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THE REAL WEALTH OF NATIONS

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OR

A NEW CIVILIZATION
AND ITS ECONOMIC FOUNDATIONS

BY

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FELLOW OF THE ROYAL ECONOMIC SOCIETY

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TO ALL THOSE WHO
IN A RIGHT CAUSE DIED
FOR THEIR COUNTRY

STUPIDITY STREET

I saw with open eyes
Singing birds sweet
Sold in the shops
For the people to eat,
Sold in the shops of
Stupidity Street.

I saw in vision
The worm in the wheat,
And in the shops nothing
For people to eat;
Nothing for sale in
Stupidity Street.

RALPH HODGSON

PREFACE

A SCIENCE is governed by immutable laws, independent of man's opinion, in war or peace, in rain or shine, among savages or civilized people, and the breakage of such natural laws must entail retrogression or degradation.

The death and torture of millions in the War demand the truth, for had the permanency of nations, their real wealth and inviolate and clearly-defined rights, been recognized, the spoliation of one by another would have been impossible, and even a people trained to robbery would not have dared to flout civilization and humanity.

The earth is a beautiful place, but what a mass of so-called civilized men lead unbeautiful lives! While the animals have less capacity for enjoyment, at least they do not worsen the conditions provided for them by a bountiful Nature, whereas it is frequently urged as an argument against reform that man is so satisfied with degrading surroundings which are not those of Nature that he would have to be moved from them by force. Can man after all be so wicked or so far below the animals in perception that, with his priceless gift of reason, he should build himself horrible habitations and carry ugliness into the country rather than bring the beauty of the latter into the towns? If civilization and industrialism necessitate their present setting, they must be a curse and not a blessing.

Both history and reason prove that all developments for the well-being of mankind have come from above and not from below, through pressure of the wise upon the foolish, whence so long as there remain one imperfect man in this world, the use of force, be it moral or physical, is unavoidable.

The line of least resistance is therefore not the path of progress.

I am grateful to Mr Ralph Hodgson and to Messrs. Macmillan and Co., Ltd., for permission to use the poem printed here. I have taken it from the author's *Poems*.

J. S. H.

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4. The first form of man-wealth is a surplus of necessaries.
5. 'Necessaries' comprise what is essential to keep man in health and strength, fit to propagate and rear equally healthy children.
6. The intrinsic value of a surplus of necessaries, produced by man, is measured by the number of days it will support him.
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8. The real cost of production is the consumption of necessaries, and wealth only results when a man produces more in a given time than he *must* consume.
9. Wealth and civilization depend upon work.
10. The man who produces daily his necessaries and no more, creates no wealth.
11. The increased production of men, as compared with animals, resulting in man-wealth, is due to their skill or brains.

12. This wealth is man-capital, which can be consumed, or, alternatively, used to produce more wealth.

13. Labour and capital only produce wealth when harnessed to skill or brains.

14. Had all men been equal to the lowest there would have been no wealth, no civilization, and no progress.

15. A surplus of necessaries permits of leisure or the production of luxuries.

16. The production of luxuries without a surplus of necessaries means starvation for some men.

17. Luxury value is dependent on man's opinion, or demand, and cannot be measured economically.

18. An exchange of necessaries which does not take place on the basis of intrinsic value benefits one party at the expense of the other.

? 19. The difference between the exchange value, or price, and the intrinsic value, is the demand value. Exchange value = intrinsic value + demand value.

20. In an exchange of luxuries it is impossible to say who has got the better of the bargain.

? 21. Competition means waste, and is not the cause of progress.

22. All waste harms the community, although the waste of others often benefits individuals.

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30. International trade may benefit individuals at the expense of the nation, and consequently may not promote international concord.

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PART I
ECONOMIC TRUTHS

CHAPTER I

CIVILIZATION, ITS SOURCE AND RELATION TO UNRESTRICTED LIBERTY

Men are not equal. Nature and the Human Soul protest against that monstrous creed.—NAPOLEON'S WISDOM

CIVILIZATION, or the rise of man, is due to man himself, to his inherent qualities.

What does civilization mean, but a departure for the benefit of man from the conditions provided by Nature? And what makes this departure possible but man himself, the superiority or 'inequality' of man? For had all men been equal to the lowest they would have lived and died, generation after generation, in their primitive state without any alteration or improvement, because equality cannot breed inequality, just as, unless there be some 'selection,' Nature is unable to breed a higher type of animal.

