an equal or unequal sharing of them among the citizens. It must take account incidentally of such elements as national character and personal talents, which are not external or material; but these elements are only treated by it in their relation to the external elements, or else the treatment is not merely economic. It may be said here once for all, that, when the context leaves the sense clear, English political economists are in the habit of calling themselves simply economists, and their study economics, and of using economical or economic as the corresponding adjective; but they are not thereby claiming all and every economy as their province; their study remains confined to the economy of the external resources of a society of men.

What Wealth is. — External resources are desired as a means of living, or as a means of well-being; in either case as a means of fulfilling human ends, and satisfying human wants. When material objects are made subservient to human purposes, they become wealth to the man whose servants they are, whether he has won them by his labour and personal gifts, or owes them to good fortune and circumstances. Collectively, they are his wealth; severally, the items of the collection are mainly his goods or commodities; but his wealth also includes those external resources which are not embodied in detached objects—services of nature, or of fellow-men, not capable of being stocked or stored. The essential notion of wealth in economics is of a sum total of external means of satisfying human wants and fulfilling human purposes, whether the means be commodities or services. Evidently, therefore, wealth is great or small according to the wants of the possessor; relatively to these wants, a stock of goods means abundance, or means scarcity. We usually judge of wealth in relation to the wants of the citizens of the society where we live, presuming that we can tell what the wants of ordinary men are, from our knowledge of ourselves and observation of others.

Plenty or scarcity, economy and waste, can of course occur in a small household as well as in a great society. One man may so use his resources that they go far, while another with the same resources may fall short of him. Where the result depends on their own efforts, one man, if he is skilful, may get a larger result than an unskilful neighbour. The ideal economy would be, to gain the greatest possible result with least possible effort, to secure the end by the best and best-used means, whether the end were the getting of wealth, or the keeping of it, or the spending of it.

Economy of Societies not simply a Magnified Economy of Individuals.—All this is true where we are dealing with societies instead of single persons; but experience shows that we do not get the whole truth about the economy of societies if we look only to the economy of individuals, or even of families. There are ways of economy possible for a society of men, and not possible for the individual or even for the household, except in society. Division of labour, for example, is possible for the separated man only by a metaphor. As in politics, so in economics, the qualities of the whole body are not simply the qualities of the parts "writ large." The larger characters are different in much more than the size. Though the economy of individuals is idyllically interesting, and the study of it is suggested by the very etymology of Œconomy, it is the study of the economy of societies of men that is suggested by the word economics in common usage. The "economic man" for good or for evil, is the man living with his fellow-men. To consider him stripped of all social elements, would be a useless effort of abstraction. Detachment of man from society often seems more decidedly impossible in thought than in fact: a man may be sometimes found away from his fellows, but cannot, it seems, be thought of away from them; no notion of him would be quite bare of social elements. Political economy, at least, makes no such abstraction; it is nothing if not social. But it has an abstraction of its own: it considers society only in relation to its wealth. Is this abstraction possible and desirable?

How far Political Economy requires Abstractions.—It is true that we cannot easily find, or even conceive, a society from which all the elements are absent except the economical—a society devoted entirely to the husbanding of its material resources. But most things that do not exist separately may quite well be considered separately; or it would be hard to say what in this world could be so considered at all. There are certain features of the economy of wealth that make a special study of that subject more likely to be fruitful than a similar abstraction made elsewhere among social facts.

There is first the feature of physical necessity: no human life can dispense with the means of living. Another feature is, that, even when the means of living are secured, there are desires in civilised men for the comforts of life—desires which, as a matter of experience, lead to more uniform and therefore more measurable courses of action than almost all other classes of desires. The nearest rival in this respect is the desire of marriage; and from its close connection with the desire of wealth, and from their strong influence on one another, the two desires, or rather the general tendencies resulting from the two, have been presented together by all recent political economy.

If political economy had attempted to include the results of other human passions, such as the love of honour or of knowledge, it would at once have discovered how little uniformity can be traced in the data, and how uncertain a forecast could be based on them regarding the conduct of men and societies. But, with those two selected passions, the larger the field the greater the uniformity, and the more trustworthy the estimate of general tendencies. The effects of prudence are proverbially more measurable than those of benevolence. There is nothing, on the whole, of which men have so much in common as a regard for their own welfare.

The Craving for Comforts in Modern Societies. — The person uninfluenced by economical motives is so exceptional in a large modern civilised society, that he has no appreciable influence on its general course of action, which remains, at least in intention, economical. In savage tribes now, and in some early civilisations long ago, economy would be concerned mainly with the means of living, hardly at all with the comforts of life. Economical principles may be discovered in ants and bees; and some races of men, left to themselves, remain as these animals. But the larger economical development of modern civilised men seems to be due to the larger and later development of purely human qualities, with their strength and weakness, especially the insatiable craving for comforts, together with an acute sense of the limited means of procuring them. Psychology may be left to decide whether we should speak of desires themselves as infinite, or attach the quality to the objects of desire. In either case, it is ordinary experience that wants of one kind, or the want of things of one kind, cannot be satisfied without bringing forward an attendant train of other claimants. When the point of satisfaction is reached in one instance, there are further aspirations in other directions. It is a feature of civilised men to be satiable as regards any particular species of the good things of life, insatiable as regards the whole genus of them. Perhaps in the fulness of time the predominant desires of civilised men may be desires for what is not external or material; the economy of the world would then be altered; what is given to another would be still kept by the giver. But at present there is no sign of the waning of the desire for material goods. Each ordinary man has a hierarchy of wants, beginning with physical needs, and he satisfies the less urgent as soon as the more urgent have received their provision. Since each man's wants, and their points of satisfaction differ slightly from every other man's, there is a basis here for exchange, just as in the difference between one man's qualities and another's there is a basis for the division of labour, so closely connected with exchange in modern industry.

Consumption of Goods and Final Utility.—The actual application of goods to the satisfaction of wants, is in a sense the end of economy; goods are desired for the sake of being consumed, either in the present or in the future, and, if not for their own sake, as a means of procuring others that are desired for their own sake. Economy has more to do with the social steps that lead to this consummation than with the consummation itself, which is less social than individual.

But a study of consumption brings out at least one characteristic that throws light on economical movements over the whole field, namely, that men judge stocks of goods not by the greatest but by the least or final utility of the goods. Food, for example, is a necessity, but a man's appetite for it decreases with the successive quantities supplied to him. Where particular goods, as in this case, are divisible and measurable in fractions, the importance a man attaches to a stock of the particular goods will be determined, not by the usefulness of the goods in the abstract, or by the usefulness of one item invaluable if present alone, but by the usefulness of the nearly superfluous last item retained. You can see what his judgment on them is, by the use to which he puts the last portion of the stock that he counts it worth his while to get or use at all. According to what he considers its abundance or its scarcity, he will put this last portion of it to a base or a noble use; and if to a base, you may be sure he has reached what he considers abundance of it. The descent, of course, may be checked by the power of exchange. What is not desired by one man may be prized by another. Superfluous physical necessaries, for example, may always find a purchaser; and the final utility to the first possessor would be the utility of the thing as a matter of sale. The phenomenon of exchange is likely to occur, as we shall see, wherever the lowest use of an article means a greater depth with one man than with another. If the articles are measurable in small quantities, the dividing line between what is personally useful at all, and what is only useful to procure something else in exchange, may be very fine. With or without exchange, a line of distinction exists; and the fact of its existence is of real economic importance. Apart from exchange, goods cease to be goods for me if they are present in abundance beyond my wants for the future and my wants for the present. They are "things," but not goods. I "attach no value to them"; and, in the case where the excess was due to my labour, I should cease to bestow the labour beyond the point of satisfaction.

The virtues of Division of Labour. — But it is precisely by creating such superabundance that the division of labour makes social economy more effective than private economy. Division of labour is one of the vital processes of the industrial body. When the labour of making all the goods wanted by society, and not supplied gratuitously by nature, is divided among the members, so that, instead of making all of them, each working member devotes himself to the making of one kind of goods alone, the result is greater dexterity in the making, saving of time lost in passing from one employment to another, more intimate knowledge of the nature of the things, and therewith more ingenuity and inventiveness in dealing with them. Also, in proportion to their civilisation, societies of men turn to account the inherited special aptitudes of their members. Variations among animals, though they may serve to the survival or ruin of the possessors, do not seem to be so utilised for the good of the animal community. But there is no human community without some considerable development of division of labour, and the progressive extension of it is a leading characteristic of modern civilisation.

Earlier and Later Forms of it.—In the simpler forms of society, not only is the economy of division of labour and separation of employments clear, but there is little or no doubt possible as to the several authors of the economy effected. Not only is the work divided, but the parts are locally separated; and, though the whole process is social, there is no risk of confusion between the contributions of one member of society and another. There is little difficulty in saying who was the producer and what he produced, in any given case. To "produce" is to bring forward what was lying latent or behind the scenes in nature: it consists in helping nature to help man—nature meaning the physical world distinguished from man. In the simpler forms of division of labour, the precise contributions of particular men to this united effort are almost unmistakable. The independent workmen of to-day, such as the country blacksmith, village shoemaker, or city cobbler, are a near example of what we may suppose to have been the beginning of the industrial division of labour. But large factories, where hundreds of workmen work together, each making parts and no one a whole article, are the characteristic form of the division of labour now; division is a misnomer, or at least it is less striking than the union, and even the undistinguishable blending, of contributions to the final result.

Limited by the Market.—There is in another sense union from the first. "Division of labour is limited by the extent of the market." Suppose that division of labour had been introduced by a common agreement of all severally to adopt separate employments on condition that all did so, and that the produce should be divided as well as the labour. Even under those conditions, unless the size of the community was large enough, and the nature of the country was such as to cause a need for the classes of goods produced, there would be no economy in separating all employments; a smith must have produced more than horse-shoes if he lived in rocky Ithaca, and even a maker of boats on that little island must have made something else as well, if he were not to be an unprofitable servant. The need, or the absence of need, for a separate trade would (where there was not a paternal or despotic government, or else a fraternal agreement of the kind described) be discovered by the ease or difficulty each producer found in inducing others to give him their goods for his. It would appear in the process of exchange, of which the essential nature is, what the primitive form was, barter,—the giving of goods for goods.

Rise of Market Value.—Value in its commonest sense is the relation to each other, in exchange, of two such goods, or sets of goods, thus exchanged or bartered for one another. If my goods are wanted, some one else will be willing to give me their value, or goods of his, in exchange for them. If there is no such person found by me, then I have produced beyond the needs of my fellows, and all the advantages enumerated as belonging to division of labour seem to have proved to that extent a delusion, and the economy to be no economy, in my case.

It is possible, however, that the extent of the market may be quite great enough, while a difficulty occurs in the nature of the goods held on the two sides, and in the times when they are respectively wanted. The baker may not want boots at the time the shoemaker wants bread; the boatmaker wants bread, though the baker may not want a boat at all, now or any other time. The boatmaker, though he would think his boat equal to many loaves of bread, would be embarrassed if the whole equivalent in bread were given to him for the boat. The baker's article is divisible into small portions, but for these there may not be so easily divisible equivalents on the other side; and it may be hard to get such a part of another's article as would be reckoned by both to be fairly worth the part of the batch or the single loaf. One man, again, turns out his articles day by day, and every day; another spends weeks or months, or even, like the farmer, a year in turning out his.

The Purpose of Money.—Money may be conceived to have been invented to overcome such difficulties, and enable the economy of division of labour to have its perfect work. Though the baker and boatmaker may not want each other's wares at the same time, it is possible to find some third kind of ware that is wanted by both, roughly speaking, at all times. Such a kind of ware might become a means of effecting exchange where otherwise the case seemed hopeless. In Virginia, one hundred and fifty years ago, tobacco was often such a means of exchange; and many different articles might seem fit to answer the purpose, according to circumstances. But to play the part of money it is not enough for an article to be generally wanted; and there must be not only fitness to serve as a measure of value, but fitness to serve as a means of exchange. There must, for example, be divisibility, in order that difference of value may not cause things that are indivisible to be only exchangeable in rare coincidences. The rare coincidences would occur when he who was anxious to get a particular article, and had one of his own to offer for it, found the possessor of the coveted article willing or even anxious to secure the offered article, when both were willing at one and the same time, and when the one article, without addition or subtraction, was deemed equal to the other. But "money answereth all things." With money as a common third to mediate between them and perform the necessary addition or subtraction, the two men need not wait for the rare coincidences. If barter facilitates division of labour, money facilitates barter.

It does not supersede Barter. — It is not rightly described as enabling men to dispense with barter. Goods are offered because goods are wanted; exchange, among all ordinary sane men as an affair of business, is in intention barter. This appears in the highest developments of international trade as well as in the simplest forms of local industry. But money is a necessary tool at a certain stage in the development of division of labour; and the precious metals are the best materials for that tool. If goods are to be given, not directly for the goods wanted, but, in the first place, for a third article which in due time will procure the goods wanted, the giver (the seller) will need to be sure of the trustworthiness of that third article, and sure that he can count with reasonable probability on finding a man who will give him in exchange for it the goods that he wants. Also, he will be more willing to sell his article if what he is to receive for it is something that he can easily carry about with him from place to place, to exchange again; portability of money will in this way multiply buyers and sellers. Now, the precious metals in all civilised times have been highly prized, even in small quantities, and therefore they make a money which is portable. They are also more nearly alike, sample for sample, than most other kinds of articles; and they are more easily distinguished for what they are, by ordinary folk. In civilised countries, the stamp of the government on the coin increases the general confidence by certifying quality and quantity. Precious stones, though possessing great value in small bulk, are unsuited for money, because, to say nothing else, they are not divisible. Gold and silver have become in almost all civilised countries the tool of exchange and measure of value.

Application to Modern Economy.—The case now presents us with some of the main elements of modern economy. Division of labour which will make labour more effective, depends upon a market and on a means of exchange there. It involves a special storing of materials and a delay in results, with a view to greater results, than can be got without the delay. It involves that some rough-and-ready distinctions are recognised between article and article. The exchange of them is not a mere affair of quantity, but of value. Similar quantities may be of unlike value. One question, therefore, is, whence this recognised difference arises?

The Special Difficulty of Modern Division of Labour.—It was implied (when the labour was divided) that I gave up my useless privilege of making everything for myself, in order that both my neighbour and myself might do better by the new plan. If I found myself no better off by the new plan, in the case, say, of boots, I should be tempted to relapse into the old plan, and be my own shoemaker. One limit, then, to the amount of one man's wares that can be exacted by another in exchange for his own, will be the point at which it will cease to the second man to be profitable to leave the making of the desired article in another man's hands at all. In a small neighbourhood, where the people all know each other and each other's every action, the limit would be easily seen from afar off. Not so in a large society where the exchangers are often strangers to one another and out of each other's ken. The alternative of making our own boots is in this case out of the reckoning; no industrial relapse can carry us to that extremity. We guide ourselves rather by observing the differences between one maker and another, choosing those makers who give us the most favourable terms. In short, we guide ourselves by the competition of sellers, the sellers representing the makers. We are unable in a large society to know exactly to what length the seller is prepared to go rather than lose his bargain with us; and he, for his part, is probably unaware of our limits. Yet bargains are made; and, where there is not force or fraud, both parties as a rule are satisfied. What are the grounds of the satisfaction? To what equality of conditions deemed reasonable do men settle down, in such a case?

The First Obvious Solution. — The first answer would probably be, that the plentifulness or scarcity of the article wanted is what determines its value, or the quantity of the other things for which it will be exchanged; and this is true, if we remember that the plentifulness or scarcity of the other article offered in exchange for it must be equally brought into account. The seller is always a buyer, and the buyer is always a seller. This is more evident in barter than where the exchanges are made by means of money. It is unusual to speak of the tradesman who gives his goods for money as a buyer; but he is so—of money first, of other articles at his leisure. Now, each seller will in sane business only sell if what he parts with has a lower final utility to him than the goods he is to get by the sale; and the buyer is in exactly the same position. Each may be expected to be willing to conclude the bargain so long as that condition is fulfilled; but, where plenty prevails, on one side, of the things offered by the seller, and scarcity on the other of the things offered to him by the buyer, it is clear that there may be much greater advantage from the bargain on the one side than on the other, without positive disadvantage on either.

Under division of labour, the abundance and scarcity have more of man than of nature in them. We may suppose that the development has not gone so far that makers have ceased to be sellers, nor so far that makers have begun to employ hired labour in addition to their own, or instead of it. Still, society is so far sophisticated, that a man's production, being the production of a surplus intended for others, is dependent on others; and what applies to the conditions of production applies to the conditions of sale, the two being supposed to be as yet unseparated.

The Question Largely but not Wholly one of Cost.—It might be thought that the whole question was one of cost; in fully-developed competition there is a levelling of gains till they do little more than balance the sacrifices of the producer. The statement is roughly true if understood of a general tendency, or rather of a general intention or calculation, on the part of the producer, which is usually realised in fact. He intends to keep up his production to the point where the articles given for it will be worth to him what he has spent in the making of his own article, and a little more. But the scale of the making depends partly on the scale of the selling, as "division of labour is limited by the extent of the market." He might conceivably get a sufficient equivalent in either of two ways—either for a few articles in a small market, or for a greater number in a large, the larger market enabling him to introduce economies that would be unprofitable to him in the smaller. He will have a strong motive for the adoption of them in the large market, for otherwise new producers will arise who will adopt them, and tempt away even his first customers. Indeed, unless the market shrinks from causes beyond control of producers, no new economy once adopted will be abandoned.

Even at an early stage, therefore, of division of labour, cost is affected by demand as well as demand by cost. In a sense, these represent two elements that are always present in value, whether it be the value set upon an article by an individual for himself, or the value (the equivalent) offered for the said article in a market, or assemblage of sellers and buyers. The latter kind of value is not simply the former from another point of view. The market value of an article results indeed from all the particular values set privately on it by the several individuals for themselves; but it coincides only with one group of the private values, namely, the values set on the article by those individuals just able and no more to afford to give a price that will buy it. In both senses of value, however, there are implied the two elements, of desire and of difficulty (small or great) in satisfying it. Absence of desire is fatal; and absolute abundance, where the difficulty is *nil* or nominal, is equally fatal to both kinds of value. The difficulty may be removable by human effort; and the toil and trouble of removing it are then in a sense the condition of value, because the competition of sellers may lead to more or less uniform attempts to remove the difficulty in order that the market may not be lost. But the difficulty is not seldom one irremovable by human agency; it may be a scarcity caused by a convulsion of nature, or a sparsity of good soils or climates, to say nothing of the rareness of special talents, or other natural monopolies.

Why Value and Cost do not Coincide.—Where division of labour has been, however, so far extended that the makers and sellers are beyond each other's ken, it may be assumed that the commonest case of value in the market is that of the value of articles produced in large quantities by divided labour reduced by competition nearly to cost. The next question is, what is precisely meant by this cost, and why the value should not be, not almost but altogether, equivalent to it.

The Complications of Modern Economy.—When we try to answer this question, it appears that in passing from the idea of a small and simple society to a large and complicated one, we have involved ourselves in much more than labour, and supply and demand. We are confronted with capital and profits, interest and wages.

The articles prepared in large quantities for the market under an extended division of labour will be, more and more of them, such as cannot be ready at once, but need time and pains and tools and materials; the preparation of them will employ many hands, and some of the hands will be the hired hands of apprentices or of artisans, who want either the inclination or the opportunity to undertake the elaborate task of bringing the whole to completion themselves. Finally, when they are finished they may not find a purchaser at once.

Capital.—The meaning of all this is, that the cost in muscular or even mental labour is far from being the whole cost. Articles not taken to the market at once, but used as means or materials for the making of other articles, are usually called capital. Even a rough wooden plough would require as capital the wood and the tools that worked it, and the making of it would be slower than of a rough wooden spade, though when made the plough would serve the purpose better, and the work would be then done more speedily. The making of an iron ploughshare, and the rest of the fittings of the corresponding plough, would require the digging out of the iron, the smelting of it by charcoal or coal, and the labours of the smithy. This process, involving more capital, would be longer still than in the case of the wooden plough; but, as before, the result would be a better tool, doing work more speedily and to better purpose. The cost would be not only the labour of the maker, but the materials used, or used up, and the goods the maker may have needed to give to others who worked for him. Still he perseveres, having calculated that his new tool, being rare and good, will find purchasers at a price that will repay all the outlay—indeed at first much more than repay it. Most people are content with the bird in the hand; but the specially active man sees that, by means of the bird in the hand he may catch a much rarer bird in the bush, and he "makes capital out of" the first bird.

Once the new tool is no longer new, but known to everybody, it will be a less rare article, and will fetch less; but still the making of it takes time; and the majority of men attach a higher value to what they get at once, than to what is only coming by and by. An article made in the long way of capital will, therefore, always tend to be, compared with others, rarer and more valuable; or, rather, the articles that are turned into capital to make it, tend to be less valued so long as they are capital than they are when they are finished articles. The maker, if he has common-sense and foresight, knows this, and presumes on it; he calculates (and as a rule rightly) that the value of his finished article will in fulness of time be more than that of the goods devoted to the production of it. If it were not so, he would seldom deny himself by turning the goods into capital; he would consume them, or sell them. As it is, he makes them into materials or tools, or gives them as wages to hired labourers, whose services are as truly part of his means of production as the services of his furnace or his hammers. The labourers, for their part, in countries where there is a system of unequally-divided private property, are not as a rule in a position to wait for a future share in the value of the finished article; they are willing, therefore, to give their services for a present grant of goods that will, if their employers' calculations are right, be somewhat less than their full share in the value of the finished article if they waited for it, but will be available at once, being a forestalling of that share.

This may be enough for the present about the reasons why competition, however keen, does not in an ordinary market reduce the value of an article, or (what is the same thing) increase the desired supply of it, so far as the point where the cost is simply repaid and no more. The difference due to the difference in time between the first making and the final finishing of an article, is the foundation of what is called interest on capital; capital, when it has become the piece of goods ready for use, is worth more than capital when it is only on the way to its end.

The men of business who are not in the van but in the rear, will gain little but this interest. The pioneers will find themselves in a position of greater advantage, and, from a new economy of their own introducing, will enjoy what is called profits, so long as they can make their own economies keep a little in front of those of their rivals.

Rent.—There is, however, a class of advantages in production due rather to fortunate possession than either to industry or to inventiveness. Physical nearness to a great centre of trading is an advantage of this class, though, with improved communications and means of carriage, it tends to become of less importance for most goods. It is of most importance for the gifts of the earth, and not for the most perishable merely. The occupier of a coal mine near a large city will get his goods more cheaply to market than another; but, if the coals in the market are a small supply in face of a large demand, the price of all the coals will be high, as high for the fortunate man in question as for his rivals who are farther off. His gains will accordingly be greater than theirs, for his outlay is less. A similar unearned advantage would belong to the fortunate farmer of good land as compared with the farmer of poor land, or to the farmer of land no better than the rest in the neighbourhood, but lying nearer to the market town than any of the rest. There would be extra profits due to a sort of natural monopoly.

Now, in all such cases the advantage of situation and soil is unlike the advantage derived from industry and inventiveness, that are in a very great measure independent of locality. The difference between the profits of men that have no such special advantages and the extra profits of the men that have them, is called rent. If the occupier is also the owner, he gets this rent for himself; but in many countries the lands are owned by men who do not occupy them, but who let them to others on condition of receiving the rent.

Distinctness of Function need not mean Difference of Person. — We have become accustomed to this separation of interests. In the modern development of industry in certain European countries, division of labour has been accompanied, not simply with a distinction of functions, but with an actual separation of them in the hands of distinct persons. In the infinite variety of the phases of modern life, economic elements have sometimes been detached without any conspicuous economic benefit arising from the detachment; in other cases the detachment has been only a middle stage towards a more economical union of the detached elements. The large store may be more economical than the group of small shops, though at first the shops were an economy as against the system under which every man was his own shopkeeper. The system of peasant owners may be a worse economy than the system of farmers at a rent, till the peasant owners are able so to act together as to get the benefits of large production and many inventions. There is no evident finality in the separation of labourer, employer, and capitalist, though at first the labourer would starve without the employer, and the employer would be hampered without the aid of the capitalist.