Thus a world of equally incapable men, working together under any conditions whatsoever, and competing with one another, could never rise or become civilized, and consequently civilization cannot be due to competition.

Let us next consider one man living by himself under any conditions, either completely uncivilized or civilized. He has eyes, he has ears, he has brains. He can improve himself, or dis-improve himself, but he cannot stand still, because there is no rest in Nature; every day he becomes older, and therefore deteriorates physically, although he may improve mentally. One man's development, therefore, or his civilization, is limited by his own inherent qualities.

Next, if instead of one man we had two men living together, and they were both equal, they could not help one another; but suppose one of them has one quality which the other has not, and the other has ten qualities that the other has not, then by intercourse they can together have eleven qualities in excess of their equality, and the total improvement in their civilization is the number of men multiplied by this total of their 'inequality,' or twenty-two.

Again, if there were three men who had respectively one, three, and ten qualities beyond their equality, their total improvement is three multiplied by fourteen, or forty-two.

The highest total civilization is thus equal to the number of men multiplied by the sum of their separate 'inequalities.'

It is evident, therefore, that civilization necessitates intercourse, because if a number of men lived and died within a ringed fence, having no outside intercourse whatever, they could not add their 'inequalities' to those of the rest of the world, nor take advantage of the latter; their advance in civilization would be limited to their own 'inequality' multiplied by their own number.

Let us see whether anything more is required for the spread of civilization than inequality and intercourse, and therefore now relax our ringed fence, allowing two sets of people in ringed fences to have intercourse, but forbidding each to live or do anything within the other's enclosure. It would follow that a man from one enclosure, having intelligence and the faculties of sight, hearing, and smell, could extract some or all the civilization from his neighbours, and take it back within his own ringed fence. In other words, given man, all that is necessary for civilization is intercourse between unequal men.

No transaction has passed within our ringed fences. There was merely a free intercourse, allowing each community to take advantage of the other's 'inequality.' Thus, although we were taught at school that Christopher Columbus discovered America, we were never told that, by increasing the number of human beings in intercourse with one another, he was helping civilization. Again, when we read of James Watt, Robert Fulton, George Stephenson, and other great men who lived or originated in Britain some hundred years ago, who out of their own brains, and because man's intelligence must find expression, invented new modes of power, thus making possible the present intercourse of man, were we taught that these men were pioneers of civilization? Of material civilization, of wealth and greater luxury, yes; but neither of these plays any part in real civilization, the highest form of which is due to Religion, Literature, Art, Invention, or to other manifestations of man's inequality, beneficial to humanity, capable of being absorbed by other men. In fact, it is obvious that the more educated the human race becomes, the less need there will be for physical contact.

We have referred above to material civilization, and it is frequently assumed that the desire to *acquire* wealth, or become rich, is the source of progress and civilization. Yet this assumption will not bear investigation, for, first, had all primitive men been equal to the lowest, there would exist to-day, in spite of desire, no wealth due to their efforts, because they would not have progressed beyond producing their daily necessaries of life; secondly, men can acquire wealth at the expense of their fellow-men by robbery or trade, resulting in no total wealth-increase; thirdly, if a number of men had succeeded in producing wealth, but kept it all to themselves, destroying it at their death, the world would not have benefited, so that a spread of material civilization can only be due to the superior or unequal men's willingness to share what they produce with their fellows.

Although, therefore, civilization is not due to man's desire to acquire wealth, he has another natural instinct which does lie at the root of civilization, viz., his desire to produce and reproduce. Animals have the instinct of reproduction, but it is not in their power as in man's to increase the production of wealth, hence the world, if left to itself, cannot support a considerable increase in the number of animals. On the other hand, man can not only reproduce himself, but produce wealth, and therefore not merely improve his own conditions, but those of a far greater population. Now just as the procreation of children is natural (but their adoption unnatural) to man, so is that of ideas. Every normal man has a natural desire to express himself, either by perpetuation of his kind, or by expression of his inequality or superiority. Man is a producer of wealth, so that the producer of man is a potential wealth-producer, and the expression of man's inequality, which benefits the whole world, finds its outlet in production. Thus, man's natural instinct to reproduce himself and to produce wealth in all its different forms is wholly beneficial, and the result of that inequality in man which is the source of civilization.