Technical Advance Irrevocable. — But, apart from a contraction of markets from causes beyond human control, the technical advances and advantages of division of labour seem to be irrevocable. Once gained, they are kept. They not only may become general, but in the present age of easy communication and rapid diffusion of news (themselves an illustration of the very phenomenon in question), they must become general. Markets now extend beyond provinces to whole countries, and beyond countries to the whole habitable world. Where the market is world-wide, the production must be such as involves the use of the best economies known to the world in general, or the producer will lose his pains and find himself undersold. Efforts are made by governments as well as by combinations of individuals to resist this levelling tendency of modern industrial progress, but with no sign of permanent success. Under universal free trade, the trade of the world would realise the economies secured in the much smaller scale by local and national division of labour. Certain kinds of trading, such as banking and stockbroking, escape all efforts to confine them to one country; and even in other cases the attempts are never more than partially successful. The tendency of modern progress is to make the whole civilised world industrially into one country.

CHAPTER II

VALUE

Production, Distribution, and Consumption. The Two Senses of Value. Value in Exchange the more Measurable. Analogy of Statistical Data. Normal Price. Modern Goods, and Elastic Response of Supply and Demand to Price. Relation to Price of the Costliest Part of Supply. Does Price determine the Margin, or *vice versâ?* Marginal Products and Marginal Sellers. Particular Cost in Relation to Price. Low Prices and Extended Economies. Monopolies. Intermediate Cases.

THE time-honoured divisions of political economy, as of domestic, are production, distribution, and consumption.

In domestic economy, production is perhaps the most important. Goods must be provided for the wants of the household, and the goods must not be so used that sufficiency becomes poverty. In a normal or ordinary family, the interests of the members are considered in common; the distribution is not made from calculations of prudence, but from feelings and instincts. In political economy, on the other hand, the social bond is between different persons possessing different interests. In a civilised society the independent persons, roughly corresponding in number to the families, are found to be each seeking his own interest, but securing it only in conjunction with the rest. How the wealth so produced is distributed under these conditions is of vital importance, for, amongst other things. the sharing of the product affects the motive of the producer to make more, and affects even his capacity for so doing. Production, consumption, and distribution, are three phases of economic facts that hardly bear to be separated, though they are usually quite distinguishable. When capital is said to involve saving, for example, this is its aspect as regards consumption. Its aspect towards production is, that it is one of the means to production. One of its aspects towards distribution will appear when we consider that by adding to production it tends to reduce the value of goods already in the market, and thereby, it may be, to reduce the rewards of the producer.

Political economy considers the external resources of social beings in all three aspects, and tries to discover the most permanent and measurable relations of all three.

The Two Senses of the word Value.—Little can be gained by lingering over the vagaries of individual taste and choice in consumption. In this connection we have already seen that the notion of value has two distinct senses, rather roughly joined together by the common presence of a final utility in the articles valued. There is a "subjective," private, or personal value, where the word denotes the attitude of a single person to an article that he measures to himself alongside of the rest of his stock for his own satisfaction. The measure of the value he attaches to that article, or any article, is the worst use to which he puts that article. We measure its worth to him by this "final utility" of it to him. What causes the worth to be high or low is the desire he has for the article (or its kind), together with the scarcity or abundance of it, in his private economy. If such desired articles are few, this item will have a high place; if they are many, a low place. But this valuation is almost wholly of private interpretation; once we go beyond necessaries, we can hardly judge for another man; we cannot predict another man's desires; we can only accept the results, and judge with fair certainty that what he treats worst he values least, and what he treats best he values most.

It is only when we pass to the results in an aggregate of large masses of men, that we come to something measurable from without, and not simply from within. Though we can seldom explain why one man's final utility should differ from another's, we know from experience that such is the case, and that one effect is to make exchanges profitable on both sides, and, even if often conspicuously more profitable on one side than another, still without any hardship on either side. Division of labour makes it possible for a society of men to procure not only necessaries, about which on the whole they agree, but comforts and luxuries about which they differ widely. If desires were only of necessaries, there might be little economy in division of labour, and none in extending it. The greater the difference between the personal estimates of seller and buyer, the more advantageous the exchange. The old assumption of the first teachers of political economy was that men might be presumed not to make an exchange at all unless it were for their interest. Recent studies, pursued on the borders of political economy and psychology, and dealing with subjective value, have served at least to bring out more clearly how a gain on one side is presumably a gain on the other, and yet a gain of unequal character, owing to the varying wants and resources of men.

Value in Exchange the more Measurable Value.—We need to keep in mind this notion of final utility and its consequences when we turn our attention from personal value to value in the ordinary usage of the market. Value in exchange is measurable to a far greater extent than value in use, or subjective value. Price is the value in exchange put in terms of money; and, instead of differing in each case according to the final utility of the article to the buyer or the seller of it, prices are uniform in given periods of time for all sellers and buyers in a given market. The phenomenon recalls the uniformity of statistical data in regard to births, deaths, suicides, and crimes; but is more markedly connected than in these demographical cases with the deliberate will of the parties concerned. In the higgling of the ordinary market, there are causes overruling the mere will of the individuals; but the will of the individuals is essential to the whole result. The sellers intend to get a particular price for their article; in certain circumstances they can even "make" a price. But economics must deal mainly with general rules; and the general rule is that, the men being what they are, and the things as they are, the price could not have been other than it was in a given day and place. On the other hand, the fluctuations from day to day in the price of articles in the same market are so considerable, that the uniformity is found to lie rather in a tendency of the prices towards a point of rest, than in the actual rest of them there. Economists therefore distinguish the market price of the particular day from the normal (or "natural") price towards which they observe market prices to be constantly tending, as the sea towards its level, though seldom reaching it.

Normal Price.—This normal price may be described in general terms as the price that repays cost of production; and the tendency towards it is an observed fact, holding good for all cases where articles are produced for sale in large quantities and under fairly equal conditions. There is sufficient uniformity here to justify the general description.

Its Relation to Cost.—But it would not be quite exact to say that the cost itself is the cause of the value or the price, though there is clearly an influence, direct or indirect, of the cost on the result following. The indirectness of the influence appears when we look at the attitude of the seller and buyer. What the article has cost him, does undoubtedly influence the seller in accepting or rejecting a given price for it. What the article may have cost the seller, is of no concern to the buyer. As himself a seller, he looks closely to cost—the cost to himself of his own article; as a buyer, he disregards cost—the cost of the seller. What the buyers hope to give, is as low a price as possible; what they will actually need to give, will depend mainly on the comparative abundance of it in the market, and the comparative fewness and eagerness of fellow-buyers. What the sellers hope to get, is the highest price possible; what they will get, will depend on the number of purchasers and on the stocks of other sellers, as well as on the eagerness of both to conclude a bargain. The part that cost plays is in acting as a limit to the supply; the suppliers will not continue supplying if the price is below their cost. What reduces supply (other things being equal) will tend to raise value, and what increases supply, to lower it.

Supply and Demand.—In the typical industries of the modern world, the uniformities are more striking than would appear from this general statement. Where both supply and demand respond elastically to an increase, or falling of prices, as in the case of iron goods and cotton goods, we can see how a difference in price may at once respond to a difference in cost. The demand is elastic where with a rising price it shrinks at once in proportion; and the supply is elastic where when the price is high the efforts of the producers to seize their opportunity are at once visible, and where when prices are low an extension of demand is courted by an extension of economies in manufacture.

Marginal Cost.—In such industries it is also more evident, though not perhaps more true, than elsewhere, that (1), while the ruling price is fixed by demand in relation to supply, the ruling supply has its limit of price set for it by the most costly part of the supply that is wanted at all; and (2), the ruling price is the price that has been brought down to the point where it catches the weakest buyers that are worth catching at all. Those who produce most cheaply are farthest removed from the final or marginal sellers, and are surest of their market; those who can offer the highest price are least likely to come away with empty hands. These are commonplaces; but what is not always noticed by common sense is the influence of the marginal buyers and sellers. What is true of corn is really, though not so strikingly and obviously, true of all wares. The price depends especially on the most costly part of the actually wanted supply, the most costly that can find a purchaser at all. If the demand is for 100,000 cheap penknives in a few days, the old-fashioned makers will be called on to supplement the supplies turned out by the best new-fashioned makers. If with all their efforts the latter can only produce 90,000 in the time, the price will probably then move to

1s. 9d. from 1s. 6d., and reach the cost of the old-fashioned makers.

Does the Price fix the Margin, or the Margin the Price?—The proposition that the price is determined by the marginal buyers and sellers might justly be criticised on the ground that the price itself is what determines who shall be on the margin. In the same way it might be argued that the price of corn cannot accurately be said to depend on the marginal farmer, for it is the price of corn itself which decides who is to be the marginal farmer. In both cases the margin would seem to be rather an effect than a cause.

What decides the price is the need of the last-supplied increment. If the need of demanders, and also their resources, be just great enough to raise the price high enough to bring out that increment, the price will be so raised till the increment appears; it will not go higher unless the demanders have really been above and not on the margin before, or, in other words, have been more rich and less needy than was assumed. In a falling market, likewise, the supplies will hardly come forward unless the sellers had been really above the margin before. But an exact equilibrium of supply and demand can seldom exist under modern conditions of business, though it seems to have often existed, with the result of fixed prices, in periods when the conditions were "statical" or constant.

Marginal Products and Sellers.—In modern trade, and where the characteristically modern products are concerned, it is not so much a question of marginal sellers, as of marginal products. The additional increment proclaimed by the rising price to be demanded by the market, may be furnished by additional efforts of a well-equipped factory, corresponding to additional doses of capital on good land, as opposed to an extension of cultivation on poorer lands. The large producer, too, may calculate that after a certain period he may reduce his cost so that his additional increment may cost him no more than the old; and he is insured against a future relapse of the prices. Under modern conditions, a producer must be able occasionally to sell under cost, and a buyer to buy where the price is for the moment unprofitable. Otherwise he is not strong enough for the higgling of the modern market.

This seems to be a fair interpretation of the process of the balancing of supply and demand. The quantitative adjustment described in the old formula, "Supply tends to be equal to demand," was not a myth. But in this balancing, which is the objective side of the higgling of the market, we are not to expect an equal array of equally equipped combatants. There is rather a gradation of ranks. All suppliers play their part in the whole process; all contribute to the whole result, as all farmers contribute to the total crop. All demanders, in like manner, affect the total amount demanded. But, while the strongest decide what the broad limits are to be, it is the weakest who determine the narrow details.

Cost and Price.—For easier illustration we may neglect the phenomenon of intensive production, and suppose the margin to be not of products merely, but of producers. All above the border line are like the cultivating owners of good land; they gain much more than enough to repay their cost. Their articles, if they are sellers, come to market at a price much beyond cost. If an article's price, then, depends on cost, it is not the cost of all the supplied articles, or even of the average of them, but their cost with the weakest makers, or by the dearest processes actually needed to complete the supply. Even so, the statement needs not only the general qualifications given already, but the further reservation that under modern conditions the particular cost of one particular article could not determine its price in any intelligible sense, for it is manufactured with others on a great scale in a large factory, as one item in a large aggregate. The cost of a hat could not be estimated except by a minute reckoning of the expenses of the hat factory, and the proportionate share of this one item in them. It is a question of joint cost of production, where the attribution of a precise share is not easy, though the total result is in practice quite measurable. It is not impossible to measure the expense of the whole business of manufacture, though the fractional part belonging to the single article becomes less and less as economies are introduced and the market extended. It is one of the paradoxes of economics that a falling demand may result in an increased production, carried out in order to create a larger market at lower prices, but also at lower cost. This probably happens most often with the stronger sellers, who can usually best submit to a short period of low prices at the old cost, and labour patiently to convert these low prices into relatively high ones by lessening the cost per unit produced. If they for their part thus retain their market by widening it, the old "marginal producers" will probably no longer stand even on the margin.

Place of Competition.—All this reasoning depends on the assumption of effective competition and comparatively perfect elasticity. The opposite case would be that of a monopoly, where the article was supplied by a limited group of sellers. Even they could not disregard either cost or demand. They aim at such a price as will command the greatest amount of net returns possible in the circumstances. It is not the same in all circumstances. A gas company may charge no more than 2s. 6d. per thousand feet for gas, because it has a margin of profit then, and might lose in demand and profit if it charged more; whereas if it could reduce its cost and charge less, it might so gain in demand as to have larger net returns. This is one of the instances where the graphic method of illustration by curves and diagrams sheds light on the matter. Monopolies dealing with articles not multipliable in quantities, but always few in number (as Stradivari violins, or First Folios of Shakspere), or even unique, are in a different position. Every rare article has, in a special sense, a monopoly price entirely unconnected with cost, provided it is desired at all. Where its narrow market is a market of strong buyers, there is no limit assignable to the price which their competition may cause the article to reach, there being no competition of sellers. Between such monopolies and articles "freely produced," there is a great variety of gradations, where competition is modified by non-economical causes, that is to say, by considerations other than those of business. There are cases too where custom fixes the price, and the effects of competition are seen entirely in the bulk and quality supplied, as in the case of a penny newspaper, or even a penny bun.

We have not yet considered what the cost itself means in detail to the producer. In the case of articles freely produced, it is usually said to involve outlay of labour, and outlay of capital. The maker, even if he employs other men's labour, bestows also his own; and this labour of his own, together with his devotion of his material resources to the building up of apparatus for production and for impressment of workers in utilising it, constitutes his cost.

CHAPTER III

CAPITAL

Defined. Definition may include Land. Capital as a Tool, and as Provision for the Future. Few things "obviously Capital," and alternatives only too open in modern times for spending wealth. Abstinence and Providence. Present and Future—how related in Work done with Capital. Calculation of greater Gain. Longer Ways the more profitable. But within Limits. Capital in less abundance than other Wealth. Hence Interest. Embodied in distinct Classes, Lenders, and Employers. Borrowed Capital and Cost. Renewal of Capital probable. Conditions of the Renewal.

WHAT is this capital, and what is its cost? What outlay is involved in the first formation, and then in the full utilising of the capital itself?

The definition of capital as wealth that is used to produce more wealth, has the advantage of simplicity; but, like all such simple definitions, suffers from the existence of apparent exceptions on the border line. The exceptions usually spring up on the change of purpose on the part of the possessor of wealth; his wealth may be capital or not as he chooses, for "capital" is "a notion of the second intention." In loose popular discourse, capital means any source of revenue, public or private, even a good name or a persuasive tongue. Probably the commonest idea of all is that capital is money, and all money is capital, or at least that all wealth is capital.

The most fruitful Definition.—If, however, we assume that the use of two different terms both by vulgar and by learned, must point to some real distinction, not always respected by the learned, and not often discerned by the vulgar, we should do well to seek for the most fruitful and useful form of the distinction, and try to hold it clearly. Wealth used to produce more wealth is such, if we take the word "produce" to mean create for the world, not simply appropriate for the individual. Capital in this sense contains in it more of production than of distribution. The use of wealth to get more wealth for the individual, is a kind of capitalising that may have more in it of distribution than of production. Without capital in the former sense, there would soon be little or nothing for capital in the latter to deal with.

The definition (wealth used to produce more wealth) seems to many to include too much, for it would naturally include land and gifts of nature in general, which have long been treated as a class by themselves, and not on the same footing as other kinds of wealth. But if they are wealth, and not simply possibilities or sources of wealth, it seems more awkward to exclude them from capital than to include them there; we can quite well distinguish the capital consisting in the landed estate from the *other* capital sunk in the land. Few who were landholders in reckoning up their capital would omit their property in land. "Nature," it is true, does more for us in land than elsewhere, without our aid; but nature does more for us in other material possessions than we can easily reckon. In production, so-called, we are simply persuading nature to work with us and for us. We have no power of creation out of nothing.

Capital as a Tool, and as Provision for the Future. — Even in private economy, and before modern developments of division of labour, there would be capital in the sense defined. It is hard to think of a single work of production that does not involve the use of instruments; man is a tool-making animal, and the tool is the most naked and open example of capital. Even the food of primitive man would be capital when he was cultivating the ground; or at least (if it be argued that he would have fed himself even if he were not working) the additional food that he would need for heavy labour would be so. Such examples, it is true, do not help us very far in our complicated modern problems of production. But they point to two features of capital: it is a tool, and it is provision for the future.

In the factory, as in the spade, capital stands confessed; it is unfit for consumption; it could hardly be anything else than a means of production. The intention of its maker is obvious, to use it to bring more wealth to him by and by; it is not itself a means of satisfaction of any want as it stands.

The difficulties begin when we deal with the goods out of which the tools and the factory were originally made; they were not ear-marked by nature for capital; they had all of them alternative uses. Under division of labour, exchange, and money, it is the variable rather than the fixed character that is stamped on them. A man may elect to consume them, or to make them means of production, for their exchangeableness into money enables him to do either, and either in many various ways. Suppose that a man has £10,000, that is, that he commands goods to the value of that amount of money, and that he devotes this sum to the establishment and working of a factory. What is the connection between the revenue he gets and the capital he has placed in this business—how does the capital renew itself or perish—how much of his revenue is due to it, and how much to his own labour? These are some of the questions to be asked; and there are earlier questions to be sufficiently considered: How has the capital grown up—what did it cost him and the world generally? Is it simply the result of past labour, and what is its relation to present labour?

How is Capital Formed?—It is clear that to devote wealth to production is at least to defer our own consumption of it. In earlier times this would not be either so apparent or so real, for many things till made instruments of production would hardly be goods at all.*

What we call minerals, especially the metals, are less suited to minister to our comfort directly than to do so indirectly by becoming the means of producing comforts. In their case the labour of getting them is greater than any supposed self-denial in refraining from consuming them; the abstinence would be from the luxury of idleness, and the virtue would be in resisting

* "Olim truncus eram, ficulnus, inutile lignum,
Cum faber, incertus scamnum faceretne Priapum,
Maluit esse deum. Deus inde ego."

HORACE, *Satires*, I. viii.

the inclination to enjoy the present and make no provision for the future. Capital always contemplates the future, whether near or distant. A man who is spending his time in turning his present wealth into a means of future wealth, needs to be supported in the interval; and to that extent capital in food is needed for the formation of capital in other goods. To this extent, also, primitive times and modern have both of them witnessed the phenomenon of providence. It seems needless, however, to dilate on the economic significance of moral ideas, such as prudence or abstinence, in connection with capital. The positive element of invention is the efficient cause, abstinence only a foregoing condition. The abstinence, such as it is, is brought home to us much more vividly now than formerly. Under modern conditions money has, as it were, liquidated or mobilised all possessions, and the choice is really open to us whether to spend in the present or to provide for the future. The very idea of economy implies continuance of time; a creature purely ephemeral would have no motive for economy, but the longer we hope to live (in our own persons, or in those with whom we identify ourselves) the stronger the motives we should have for economy. Provision for the long distant future is almost a mark of civilisation, though this need not mean an endeavour after imperishable buildings and garments that wax not old. Every economical man may therefore be said to be provident and abstinent, the one usually implying the other. Does it follow that abstinence, partaking of the nature of pain because involving self-denial, is therefore to be reckoned a kind of labour, or at least, along with labour, a kind of cost? The answer is that self-control, or self-denial, or abstinence of some kind, is involved in all human labour economic or otherwise. In every choice, besides the thing chosen, there is the thing rejected; adoption of one plan is "abstinence" from another. This is simply the negative aspect of all positive action, and in this sense the waverer is the only man to escape abstinence.

We are not therefore much the wiser when we are told that capital is the effect of abstinence; in a sense labour is so also. There is self-denial in both, and it is practised (where matters economic are concerned) for the same reason, to make wealth go as far as possible. If there be toil and trouble in preserving the capital, keeping it from injury till its work comes to be done, this is cost in the same sense as labour, for it is labour, and nothing else. But, apart from actual efforts needed to preserve it, the fact that it stands there spared by us from consumption for a while, is not itself an infliction of pain on us. We endure the sparing of it in the present time because we are deliberately causing it to bring to us a greater wealth in the future. The tool once made will be more productive than the bare hands, and in preparing the tool we look forward to the greater abundance and the larger market. If men did not spend the present in making the tools in order that in the future there might be larger produce, it might be supposed that those who haste to produce would gain more than those who have waited patiently in order to produce more abundantly. It is notoriously not so; and the question is whether the greater reward of the users of the new capital is due to a special self-denial, for which they successfully exact compensation, or simply to a calculation, of profits about to come to them, from a wider market, from buyers who are quite indifferent to their sacrifices, but are tempted by their lower prices.

The tendency under competition is that all producers, or at least all who are on the margin, should be able to make, roughly speaking, the same gain, whether from their capital or from their personal labour. The proportions of materials, machinery, hired labour, and employer's personal labour are very different in different forms of business; but of all it holds true that unless men are paid for their personal labour, including not only patience and industry, but inventiveness and skill, and unless they are paid for what they sacrifice in the way of material goods already in their hands, they will not and cannot go on producing;—sooner or later their capital is spent without renewal. So far as abstinence is implied both in this labour and in this capital, it may be said to be rewarded in the price; but it seems to be only one out of many elements, and not one of the most distinctive in the formation and employment of capital.

The Longer Ways often the more Profitable.—In turning wealth into capital, men are, as it were, turning the present into the future, and they know from experience that "health and a day" are not enough in most cases for abundant production. The more they think over their plans for production, the more they turn their inventiveness to account, the more fruitful the plans can be made, though under penalty of a deferred result. The most productive plans on the whole take the most time to work out, though once executed they save more time than was lost in the making of them. Though we take long to make a railway, once made it is our quickest means of travelling.

Is it true absolutely that the longer the way the more fruitful the way? We have to think of the meaning of fruitfulness. It covers value as well as abundance of goods. The result may be deferred so long that no value can be reasonably expected to repay the outlay, and, as it were, fill the interval between beginning and fulfilment.

Why not always so?—We need to assume that there will be a market, whatever the abundance. No machine for boat-making on a great scale would be certain of a market—still less Giusti's steam-guillotine, for the wholesale execution of criminals. Even from this point of view there seems to be a limit to the profitableness of the longer way, in industry, as in agriculture, though it is more patent and obvious in the latter. There is a "last dose" in manufacture, as there is a last dose in agriculture. To reduce the cost and price of motor cars and bicycles would certainly be to extend the market for them almost in proportion to the growth of population; but we could hardly say the same of Sanskrit dictionaries or of air-pumps. The demand would fall off, and the great production would not be profitable in proportion to its greatness or to its cost in time. Even where the market has no limit of expansion, the distance in time may be greater than will allow of a profit from any increase of market whatever. Works that take centuries to complete are works carried on not from ordinary commercial motives, but (like Cologne Cathedral) from motives unconcerned about cost or profit.

Interest.—It needs a greater amount of future profit to attract a man to forego a present enjoyment or to forego a return from capital at shorter interval; and, the farther off the returns are, the greater they must be in order to put him on a level with his fellow-producers. Goods ready-made are, like ready money, more acceptable, other things being equal, than goods and money only coming by and by. The other things are not equal, or else the only capitalists would be the men to whom future wealth for special reasons, including perhaps anticipation of old age, is more valuable than present. The present goods are more acceptable to the great average of mankind almost in proportion to their poverty, the final utility of present goods tending to become higher as the stock of them becomes smaller. Those who are willing to stake the future against the present, and give up present goods to make capital, are likely to be always a minority; or, rather, the amount which men are willing to convert into capital is likely to be always a lesser pile than the rest of their wealth. Consequently, goods sought for as capital will always be at a premium in value, and this premium of the present goods is the price paid for borrowed capital; it is interest.

It is true that under modern conditions a man can anticipate the future and get the equivalent of his product now instead of then, but it will have the defects of its provisional quality. He will not get the whole, but a less sum than the whole; a deduction will be made corresponding to the estimate prevailing, among the average men, of the difference in value between present and future; there will be a discount depending on the distance of time.

Lenders and Employers.—This nature of interest appears perhaps most conspicuously in the separation of the capitalist from the actual organiser of production. The latter may have to depend on borrowed capital, and for this he pays interest, the difference between the value of the goods placed at once at his disposal and the same goods at time of finished manufacture. It is not his profits. It tends to be a fixed rate, where there is equal security, for all businesses, however these may differ in profitableness. The amount of capital in a modern civilised country is made up very largely of the savings of past producers and past owners (owning, by whatever title), savings sometimes formed for the express purpose of catching the interest. The suppliers and demanders of this capital compete with each other just as the suppliers and demanders of every other article; it is the competition of those who need the goods now and those who can well afford to part with them for a while. Interest represents this difference between estimates of present and future; the estimate varies greatly in individual cases, but in a given nation and period with a given profitableness of industry, the lowest estimate of such as have contributed at all towards the total lent is the "margin" that marks where the price of loans will be fixed. There is a levelling down and up of prices, just as in any other market.

Borrowed Capital and Cost.—The producer includes in his cost the interest on capital if borrowed, and, as a matter of book-keeping, even where it is not borrowed. The producer fortunate enough to need no borrowed capital will be in a stronger position than others to face low prices for the wares he is producing. Still it may be assumed that most producers employ, to some extent, borrowed capital; the saving classes are at present to a large extent distinct from the employing classes. Competition, therefore, will not permanently depress prices below the point where the interest could not be met. This itself would tend to make very long and roundabout ways of production unprofitable, since such enterprises would probably, more than others, stand in need of borrowed capital.

Indefinite Renewal of Capital Probable.—That capital will, as a general rule, be renewed and reinvested, saved wealth being continued as capital from generation to generation, is not at all self-evident, and would not have been true in many stages of civilisation. But it is nearly true now. It matters little, on principle, whether the capital in question be such as used to be called fixed, or such as was called circulating. Whether, for the purpose of production, the goods saved are thrown into a form where they last long, or, it may be, remain in the employer's hands, or whether they part from the employer at once and are (productively) consumed at once, —sooner or later the material capital (called by some "capital-goods") will all have disappeared, as the particles of the human body are all changed between youth and age. No form is imperishable; and the total capital materially considered is no more imperishable than the particular forms of it. But, as a matter of fact, so long as human motives remain as they are in civilised societies, capital will be renewed;

and £1000, which have absolutely disappeared in the process of producing another stock of goods, will probably find their successors in an equivalent which is again made into a capital of £1000 or more. Capital therefore flows in a stream, though in a stream that could be stopped if men ceased to be in the widest sense economical. It is not a material stream, but depends on human intention and action throughout.

Conditions of the Renewal.—The principal conditions of the maintenance of it are, on the part of the lending class, sufficient motives to keep up accumulation, and, on the part of the employers (who are the borrowers of it), sufficient motives to develop economies in production, negative and positive, further and further. It may be repeated, that from the nature of the economy presented in division of labour and industrial society, no step taken forwards by industry and invention can ever be retracted unless the society itself is shrinking through some causes other than industrial. In another sense than that of the fable, *vestigia nulla retrorsum;* "there is no going back." This seems to make it very unlikely that accumulation of capital can do more than keep pace with the need for its employment; indeed, so long as the payment of interest goes on, it is clear that there is less capital than is wanted.

CHAPTER IV

WAGES AND RENT

Wages part of Cost, but Men never mere Instruments. In what sense Wages more Flexible than other Items of Cost. Not at least Inflexible (Wages Fund). Skilled in relation to Unskilled Labour. Workman's Minimum not of Bare Living. A Market not in same sense for Labour as for Goods. No part of Employer's Capital a fund for Wages. Wages not directly paid out of Produce. Trades Societies. Labour not Constant. Trades Unions and their Power to raise Wages. Relation of Wages to Population. Relation of Population to Rent. Wages as a Bare Living hardly ever exemplified. Effects of the high or low price of Food. Improvements in Agriculture. Present System perhaps Politically recommendable, but not therefore the best Economically.

Without the lending classes the employer of capital could seldom do all that he wanted;—without the working classes he could, in most cases, do nothing at all. Under the modern forms of division of labour, it is impossible for great production to be carried on without the labour of many hands; and in the present state of the distribution of wealth, such hands are usually employed for wages without having any concern in the profits of the business.

On the surface, it would seem as if to the employer the wages paid out to hired labourers were part of his cost, in just the same sense as his outlay on horses, steam-engines, or coals. But wages have never been with a light heart so regarded; there has always been a feeling that men should not be held mere instruments for the ends of other men. At first, even after the introduction of the division of labour, the only form of dependent labour (if it were not indeed slavery) would be that of apprentices, employed, but so taught by the employer as to be in due time employers themselves. Some remnants of such a system remain; but from the time of the full development of great production and the factory system until nearly our own time the position of the working classes in manufacture was like that of instruments of production, as from a much earlier period it had been in agriculture.

Are Wages a flexible part of Cost?—But, as has been said, the relation of wages to cost, even in those dismal days, was not reckoned an entirely similar problem to the relation of materials and machines and live stock to cost. Wages were always in theory the result of an arrangement freely made between free men, and therefore subject to the variations of human caprice, pertinacity, strength of persistence, and resistance, on one side or other. This gave countenance to the notion, still prevailing, that, while other parts of the cost are fixed for the employer by far-away markets that he cannot influence, the wages bill is flexible, and a reduction in it is his best resource in extremity, for averting a threatened loss. The early economists represented wages and profits as varying inversely the one to the other, so that profits could not be great unless wages were comparatively low. So far as this was not an identical proposition (purporting simply that where the one was a high proportion the other was necessarily a low, without reference to other factors or to absolute amounts earned or divided), the natural conclusion was that the employers and employed were necessarily in a position of antagonism; yet appeal was made to the workmen not to press their claims, for if they did not save their employers they would perish with them.

Are Wages quite Inflexible? — The same appeal was made in the beginning of the nineteenth century from a very different ground, not of flexibility but of the opposite. There was said to be a law of wages stronger than human wills. Wages, it was said, depended on the market like any other set of prices, and, like any other, in a given state of the market could not be otherwise than they were. And not simply because, like other goods, the services of workmen depended for their price on their quantity in proportion to the demand, but from special reasons bearing on the demand in this instance;—the demand, it was said, could not have been otherwise, because it was a certain portion of the employer's capital, the wages fund; given the peculiarities of the industry, and given the scale of industrial operations, the part of the employer's capital devoted to wages was fixed by the nature of the case; it was implied that for him to give more to wages would be to take away from some other essential item of his operations, and thereby do mischief to the whole venture.

Is there a Market for Labour?—But there is not a market for labour in the same sense in which there is so for goods freely produced and freely movable. "A man is of all sorts of luggage the most difficult to be transported"; even unskilled labourers differ in different places, and even in these days of locomotives (and the days of the wages fund were those of stage-coaches) it is not easy to replace a dear labourer by a cheap one, or a bad employer by a good one. What has been called economic friction, disturbing influences of a non-commercial character, can be neglected almost everywhere else, but not in the case of labour. Skilled labour, which is often regarded as a multiple of unskilled for many purposes, is often not of the same human material, and often involves a training of many years. The furnishers of the supply of skilled labour have much more control of their market than the suppliers of unskilled; they are much fitter to do battle in the field of open competition; they have a first start, which restricts competition in their favour. If the price of labour were to be a cost price, and cost price in the case of unskilled labourers were to be counted the bare means of living, then the multiple to be applied in order to reckon the cost price of skilled labour would be very hard to fix, in theory. In practice, among working-men of average means, there is not much uncertainty as to the desirableness of particular trades;—the net advantages of a trade are in practice recognised by them when they choose for their sons; and, when one trade seems to have more than its share, lads will be pushed into it by their parents, and there will be a levelling down in the course of a generation, or a little less than a generation. It will take some such interval of time to make the price of skilled labour in a particular trade really correspond with that of skilled labour in any other branch, if the correspondence comes even then. The correspondence is not with cost in the sense of the minimum of physical necessaries, but rather with a standard of comfort which tends to rise from generation to generation. It seems to be true that competition of workmen with one another tends on the whole to drive wages down to that second minimum; but even so, it is not the same minimum for each class and grade, though it may be reckoned the standard of efficiency for each. Severe as it is, the competition could never be severe enough to bring down all classes of workmen to the same standard of comfort, so long as differences in skill, risk, and responsibility, created different classes of labour. The working-classes are not a homogeneous body; and there is not a market for labour in the same sense as for an article of a few known grades identical over the civilised world. Such an article is wheat, but such is not labour.

From the side of supply, then, it seems hardly reasonable to suppose that prices are as inflexibly fixed in the "market for labour" as in the market for material goods, even when we allow that all markets for goods are not so perfect as those for wheat, cotton, and iron. From the side of demand, it is not more reasonable. There is not a wages fund in the sense of a part of capital more unalterably devoted to this purpose than any other part to any other purpose. There is only a wages fund in the sense in which there is a plant fund, or materials, or fuel fund. Higher wages might convert a profit into a loss; but so might dearer coal. Wages are not, over the whole field, a fixed amount, so that one class of workmen could only have higher wages if another class had correspondingly lower, any more than the work to be done is a fixed amount which could not have been increased with profit to all parties.

Relation of Wages to Capital and to Product.—There remains the question, whether wages are not at least limited by capital. Because wages are not paid out of a special part of the whole capital reserved thereunto, it does not follow that they have not to do with the whole capital. The contention of some modern economists, that wages are always paid out of the produce of the labour rewarded by them, does not seem justifiable, any more than the contention that the price of the product is the real wages fund. We might almost as well contend that the expenses of the steam-engine at a given time are always paid out of what the steam-engine produces at that time. It might be true of a process of production (like the grinding of corn) completed in short periods, or giving its returns day by day. In such cases a worker paid by the piece has actually delivered his work before he receives his payment. As a rule, the contributions to the final product are less clearly detached and less easily measurable. What the employers strive to secure is, that the cost of one particular instrument of production shall not in practice exceed its contribution to the production. They intend that in this sense wages shall be paid out of product, even where the production is (as in building of a ship) carried on over a long period. But it is precisely the production over long periods that is most characteristic of modern industry; and there especially the employer is often unaware whether at a given moment the labour he is then employing, or even his business as a whole, is profitable; and it is not a simple matter to decide what a single labourer may have produced, any more than it is to know what a single article may have cost to produce. If workmen were to depend on the ascertained product of their work, their livelihood would have the precariousness which it is one of the main advantages of the contract of wages to have removed.

Trades Unions.—Over a great part of the field the higgling that precedes this contract is conducted by trade societies. In 1900, there were in the United Kingdom over 1,900,000 trade unionists. The total income of the societies was nearly 2 millions of pounds, the expenditure $1\frac{1}{2}$, and the accumulated funds $3\frac{3}{4}$. In spite of these large figures, it is supposed that even now only one worker in seven is a trade unionist, and, while some trades, like boiler-making, have practically no workers that are not unionists, others have few that are so. Yet the power of the societies extends, it may fairly be said, to the whole body of workers in the trades concerned. Through example and through precept, and through the superior power of an organisation, they influence the fate and action of the unorganised majority. In proportion to its power, a trade's society is usually temperate in the use of power. It is doubtful if the letter of the rules of present societies can be shown to be contrary to public interest. It is true, however, that the societies have not always strenuously endeavoured to prevent their members from getting private advantage at public expense—at the expense, namely, of unnecessary cost, and wastefulness of time and materials. But the source of strength in a union lies not in the opportunities secured to its members for indulgence in caprice and wastefulness, but in the protection it gives against caprice of employers. Even with the union to help him, the workman is seldom more than just equal to the task of coping with the natural advantages of the employer's position. The unions have reinforced custom, and helped to maintain for wages a comparative steadiness never achieved by profits.

Labour not Constant.—We must not exaggerate this steadiness, or imagine that the value of labour in real wages is always and everywhere the same. If they were so, then the progress of the working classes would be a monetary illusion, "nominal wages" (or the sum of money paid as wages) meaning little if it is much, and much if it is little. The distinction is perhaps most marked where the causes affecting the supply of gold and silver have been more prominently at work than the causes affecting the demand for them, *i.e.*, than the causes affecting the things purchased by them; £1 at the mine will mean much less than £1 in England; £1 in England itself will mean less after great discoveries of gold and silver mines than before. Nominal wages would vary in such a case much more than real. On the other hand, high nominal wages may miss being real wages by defects in the receivers of the wages; the Kaffirs will not work on the

Rand unless they see what to spend their money upon. If wages rise before the standard of living has risen, they provide means of satisfying wants that are not felt, and they are in a sense only "nominal." They become "real" when the market contains goods suited to the actually felt wants of the workers, whether the result is gained by the workers growing up to the market, or by the market coming down to the workers.

It would be nearly as easy to prove that the value of everything but money is constant, as to prove that the value of labour is so. On the contrary, for short periods in the same country, the value of gold and silver money is more nearly constant than that of labour or of anything else whatever.

The Raising of Wages.—The power of such an agency as trade unions to raise wages need not therefore be disputed on *a priori* grounds. A rising of general wages would affect competition less than of particular; yet all rising of real wages would at first be of particular wages; and the effect of it must almost inevitably be, unless in a time of rapid expansion, that many employers who were before on the margin, fall under the margin, or many extra doses of capital which before were profitable, cease to be so. The suppression of the weaker traders is, like the disappearance of small shops before great stores, or the lessened importance of home wheat in face of foreign imports under free trade, by no means an unmixed evil to the community.

The raising of wages by trade societies is like the raising of prices by combinations of merchants; it is effected by control of the supply. Whether the higher price is maintained or not depends on the power of trade unions; but the power of these bodies has always depended largely on their moral influence on the working-classes outside of their own membership. Now the workmen, whether without or within a union, may retain such an increase by restraining their own numbers, thus lightening the pressure of the possible competition of worker with worker which redounds to the gain of the employer. This was once regarded as the only way in which wages could be raised.

Relation to Population.—It was once said that the proportion of the working population to the wages fund (or more loosely the proportion of population to capital) determined the rate of wages. This is not the whole matter, for without the growth of population there would not have been an extension of the market allowing an indefinite increase of economies, and there would not have been choice (whether by natural or artificial selection) of men fit to carry them out. There is, however, a truth in the view; fresh units of population cannot, unless strong, bring a real extension of the market: they simply hamper those already present there.

Theory of Population.—The theory of population is neither an empty truism nor a startling paradox. Among civilised men we can hardly conceive the tendency to multiply left entirely unchecked on the human side. Yet the history and descriptions of savages show us that this might easily be so.

The proposition of Malthus (in his Essay, 1798, amended 1803) was, that population when unchecked increases (that is, population tends to increase) geometrically, while food can only be increased arithmetically, if other conditions are equal. There was perhaps an unwarranted appearance of exactness in the use of the mathematical ratios; but in substance the proposition was unassailable. The tendency to increase beyond the limits of the food is checked, apart from human forethought, by death and disease. In civilised times the "large discourse looking before and after," in providing for the future, is usually providing for a family. Our notion of economy includes economy in human lives; and there is now in almost all classes of society an effort amongst men to preserve that measure of comfort which they have reached, or which they have received from their parents. The tendency now is not to increase up to the limits of the food, but up to the limits of the standard of comfort. It is where these two are almost indistinguishable, as in the very poorest of our large towns, that the motive for restriction seems to cease to exist. The very poorest can fare no worse when they have children than when they have not, and their children can fare no worse than they themselves.

Population and Rent.—The effect of the growth of population on wages was considered by the early economists in close connection with its effects on rent. Cultivation was regarded mainly as extensive, and our country as mainly dependent on itself for its supplies of food. With the growth of our population, the pressure on those supplies of food became greater; their price rose, and with it rose the rent of land, rent depending on price, not price on rent. The margin of fertility (or, briefly, the final fertility) was brought lower down in order that the necessary food for the greater population might be found. To put the matters in order of time, the price rose till it became profitable to cultivate lands that were hitherto out of the pale of cultivation, as being too poor to repay the cost of it; but the prices that were enough to make those lands profitable, though barely profitable, were more than enough to repay the farmers on all lands of a higher grade. With the growth of population, therefore, apart from invention, agricultural prices, it was said, were bound to increase, and with them, rents. It was sometimes added, with them, wages, wages being often supposed to be no more than a bare subsistence, and therefore bound to rise with the rising price of food. In other words, after every real rise in the price of food, there was to be a nominal rise in wages. At this distance of time it is hard to understand how even the farm labourer's wages could be thought to be all bread, or how bread bulked so largely in them that for purposes of calculation the other items could be neglected. The records of the worst years in later English history, 1799-1801, do not show that wages rose in anything like a close proportion to the price of bread. Years of scarcity did not leave the labourer with a position nominally altered for the better, and really not altered at all: his position was distinctly altered for the worse; his wages were not merely food, and therefore could be driven down, and actually were so,—while the dearness of food to some extent lessened the power of all employers to pay wages and set on foot work of any kind, as well as the power of "the great body of the public" to extend their consumption beyond food, and extend the operations of trade generally. It is one of the well-worn observations on which the demand for free trade is founded, that, when a man pays sixpence for an article instead of a shilling, he has the sixpence to spend on something else. Moreover the circle of buyers of that article at sixpence may be twice the area of the circle of buyers at a shilling.

Improvements in Agriculture. — But an increase of population need not lead to an increase in the price of food where agriculture is not stationary. Invention in the last hundred years has not been idle in agriculture any more than in manufacture; and the intensive cultivation of land fitted for wheat has proved to be more profitable than a continued extension of cultivation; agriculture can seldom advance, like manufacture, by leaps and bounds; it must go at a staid pace. In our own country, the free admission of foreign grain has made it easy for population to increase without our feeling the need of such arduous efforts after intensive agriculture as might be desirable in extremity. But improvements at home have not been wanting. Where a country depends on its own lands for food, the improvements in agriculture may be the chief source of a reduction in prices. When first made by single tenants, they will, of course, benefit these tenants, if prices are unaltered; but the landlords can exact an increased rent corresponding to these increased profits, as soon as the lease is renewed. When, however, the improvements have become public property, they will tend to keep prices from rising with population. On the whole, in our own country, where prices are so largely dependent on the supplies from abroad (England now importing three-fourths of her supply of corn), the improving tenant will be more likely to keep the benefit. A recourse to a different kind of produce, say dairy instead of wheat, is, from the farmer's point of view, equivalent to an improvement in the cultivation of wheat. It is because landlords and farmers are less agile in changing their investments of capital than the manufacturers, that depression is a more frequent grievance with the agricultural than with the industrial interest.

Farmers and Landlords.—The separation of functions between farmer and landlord is not so successful economically as that between employers and capitalists. We do not often hear of a stipulation on the part of the lenders of industrial capital for the adoption by their borrower of a particular kind of machinery or particular description of factory; but landlords often prescribe to their tenants the kind of crops and mode of cultivation. Economically, there is no difference between the two cases. If there is political or social benefit derived from the present English system, this may perhaps outweigh economic considerations. There is no sign in England, though there are clear signs in Ireland, of the disappearance of the old system.

CHAPTER V

PROFITS AND INCOME

Marginal producers. "Rent" in wide sense. Such wide uses of Terms not Advisable. Income, Gross and Net. Wages of Superintendence. All above the Marginal Extortionate Profits? Modern Industry Essentially "Dynamical." Analogy of a *Fair Lottery* Applicable? Insurance against Risks. Tendency on the Whole towards Free Trade. Protection. Differences in Currency. Standards of Currency. Uses of a Bank; Bank of England. Trading in Debts. Bills. Lending on Land, etc. On Shares. Money Market and Stock Exchange.

It was said that marginal producers are those who find their business just barely profitable. In the case of farmers, this means, in theory, that the marginal farmer pays no rent, but gains just enough from his crops to give him the ordinary rate of profits. In practice it would seldom have this meaning. There are, indeed, cases where landlords have let their lands for a nominal rent, or none at all, in order to save the lands from lapsing into wilderness in a time of exceptionally low prices. But as a rule, in practice, there are not farms held at no rent, but only fields in farms. Particular fields thrown in with others into one farm may be reckoned in themselves worthless, and may so reduce the rent per acre of the whole.

In the case of employers of industrial capital, the marginal producer is the man who makes what he calls a bare living. He is not able to turn out his goods with such economy as to make the market price yield him much more than his cost, whether because his machinery and plant are not of the most improved type, or because he is not so good an organiser and director of the labour employed by him as to make it very efficient,—or finally, because he is unable to push his wares well when they are made, and make sure of his market. All that are above this line of lowest profits are, of course, receiving more than ordinary profits, and this surplus is sometimes called the rent of ability or opportunity.

Rent in wide sense. — How far it is good to use the word Rent in the general sense of surplus profits may be doubted, though the inclusion of land in capital might be made a reason for it. The extension of the term rent through analogy may hinder as well as help the comprehension of the subject. Ideas may be united under a general term only at the expense of ambiguity. It is possible, for example, to widen the notion of Production till it includes all stages of distribution except the last, and includes exchange in all its stages. It is possible to widen the notion of Capital till it includes all wealth, viewed statically or at rest in a possessor's hands, and of Income till it includes all wealth, viewed dynamically or in motion from one possessor to another. But, when we have in this way reduced all our general terms to a few all-comprehensive ones, our case will be like that of Berkeley in philosophy. "Without is within," said Berkeley. "Be it so," was the answer, "Philosophy has still to begin." The distinct notions swallowed up in the wide abstractions must all appear again for explanation.

Income, Gross and Net.—The gross income is those material resources which a man receives, and net income what of these is left to him over and above what he has spent in order to get the gross income. A workman's wages are net income to him when all his expenses as a working-tool—all he spends on his trade—are reckoned. To the farmer, the net income is all that is over of his harvest when the expenses of cultivation and gathering in are reckoned, together with the interest on capital he may have borrowed to work his land. To the industrial employer, it means what is over of his receipts from the goods produced and sold after all his expenses of production have been reckoned, including the interest on capital borrowed, and outlay of personal labour. It is easy to make the broad distinction that wages are the net income from personal service, profits the net income from expenditure of capital, interest the net income from the loan of capital. It is when the three sources are blended that ordinary language refuses to make the distinctions, or at least to hold the notions strictly apart.

Employer's Profits.—For example, much of a skilled labourer's wages might be regarded as interest on capital expended in learning his trade. Much of the farmer's profits are really wages of his personal labour. Much of the employer's profits are wages of superintendence; where he is not his own manager, a great part of this is set down in the form of a separate salary to a hired manager. But common language calls the first, without reserve, the wages of the skilled workman, and the second and the third the profits of the farmer and employer.

In the case of wages of management or superintendence, where there is a hired manager, there is comparatively little difficulty. The wages are fixed by contract, by the year it may be, instead of the week or fortnight, but still fixed definitely for a stated period, on the same principle as the wages of labour. It is different when we try to assign a share to a general direction carried on by the employer in his own business. As a matter of fact, in book-keeping it is not reckoned separately, unless in so far as the active partner may be treated differently from the sleeping partner. But the man of business, in his survey of the markets, in his watch for new economies and new inventions in his own business, is doing services to himself which are difficult to estimate by a fixed rate in money on the analogy of the wages of hired labour. It is such unhired services that usually make a business float on the top of its rivals. Where a hired manager does equally far-reaching services, the profits he earns for his employer or employers may often far exceed the amount of his own salary. In a railway company the directors and the general manager have fixed salaries that do not prevent the existence of profits to be divided among the shareholders, going in many cases far beyond interest.