This truth is evident when one considers the lives of those great men of the world who advanced civilization.

Who ever heard of an inventor suppressing an invention because he could not see any material reward? It is true he might *hope* for one, but his 'inequality' existed before he had got as far as hoping. Thus, many men of science, to whom the material wealth of the world is largely due, have spent their lives in search of a truth, and have not merely died poor and unrecognized, but have been too engrossed even to consider the acquisition of material wealth. Again, does a poet write a poem for immortality? Why, he does not think about immortality when he writes his poem, *Exegi monumentum aere perennius* notwithstanding. However, no great virtue can be attributed to a man for this, because there is that within him which compels expression.

That man to-day has so poor an opinion of his own nature is due to his own conceit, for the average man is not willing to learn, and seeing around him the effect of man's qualities, wealth, has jumped to the conclusion that the desire therefor, which he shares to the full, is the cause of man's progress. While Nature, in the first instance, compels man to work to keep himself alive—and had man obtained everything he wanted for the asking he would not have become civilized, any more than the spoilt child can become a decent member of a civilized community—it was nevertheless the superior man who went on working when he could have enjoyed leisure, gibed at, as he is to-day, by his fellows, with never a thought that his extra work would produce wealth at all. His success naturally aroused the greed of inferior men, and while it is true that, thanks to the improvements provided by superior men, the former now work more than just enough to produce their necessaries, either under compulsion or because they see that by working more they receive more, the fact that they can do or perceive this is due to others, and *their* labour, again, represents no advance in civilization.

Similarly, trade for profit between nations does not promote civilization, for it may implant all the worst characteristics of one nation upon another, and all the advantages of trade are obtainable through intercourse alone.

Let us therefore recognize the truth, that civilization is due to the inherent 'inequality' and 'quality' of man himself, which he cannot and will not suppress.

There is a further delusion in regard to civilization, viz., that it advances with liberty—liberty of man to do what he pleases; but this again is a denial of the truth and an appeal to man's lower nature, like his desire for wealth.

A man living by himself can do what he pleases. He naturally would, with the result that he leads an animal existence and dies. A man living with his family ceases to do what he likes, although unconsciously, for he must support his family. But he cannot take credit to himself for doing this, as many animals do the same. If now a number of families come into contact with one another, and they still do as they please, the strongest rob and crush the weaker; the process corresponds to the animal law of the survival of the fittest—the physically fittest—and its effect is merely to breed a race of giants. If, on the other hand, we consider the intercourse of a number of families who do not do exactly as they please, but, just as a man supports his family, one family now supports or helps another, we find that the rule of force ends and that of co-operation begins. Each family now takes advantage of the best in the other. Force no longer rules, but mind, brain, or intellect. Each family has now no need to do everything for itself, but by co-operation can arrange to do that for which it is best qualified—not, be it noted, that which it most likes to do, but that which it is naturally suited or can learn to do.

Further, if the families forming this group are mutually supporting one another, an individual family cannot keep the whole result of its efforts to itself; otherwise the group would revert to force again. Thus, complete economic liberty, like social liberty, is incompatible with civilization, and Matthew Arnold had evidently no idea of the greatest crime committed in its name; indeed, the greater the intercourse among men and the higher their civilization, the less liberty can they enjoy. While a single man has complete liberty of action, in a family, although power is generally wielded by the man (unless he be hen-pecked), his liberty is restricted for the benefit of the whole. The combination of families into tribes is effected for the benefit of the whole tribe, and to obtain still greater advantages nations are formed. The wider the combination the less personal liberty is possible, for in all successful association it is essential to sink the individual for the benefit of the general body, if chaos is not to result. Thus, just as a man must consider the interests of his family, a chief must consider those of his tribe, a government those of a nation.

We will go further, and say that force or self-discipline is essential to civilization, for imagine a tribe of men all equal save one who is superior. The tribe can only rise in civilization by that one enforcing his 'inequality' on the rest of the tribe; unless, indeed, they are prepared voluntarily to follow him. Thus we come to the greatest danger of democracy.