Are Profits due to Extortion?—Do such profits, or, generally speaking, the large profits of all above the "marginal producers" imply extortion or underpayment of workmen or defrauding of the public? In considering the question, we must remember that value does not in any case depend only, if ever, strictly on cost; and, even so, all cost is not labour; and all labour is not physical labour. If we let ourselves be persuaded to take the analogy of rent, there is no greater extortion in a price above cost than in a price known as "cost price," for it would be as with the "marginal farmer" when he is compared with the man above the margin; if a rent can be paid by the latter, it is not at the expense of the former. The man of business making great profits does not rob the man on the margin.

It is true, at the same time, that the position of the ground landlord seems more easily assailable than that of the employer, because the landlord need not, as such, be a busy man, while the employer as such can hardly avoid being so. Moreover, the high gains of the employer can seldom last long. New economies that bring gains to the first introducers, rapidly become common property.

Inequality of Profits.—A perfect equality in the division of gains would create a new kind of economic man, if, indeed, it did not imply him as a prior condition of its own appearance.

The present inequality is serious, but it is often exaggerated. By the theory of subjective value (in this case obvious common sense), to say nothing of the limits set by nature to a man's powers of consumption, the very wealthy man is not capable of spending his great wealth on himself to its full extent; he is willy nilly an administrator. In the case of a great agricultural estate (say Woburn or Eaton), the present administration would be little altered if the lands were put in commission and worked for the general benefit under a hired manager. The debateable matter in the present arrangement is not unlike the doubt concerning benevolent despotism; the despot cannot guarantee the wisdom and benevolence of his successors. Popular control might provide better safeguards than popular ownership, in the case of all large fortunes.

The Making of Fortunes.—There might be real danger in interference with such fortunes in the process of making. The great surplus profits of industry depend very largely on economies that are a much greater source of public benefit than of private profit, widening, as they do, the circle of buyers. "Speculation" of this kind means improvement, and to arrest it would be to try to check the movement essential to modern industry. Whether it be a power for good or for ill, modern industry is seldom healthy when stationary.

Analogy of a Lottery doubtful.—We may hold that interference is unwise without going so far as to lay down as a general principle that the analogy of a fair lottery should hold in business, and, where there is risk or speculation, the winners should gain all that the losers miss or lose. Speculation includes perhaps all attempts to anticipate a market, as distinguished from the provision for a known market, or a response to orders precedent. From the nature of markets under modern division of labour, there is very little trade that is not more or less speculative. What is there in this almost universal speculation to make it either necessary or desirable that those producers who succeed should be rewarded with all that the losers, if they had just barely succeeded, would have gained?

The analogy of a perfectly fair lottery has been applied both here and in the case of professions. Lawyers, or electrical engineers, who succeed, though they seem to have great incomes, earn, it is said, no more than the total number of aspirants would have earned at low incomes. No doubt the failure of the latter, meaning, as it does, their relative incapacity, serves to keep up the gains of their successful rivals; the supply of really skilled men either is, or is believed to be, scanty. The idea prompting the analogy may be connected with the idea that cost needs to be compensated, if not over the parts *seriatim*, over the whole taken together. But it would be hard to prove this for any trade, and in some lines of business it is generally acknowledged to be false. To produce 10 or 12 million pounds sterling of gold or silver, a great deal more has been expended than 10 or 12 millions of sovereigns. The cost has not been covered over the whole field. The compensation may lie in the adventurous hopes of the adventurers, as the reward of some professions is rather glory than gain. But to admit this, is to give up the idea of a pre-established harmony on the principles of a perfectly fair lottery. In the general struggle for existence, it is by no means clear that the survivors gain all that has been missed by the rest.

Insurance.—It is not quite the same question as that of risks in ordinary business. In insurance, if all parties are alive to their own interest, and to the nature of their case, the risk is equally distributed, the sufferers, and those who escape, being both benefited, the latter really making good the losses of the former. Insurance, instead of being a form of speculation, has been happily described as a way of ending speculation. Risks of accident and fire may be said to enter into the costs of a business; but the insurance which provides against them is thereby lessening and not increasing the cost. This would have its analogy in general business, if those entering on general business could mutually insure themselves against failure. In such a case those who had not failed would be supporting those who had.

Instead of making the postulate that the successful should gain all that the losers have missed, it seems as natural to demand that (as indeed sometimes happens) those who succeed should contribute to the support of those who lose. There is no fixed sum to be gained by the total number of traders, any more than there is a fixed wages fund or a fixed amount of work to be done, or a fixed amount of wealth to be created, or distributed at a given time. It is quite conceivable that a particular trade might turn out ill, not only for some, but for all concerned, leaving all the traders to fall close to the margin, above or below. If the contention is simply that in a condition of constant progress, with perfect freedom of trade, without and within the country concerned, the result would probably be as in the fair lottery, this would be probably nearer the truth. But, the more completely free the trade, and the less the economic friction, the more the public is likely to gain, even at the expense of the most efficient producer. The competing producers, to keep their markets, must tempt the purchasers with lower prices, and therefore by new economies in production.

Tendency towards Free Trade. — In the modern world, it is true, there is not yet free trade everywhere, nor is there absence of friction. Still the features presented are those of an industrial system where the interests of the consumer are on the whole more carefully consulted than those of the producer. One hundred and fifty years ago it would have been easy to point to interference on part of the rulers of a country with the trade between one part of that country and another. The south of France must be "protected" against the north, England against Ireland. The "protection" of a local trade always means an attack on those who benefit most by the rivals of the local trade, namely, the general public to whom goods are supplied more cheaply by the rivals than by their own neighbours. It has now been found out in practice by all states in the civilised world that to protect one part of their own subjects in this way against another is bad economy, involving the support of inefficient producers and the discouragement of efficient, to the increase of the cost and price of the articles made, and the lessening thereby of the purchasing power of the nominal income of their subjects. This now seems self-evident; and protection is abandoned even within a large country like the United States. There is no protection of State against State within the Union. What is economy between parts of a large State would not cease to be economy if these parts were separated under different governments.

Protection.—It is the fact, however, that the great majority of governments adopt quite a different commercial policy towards trade carried on by their subjects with foreigners from what they adopt where the trade is between subject and subject within the range of their own frontiers. Economy is subordinated to policy. Sometimes "protection" is given on the importunity of particular classes of traders whose interests are threatened, and who are able to persuade the government that their cause is in some way that of the nation. In our own country the agricultural classes were long the most successful in so doing, perhaps mainly by their use of the plausible argument that England ought to be dependent only on herself for her food lest war should cut her off from her supplies. Various other trades were able to plead the example of agriculture, and in 1842 the number of articles taxed "protectively" is said to have equalled the number of millions in the national debt. Protection disappeared in England on the Repeal of the Corn Laws (1846) and the Navigation Acts (1849). Even the Shilling Registration duty on Corn was abolished in 1870, though it has since been resumed (1901). Like other economies, free trade, once adopted, is unlikely to be abandoned. On the whole there are few attempts made now to defend Protection by purely economic reasoning. The defence is founded as a rule on political expediency; and statesmen content themselves with affirming that, though it may for the present be bad economy, it is good policy, and therefore also in the end good economy.

Even as matters now stand, the whole movement of modern competitive trading is extending the ramifications of division of labour so that the most easily movable articles have already an international market, and the tendency is for merely local or even national markets to be merely nominal sections of one great market. The result is already achieved for capital as such; "money" may be invested all the world over. It is achieved for wheat, cotton, iron, and perhaps, above all, for gold and silver.

Differences in currency are indeed a kind of economic friction which has some influence in the contrary direction.

The Barter of International Trade.—International differences, taken as a whole, prevent competition from reducing value to cost with as fair thoroughness as in the case of domestic productions. Even if the whole world of men were under one government, the interruption of distance and different customs would long keep up the separate character of foreign or international trade. Modern improvements, however, are bringing us gradually away from the point of view of the older economists. These would have it that foreign trade was unlike domestic because the values were ruled by demand for the imports rather than by cost of the exports, or if by cost, then by comparative cost at home of the two equivalents. It might be that a country had an advantage over another in more than one production; not only its coal but its boots might cost less in labour and capital than in the rival country; but, if the advantage in the case of coal was very much greater than in the case of boots, its interest would be to export coal and import boots in exchange. The principle is not indeed peculiar to international trade, but might be illustrated by the rational proceedings of districts, and even individuals at home. It is more profitable to be absolute master of one trade than to have only a slight superiority in several. This is, in fact, the principle of division of labour; and on the whole, the theory of International Trade will tend to approach the homelier theory of trade in general the nearer the countries of the earth are in practice brought to one another by new means of swift movement and intercourse. The essential nature of trade is barter of goods for goods, and in international trade this essence is naked and open to the eyes of all.

The great instrument for reducing trade to its natural form of barter is credit, more especially banking; the foundation of sound banking and credit is a sound currency.

Currency.—It has been said (Chap. I.) that the precious metals have been chosen by all modern civilised nations as the fit materials for currency. Unhappily, there has been a disagreement as to the relative claims of gold and silver for the first place, and sometimes the solution has been found in the use of a double standard, or, as it is now called, bimetallism. Gold and silver, like other goods, vary in value according to the supply and demand of them. If the standard is a gold sovereign, or twenty silver shillings, and gold is falling in value, so that in the market eighteen silver shillings will purchase as much gold as is in a sovereign, while a gold sovereign will only purchase as much silver as is in eighteen shillings instead of twenty, it will be economy for merchants to pay their debts with the cheaper gold sovereigns, and the silver will tend to go out of currency into the bullion market, where it will fetch more sovereigns than it would as coin in the currency.

Bimetallism. — Now, under bimetallism in the full sense of the word, the government of a country allows debts to be paid in either gold coin or silver coin to any amount; and either metal, gold, or silver, can be brought to the mint at pleasure of the merchant, to be there coined for him into money at a fixed rate of proportion between the two metals, whether it be one ounce of gold to twelve of silver, or one ounce of gold to fifteen and a half of silver. The critics of this system say that there will never really be two standards, but only alternately one of gold, one of silver; the metal which is cheaper in the open market will be brought to the mint to be coined, and will be the real standard, no one paying in the dear metal when he is allowed to pay in the cheaper. The friends of the system reply that the variations in value correct each other; if the cheaper metal be brought to the mint in great quantities, the supply outside is thereby lessened in quantity, and presumably increased in value; moreover, the variations in the value of an alternative standard are less extreme than of a single standard. This last contention seems to be borne out by a diagram of Professor Jevons, where the variations of the mean are much less considerable than the variations of either standard taken separately.

Modern bimetallism is not matter for ridicule. If its assumptions were fulfilled, it would probably be quite practicable. If the world of men were beginning anew, many schemes would be reasonable which are hardly so now. If a new colony were (as has been done to some extent in New Zealand) to retain its lands in public ownership, allowing individuals to be only tenants and not landlords, the scheme might be reasonable and wise, whereas the difficulties in the way of "nationalisation" in old countries may well seem almost insuperable. So it seems to be with bimetallism, with the single but all-important difference that separate national action is now useless; the assumption is made that the mints practically control the market for gold and silver, and if all the mints were to act together there would be no refuge for the dearer metal in event of a withdrawal of it from currency with a view to the sale of it as merchandise; there would therefore be no expulsion of it, but it would remain beside the other metal unaffected. But there is no sign that the governments of the civilised world are drawing nearer to an agreement of the kind described; on the contrary, gold has been adopted as the standard by all the chief nations of the world. Fortunately, large additions have been made to the world's supplies of gold in the last twenty years; and the value of gold, which had before shown a decided tendency to rise in relation to other goods, is probably no more than sustained now.

There can be no change in the value of the currency without hardship in one quarter or another. In the last half century the statistics of the subject have been carefully watched, and it seems to be proved in the first twenty-five years silver was fairly steady and gold sank; in the last, gold at first rose, and then steadied itself; silver has fallen, with only a faint tendency in the later years to recover. In such statistical inquiries, the difficulty is to make certain that changes in prices, attributed to the standard, are not due to changes in the cost of production. The presumption is, however, that, if the change in price upward or downward were shown to be very nearly universal, while the change in cost had been only partial, the source of the change must lie in the standard.

The Coinage.—The English Government adopted a gold standard in 1816, reducing the silver and copper coins to token-money, keeping up their value by limiting the quantity and refusing to coin to order. They are copper or silver tickets representing a certain fraction of a pound sterling, and not themselves legal tender in payment of debt, except in the smallest amounts (copper, 1s. in pennies, or 6d. in farthings; silver, £2). Gold, or the pound sterling, is the real standard. The metal gold will be coined into sovereigns for any applicant at the fixed equivalent (called the mint price) of £3, 17s. 10½d. Such transactions are almost invariably carried out through the Bank of England, at £3, 17s. 9d. The desire of the country for currency is thus in the last resort satisfied by the Bank of England. This bank, though not a department of Government, partakes of the solidity of the State; its close relations with Government from the time of its institution till now (1694 to 1902) give it a unique place among banks. But the general principles affecting the business of banking are the same for great banks and small.

Banks.—What is the use of a bank? It is sometimes answered—to keep money, to lend money, or to issue money. No doubt all these purposes have been answered by banks from time to time; and the purposes which banks answer best, or most, have changed with the needs of the times. Still the list does not include the most characteristic and essential purpose.

In the beginning, money was itself an economy; but, as division of labour developed, there came to be an economy of money itself. For hard money or cash there is not an infinite or even an indefinite demand. The coins are a tool of exchange, and no more of these tools are wanted by the exchangers than will serve to effect the exchanges on hand or in immediate prospect. What men wanted when they resorted to money was what would command material resources or the services of others; and the amount of coin that is indispensable for their having this command will be enough for them; all beyond will be an excess, and, if it remains with them, will tend to undergo the usual fate of things in excess, namely, to fall in value. Banks of deposit will keep the money that is not wanted for immediate objects, and the first banks were of deposit mainly. They received and kept it safe, under obligation to return it. It was an economy to substitute one hoarder for several hoarders; but it was a greater economy to abolish hoarding altogether; and this is what the banks came to do in process of time. They retained the obligation to return the amounts, though not the actual pieces, deposited with them, and meanwhile, having come to know by experience the average amounts that were likely to be called away from them by their depositors over a given time, they traded with that portion of the whole which experience showed them could be safely taken for the purpose. They became lenders, having in earliest times been not even borrowers, but custodians, and therefore not paying, but being paid. They were thereafter, many of them, able to extend their calculations of averages further, and perhaps more precariously; they began to issue notes, instead of actual money itself, and thus really to utilise a part of the deposits twice over. Bank notes are promises on the part of the bank to pay a certain sum to the holder of that note. The convenience of paper money has led to the extensive use of it in almost all civilised countries, wherever the credit of the issuer is believed to be sound. But as with coin, so with paper; only a certain limited quantity is required by the needs of business in any particular country. It is a large quantity in some countries, and a small one in others, according to the habits of the people and the nature of their business; but sooner or later the limit is reached, and, as soon as there are more notes than are needed, they will begin to come back to the bank for payment, or will be paid into it as deposits.

Bank Notes.—The select circle of banks in Scotland, the Bank of Ireland, a gradually dwindling number of country banks in England and Ireland, and the great Bank of England, issue bank notes. The privilege was once regarded as a main source of revenue to a bank, and perhaps, in the case of the Scotch banks, success could hardly have been attained without it. But in our times it is not what it once was. The uncertainty of the limits of safe issue has often proved a great temptation, and led to disastrous failures. During the stormy period of the French War, the Bank of England itself was allowed to suspend payment of cash for its notes (1797), and the Act for Resumption was not passed till 1819. The worst times for the country banks were probably the years from 1821 to 1825. In 1844 a change was made in the system of paper currency. The privilege of issue, still preserved outside of London to country banks with vested interests, was denied to all new banks. The great joint-stock banks of our time have flourished without it. Even the old banks have been tied down since 1844 as to the reserve of coin to be held by them against their notes; and the Bank of England, whose notes were then made legal tender except for the bank itself, was restricted more straitly still. It was divided into two departments, to be managed quite apart from each other; in its banking department it had the freedom of other banks, but in its issue department it could issue only about 15 millions, the bulk of which was an old debt due to it by Government, and therefore sufficiently secured without gold in reserve; for all beyond this amount, every note issued must have corresponding gold in reserve. Whatever else this Bank Charter Act may have done, it has kept the notes of the Bank of England free of all suspicion.

The other banks found it best economy to keep little gold reserve of their own, and simply to trust to the reserve in the banking department of the Bank of England. The financial solidity, therefore, of the whole system of banks in the United Kingdom depends on the banking department of the Bank of England. How great is the strain in times of crisis may be judged from the fact that the limits set for the issue department by the Act of 1844 have been three or four times relaxed by Government to relieve the strain on the banking department, in deference to the general wish of the trading community.

Trading in Debts.—The essence of modern banking is not the issue of notes, nor the keeping of deposits, still less the issue or keeping of coin. The trade of a bank is in debts, debts of its own (its deposits), and debts of others. It is in this connection that banks have so much importance in the life of modern business. Capital is often saved by one group of people, and used by another. The banks serve to bring the two together. When it is said that saving hurts society by "withdrawing wealth from circulation," it is forgotten that what is saved is not hoarded, but is either directly invested by the saver, or is lent to a bank as a deposit. The bank, if it is to prosper, cannot let all its deposits lie idle. The amount of them, or part of it, will be lent to men of business. It will probably not be lent for permanent investment, for a bank may be summoned by a depositor to repay at short notice, and it must have sufficient at hand to meet such calls. It will lend at short notice, or for short periods, as, for example, on bills of exchange, a characteristic form of modern credit.

Bills of Exchange.—When goods are sold by one trader to another, especially at a distance, he will "draw" a bill on the other, directing him to pay a specified sum of money on a certain day (say three months after date), and it may be at a particular place and bank, value having been received,—in other words, the goods having been consigned. This "order to pay" becomes complete when the customer "accepts" the bill by writing his name on it. This bill, the first merchant, say in Leith, will probably hand to his banker, who can procure payment for him three months afterwards through their agent, say in London. But, if the Leith merchant is in need of ready money, he may ask the bank to pay the amount of the bill at once to him; and, if the credit of the parties is good, this payment will be made, not indeed of the whole sum, say £1000, but of that after deduction of three months' interest, say £10. £1000 now and £1000 three months hence differ as "present" from "future goods," and the "discount" of £10 represents the difference. As the bank can presumably wait, and the merchant cannot, the bank will, in the course of the bill's maturity, get back the £1000 advanced, and, if this was part of a customer's deposit, its position will, to that extent, be made secure against the claims of its depositors.

A great part of the profitable work of a bank consists in thus, as it were, enabling the future to be turned into the present.

The Bank as a Lender.—Even when the bank does not itself actually lend, advance, or discount, it is usually an assistant or instrument in the transaction. It may lend on the security of such property as is of known value, and readily realisable. If it is wise, it will not be ready to lend on the security of house property or land, or where the loan is to be the capital of an undertaking slow to mature. The lenders in such cases must be those who are content to wait many years for the return of the principal sum, and are satisfied with the yearly interest. In the case of land, the owner, in pledging it as security of his loan, is really asking that the future incomes from it be advanced to him now; he is turning future into present. Not only lands and houses, but any and every kind of capital may have its revenue thus anticipated, but, as the certainty of the future income is very different in different cases, the lenders on the securities may be sometimes certain, sometimes very uncertain, of recovering their principal. The greater the risk, the greater will probably be the difference between the future and the present value, the greater the interest on the advances. The class of lenders who speculate on doubtfully certain securities will be found in the money market in the wide sense rather than in banks.

The Money Market.—"Securities," in fact, have come to mean shares in companies. The commercial enterprises of modern times need large capital, and this large capital is seldom in our time found by single or a few individuals; it is the combined savings of many. "Many a pickle mak's a mickle." By the Acts known as the Companies Acts the contributors of capital to companies registered under these Acts become liable only to the extent of what they contribute, not to the extent of their whole fortune.

Limited Liability. — Poor people therefore can, and do, so contribute without fear of total failure. One such company is said to have 74,000 shareholders. Such conditions add to the expansiveness of modern business, while distinctly adding thereby to its speculative character. Where persons are only venturing a small part of their savings, they may be willing to incur risks which they would otherwise avoid; and they may tolerate the existence of long periods of low profits or no profits. It is a fact that the accumulation of savings has proceeded at an even faster rate than the population, and the moderate incomes of the middle classes have grown more than the fortunes of the upper classes. There is no sign that the mere desire of provision for the future is greater now than the more sordid desire of becoming rich by a lucky venture.

Industrial companies of every sort find support only too easily. The growth of the wealth of the working classes has been steady also; and part of that wealth has gone to the companies, the upper ranks of the working classes having in truth little to distinguish them from the middle classes, and possessing the same commercial ambition. Yet the working classes in England have created, by joint stock of their own, commercial undertakings more solid if less pretentious, than the Joint-Stock Companies of the middle classes. Under the Industrial Societies Acts the workmen's co-operative stores, and to a smaller extent industrial co-partnerships of a productive nature, have grown up, with little risk; the severe limitations of the Acts have prevented any aggrandisement of the few at the expense of the many, and also any speculation in the unpleasant sense of the word. It is not the shares of workmen's societies that are quoted on the Stock Exchange. They represent a trade that is not international, but almost wholly national or even local.

It is different with all that reaches the Money Market and Stock Exchange. The Stock Exchange is a group of dealers in shares; it is a market for shares, as the Cotton Exchange for cotton, "Mark Lane" for corn, "the Baltic" for traders with Russia. The Money Market, though a looser aggregate, is a market for loans on a large scale. When we touch on these institutions, handling every day wealth or the symbols of wealth on the largest possible scale, we are looking beyond the local trade of England to the trade of the wide, wide world. We have here one of the most unmistakable symptoms of the international character of modern trade. It was never less possible than now to construct a Political Economy for one nation only; but, if ever conceivable anywhere else, it could not be conceivable in England in face of such a phenomenon as the City of London and its great foreign markets. They are a conspicuous sign that our wealth is now produced not merely for exchange with the foreigner's wealth, but in concert with the foreigner, by means, for example, of the materials he sends, which are turned into finished articles for his consumption. They are a sign too that the foreigner's wealth in its turn is produced not only for us, but often by our help, by the tools we send and the capital we lend. Not only is the production international, but the distribution follows suit; and the significance of this "international concert" tends every year to become greater and greater.

CHAPTER VI

THE COMMERCIAL COMMONWEALTH

A Commercial Commonwealth of Civilised Nations. Community of Risks and Depression. Crises and the Telegraph. Proportion of Foreign Trade to the Whole. Foreign Loans and Investments, the Balance of Trade. Movements of Gold. Specie Point. Effects of Defective Currencies on Distribution and Production. Inconvertible Currency. Silver Question in India. Effects of Government Interference.

THE idea of a commonwealth of civilised nations is not a new one; but the progress of commerce in the last century has made it much less shadowy than formerly. As division of labour implies (and creates) union step by step with the division, and as not only division of labour, but every improvement, depends for its success on the extent of the market, so the specialising of trades in particular countries has impelled (and created) the more rapid and frequent communications made possible by steamships, railways, and the electric telegraph.

The result has been that economies in production cannot be confined to the first inventors of them, but are shared sooner or later by the whole civilised world.

It is true that this community of enjoyments involves community of sufferings. A sense of their common humanity has been impressed on rich and poor by their common liability to epidemic diseases. The distress in Lancashire forty years ago caused by a war taking place in a foreign country 3000 miles away, was perhaps the first revelation to the civilised world of its own commercial unity. The failure of the cotton crop in Georgia or Alabama, of the wheat crop in Russia or Dakota, may bring the consumers of wheat, all over the world, by many shillings nearer to poverty. Commercial depression caused by bad seasons can never be wholly prevented by human agency till "victorious analysis" has given us control of the weather. Agricultural production with its year of waiting for its crops cannot so easily adapt itself to changed demand as manufacturing industry.

Community of Sufferings, but also of Resources.—But the telegraph, for example, while it increases the sensitiveness of the common market to local disturbances, increases our power to find remedies. We are forewarned, perhaps, in twenty-four hours, instead of twenty-four weeks. For the same reason, too, the crises due to wrong conceptions of the needs of remote localities are made less, and not more, likely by the telegraph, which quickly removes ignorance of the true state of the local markets. Another and less easily foreseen effect of these swift communications by steam and telegraph has been the tendency to substitute payment by cheque or telegraphic transfer for payment by bill of exchange.

Similar Benefits of Home and Foreign Trade.—What this foreign trade does, on the side of importation, is to add to the intensity of home competition by bringing the foreign competitor to our doors. It is usually the pleasant side of this operation, the resulting cheapness of commodities, that is impressed on us by economic writers, and the unpleasant that is brought before us by our home producers. Some have even feared that the foreigner will eventually do all the work of production for us. But traders are not likely to work for nothing; he who brings goods will expect an equivalent. If he expects none, the gain will be ours, and the loss his. But we may feel sure that, whatever the excess of imports may be, it is not a gift, but implies a past or present equivalent in our own goods.

The proportion of the whole volume of foreign trade to the rest of our trade seems greater than it really is, because it bulks largely in the public eye; we have public records of exports and imports, and none such of the great mass of goods produced at home for use at home. Our own rural districts and cities are a great market for each other's produce — our first and greatest market. Our trade has stretched beyond this market and beyond our own country to others, just as reasonably as the trade of our rural districts stretches beyond them to our towns. In extending the markets in both cases, we benefit both ourselves and those with whom we trade.

We have stretched beyond our country not only by sending goods for consumption, but by sending goods for capital.

The Balance of Trade.—In common language, we have "lent money" to foreign borrowers, who have invested it in foreign enterprises; but it rarely, if ever, happens that a loan or investment goes out in the form of coin or even of bullion. In the mechanism of exchange, what happens is that £1000 of loan go out as £1000 worth of goods, for which there need be no equivalent import. By-and-by, when the interest falls due (say at 5 per cent), £50 worth of goods will be imported without need of equivalent. As Great Britain lends more than she borrows abroad, the stream of interest plays an important part in swelling the volume of imports. The value of British imports in 1899 was £485,000,000, and of exports only £329,000,000. The inclusion of freight in valuation of the imports, and its exclusion (as a rule) from the valuation of the exports, must exaggerate the real difference of the two amounts. Freight represents not a repayment by the foreigner without any present equivalent from us, but an equivalent paid usually by the foreigner for a present service rendered by British shipping. The proportion of this cost of carriage to the whole value of the imports (estimated at 11 per cent.) may seem small; but so long as this cost is included for imports and not for exports, it would seem impossible for the two sides of the national account to balance, quite apart from payments of interest, and apart from the expenditure of English travellers abroad.

Our forefathers deplored an excess of imports, and called it an unfavourable balance of trade; but no special pleading will in this case justify the wisdom of our ancestors. It is true that they were not under the delusion that a stream of payments could be made to England without an equivalent, or that such gifts would not be acceptable if only they were made. But they fancied that where there was no discoverable equivalent in goods there must be an equivalent furtively paid in gold or silver, and they deplored such "tribute" to the foreigner.

The precious metals, however, as we have seen, are not desired in unlimited quantities any more than any other goods; like the others, they go when they are wanted and where they are wanted.

Movements of Gold.—Our public records, at least roughly accurate, show no permanent excess of exported gold and silver to balance the excess of imported goods, but an importation and exportation of the precious metals varying quite independently of the excess, and according to special causes, perhaps better known than most other elements in the whole trading account. Governments may want gold as a military treasure, or in order to carry out a change in their currency. But the ordinary and economic cause of an exportation of gold is the advance in the price of foreign bills to the point where it is cheaper to send gold than to buy a bill. If French bills are scarce, and £100 will not buy me a bill of 2522 francs on Paris, but only one for 2500, it would be worth my while to send over the actual coin, for the cost is about 10 centimes in the £1, including the expense of insurance. Broadly speaking, owing to the greater freedom from restrictions in this country than elsewhere, when this "specie point" is reached, gold will begin to go, till the price of bills begins to fall again. The movement is not so certain or speedy on the side of France, where the bank puts obstacles in the way of merchants who purchase gold for exportation.

Different Currencies.—As different political and social conditions disturb the comparison between one country and another in the matter of production, so different currencies and different taxation disturb the exchange and distribution. Of these two sources of disturbance, different currencies are perhaps the less serious. Most civilised countries have discovered the evils of any change in the currency, and their standard coins contain a known amount and fineness of one or other of the precious metals. Difficulties arise mainly in two cases. The first is when (as in Italy and Russia till recently) the standard was a paper currency not convertible into coin at the will of the holder, but having a forced circulation at the will of the State. Such notes, having lost their natural regulator, are usually issued in excess of the needs of the people, and are at a discount in relation to coin whenever the needs of trade indispensably require coin, as is often the case in foreign trade. The second case is rather of misfortune than of fault. Some countries have a gold, some a silver, standard; and silver and gold are not of fixed value in relation to each other. This was the cause of trouble in the trade between India and England in the last quarter of the nineteenth century.

Fall of Silver.—After the Franco-Prussian War and the adoption of a gold standard by Germany, the value of gold in relation to silver began to rise in the markets of the civilised world. The standard in India was the silver rupee. Merchants selling their goods to India for the same rupee price as before gained less than before, because with the rupee at 1s. 8d. it needed twelve rupees to buy a sovereign instead of, as formerly, ten. On the contrary, merchants buying goods from India found that their sovereigns went farther. The vast Indian population is comparatively indifferent to external influences, and foreign trade is an even smaller part of their life than it is of our own. It was therefore a long time before prices began to rise in India in proportion to the fall of silver; the adjustment usual in modern commercial countries did not for a long time show any signs of taking place there. The Indian Government, receiving its revenue in silver rupees, and having heavy payments to make to English creditors in gold sovereigns, suffered by the fall of the rupee, like the English exporters. A bill for 100,000 rupees instead of £10,000 might bring only £8333. Indeed, in the first half of 1893 the rupee was worth less than 1s. 3d. At the end of June 1893 the Indian Government took the first step towards the introduction of a gold standard into India; it closed the mints to the free coinage of rupees, and made known its intention of creating an artificial scarcity in rupees till the value of them (whatever the value of their silver in the markets) should reach 1s. 4d., and be kept at that point. In this attempt it has been fairly successful, and it is now taking steps to introduce the gold standard. It seems doubtful if the change will be generally understood and accepted by the people; but the government and the foreign traders will benefit. There could hardly be a more striking instance of the complication of political, social, and commercial interests entering into the question of currency. But India is not, for commercial purposes, a civilised country; it does not belong to the republic of competitive traders, by any choice of its own; and in all probability the modernising of its currency will have little effect on its internal trade.

Different Laws and Government. — Within the republic of trading nations, however trifling the effects of differences in currency, the differences in laws and government remain to give character both to the production and to the distribution of the several countries. The law of inheritance in France, allowing freedom of bequest to the head of a family only to the extent of a share equal to one child's share, and dividing the rest of his property equally among the children, has probably helped the tendency to have small families. The law in this country enabling the formation of companies with limited liability has helped trading enterprise, perhaps to a wasteful extent; it has enabled poor as well as rich to share in the gains. Customs have helped or hindered even more than laws, especially in agriculture. Where long leases are the rule, there is usually better farming than where the tenure is annual. Occupier's ownership might be supposed to be better still, and in certain countries (as in France) it intensifies thrift and industry. In certain other countries (as in England) it is a rare luxury, and its effects where it is found are not usually of the same kind. It might very plausibly be contended that over the whole range of countries included in the Commercial Republic, the producers are nearly on an equality as regards interference of laws; everywhere manufacture and trade are left free within each country to nearly the same extent;

factory legislation is becoming common to all; and even in agriculture differences of tenure cause little or no perceptible inequality in powers of production. It is quite otherwise with the interference of government, whether central or local, in exacting those compulsory payments for public purposes known as rates and taxes. Hindrances of this kind cannot exist without being perceived; and the differences between nation and nation in respect of them may be said to be, in comparison with other sorts, well-defined, and even measurable.

CHAPTER VII

PRINCIPLES OF TAXATION

Equality and the other Canons of Taxation. "Ideal State" and its Taxation. Military Expenditure. Services of Law and Justice. Fees. Public Works, Debts, Grants in Aid. Sources of Revenue. Post Office. Loans. Direct and Indirect Taxation. Taxes on Goods.

Popular devotion to any cause or to any amusement might cause a drain comparable in amount with the drains of taxation; and nations differing from each other in their ruling passions will probably differ in their ways of accumulation and dispersion of material resources. So far from consumption being absolutely separate from production, every form of consumption or spending has probably a distinct effect of its own on the making of wealth. In our own time, among most civilised nations, taxation is a less drain on the people's resources than their own excesses, say in drinking or gambling. What, then, is the reason for treating taxation rather than the other drains on income as of special importance in an economic inquiry? The reason is that taxation yields more measurable data than other expenditure. It is a compulsory payment made by subjects to governors, and in our times the subjects will demand a more or less exact account of the money taken and the way it is spent. It is not so easy to bring the other payments to a common reckoning.

Taxation is the levying of a compulsory payment by government for public purposes. The purposes are seldom economic, and the chief economic interest in the matter is usually the negative aspect, the withdrawal from production (from the command of individual possessors who are often producers) of the wealth levied in the tax. Assume that the withdrawal is a necessity. In what way may it be so contrived as to cause least injury to the country's wealth and progress? We cannot disregard the question of injury to individuals. It might be that the country might gain as a whole by inequality of taxation; but, even if economic reasoning were in favour of such a conclusion, it would not recommend itself to civilised men whose political philosophy is not determined entirely by their economics. Free competition does not mean the struggle for success among human animals without rules or restraint, but of peaceful citizens under the laws of a well-ordered society. As the competitors are members of a society, they are limited, by the implied, as well as by the express, rules of civilised societies, and are thus warned against fraud, violence, and crime. To this extent, even if no farther, modern political economy stands on a basis of law and morality. In the same spirit, when judging of any interference with the economy of a nation, we are bound to consider how the interference may be so managed as to occasion not only the least economic mischief, but the least injustice.

Equality in Taxation. — Justice is nothing if not impartial or even-handed; and impartiality means equality. Even if equality did not yield the maximum of economic benefit to the nation, it would be supported by the nation. It is, therefore, one of the first maxims of the economic policy of a civilised state that there should be equality of burden in taxation. This does not necessarily mean an identity of amount, or even of rate levied from each citizen. A pound taken from each would not be an equal burden on each; it would be little or nothing to a rich man, a real burden to the poor man. A rate again of sixpence in the pound would be a greater burden to the poor, even though it meant only 50s. to him with his £100 of income, and £50 to his rich neighbour with his £2000 of income. The "final utility" of 50s. to him might be more than that of £50 to his neighbour. Hence equality of burden is not destroyed, but created, by a graduated scale, in which the rate rises with the income.

When all has been done to secure equality of burden, there will always be cases where special circumstances may make the burden heavier to one man than to another; for example, the possessor of a large income with the claims of a large family may be less capable of bearing a tax than the possessor of a smaller with fewer claims. But to adhere to a general rule will usually cause fewer hardships than to abandon all rules, or (what is practically the same thing) to try to adapt our rules to each individual case.

Certainty and Convenience in Taxation.—After equality comes the group of maxims of taxation, sometimes called in brief by the names of certainty, convenience, and economy. They are really in effect all of them maxims of economy. They concern the best, or at least the most economical, manner of carrying into effect the levying of such a tax as we may have discovered to be not contrary to the general maxim of equality. The maxim of certainty, for example, requires that there be nothing arbitrary, or uncertain in the levying of a tax, but that every one shall know what it is he has to pay, so that he may arrange accordingly. It is not good that the speculative element which enters unavoidably into almost all modern trade should enter also into taxation, from which the most ordinary pains can exclude it. A doubtful taxation caused, for example, by powers given to tax-gatherers to exact as much as they can, is almost as mischievous as a doubtful currency. Wherever it occurs, it adds a new obstacle to continuous and persevering industry and provision for the future. But even if a tax is not unfair and not uncertain, it may be levied at such a time as is more inconvenient than another for the tax-payer, without being to the same extent more profitable to the State. If the time chosen be the time most convenient to the tax-payer, consistently with his paying the impost at all, then there is least waste of time, and therefore of resources.

Economy in Taxation.—Analogous to this third maxim is the fourth or maxim of economy. A tax should not be levied in such a manner that what is paid by the tax-payer is not gained by the State, but is spent largely in expenses of collection, or is otherwise diverted into the hands of a third party. In fact, the tax should be so levied that it is received by those for whom it was intended, with the least possible cost of collection, and least possible detriment to the tax-payer. A tax on raw materials, *e.g.*, would be worse than on the finished article, because it would increase the price of the latter at every stage of its manufacture without benefiting the State, and with great detriment to the buyers of the article. The various middlemen would require a profit on the tax they have paid, as well as on the trading capital they have invested.

Ideal State. — An ideal state might have no need for taxation, raising all its revenue from public property. But the economist may not at present contemplate an ideal state of the far future, dealing with men too good for any government; neither may he deal with a primitive society not ripe for any government at all. He is confronted now with a form of state which is very imperfect, but of which an ideal can be framed, in rough outline, on the basis of our knowledge of men as they are at present. If the remote ideal may be cherished of a state where provision for self-defence is among the least, and not the most, pressing of public requirements, the proximate ideal is of a state thoroughly equipped for self-defence. In the far future, nations may have agreed not to learn war any more; in the present, no nation can feel sure that it will not be attacked by a neighbouring or even by a distant nation, however friendly at the present moment. It therefore requires, according to its geographical situation, a navy, or an army, or both of these, strong enough to resist the strongest forces that in human probability might be brought to bear against it.

The Budget.—England is no exception to this rule; and, accordingly, we find the expense of army and navy is the largest item in the national budget. We may take 100 millions of pounds as the figure for the whole annual budget, in reality very near the actual figure for the last two or three years of the nineteenth century. Out of the 100 millions, about 35 millions are for the army, 20 millions for the navy, 15 millions for law and internal administration, 9 millions for public works, 1 million for the monarch, and 20 millions for public debt.

Services of the State.—In so far as the service rendered by the monarchy is not analogous to ordinary civil service, it is ceremony, which seems as necessary to the State for the sake of impressiveness as dress (in distinction from clothing) to the private person. The benefit received is perhaps the least easily measurable of all connected with the State, being largely a matter of feeling; and such a service may become of less and less importance in successive generations; but we cannot dispose of it with the remark that the trappings of a monarchy would be an outfit for a number of small republics. Human weakness cannot be disregarded. In any case the measurable element in connection with taxation is the sum exacted, and not the equivalent received for it.

Protection.—Protection of life, for example, may be conceived to be a service of very different value from different points of view. From the point of view of society it might seem to be most important in proportion to the powers and the character of the life protected. But the protection is meant to be given equally to the life and property of all; and it is so given, so far as the ends of the State are really attained. The sense of security thus engendered is a much greater public benefit than can be estimated in figures. But, if it cannot be estimated from the side of the State, neither can it from the side of the individual. No one can say that the benefits he receives from the State are exactly measured by the amount of the taxes paid by him. The benefits are large and only in part analysable; and his own estimate of their value would vary with the vicissitudes of his life and experience. Of all the best of the good things of life the same remark could be made; literature, art, philosophy, and religion confer advantages that cannot well be measured by the salaries of their teachers or by the expenditure lavished on the institutions devoted to them. The benefit of the protection of the State is not to be measured separately for each individual, but generally for the whole community, though it ought to be procured at the smallest cost to the individuals that is consistent with equality of treatment. If the payment for the benefits furnished by the State is not a voluntary payment, neither is the enjoyment of them voluntary. The individual citizen gets not only the drawbacks but the blessings of civilisation "against or with his will."

Justice.—The same may be said, though perhaps with rougher accuracy, of the provisions for the administration of justice, and with rougher still of public works. A good system of laws and a pure administration of the laws produce their intangible as well as their tangible effects, and the general arrangements for maintaining the system should undoubtedly be a public charge. It might be contended that all legal proceedings, civil as well as criminal, should be a public charge, and the law courts in a true sense open to all. But considerations of policy seem to be against this. The possible temptation to unnecessary litigation might be a public danger. Perhaps we err at present in a contrary direction by making litigation a privilege of the rich. As it is, the litigants, in addition to their share of the general burden of maintaining courts of justice, bear the particular expenses of their cases. Where there is a particular benefit, distinctly measurable, in addition to the less tangible benefit to the community, it seems desirable that it should be measured and reckoned to the beneficiary, in the shape of "fees" which are the price of the particular benefit.

Public Works.—With public works, under which might be reckoned much that is classed under the head of justice, the case is similar. There is, indeed, as in the case of the Post Office, more that seems to be an individual's benefit and less that is matter of common concern. It is matter for the State only on the assumption that no private persons or companies of private persons could or would do the work so well, and that the work is really of public concern and must be carried out under public control if not public management. The Post Office, it will appear, is a source not of expense but of revenue to the State. It is otherwise with the Civil Service generally.

Public Debt.—As the expenses have not always been met by compulsory taxation in the year in which they have been incurred, but sometimes by a voluntary loan, the repayment of the loan involves future taxation, and the payment of the interest requires present taxation. If the classification of the objects of public expenditure had been rigorously logical, the debt would have come under the head of Army and Navy, nearly the whole of it having been incurred for military or naval purposes.

Grants in aid of Rates.—Certain payments made to local authorities from the proceeds of certain taxes are on a footing by themselves. The State in this case is collecting sums by means of general taxation, and handing them over for the relief of local rates, rather an apparent than a substantial service to the ratepayers, and a decided derangement of the book-keeping, and injury to the resources of the State itself. Where grants are made directly in aid of rates, relief is more obviously given by one part of the body of tax-payers to another. But the same reproach might be brought against both proceedings. They are anomalies which no statesmen of either party have made any serious effort to remove, although leading statesmen of both parties have admitted the need for the removal.

To meet these various expenses we have an imperial revenue (in 1900) derived from sources which may be classified as follows:—

1. Taxes on goods, 56 millions: including nearly 24 millions from customs, and 32 millions from excise.

2. Taxes on property and income, 35 millions: including nearly 19 millions from property and income tax, 14 millions from death duties, above $1\frac{1}{2}$ millions from house duty, and $\frac{3}{4}$ million from land tax.

3. Fees, including stamps and receipts from civil departments, $10\frac{3}{4}$ millions.

4. Public works, including postal and telegraphic service, $16\frac{1}{2}$ millions.

5. Government property $1\frac{1}{4}$ millions, including Crown lands (barely $\frac{1}{2}$ a million) and interest on loans and shares (above $\frac{3}{4}$ million).

The first two sources are obviously taxation, the last is as clearly not taxation. It might be thought that fees and public works were equally outside of taxation, both involving simply a payment for distinct services rendered to the individual citizens, when and according as the citizens had need for such services.

But the matter is not so simple. The element of monopoly enters into the matter of some fees; and it enters into nearly the whole of the work of the Post Office—the leading exceptions being the forwarding of parcels and the management of the

Post Office Savings Bank and money orders. In the case of the Post Office, the Government has secured the monopoly of paid letter-carrying because Government is proved by experience to be able to do this work in the best and cheapest manner, by the economy of the largest scale. So long, however, as there is a net revenue of over 12 millions from the postal service, it is clear that the charges to the public are not as low as the cost of the services rendered. All that is over that cost is in a sense a tax, levied from those who have occasion to use the postal services, those who do not use them escaping. The reply made to this contention is that the use of the postal facilities is universal, and therefore the tax, being universal, is not unequal. But a tax may be unequal in its pressure just because of its universality, for the resources of the tax-payers are not equal. Similar objections may be brought against the fees for the taking out of patents. Perhaps the strongest defence is that the scale of charges, at least for the postal services, is calculated for small incomes rather than for large, and the inequality consists rather in the extreme lightness of the burden on the rich than in the heaviness of the burden on the poor. But no one can tell whether or not the burden lies heavily on the poor till the experiment has been made of reducing the charges in order to discover whether the use of the postal facilities will become perceptibly greater or not. This experiment would be simply an application of the general principle, that cheapness extends the market till all desire has been translated into demand, and elasticity ceases.

But, whether an equal tax or not, the postal charges beyond cost seem to be clearly a tax; as far as cost, they are only fees.

Similar doubts might arise as to a source of revenue of a very different kind, and hardly to be included in the five classes without explanation—namely, the revenue procured by loans, or government debt. Temporary advances procured by exchequer bills are really an anticipation of revenue from taxes, and need not have a class to themselves; but the contracting of permanent debt seems within the last two years to have again become a standing resource of Government. The money thus raised satisfies present obligations by the incurring of new future obligations in the shape of repayment, and new present obligations in the shape of interest. It is not strictly revenue at all.

Greater clearness seems to exist in regard to the first and second classes of revenue. The first consists of taxes on goods, the second of taxes on property; the first is indirect taxation par excellence, the second direct par excellence. The two together form by far the largest source of the public income, more than $\frac{3}{4}$ths of the whole (about 91 out of 120 millions).

Direct and Indirect Taxes. — Though the terms direct and indirect taxation have been differently defined by financial writers, their ordinary meaning is sufficiently clear for our present purpose. A direct tax is conceived to be a tax of which the pressure, stress, or "incidence" really lies on the person on whom the State levies it. Thus a tax on rent is paid by the landlord; he cannot shift it to any one else, for his tenant is already presumably paying all that he is willing and able to pay to him, and the tenant is not made able to pay more rent by the fact that the landlord is compelled to pay higher taxes; on the contrary, if the same tax were transferred from landlord to tenant, the tenant would be the less able to pay his present rent. The incidence of the tax remains on him who pays it; it is therefore a direct tax. But a tax on sugar, if imposed on the refiner, can, as a rule, be shifted by him to the broker, and by the broker to his customers. If imposed on the retailers, it can be shifted by them to their customers. It is an indirect tax. As the shifting is more evident in the case of goods than in most other cases, taxes on goods have become the leading type of indirect taxes.

But, though the shifting when it occurs is more evident than in other cases, it does not always occur. The effects of a tax on goods are usually more complicated, because of the indirectness, than the effects of the land tax, income tax, or licence duties. The taxes on goods may be, of course, in some cases, not shifted, but in a good sense of the word evaded. Knowing that the demand for his goods will probably fall off if he raises the price of them, the manufacturer, instead of trying to get the higher price, may strive to increase and improve his production so that even though taxed he may produce at the same profit as before. In this case the tax has the same effect upon enterprising men as the keen competition of their fellow-manufacturers at home or abroad, or as the occurrence of any unexpected natural obstacles which must be cured or endured. Happy the land where all taxes could be thus "evaded." But it must not be inferred that taxation is a positive blessing because it may lead to this kind of evasion. Difficulties stimulate talents, but there will always be difficulties enough provided by nature; and to create them without necessity will eventually depress more than it will excite. The majority of men are incapable of heroic effort. As a rule, a tax, even when known to be necessary, tends to discourage the production of the article on which it is laid; and the legislator must see to it that the discouragement is not great enough to balance the inducements to extend manufacture, and thus great enough to defeat his attempt to raise a revenue. Whereever by the taxation of an article the cost of it is increased, the demand tends to suffer as well as the supply, and the tax in this way falls partly on the producer, and not only on the consumer. Taxes on goods, therefore, are more correctly described as mainly indirect than as simply indirect. Part of them will stay where they are put.

A government proceeding under the canons above mentioned would not simply select for taxation the article that yielded the most revenue, but the article that would yield the most together with least disturbance and discomfort to the traders and to the public. Hence a tax on food is best avoided, as oppressive out of all proportion to the revenue derived from it. Not only is the statesman thus confined in his choice of articles; he is limited as to the lengths to which he can allow taxation to go, even in the case of a suitable article. A light tax may be hardly felt, and will usually excite little discontent. On the other hand, a tax on necessaries is never felt to be a light tax, and is (as has been said already) not necessarily equal because it is universal. The statesman is always in a strait betwixt two evils: an unprofitable light tax, and one that will be a source of profit but also a real grievance.

The canon of Equality would forbid us to put one class of producers on a different footing from others in the race for a living; the burdens must be equitably distributed so far as this is within human powers of contrivance. If certain selected goods are taxed, the production of them is hampered as compared with the production of the untaxed remainder. Yet, in all countries, we have taxes on goods. How are the difficulties overcome?

Our own Taxes.—In our own country, the net receipts of the customs in order of the productiveness of the items were roughly as follows, for the year ending on 31st March 1901:—

From tobacco, $12\frac{3}{4}$ millions; tea, $6\frac{1}{4}$ millions; spirits, $4\frac{3}{4}$ millions; wine, $1\frac{1}{2}$ millions; currants and dried fruits, less than $\frac{1}{2}$ a million; minor articles, more than $\frac{1}{4}$ of a million; coffee, less than $\frac{1}{4}$ of a million: out of a total of 26 millions.

The corresponding net receipts from the excise were:— From beer and spirits, $32\frac{1}{2}$

millions; from the other duties (*e.g.*, on chicories and coffee mixtures), about £2500.

In addition, 1½ millions were collected by the excise and customs for the local authorities under the Acts of 1888, etc. In 1901 sugar duties (of 2s. to 4s. 2d. per cwt.) have been revived, and an export duty of 1s. a ton has been imposed on coal. In 1902 the registration duty on imported corn has been revived.

If we compare this list with that of the early years of the nineteenth century, we find many differences. In 1827, for example, there were over 500 articles on the list instead of the present 20. Imported wheat was taxed by sliding scale (going up as the home price went down, and *vice versâ*) from 25s. to 1s. per quarter. The duties were largely on imports, without corresponding excise duties on similar articles produced in this country. The chief revenue was derived from wine and spirits (5 millions); sugar (4½ millions); tea and coffee (3½ millions); tobacco (not quite 3 millions). There were 510 articles which produced each less than £10,000, and together a little more than ½ a million (£585,000). There were excise duties on starch, stone bottles, sweetmeats, and vinegar. The total of both excise and customs was a little over 6 millions, apart from the wheat and other grain duties, which in

1827 produced £781,032. This last sum varied in different years with the seasons: it was £437,000 in 1826, £193,228 in 1828, but £896,720 in 1829. The abolition of the corn duties (all but a registration duty of 1s. a quarter, which lasted till 1870) was passed in 1846, and took full effect in 1849. 1842 and 1846 mark an epoch in English financial history. English statesmen had been brought at last to the conviction that taxation should be not for the protection of particular industries, but for the revenue of the State. There cannot be a rich treasury in a free country without a rich people; and the way to increase the general wealth is to put as few obstacles as possible in the way of the general trade. To cause prices to be higher by taxing imports, is to narrow the circle of possible buyers, and thus to increase poverty. The corn duties were only the worst instance of this very policy; by narrowing the circle of buyers of food, they were really bringing not merely poverty but starvation nearer.

The lesson seems to have been learned once for all by this country sixty years ago. First, in 1842, the manufacturers were deprived of all the chief duties protecting their trade against foreign competition. Then, in 1846, the landlords were deprived of the same privilege. The reform was not effected quietly and without suffering. Actual famine in one part of the country was the crowning argument. Once taken, the step was final. The growth of our manufacturing industries was such as to weaken the political power of the agricultural interest; but, as there is no other equally large body of producers on the whole so united in their interests as the farming class, protection of any other production could not be revived, in face of the jealousy of the agriculturists.

What happened here half a century ago seems to be happening in Germany at the present time; and from English experience there is every reason to believe that Germany will be a stronger country under free trade than she is now under protection.

Free Trade.—Under free trade, if the term were not ambiguous, there would be no taxation of goods; and that has been the ideal of some free traders. The term, however, has almost a technical sense; it means a trade where no competitor is favoured or hindered above another. In the case of certain articles both the home producer and the foreign are equally hindered. There is a customs tax on imported spirits, and an excise tax on spirits made in the country. The aim of the treasury is so to administer the tax that the article selected for taxation shall not escape it by being made abroad or escape it by being made at home.

Taxes on Luxuries.—It will be noted that the articles taxed are few in number, and differ as a rule very greatly from one another in character. With the exception of coffee, cocoa, patent medicines, and dried fruits (which yielded in 1901 only ½ a million altogether), they agree in giving a substantial revenue (of about 25 millions in 1901). In the heavy taxation of spirits, wine, and tobacco, the Government are undoubtedly influenced by the popular feeling that these articles are luxuries, and that a great abundance of them is rather hurtful than wholesome. Tea, though not hurtful, is still in the category of luxuries, and in extremity may bear a heavy tax. In April 1901 the duty on it was raised to 6d. per lb. There is probably no tax that so nearly approaches a poll tax as this, and, like other poll taxes, it is levied in entire disregard of the real inequity of levying an equal amount from persons unequally endowed with wealth; the tax is 6d. per lb. of the poor man's tea and the rich man's, without respect of quality and price. Still, as the amount is not great, there is no general revolt against the duty; and successive governments have retained it without fear of the electorate. In fiscal matters there is in England more continuity of policy on the whole than in matters of general politics. Officially, the Chancellor of the Exchequer is far from wishing to keep down the consumption of articles when he taxes them at a high figure; he is rather bound to desire that the consumption may expand in spite of the tax. He may, of course, think too much of his revenue; but the ordinary elector is disposed to think too little of the gain or loss to the Exchequer. The selection of this or that article for special taxation is therefore affected by public sentiment about the goodness or badness of the article itself, and the desirableness of making it cheap or dear. Temperance reformers desire high taxation of spirits, in order that the consumption may be discouraged; they would welcome a smaller consumption and smaller revenue. As a matter of experience, there is a point beyond which it ceases to be profitable to increase taxation: in some cases because consumption declines too far, in others because smuggling, adulteration, and evasion become speculations too tempting to be resisted. This point seems to have been already reached in the case of spirits; and temperance reformers must be fain to discourage consumption by other means than taxation.

It may be said that the tax on spirits, from which more is raised by excise and customs together than from any other single source, is a tax on the luxuries of the poor, the wine of the rich escaping with a tenth of the taxation. It is true that in this way a large section of the poor feel the burden of imperial taxation; but the direct taxes are not levied on the poor at all, and yet the political undertakings which occasion high taxation in all its forms are all conducted under the sanction of the electors under household suffrage.

The tax on patent medicines has also the support of popular prejudice; these are articles of uncertain utility, and, as patented, they have an element of monopoly. The taxes on dried currants, coffee, and cocoa, all articles of foreign production, could not be defended on sentimental grounds. Popular sentiment is in no way hurt by the tax of 3d. a pack on playing cards.

The tax on sugar, revived in 1901, was defended partly on the ground that the limit of profitable taxation had been reached elsewhere. Yet the article is not only everywhere a necessary, it is a material of manufacture; and the fiscal policy of this country since 1842 and 1846 had been to avoid the taxation of raw material, when the finished article could be reached at all. To tax a material is necessarily to multiply the burden of the taxes beyond the gains of the treasury, for the increased dearness of the material causes an increased dearness of the finished article by burdening the successive intermediate producers. Something similar might be contended in the case of the coal tax. A tax on exports seems out of keeping with the financial policy prevailing since 1846; England was to be the emporium of the world. That we should of ourselves take any steps to hinder her from being so, would seem to be a needless anticipation of a remote, if perhaps inevitable, destiny.

Export Duties.—Only a very large gain to the treasury in times of very great pressure might be thought to justify the revival of export duties. Economically, the same defence has been made for them as for import duties, that they will be paid by the foreigner. This would be most nearly true when (*a*) the taxed export is indispensable to the foreigner, or not easily replaceable by a substitute; and when (*b*) the sellers of the taxed import cannot dispense with our market, and must either keep the old prices, in spite of the tax, or lose our custom. Modern casuistry has pointed out that, in both cases, if the assumptions are correct, the foreigner pays the tax. The principle is really the same as between private dealers; the most urgent demander will make the most concessions, and therefore the price will move against him. If a community can be quite sure that the demand for a given article of its production is necessarily more urgent on the side of the foreigner than its own demand for the equivalent, then it may lay a tax up to the limits of the greater urgency without abating its prices in proportion. What the limits are, will be a matter of precarious calculation. The export, till the limits are reached, can be sold at the old prices increased by the amount of the tax, the foreigner being willing to pay the higher price. He is supposed, in fact, to be in the position described above of a producer stimulated to better methods of production by a new obstacle. In the case of the taxed imports, the articles, being supposed to be in sore need of our market, will be reduced in price by the exporting foreigner in order that, along with the tax, they may cost no more to us than before.

Such a defence can be made of the revived registration duty of 1s. on imported corn. But, apart from the danger of mistake in our calculations of the limits of urgency, there is an objection in the nature of the article taxed; it is a necessary of life. When the registration duty was abolished in 1870, the arguments for abolition were that, though a very small duty, and not intended for protection, it had really told for protection, and it had hindered our large ports, especially London, from becoming emporia for the grain trade. If we really desire to facilitate registration, we ought to impose a nominal registration duty on all goods whatsoever imported from abroad, and not on one class of goods only, and a class which is a necessary of life.

In practice, the calculation of the limits of urgency can never be exact; and, in countries where export and import duties are more familiar than with us, they are not defended on purely economical grounds. It is often admitted that import duties in particular cost the country a sacrifice, namely the sacrifice, to the consumers, involved in higher prices; but the cost is represented as worth incurring on political or social grounds. It may, in fact, be thought desirable that certain weak industries should be supported at the expense of the other strong industries. All protection is a confession of weakness. But after many years the protected industries may, it is thought, become stronger. It is conceivable that this may happen. A country like the United States, which has many strong industries, can well afford to support a few weak ones. But our own experience would rather show that to be once protected is to be always in need of protection; and to protect a few is to be called upon, in equity, to show cause why we do not extend the same charity to all who suffer from competition. On the other hand, it is a significant fact that, within the limits of a state, perfect freedom of trade and removal of all difficulties in the way of intercourse and exchange between district and district are considered a better charity than protective duties. The difference in fact between foreign trade and trade between districts of one country is mainly due to this greater freedom from unnecessary obstacles in the case of the latter. As the world is now constituted, politically and socially, competition could perhaps never be so full and free between foreigners as between members of the same state. But to add to the obstacles already existing to traffic between country and country, would seem to be a wilful rejection of such economies as have been found by experience to be possible between district and district.

CHAPTER VIII

DIRECT TAXES

Direct Taxes not wholly Direct. Estate Duties. Legacy Duties. Income Tax. Business Stamps. House Duty. Land Tax. Advantage of a System of Taxation as opposed to a Single Tax. Economic Sacrifice involved in Income and Estate Duty.

In a sense no tax is wholly direct or wholly indirect. Even the income tax, by lessening the income received by the tax-payer, lessens his power of productive or unproductive action. A shifted indirect tax like that on tobacco lessens the power of the consumer, who pays more for his tobacco, to make purchases of other luxuries out of what he would have saved by the cheapness of tobacco. It also probably lessens his will to consume so much of the tobacco itself; and thereby affects the demand, and thereby the dealers, and the merchant who has shifted the tax in the first instance.

But some taxes are mainly indirect, others mainly direct; and the direct taxes of our budget are:—(1) The estate duties (yielding 13 millions in 1901); (2) business stamps (nearly 8 millions); (3) land tax ($\frac{3}{4}$ of a million); (4) house duty ($1\frac{3}{4}$ millions); (5) property and income tax (nearly 27 millions at 1s. in the £; (6) personal services, on juries in this country, as in the army in most other countries.

We may neglect the last as hardly measurable in money. Such requirements as registration of births and vaccination might be included, and even the requirement of elementary education in the case of parents for their children. But in most of such cases the public benefit is also a private one, and the distressfulness of taxation is hardly felt; in technical language, it is not "onerous."

Of the remainder, the estate duties, with the death duties generally, have become an important source of revenue, especially since 1894.

Death Duties.—Since 1894 there have been (1) the estate duty imposed on the sum total of all property passing on the death of the owner, whether property in land or property in movables, and whether settled or not, in place of the probate, estate, account, and succession duties prevailing before that date; (2)

the legacy duty on the amounts received severally by the individual successors, according to their kinship with the deceased owner.

Taxation, as we saw, is seldom guided by purely economic motives; and it is not so guided in the legacy duties, which are lightest for the nearest relatives, and heaviest for complete strangers. The distinction is of old standing, and shows perhaps that the legislator remembers the political value of family affection. The duties run from 1 per cent. on legacies to children, to 10 per cent. on legacies to strangers. There is exemption of husbands and wives, and of recipients out of an estate which is under £1000, the said estate paying only estate duty. The first exemption is the nearest approach we venture to make in England to the French prohibition of the complete disinheriting of children. Fiscal severity in the case of the estate duty is not tempered by sentiment. The estate duties since 1894 are distinctly and avowedly progressive, that is to say, they are higher for the largest estates, lower for the smaller. Small estates are almost exempted; under £100 entirely so; from £100 to £200 the duty is £1; between £100 and £300, 30s. or 1 per cent. at choice; from £300 to £500, 50s. or the same alternative; from £1000 to £10,000, 2 per cent.; £10,000 to £25,000, 4 per cent.; and so on, by an increase of ½ per cent. for every £25,000 to £100,000, and from £100,000 to £1,000,000 by similar leaps, fortunes of £1,000,000 and upwards being taxed at 8 per cent. Even settled property is brought under taxation; and the line formerly drawn between personal property and property in land has been for fiscal purposes finally cancelled.

Income Tax.—This progression cannot be said to have been an entirely new thing in English budgets. Even in 1853 incomes under £100 paid nothing to income tax; in 1861 for incomes under £200 there was a deduction of £60; in 1871 of £80 for incomes under £300. The free limit was raised to £150 in 1876, and £120 was deducted from incomes under £400. This £120 became £160 in 1894, when the free limit was raised to £160. Under the present system (of 1899) £160 is the free limit; £160 is deducted from incomes not reaching £400; £150, from those not reaching £500; £120 from those not reaching £600; and £70, from those not reaching £700.

In spite of these and other exemptions and allowances, a penny in the £ of income tax realises twice as much as it did sixty years ago when Sir Robert Peel revived the tax. A penny now produces rather more than £2,000,000, as against £1,000,000 in the middle of last century.

It is a tax which no English Chancellor of the Exchequer could afford to give up. No attempt has yet been made here (as in Switzerland and Holland) to make the income tax positively progressive; it remains negatively so, if the phrase be permitted, by virtue of the exemptions and allowances; it is what has been called a degressive tax, becoming less in proportion with the smaller incomes, rather than greater with the larger. The theories on which the progression of the estate duty and the degression of the income tax both depend, are essentially one. The rate of the first rises because, the greater a property, the more can be kept back by the State as a condition of bequest, without excessive suffering to the recipients. The rate of the second falls, because the smaller the income the more valuable to the possessor is any portion of it, however small. The result of the exemptions is to leave untaxed the sum supposed to provide the necessaries of a vigorous life among the poor, and to tax only slightly the wider necessaries of struggling professional men.

It is impossible, as a rule, for the taxing power to deal with refined distinctions, and distinguish, for example, between precarious incomes depending on personal efforts, and those that are in the nature of salary or interest. A certain mechanical equality, with all its drawbacks, probably comes nearer to equity than an unsuccessful attempt to make minute distinctions between incomes of one and the same amount received under different conditions. The machinery required for such distinctions might for effectiveness be so costly as to reduce the productiveness of the tax, and to render necessary a supplementary tax that would fall on other citizens. It is a similar reason that prevents systematic and positive progression in the case of the income tax. At present a great part of the taxed income is taxed long before it reaches the final recipients, and taxed without any odious inquisition into their resources. The income tax deducted in this way from shares and dividends and mortgages, landlords' rents, etc., is about three-fourths of the whole proceeds of the tax. Both in this case and in the case of business stamps (on cheques, receipts above £2, bills of exchange, stocks and shares and transfers of them, title deeds and other legal documents, carriage and marriage licenses, etc.); the taxation seems to conform to the canons of convenience and economy.

House Duty.—The incidence of the tax on business stamps is not, however, so clearly direct as in the other case; and, as for the house duty (dating from 1778), which is degressive, like the income tax, but, unlike the latter, seldom varies from year to year, it seems clearly indirect. It is levied (1) on the occupiers of business premises, at 2d., 4d., and 6d. in the £ of annual value, according as the said value is over £20 and under £40, between £40 and £60, and over £60; (2) on dwelling-houses, at 3d., 6d., and 9d., according as they are of the annual value of £20 to £40, £40 to £60, and over £60. On the principles of rent already explained, it seems clear that the removal of the house duty would enable the occupier to pay a correspondingly higher rent, and would therefore, in all probability, induce the landlord to exact it. It is therefore to the landlord's detriment rather than to the tenant's.

Land Tax.—The land tax is certainly direct; but it is usually of very trifling amount. It depends on a fixed sum assigned to each parish, and raised in the same by contributions not exceeding 1s. in the £, from each proprietor. Begun in 1692 at a rate of 4s. in the £ on all property, personal and real, it soon became a land tax only; and, as it continued to be levied on the old valuation of 1692, it yielded less and less in proportion to the growth of the national wealth. When Pitt allowed the redemption of it (1798), redemption became common, and half of the whole liabilities have now been redeemed. A redeemed tax or even an unredeemed, if long unchanged, cannot be said to be more than an old rent charge on an estate; but, where it is not redeemed, it lessens so far as it goes the price which the owners can get for their land.

This whole system of taxation has grown up, like most English institutions, gradually, tentatively, and irregularly, but with the understood idea that government must meet its expenses with the least possible oppression—in other words, by such pressure as can best be borne and least felt. This idea seems, by our English experience, to be better secured by a number of taxes pressing on different individuals at different points than by a single tax pressing hard on every one or on a few at one point only. We distribute the weight on the body so that it does not weary out one set of muscles, or weary out the whole frame for future efforts. To drop the metaphor, taxation must not, if possible, be allowed to discourage and diminish trade and manufacture. Some discouragement cannot be avoided. If a nation has deliberately incurred great expense in a cause which it believes to be worthy of the sacrifice, the means of payment must not be grudged; but we need not pretend that there is no sacrifice. The income tax, which may be said to vary with the abnormal or extra-ordinary expenditure, represents a sacrifice of that nature. Is something similar to be said of the estate duty as regards the normal or ordinary expenditure? It has apparently been settled at fixed rates for an indefinite time; and the produce has been greater than was expected. It might conceivably represent the permanent increase of expenditure caused by the modern extension of the State's functions, especially the assistance of education and the regulation of industry and traffic. On the other hand, the estate duty undoubtedly cuts down the capital sum of an estate. Is this equivalent to a diminution of production by a lessening of available capital? It seems clear that it may be so, for the use made of the appropriated resources is seldom a productive one in the hands of the State. It seems also clear that there is an *arrière pensée*, a double meaning or "deep design" in the heavy taxation of great estates. Not only does it furnish money to the Exchequer, but it tends, however slowly, to cut down the size of the estates; and there is a general feeling that, whether production thereby benefits or not, it is not desirable that one man, or only a few men, should be placed in the position of power implied in the administration of great wealth. From this point of view, certain ways of evading the estate duty may be held to be to some extent a public benefit, for they involve the distribution of wealth before the owner's death, and, it may be, the more active employment of the owner's talents (such as they are) for utilising it in his lifetime. There is also a widespread feeling that what a man inherits is not in the same sense his own as what he has helped to produce. Both of these prejudices are reinforced by the appeal to the part played by the State in protecting all property, and securing the transfer of it to inheritors. It is felt that the State may well demand payment for its services in those two particulars.

CHAPTER IX

RATES

Local Expenditure. Relief of the Poor. General Principles. Local and Imperial—Distinction sometimes doubtful, witness Transference and Proposals for such. Basis of Annual Value, Difference of Rate from Tax. Incidence of the Rates. Scotch Plan of Division. Rates for Special Services not really Rates. House as Index of Fortune. Compounding Householders. Municipal Housebuilding.

IMPERIAL taxes are not the only compulsory payments made by citizens towards the public service. The various municipal, rural, and parochial bodies, with their delegated authority, exact payment for their services to the groups of inhabitants they govern.

Local Expenditure.—If the cost of defence is the most important item in the imperial budget, relief of the poor is hardly less so in the local budgets. There was spent on this in England $10\frac{1}{4}$ millions in 1898. Police cost 5 millions; education, $7\frac{3}{4}$ millions; roads and streets, and the lighting of them, $9\frac{1}{4}$ millions; sewers, markets, cemeteries, fire stations, and public works of the kind, $9\frac{1}{4}$ millions; gas and water works and tramways, $5\frac{1}{2}$ millions; harbours and docks, $1\frac{3}{4}$ millions; improvements, 1 million; and official salaries and similar charges, $3\frac{3}{4}$ millions; charges of local debt, $14\frac{1}{4}$ millions: total, £67,750,000.

These expenses are met (1) by rates, to the amount of $37\frac{3}{4}$ millions in 1898; (2) by a share in the proceeds of imperial taxation, to the amount of 11 millions; (3) by the profits of municipal enterprises to the amount of $11\frac{3}{4}$ millions; (4) by loans, either raised in the locality under surveillance of Government or advanced by Government itself, to the amount of $13\frac{3}{4}$ millions, added to a total local debt of 262 millions. This local debt is not likely to decrease; but, like the colonial debts, and unlike the national debt, it has been incurred in most cases for productive purposes, or permanent sources of public benefit, such as schools, markets, harbour works, artisans' dwellings, to say nothing of gasworks and water supply, tramways and electric lighting—in fact, the municipal enterprises that bring in a moderate return or are permanent means of satisfying the primary wants of a civilised people. The returns fall short, however, of providing even the full interest on the debt, and the charges of the latter accordingly are met, like the ordinary local expenses, by the rates and grants.

Local and Imperial Taxation. — Usage makes us associate rates with local government and taxes with imperial; and there are differences in the nature of the two imposts corresponding to the difference in names. But the general principles of taxation are those of all imposts; indeed they could hardly differ because of less or greater scale, or because of absolute or delegated sovereignty, any more than general principles of economy can be otherwise for a county than they are for a country. As in the State, so in the municipality, there are benefits secured to the citizen which are not to be definitely measured for each citizen separately; the cases of special benefit and such as can be measured by "fees" are perhaps more common in local than in imperial government, and more of the services rendered seem near and tangible, an increasing number (in the last generation) being of the nature of productive industrial work. The growth of the functions of the local authorities, combined with the narrowness of their basis of taxation, must be held as in part at least excusing the transference of burdens from the localities to the central body that has taken place in recent years. But there has also been a real uncertainty as to the line of distinction between a local and an imperial concern. Offers have been made by the central government to part with the land tax or the house duty (1871), and certain State taxes have been devoted to the assistance of the rate-payers. The reasons advanced for transference of local burdens to the State are various. Sometimes it is pleaded that the management of the State will be better than that of the smaller body, as in the case of prisons (transferred 1877). In the case of the London Metropolitan Police the charge is local, but the management imperial, from a reason which has little to do with economy. Sometimes it is argued that the subject of the charge is of general concern to the nation, and should therefore be in charge of the State. This reasoning would prove too much, for good local government (it might be said) is undoubtedly of general concern to the whole nation, yet few would deny that the State does better in exercising a general regulative influence on local governments than it would do by taking the whole work of local government on itself. Again, it is pleaded that particular classes of citizens are unfairly burdened by the present system of rates. The natural remedy would surely be to alter that system rather than to apply for relief to the central government. The practice of allotting large portions of the money raised by taxes to the local authorities in relief of the rates seems to be very unfortunate. It complicates (if not confuses) the national accounts. It leaves the local bodies freedom to spend (it may be to waste) what they escape the odium of exacting in their own neighbourhoods. It leaves governments open to the temptation of bribing the localities into acquiescence in existing financial arrangements.

The desire to shift a burden from local rates to imperial taxes springs probably in the main from the desire to avoid an obvious burden for the sake of one that seems certainly less when considered by itself, being a fraction of a greater total. But the more widely this shifting is done, the more certainly will the resulting share of imperial taxes approach in amount the rates which they replace. The taxes, it is true, are on a different basis from the rates; and perhaps there may be ground for the impression that the transference is effected with a deliberate view to the reaching of personality, which has been, since 1840, legally exempted from rating. At present, and in most places long before 1840, the rates have been confined to lands, houses, and mines as the most visible and tangible property. There were practical difficulties in assessing stock-in-trade and movable effects; except in the doubtful case of machinery, there has been no attempt to rate these. The rating has fallen on the annual value of houses, lands, and mines. Local taxation proceeds by a levy *pro ratâ* on the amount of this annual value, which roughly corresponds to the rent.

Burden of the Rates.—Where there is occupation at a rent, in Scotland the rates are divided between landlord and tenant; in England, the tenant or occupier bears nominally the whole burden, the owner doing so only when he is an occupying owner. The local governing bodies estimate their expenditure like the Chancellor of the Exchequer: but they have the great advantage over him that they know what their rates will yield, and can impose them according to their requirements with the certainty of getting the amount calculated; whereas, except in case of the land tax and (with reservations) in the case of the income tax, the Chancellor of the Exchequer feels no such certainty. This is partly because in form the local imposts are now all direct; if *octrois*, like the London coal and wine duty abolished in 1889, were to become as common again in this country as they are in France or Italy, they would bring with them all the uncertainty of indirect taxes as regards their productiveness to the public exchequer, and (it might be) as regards their incidence.

The incidence of the rates can be estimated with fair probability. Where a house of £120 of annual value pays £5 in house duty and £36 in local rates it might seem that the house duty, being a fixed charge on all houses according to the rent, would not affect the demand for houses, and would therefore stay where it was put; but the local rates, being different in different localities, might affect the demand by driving tenants from districts of high rates to districts of low. The truth probably is, that in large towns we are so accustomed to the phenomenon of a growing demand for houses that we allow this phenomenon to conceal the virtual influence of both house duty and local rates on the demand for houses at a given rent. The rent of houses is in this respect exactly like the rent of land, that it is in proportion not to what the landlord would like to get but to what it is worth while (or even what it is possible) for the tenant to pay. If the house duty were removed and no substitute imposed, the tenant could afford, in the case supposed, to pay £5 more rent; if local rates disappeared, he could afford to pay £36 more rent. If the rates have risen during his lease, he must bear the burden of them. At the end of his lease, unless he has been paying less than the highest possible rent before or unless his resources have been increasing in the interval, he must have his rent reduced or cannot renew his lease. It seems clear that (1) on entering on his lease he undertook to pay a certain rent, with knowledge that the rates must be added to it, to an amount estimated; (2) on renewing his lease he would demand a lower rent if his estimate of the rates on the former occasion had fallen short of the truth. In both cases allowance would be made by him for the burdens of the house before he offered £120 a year for the right to occupy it. Without these burdens the rent might have been £125 or £161. At the beginning of a lease and at the end of it, the incidence would seem to be on the landlord.

The Scotch System.—Where an increase of rates has happened during a lease, the pressure undoubtedly falls on the tenant, except on the Scotch system, which divides the burden. It might prevent much heart-burning if the rates were levied directly on the landlords, on whom it seems clear they ultimately fall; and in this case they should of course have a representation on the rating body. The Scotch plan may imply recognition of a distinction between rates that are so spent as to give immediate benefits to the tenants, and rates which tend rather to improve the circumstances of the property and therefore the future income of the landlord from it. The latter rates have been variously estimated from a third to a fifth of the whole. The Scotch division is only a rough approximation to the true proportion which might in fact differ from district to district; but it enables the tenant whose rates have risen in the middle of a lease to bear with greater patience the remainder of the burden that he cannot throw off till the end of the lease. Economically, the importance of the immediate incidence is much greater now than in former times; the need of seizing the advantage of present opportunities is better recognised; and just for that reason the weight of immediate burdens is more keenly felt.

This reasoning applies to rates in the strict sense of the word, compulsory payments for public purposes exacted on the basis of the annual value of lands and houses. The case is somewhat different where the local authorities own the gas, water, or electric lighting works, and charge what is often called a rate for services of the kind. The payment is really made for particular services rendered to the particular ratepayer, and the incidence of such charges falls rightly on the receivers of the services.

If the charges were higher, however, in one locality than in another, this unusual costliness might affect the demand for houses by affecting the tenants' power to pay as high a rent as elsewhere. It is the more easy to detect the operation of such a cause, because, at least in the case of gas and electric lighting, the basis of charge is not the narrow basis of annual value but the ordinary commercial basis of identical payments for identical services. The basis of annual value is retained for rates proper, partly from the notion that a man's house is the best index of his wealth, partly from the long experience of local taxing-bodies, showing them that this basis gives the surest and easiest machinery for reaching the resources of the inhabitants whether in town or country. It is really on the whole a faithful index for the middle classes, who are the great bulk of the ratepayers; it is less so for the very rich, and hardly so at all for the very poor.

Compound Householders.—The very poor in our great towns seldom feel the direct burden of the rates. Landlords of industrial dwellings, tenement houses, and, generally speaking, blocks of houses accommodating many families under one roof, have generally charged themselves with the rates; and their tenants are supposed to "compound" for the rates in the rent they pay for their rooms. Since 1867 these tenants possess a vote, and yet have no obvious interest in reducing rates, and no direct burden from them. We should naturally expect, therefore, that municipal enterprises involving increase of rates should be more cordially supported by such tenants than by ordinary ratepayers; and as a rule this is so. From time to time the cry is raised, as a rule without reason, that the landlords will raise the rents of tenements if the rates are raised; but, if the landlords could have got the additional rent by simply proposing to raise the rent, in most cases they would have made the proposal without the pretext of the rates. In most cases, it may be assumed that the tenants are giving at present as much as they can afford to give. At the same time, it is true that, in the case of the lowest classes of houses, the landlords have the greatest ease in exacting a rack rent, because the tenants are often so placed that they must have houses close to their work, and cannot lightly seek other lodgings. Any pressure put on the landlord to induce him to raise rent is thus at once translated into a pressure on the tenant; and the tenant in such cases has seldom the protection of any agreement or lease, a protection almost inconsistent with the system of compounding. If municipal house-building were to afford him this protection, it might be desirable because of the peculiar needs of extreme poverty, and its special claims on the wealthier members of society. But it must be clearly acknowledged that, if the builders of municipal dwellings are, however rightly, to be deprived of the powers of exaction possessed by ordinary landlords, their houses cannot be expected to yield the profits of ordinary house-properties of the kind. If a community comes to the conclusion that the sacrifice of such profits is more than repaid to them in the improved conditions of life thereby secured for the poor, it will continue to incur the sacrifice. But we must remember that only a rich community could afford such self-denial. Though the proverb of the goose and the golden eggs, like other proverbs, is only half a truth, it is a half of the truth. Taxation and rating may reach the undefined point where the disadvantages of them exceed the advantages secured by them; and, even if all communities were equally extravagant in this matter, and competition seemed unaffected, still there would be a temptation to a very undesirable kind of evasion of imposts, the dispersion or dissipation of private resources.

It might be argued that we escape the difficulty by going on unto perfect socialism or even to communism. But to advance to this point is to advance into an unknown world. It seems at present the safer course for the democracy, that it should allow the growth of private wealth by private enterprise, and continue to tax it nearly but not quite up to the point where the productiveness of taxation would begin to fall off.

CHAPTER X

THE FINAL ISSUE

Does all point to Socialism? Modern Socialism and Anarchism. Do Trusts lead to Socialism? The Social Question, the "Submerged Tenth," and the Unsatisfactory Relation of Employer and Workman. Co-partnerships and Co-operation. Effects of a Growth of Capital beyond Population. Friction in the Transition from Poverty to Comfort. Is there a Fallacy in Saving?

It has often been thought that the many ways of modern economy all point in the direction of central management. Action in industrial matters seems to tend nowadays to become joint action. Interests are more and more intertwined; and, as we have seen, the labours of production are more and more intertwined also, so that it is difficult to say what is the product of an individual, or even what is his contribution towards a product.

It might be answered, of course, that to be social is not to be socialistic, and that deliberate attempts to bring about a result in matters of industry have been less happy than "fortuitous concourse" of separate endeavours. On the other hand, it is plausible to rejoin that not only in politics and law, but in industry, the tendency has been to quit "status" or custom for "contract" or deliberate arrangement; much that was at first instinctive and customary has been reduced to deliberate convention; there is less drifting and more steering; —if, therefore (it is argued), we know what we are doing, we should be frankly socialists.

Modern Socialism.—But modern socialism means more than a clear consciousness of what we are doing when we combine. It means an attempt (*a*), by means of a central governing power, to secure such a distribution of wealth as will bring the most widely extended benefit; (*b*) with a view to this better distribution, to secure a better organisation of production. Collective wisdom (*l'esprit de la ruche*) is no fancy. As Aristotle long ago remarked, there is a wisdom in a body of men that is not to be found even in the best of the units taken separately. The principle has been applied in industrial economy long ago, though unconsciously. The various developments of division of labour have not, as a rule, been deliberate, but rather analogous to the growth of a custom. If the collective wisdom is now to try to bring about the development of industry deliberately, and if the community is to be itself the capitalist projector and employer, will the result be better?

The doctrine of the first founders of social democratic or scientific socialism was professedly inconsistent with a preliminary constructive policy; according to them, events were bound to bring socialism, and human efforts availed little or nothing. It seems curious that, after the great change, we should be bound, after all, to pass into a policy of deliberate construction, for a socialistic government could hardly, by definition, content itself with regulation. But many of the supposed essential doctrines of socialism have proved to be accidental; and we do not refute socialism by proving that its leaders have made mistakes. Whether humanity could have checked the growth of the modern industrial system or not, the question remains:—Would that system be better replaced by a socialistic system?

Analogy Helps us Little.—The answer is that, in adopting the latter, we are passing from the known world to what may fairly be described as the unknown. We have had no socialism, in the full sense of the word, yet realised either in England or elsewhere, on the scale of modern states and modern industry. We find something analogous to a central government in an ordinary family, it may or may not be for industrial purposes. We have had central government within the ordinary factory, but in very few cases democratic, and therefore, except in these few, not really socialistic in principle. Where the democratic element is absent there is no proper analogue of modern socialism.

Municipal Socialism.—We have had, however, central government of particular industries within towns or districts, for the benefit of all, and therefore in true analogy with socialism. But the conclusion to which we are pointed by the success of municipal socialism is no more than this, that in a certain number of selected industries a direction by the subordinate local government is possible and often profitable. Whether or not the direction of all industries could be undertaken with advantage by municipalities is still uncertain; and it is still more uncertain whether, on the analogy of municipal socialism, we could rightly press for a direction of all industries, municipal or otherwise, by the sovereign central body. As events have gone, it would seem (1) that only a small number of industries can come under municipal socialism, and (2) that the sovereign central body is better employed in watching the municipalities than in rivalling or superseding their activities. Its care may detect and prevent inequalities of treatment and tyranny over minorities or individuals. The sovereign body itself would have none to control it if it did the work of construction ill, and we have still to wait experience of its constructive powers. It seems better to confine it to the work of regulation, which long-standing experience tells us it can accomplish with very fair success.

A Rival of Socialism.—The present condition of industry and distribution is not ideal. But socialism is not the only way of amendment. Socialism itself is confronted in our time with Anarchism as its nearest rival. The anarchists agree with the socialists in despairing of things as they are. But, instead of desiring to remove evils by means of an altered government made omnipotent and directed democratically, the anarchists regard government itself as the arch-enemy and the root of all evil. The ideal society is a society without government, or at least (for some of them) with the least possible government. There are three classes of anarchists. There is (1), the party of violence, who, from hatred of the bad consequences inseparable (as they think) from all government, would destroy all government and simply accept the unknown issue. There are (2), the extreme individualists, or (as we might call them) philosophical anarchists, like Mr

Herbert Spencer, who would confine government to the function of keeping order, and securing a free course and fair field for commercial competition. There are (3), the moderate anarchists, like Prince Krapotkin and Count Leo Tolstoi, who have nothing to do with violence, but equally have nothing to do with the individualism of Mr Spencer.

The Moderate Anarchists.—The moderate anarchists look forward to a time when the world will dispense with central governments, perhaps even with the smaller governing bodies of the towns and districts. They allow that, till the times are ripe for the disappearance of all governments, we may be content with small autonomous communities, where by and by the governments will gradually make themselves superfluous, and leave society organised of itself without a head.

This third class of anarchists are the really formidable critics and rivals of socialism. They point out that socialism might too easily become tyrannous, with the tyranny of the majority over the minority, and also that the officials of the socialistic government would be as likely as other officials to be an obstacle to progress and new ideas; they might also be tempted by large powers into an abuse of their power; the incidental evils of every representative system would not necessarily disappear, because the professional politicians or trusted leaders were servants of democracy.

On the other hand, the socialists seem to be right in maintaining that the tendency of human progress has been towards large communities, governed by great central authorities, with command of fleets and armies. Their grievance is that the command has not been in the right hands, the hands of all the people governed. Under the representative system, defective as it is, a remedy will be found. The rule of democracy will come.

In comparing the claims of the two rivals, we must remember that actual experiments of anarchistic no less than of socialistic government are wanting. Where communities of either sect have occurred (as in the United States), they have pursued their career under the tolerance and protection of great States. Without the protection of great armies and fleets under powerful central governments, there would, at present at least, be no security for the life of such communities; to dispense with such protection would be suicide. If we are asked to assume that men will cease to desire aggression, we are asked to believe in a change of which there is little sign at present in human nature. If men were wise and good, even the present system might be tolerable. Because they are not so, the present system is hardly tolerable; but, equally, because they are not so, the new world of anarchism is hardly possible.

Socialism, therefore, though less flattering to the vanity of the race, is more in keeping with human nature than anarchism. But it does not follow that socialism itself is inevitable. Socialists may point to the persistent growth of trusts and large industrial combinations over the civilised world in the last quarter of a century. When industries are at last all combined in the hands of a few individuals or companies, it will be easy (we are told) for the central government to take the final step, and establish one government trust for them all. But, as the combinations are often international, or are at least formed in disregard of the distinctions of nations, they could not be easily superseded by anything short of a combination of governments; and the political difficulties of such a combination, or even of joint action with any permanency in it, seem almost insuperable. If the action be of one nation only, the difficulties are sufficiently serious. At present, the joint enterprises have the energy and initiative of private commercial ambition; we have no experience to show that government would possess these qualities. Moreover, at present, even the largest trusts are controlled by the known possibility of private rivals. A government trust would have no rivals, and the temptations to misuse of power or to neglect of opportunities would be overwhelming, even in a democratic state.

The power of regulation, as distinguished from construction, has never been abdicated by modern states; and it seems sufficient for the occasion, if trusts should become a public danger.

The Social Question.—Yet we must not be content with a negative conclusion, or imagine that because the roads are not leading either to socialism or to anarchism they are not leading in any new direction at all. Socialism and anarchism arise out of the fact that there is a "social question," or, in other words, certain standing difficulties in the present organisation of industrial society. It is enough to mention two of these difficulties.

Unskilled Labourer.—In the first place, the industrial progress of the last century, which has improved the real as well as the nominal earnings of the skilled artisan, seems to have done very little for the unskilled labourer, whether in manufacture or in agriculture. A large proportion of our unskilled labourers earn no more than enough for themselves and families to keep them in bare life, not enough to keep them in full vigour of mind and body. In the cases where the most elaborate and careful inquiry has been made, it seems true that such labourers are not underpaid in consideration of the work they can do; they earn little because they are only fit to earn little. Till they are fit to do better work, can they hope to receive larger recompense? Till they receive larger recompense, can they be fit to do better work? Such is the dilemma. If it were only a question of wages, the experiment of anticipating the fitness would probably be ventured, and the fitness presently secured. But it is a question of skill as well as strength, for no labour is entirely unskilled, or rather, no labour becomes so without injury both to the workman and the work. It is a question of mental nourishment as well as physical. There must be education ministering to the mind as well as a larger supply of food to the body. At all hazards, for the public advantage, we ought to secure these benefits to the rising and even to the older generation.

Employer and Employed. — One difficulty would then tend to disappear. There remains another, the relation of working men to their employers. We need not exaggerate the drawbacks of the workman's position. Exaggeration is a permissible form of rhetoric, but not of logic, and we only deceive ourselves and others by speaking of labour for wages as a kind of slavery. But, though the workman is no slave, he is not free from hardships, and hardships not inseparable from the lot of man, but traceable to conditions that seem transitory. The old idea that every nation was in reality "two nations," the poor and the rich, is not of much use even as a partial truth. Each of the two is much subdivided; and it is hard to say on which side the fractions would be found in event of a struggle between rich and poor. The sense of inferiority of caste is often more galling than that of poverty, and it exists quite as much between certain strata of the wealthier classes as between poor and rich generally. The wisdom which will ignore caste is not to be produced by any economic change, and the folly which harps on it admits only of a spiritual cure. But the present position of the British workman has more substantial drawbacks; the employer can be very poor without escaping the odium of an employer's position; and the employed can be well off without losing repugnance to the position of a hired servant. There is in both of them a latent consciousness that men cannot be used as mere machines or tools for serving another man's ends without losing some of their dignity as human beings. So long as men have no interest in the business where they are employed, and no concern in the direction of it, perhaps not even any comprehension of the nature of it, it is not unnatural that they should feel as if it were no affair of theirs, and they were under masters, not leaders. It is otherwise under the best employers, but only because the best employers choose to make it otherwise. The men have seldom any security that the work of the benevolent despot will not be undone by his successor. It would seem desirable they should have that security. It is possible in ordinary private businesses, and still more easily in the business of public companies, to introduce a system of partnership between employer and employed, in virtue of which partnership the workman acquires both a pecuniary interest in the business, and (thereby) a voice in the direction of it. There are even a few instances, especially in the Midlands and North of England, where working men have themselves organised and successfully carried out a manufacturing business, preserving such conditions. There are instances both in this country and abroad where private employers have secured this result. For the better harmony between all classes of the nation, it is desirable that such partnerships should become the rule and not the exception; and, though such a time is distant, some progress has been made in this direction.

Progress of the Working-Classes.—Nearly every scheme that has been devised for reforming our industrial system on a great scale, involves the assumption that the working-classes shall possess at least as much self-restraint, instruction, and intelligence as is supposed to be characteristic of the middle classes, especially of the employers, at present. There seems reason to believe that in these respects the working-classes have been gaining ground. The phenomenon of a Co-operative Union, including 1500 workmen's co-operative societies, successfully managed by working men, is an unmistakable proof that the latter have already the qualities necessary for the conduct of a shopkeeping business. The English Co-operative Wholesale Society, with its large factories, is a proof that they have shrewdness enough to conduct even a manufacturing business with hired help on the ordinary principles of a joint-stock company. Something more is wanted if the said manufacturing business is to possess the features of partnership in the sense above-described. This has been recognised by the Scottish Co-operative Wholesale Society; but the idea of such a "co-partnership" has not yet become familiar. Yet something of the kind would seem to be a needful preparation for the "co-operative commonwealth" desired by socialists.

Malthus Notwithstanding. — If the end of our difficulties is to be either socialism or some system that will give us the same results as are desired by socialists, are we to be confronted with the argument used against Utopias a hundred years ago so effectively by Malthus? Some economists, even in our generation, have regarded the increase or decrease of population as the determining factor in the prosperity of the poorer classes. They have anticipated a stationary state of population in which the growth of capital beyond population will raise wages and make the employed the real masters of the situation.

It is true that the increase of population can at times be excessive. It has been supposed by some writers that such an excess actually serves the interest of the employing classes. But against this we must remember that it is the lowest class of labourers that increases most recklessly, and the excess thus tends to be an excess of the most useless hands. If we extricated ourselves from the dilemma already described in regard to the "submerged tenth," we should probably have freed ourselves from the tendency to excess altogether. Mere restriction of numbers, apart from increase of skill in those left behind could hardly be a clear benefit; but, if both proceeded together, as they would probably do, the advantage would be evident. Excessive increase of population is now perhaps more often an effect of degradation than a cause of it.

There has been a notable slackening in the rate of increase among civilised nations; and, from all the circumstances, it seems clear that this is not owing to any sterilising effect of civilisation itself on the physical man, but to a deliberate will impelled by regard to standard of well-being. Meanwhile, as the productiveness of the sources of material wealth has more than kept pace with the population, there can hardly fail to be a mitigation of the intensity of competition. There need be no slackening of the spirit of enterprise, for a workman better rewarded is a human being with presumably more hope before him, and therefore with stronger inducement to strenuous exertion, as well as more opportunity for acquisition of spiritual wealth.

Misspent Wages.—If, from whatever cause, the working-classes are really on the way to obtain a larger share in the wealth which they play a large part in producing, we need not be surprised that there should be friction in the time of their transition from their old state to their new. It is a commonplace remark that many workmen do not know how to use a time of prosperity, but spend their earnings lavishly on that which is neither bread nor the means of satisfying the nobler wants of civilised man.

The usual explanation is that the prosperity is almost always transient, and gives no time for the alteration of habits; and it is probably true that a continued prosperity is less liable to abuse than a temporary. But, even if the men could at once adapt their habits to new conditions, the market could not at once adapt itself to their new needs. If high nominal wages are to be high real wages, there must be abundance of such goods as can satisfy not the wants of a comparatively small body of rich men, but the wants of the multitudes of workmen in question. The great factories and other means of large production must be occupied even more than at present with provision for the masses; or else high wages will not mean to the masses correspondingly large resources.

No Fallacy in Saving.—The alternative of saving would seem to be a counsel of perfection; and the practice of saving has been indeed condemned or discouraged by some modern writers who are haunted by a fear that it will cause over-production. Over-production seldom means more than miscalculation and maladjustment. Perhaps, in this case, the co-operative societies give us guidance how to avoid it in the case of working men. Whether in the hands of the wholesale societies of England and Scotland, or in the hands of the small co-partnerships, the savings invested by the working men in co-operative production are chiefly employed to provide goods wanted by working men and their families, whether it be shoes and stockings, biscuits, bicycles, clothes, or furniture. The producer is in such close touch with the consumer that mistakes are not likely to occur on a serious scale. That it would be unwise to save in order to speculate on the Stock Exchange does not prove that it is unwise to save in order, by investments, to provide for the known wants of a known market. It is a truism that, if all did nothing but save, interest would disappear and no one would have a motive for saving. Saving is hardly an end in itself. We save now in order that we or ours may spend by and by, at a time when the thing saved will be more needed or can be used to better purpose. Judicious spending is, of course, as real an economy as judicious saving; but the saving will to all time be an essential condition of all economy, and, as the harder condition of the two, can never safely be discouraged.

That particular form of saving which consists in provision for the future vicissitudes of our own lives or the future needs of a growing family, can hardly be carried to excess over the whole field. In the case of the individual, it rests with the sober judgment of the individual to make a fair balance of present and future needs which no one can estimate so well for him as he for himself. That a man should stint himself and his too much in the present for the sake of the unknown future, is exceptional. It is unlikely that, over the whole field, the error of calculation should be at the expense of the present. In looking at the consequences of over-parsimony, we must remember (1) that saving in our time means not hoarding, but investment, investment carried out by our banker if not by ourselves; (2) that men are not all of one age, and even on the bold assumption of a too provident generation of youths, there would always be alongside of them a generation of older men who had reached the time for spending.

Rate of Interest.—For like reasons, the rate of interest, which has beyond doubt some effect even on the saving against a rainy day and old age, is not likely to be brought down simply by the largeness of the sums saved for this purpose. It may fall so far as it depends on profits, for it is probable that from time to time the new discoveries and inventions that keep up profits will have their ebb-tide. But it is not likely that the desire for making provision against the future will ever out-run "the passion for present enjoyment," in the great body of citizens. It is perhaps more likely, and certainly more desirable, that the idea of present enjoyment should include so many more of the means of spiritual enjoyment, say in art, science, and literature, that a new direction would be given to production for present wants, and perhaps an increasing number of individuals would find out for themselves that spiritual wealth is "accumulated" to better purpose than such material resources as in no way minister to it.

APPENDIX

CHAPTER I

Note I

The fact of Division of Labour has been noticed in the literature of all nations. It is treated, for example, in *Plato's Republic*, Book II. Man carries it further than bees or ants, though these creatures have often been held up as an example for his imitation. Mæterlinck (*L'Abeille*) has shown us how near an approach to human ingenuity has been made by the bees in their social organisation. It is he who speaks of *esprit de la ruche.*

Adam Smith (*Wealth of Nations*, Book I., chap. i. *seq.*) has been most successful in drawing attention to the many economic aspects of division of labour. He has even been (wrongfully) accused of absolutely identifying division of labour with capital (K. F. Rösler, *Grundlehren der von Ad. Smith begründeten Volkswirthschaftstheorie*, 1867).

Note II

That technical advance is irrevocable is implied in what Prof. Marshall calls the Law of Substitution (*Principles of Economics*, 1890, Book V., chap. iii.), which might perhaps be called simply the law of Economy.

CHAPTER II

Note I

Value is one of those subjects in regard to which economic theory has left not only Ricardo but J. S Mill behind. Jevons

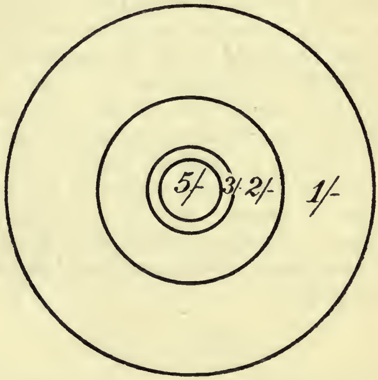
(*Political Economy*, 1st edition, 1871) first made the economists of this country listen to the doctrine of Final Utility; and they have had to reckon with the doctrine ever since.

The theory of Rent is not essentially changed since Mill.

Economists are not quite at one on the subject of Interest. The view in the text is in the main that of Prof. Böhm Bawerk (*Positive Theory of Interest*, English translation, Smart, Macmillan, 1891). His difference from Prof. Marshall (*see* the latter's *Principles*, 3rd edition, pp. 141 *seq.*) is often more apparent than real.

Note II

The effects of a lowering of prices in extending the market may be illustrated by concentric circles. A good novel at 5s. may have 5000 purchasers; at 3s., 10,000; at 2s., 50,000; at 1s., 200,000.



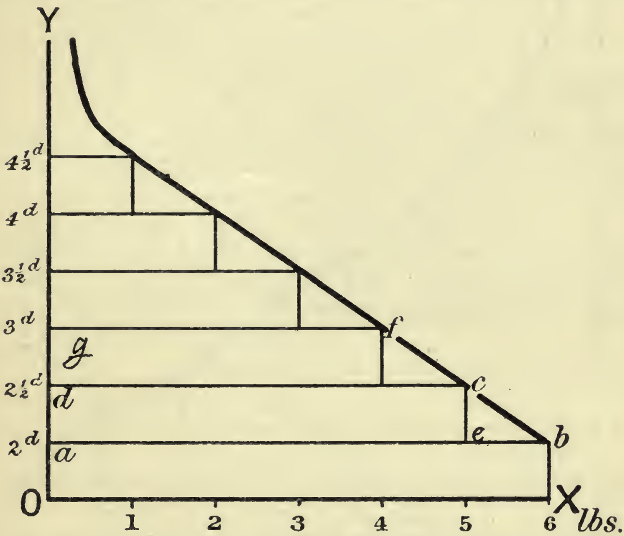
Note III

Few would dispute the remark of Jevons (*Political Economy*, chap. v., pp. 197 *seq.* of 3rd edition, 1888), that the phenomenon of Joint Cost of Production, thought by Mill to be the exception, is really the rule. It might even be held that joint-producing is a rule to which there is no exception.

Perhaps the most patient attempt to determine theoretically the several shares of the several factors in the value of the product, is that of Prof. Wieser (*Natural Value*, English translation by Malloch, Macmillan, 1893, pp. 69 *seq.*), who follows on the whole the path of Jevons and Prof. Karl Menger. But the mist round the subject refuses to lift.

NOTE IV

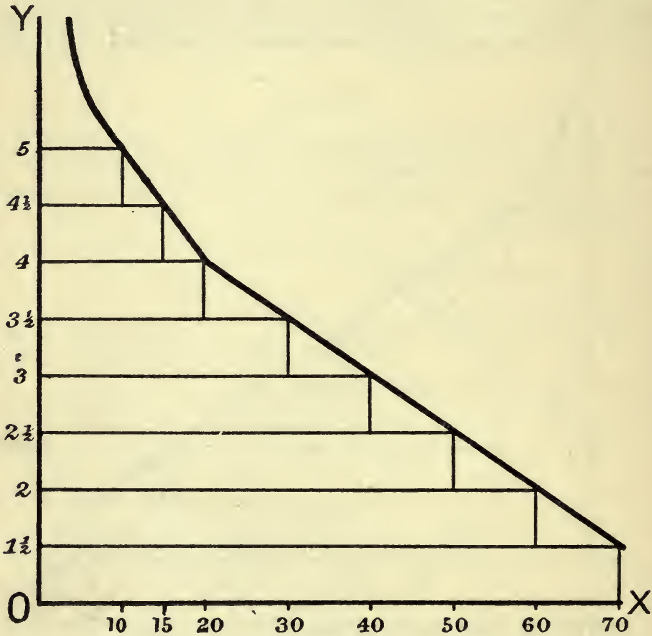
Demand and Supply have been a favourite field for the graphic method of illustration. The usefulness of this kind of illustration in the presenting of statistics is a matter of long experience, and Mr Bowley's recent book, *Elements of Statistics*, King & Son, 1901, gives justification as well as examples of the method in that field.



Whether mathematical symbols, φωνᾶντα συνέτοισιν, can ever be so useful in economics as in statistics is still debated. But the simpler curves of the graphic method are now part of the necessary equipment of a teacher of economics.

Prof. Edgeworth (in Palgrave's *Dictionary of Economics*, article, Curves) has remarked that curves seem specially fitted to illustrate the phenomenon of increase at a decreasing rate, as in Final Utility, or in Diminishing Returns from Land. The phenomenon of a changing rate is, like joint cost, rather the rule than the exception, partly because economical phenomena depend so much on the guiding principle of final utility. But, on the other hand, the complication is usually too great to be represented accurately by a curve of only two variables ; and, as Prof. Edgeworth admits, when we go beyond two variables in our curves, our illustration loses its vivid simplicity, becoming (he might have added) quite as difficult to many of us as the subject illustrated.

The Curve of Demand might be thus simply presented. Let the price of a pound of sugar be measured along the axis OY, and



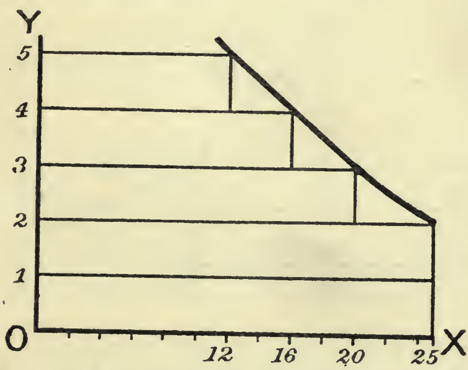
the quantity of sugar per week demanded by an individual be measured along OX.

The quantity (6 lbs.) demanded when the price is 2d. is represented by the rectangle *ab* OX, the quantity (5 lbs.) at 2½d. by *cd ae*, etc. The curve connecting the extremities of the *abscissæ* presents a picture of the tendency of the rising prices to diminish demand. But the application to an individual is of small fruitfulness, for reasons given *passim* in the text. It is better to take the Curve of Demand for a nation or a group, where economic tendencies are more easily discernible in their generality.

In this case let YO represent the consumption of sugar in England per inhabitant in the year, when the price is at the respective figures of the curve already given.

Prof. Edgeworth describes the collective demand as the average demand multiplied by the number of persons. The stages of variation would not necessarily correspond to the stages in any one individual's curve ; though the variation would be less sudden, it might still (owing to imperfection of statistical data) seem occasionally abrupt. Moreover, when the price increased, *e.g.*, to 8d., the demand would not necessarily fall off to the vanishing point. As a necessary of life the article might still be demanded, unless (as might well be) substitutes were found. At the other end, the demand might not increase in proportion to the decrease in price, but say only to 62 lbs., unless (as might well be) manufacturers found new employment for the article (in confectionery and jam, etc.). Finally, if such a table extends over a series of years it is unlikely that 6d. at the beginning of the series was of exactly the value of 6d. at the end. Even the "collective curve" is to be interpreted with many reservations (given at large by Prof. Edgeworth in Palgrave's *Dictionary*, article : Demand Curves).*

The principle of Rent for intensive cultivation under diminishing returns may be thus illustrated :—



Let equal "doses" of capital applied to an acre of land be measured along OY, and the yield of each successive dose along OX. The first yields say 25 bushels of wheat, the second perhaps another 25, but the third 20, and the fourth 16, the fifth 12. If the

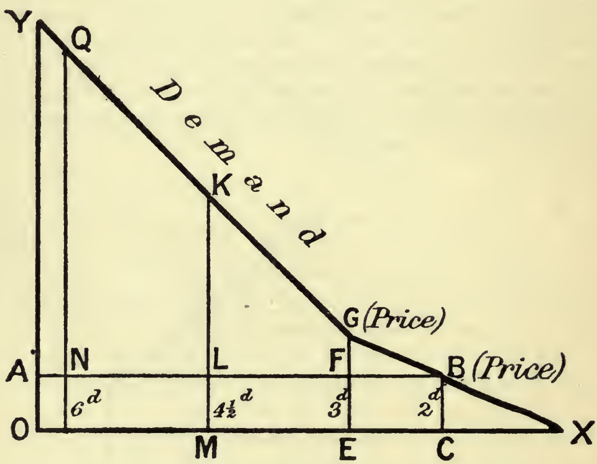
* Prof. Marshall, *Principles*, III., iii., gives many examples.

price has so risen that the fifth dose yielding only 12 is profitable to the farmer, all the other doses yielding from 16 to 25 must much more than repay him ordinary profits.

An ingenious method of illustrating the effect of higher and lower prices on consumers of great and small resources has been adopted by Prof. Marshall. Following a hint of Dupuit and others, but really with much greater clearness than they, he uses the analogy of Rent; and traces what he calls a Consumer's rent.

When the purchaser of an article pays less for it than he could and would have afforded to pay, the difference may be regarded as analogous to rent. A reduction in price may be regarded as an increase of his income, for it is a lessening of his expenditure in regard to one item.

The following curve is an illustration of what happens when a reduction occurs :—



Let the parallelogram AB OC represent the quantity of sugar sold in a year at BC or 2d. per lb., the purchasers of the last pounds sold being unable to give more than exactly BC. All above them could have given a little, some a great deal, more. The marginal purchaser who could just have afforded the price 3d., for the quantity OE, now finds himself above the margin by a distance represented by GF—his consumer's rent. Similarly, the purchaser, who could just have afforded MK or 4½d., for the quantity OM, now gains LK or 2½d. as consumer's rent. Rather than go without the first pounds the consumers would have paid NQ or even OY. The total area YOCB would then represent the total amount of satisfaction derived from the consumption of sugar; but all above AB would be consumer's rent. (*See* Prof. Marshall, *Principles*, III., vi., p. 204, 3rd edition.)

CHAPTER III

For the distinction of Machine from Tool (power other than human muscles being employed in the former), see Marx, *Kapital*, Book I., sect. 4, Division of Labour and Manufacture.

The various phases through which the theory of Capital and Interest has passed may be traced in Prof. Böhm Bawerk's *Criticism and History of Theories of Interest*, 1889, English translation, Smart, 1890.

Bastiat's great skill in illustrating the doctrines of free trade must not blind us to his defects as a general theorist on capital and other economic ideas. "Service for service" seems to him to explain every difficulty. See Cairnes, *Essays in Political Economy* (1873).

Senior's view, that interest is the reward of abstinence, has a plausibility that will always gain it some supporters. The extreme opposite view is that of the school of Marx, mentioned in another place.

The last section of this chapter owes something to Prof. Taussig's *Wages and Capital* (New York, 1896), especially Part I., chapters iii., iv., v., *e.g.*, 121.

That capital is not a fund but a "flow," that the distinction between wealth and capital is really between a continuous time and a point of time, has been argued with new force by Prof. Irving Fisher in the *Economic Journal*, December 1896, June and December 1897.

CHAPTER IV

Note I

The classical statement of the causes that make for a balance of advantages and disadvantages, a rough equality of net advantages, in one trade as compared with another, is to be found in the

Wealth of Nations, Book I., chap. x.: *Of Wages and Profit in the Different Employments of Labour and Stock.* In considering whether wages are high or low, we must take account of the disagreeableness of a trade, or the long apprenticeship it requires, or the fitfulness of employment in it, or the special moral qualities it involves (especially honesty), or the chances of failure in it.

John Mill points out (*Political Economy*, 5th edition, II., xiv., sect. 1) that the most disagreeable trades, instead of being the best rewarded in wages, are thrust on the most helpless of the poor, who accept the lowest wages. Unless training and trustworthiness enter into the matter, mere dirtiness or danger or even unsteadiness of employment will not prevent hungry crowds from accepting employment with little higgling, for wages on the lowest scale. (*See also* Marshall, *Economics of Industry*, 1892, VI., iii., sect. 4.)

Cairnes (*Leading Principles of Political Economy*, 1874) showed that the need of training for what we call the skilled trades practically obstructs competition between one group of skilled workmen and another such group of a different trade, and the industrial hierarchy consists of "non-competing groups" (Part I., chap. iii., 71 *seq.*).

Cairnes' restatement of the theory of a Wages Fund (*Leading Principles*, Part II., chap. i., *e.g.*, 217, sect. 8) makes it simply mean that in a given state of industry and national character a prospect of profit will necessarily lead to a given amount of productive investment. It might almost have been accepted by Mr Longe and by Thornton, who converted John Mill to his view. Professor Taussig (*Wages and Capital*) gives a good history and criticism of the theory and its amendments. His own amendment takes out its sting by removing nearly its whole body. "The share of real income which shall go to wages in general, or to wages of the great mass of manual labourers, is to a certain extent predetermined by the character of the commodities on hand or in the making" (93).

The theory that wages are paid out of product and are large in proportion to the product, is represented by Francis Walker (*Wages Question*, 1878).

Wages, no one will dispute, depend in some vital sense on product, and product on capital; but wages depend also on contract, and contract on the strength of the contracting parties.

The fine point that real wages will depend on the equipment of the market with goods suitable for workmen is Prof. Taussig's (*loc. cit.*).

The reference in the text to the Kaffirs is to the Blue Book on Rand Labour, August 1902, evidence of Sir M. Clarke. The description by Mr Roberts of the social effects of the American Coal Strike (in the *Economic Journal*, March 1903) enables us to see the same truth on its converse side; we see in detail the effects of an almost total extinction of wages upon the market for the usual articles of workmen's consumption.

Note II

For the relation of the theory of population to this and kindred subjects, see the articles Population and Malthus in Palgrave's *Dictionary of Political Economy*.

CHAPTER V

Note I

The analogy of the perfectly fair lottery is Adam Smith's (*Wealth of Nations*, I., x.), but the admission that the lottery of many professions is not a fair one, is Adam Smith's also.

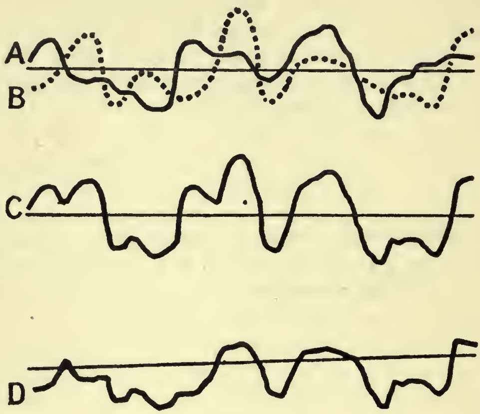
Besides the objections in the text, there might be adduced the arguments brought against the idea of Marx, that the grand total of profits is determined and distributed in a different way from the separate profits of separate employers. *See* Prof. Böhm Bawerk, *Karl Marx and the Close of his System*, English translation, Macdonald, 1898, chaps. ii. and iii.

Note II

Jevons, *Money*, p. 138:—

"If we represent by the line A the variation of the value of gold as estimated in terms of some third commodity, say copper, and by the line B the corresponding variations of the value of silver, then superposing these curves, the line C would be the curve expressing the *extreme* fluctuations of both metals. Now the standard of value always follows the metal which *falls* in value;

hence the curve D really shows the course of variation of the standard of value."



NOTE III

Bagehot's *Lombard Street*, and Viscount Goschen's *Foreign Exchanges*, should be supplemented by Mr George Clare's *Money Market Primer* (1891).

Bonamy Price on *Currency and Banking* gives some of the elementary principles clearly and with characteristic confidence.

CHAPTER VI

NOTE I

Adam Smith says that bullion acts as "the money of *the great mercantile republic* of nations" (*Wealth of Nations*, Book IV., chap. i., p. 194, M'Culloch's edition). He says also: "Were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire" (*ibid.*, chap. v., p. 240). The fancy has become a fact in the case of the United States of America at present.

Note II

Estimates of the proportion of the cost of carriage to the value of the imports are presented by Sir Robert Giffen, *Statistical Journal*, xlv. (1882), pp. 209 *seq.*

Note III

For the difference between England and France in responsiveness to specie point, see Mr Clare, *Money Market*, pp. 110 *seq.*

Note IV

As to the effects of the depreciation of silver on the trade with British India, see Walter Bagehot's *Depreciation of Silver* (1877), and (for the later phases) Sir David Barbour's *Bimetallism* (1886), Prof. J. S. Nicholson's *Silver Question* (1886), and Report of Indian Currency Committee, with Appendices and Evidence, C. 9390, C. 9376 (Blue Books), 1899.

CHAPTER VII

Note I

For the Canons of Taxation, see Adam Smith, *Wealth of Nations*, Book V.; and for general discussion of the whole subject, see Prof. Bastable's *Public Finance*, and Prof. Seligman's *Essays on Taxation.*

For Rates, see Mr Edwin Cannan's *History of Local Rates in England* (1896).

Note II

For the figures of Excise and Customs, see the *Statistical Abstract for the United Kingdom*, 1901 (pub. 1902).

Note III

For the Revenue of the Customs in 1827, etc., see Sir Henry Parnell's *Financial Reform*, 3rd edition, 1831, p. 114, compared with J. Marshall's *Digest of all the Accounts of Population, Productions, Revenues, etc., of the United Kingdom*, Part II., Finances, Navigation, and Commerce, page 7 (1833).

Note IV

All the subtleties of the controversy, whether the foreigner pays our import duties for us or not, can be read in Henry Sidgwick's *Political Economy*, Book III., chap. v. (Protection).

Note V

The abolition of the Registration Duty on Corn in 1870 is said to have been suggested to the Government by Prof. Jevons. Prof. Foxwell calls attention to the official memorandum (23857, 1869) on the Pressure of Taxation, in which Jevons gave his views on the subject.

CHAPTER VIII

Note I

For the Estate and Legacy Duties, see Sir William Harcourt's Budget Speech of 16th April 1894, pp. 489 *seq.*

Note II

Degressive Taxation is described by Prof. Bastable, *Public Finance*, Book III., chap. iii., p. 292 (1892 edition). Compare Dr Cassel's article on Progressive Taxation in *Economic Journal*, December 1901, p. 488.

Note III

That the deducted income tax is about three-fourths of the whole, is stated in the Budget Speech of 1894, p. 502.

Note IV

Will the Estate Duty lessen capital or diminish production? See Sidgwick's Memorandum to Commission on Local Taxation, Blue Book, C. 9528, 1899, pp. 105-6.

CHAPTER IX

For the figures of Local Taxation, see Sir H. Fowler's address on

Municipal Finance and Municipal Enterprise, *Statistical Journal*, vol. lxiii., September 1900, p. 384.

For the loans of localities, see *Statistical Abstract*, 1901, p. 39.

CHAPTER X

NOTE I

Most of the arguments of this chapter will be found (along with a history) in the article Socialism, in the *Supplement* to the *Encyclopædia Britannica* (1902).

NOTE II

For a description of the condition of the unskilled labourer in our large towns, see Mr Rowntree's *Study of Poverty* (1901), and Mr Charles Booth's volumes on *Life and Labour in London.*

NOTE III

The idea of two nations in every nation is that of Disraeli's Sybil ; but it is as old as Plato, *Republic*, viii., 552 : *τὸ μὴ μίαν ἀλλὰ δύο ἀνάγκῃ εἶναι τὴν τοιαύτην πόλιν, τὴν μὲν πενήτων, τὴν δὲ πλουσίων, οἰκοῦντας ἐν τῷ αὐτῷ ἀεὶ ἐπιβουλεύοντας ἀλλήλοις.*

NOTE IV

The great crux in the doctrine of Marx as laid down in the first two volumes of *Capital* was the relation of surplus value to surplus labour. If profits were in proportion to unpaid labour, it would seem to follow that the more hands were employed in a business the higher should be the profits, and the fewer the hands, the lower the profits. In actual business it is not so ; but the profit is in proportion to the total capital handled, whether devoted largely to labour or largely to machinery and plant. Competition levels the profits down. Marx admitted the facts ; and in place of the easy but false theory that profits in each case depended on unpaid labour, we have in his third (and posthumous) volume the theory that profits in the mass or grand total depend on unpaid labour, but in detail are distributed by the machinery of competition between trade and trade, business and business, as they are now. See *Karl Marx and the Close of his System* (above, p. 197).

Note V

For labour co-partnership, see the publications of the Labour Co-partnership Association. For the operations of the English Co-operative Wholesale Society, see the Annuals of that Society. It is curious that in the little world of the Co-operative Union the tendency to centralisation should be confronted with the opposite tendency, as in the larger world of national and international trade. In the small scale, as in the large, the forces of centralisation create a deeper impression of strength ; but, in both cases, there is as yet no reason to expect the disappearance of "individualism."

Note VI

Municipal house-building and municipal trading in general are at present surrounded by controversy. There is useful information in Dr J. F. J. Sykes' Howard Medal Prize Essay (*Statistical Journal*, June 1901). See also the returns drawn up by the Local Government Board for the House of Commons: "Municipal Corporations (Reproductive Undertakings)," 1899 and 1902.

Note VII

The slackening of the birth-rate is shown by the following extract from the 63rd Annual Report of the Registrar General of Births, Marriages, and Deaths in England (1900) pub. 1902, (p. cxxiii.).

Births per 1000 Living											
	United Kingdom	Denmark	Norway	Sweden	Austria	Hungary	Germany	Holland	Belgium	France	Italy
1880	32.7	31.8	30.7	29.4	38.0	42.8	37.6	35.5	31.1	24.6	33.9
1900	28.2	29.8	30.1	26.9	37.1*	39.3	35.6	31.5	28.9	21.4	32.9

* 1899.

In all these cases the death-rate has also fallen.

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