The power of an autocrat—at least, the first of a line—must reside in superior ability, or devilry, which can be enforced upon the people for their good, or ill. If for their ill, history has shown that a counter-autocrat generally arises who believes in the well-being of humanity, and overthrows his predecessor. Thus under autocracies civilization advanced through the enforcement of the autocrat's 'inequality' upon his fellow-men. Now the danger of democracy lies in this: that it has realized the power of the majority, *i.e.*, the less developed men, if organized, to dominate, at least by brute force, the minority comprising the superior men; and, unless this is checked, not merely can one foresee a perpetual war between man's higher and lower development, with possible victory for the latter, but, in the event of the majority succeeding, the ultimate downfall of civilization.

A perverted knowledge and a community of desire have already linked together the lower natures, whereas up to the present the higher ones have not realized that they also must combine if civilization is not to perish. Should, indeed, the 'inequalities' organize their forces against the 'equalities,' the latter would have no chance, and must either accept the terms of the former or be exterminated; for there is no question that 'inequality' can triumph if it will.

The future of Democracy, therefore, lies in the hands of Democracy. Is it going to have a voluntary autocracy by 'inequality,' or is it going to attempt to force 'equality' upon all, as seems to be suggested by the present labour unrest throughout the world, wherein we actually see 'equality' repudiating the 'inequality' which it has itself selected to rule over it?

Thus, unrestricted liberty, except that of the mind, a free intercourse of which adds to the well-being of humanity, is incompatible with civilization, an advance in which depends solely upon man's power to propagate superior children, and his ability to take advantage of that superiority in the minds of others with which Nature has endowed them.

CHAPTER II

A DEFINITION OF WEALTH, AND THE FORMATION OF NATIONS

I am resolved that Europe shall be one and indivisible. . . . Language sows dissensions amongst men ; it fosters that effete absurdity, the Nation and National Spirit. — NAPOLEON'S ABERRATION

THE science of Economics does not depend upon a definition of wealth, any more than the label on a jam-jar proves its contents. The word 'jam' indicates neither the taste nor quality of the article, and is merely a 'generic' term for a compound of fruit and sugar.

We shall see that the word 'wealth' is used equally loosely, but not being responsible for its application we need only do our best to define it.

The word 'wealth,' then, is derived from 'well-being,' and as every word and every innovation originates in an individual mind, in the first instance it meant 'individual well-being.' As civilization advanced the word was naturally applied to mean all those things which contribute to the well-being of the community, hence as Economics is concerned with the well-being of all, we are going to ignore the opinion of individuals as to the nature of wealth and its possession.

We are right in doing so, and in considering only the general advantage and the average man, because, firstly, an article may contribute to the well-being of an individual, yet be detrimental to the community, and, secondly, the personal opinion of an individual as to his well-being does not affect the amount of his wealth.

As an example of the first, the drinking of neat brandy might inspire a genius and it has saved many lives, and therefore contributed to the well-being of many individuals; nevertheless no one would assert that an enormous supply of brandy, or general brandy-drinking, would contribute to the well-being of humanity. As an instance of the second, an individual may be perfectly happy and satisfied with no possessions, and no leisure, but he could not be considered wealthy.

We are, therefore, going to consider as wealth only those things that contribute to the well-being of all, or, to make the problem less complicated, to the Wealth of Nations. We shall see later in this book what is the true relation of each nation to the rest of the world.

Civilization and humanity compel us to recognize the right of individual existence, so that it is not permissible for some men to keep wealth to themselves while others are dying for lack of food. Further, man can exist without wealth, hence a nation's wealth begins when all its inhabitants are provided with their necessaries of life, a surplus of which, as will appear later, is the first and most important form of wealth.

Having ruled out individual opinion as to the nature of wealth, we have also to get rid of another common confusion, *i.e.*, between the *actual* contribution, and the *power* to contribute to the well-being of humanity; or the use as compared with the availability of wealth.

If a man, or a nation, has something which can contribute to his well-being or potential wealth, and is ignorant how to use it or unwilling to avail himself of it, that cannot alter its nature, and if that something be wealth, wealth it remains, and man's thought, wisdom, or foolishness can have no effect upon it. For instance, if a man have a store of wealth and forget its existence, he may bemoan his poverty, but the wealth is there in spite of his stupidity, nor will the fact of recalling its existence affect the amount of wealth should his memory return.

Wealth is thus a reality, not a matter of opinion, and we will define it thus:

" Anything tangible or intangible beyond man's immediate necessaries of life which contributes to the welfare and improvement of the human race," and if this definition be correct, it proves that Economics, which deals with wealth in all its different phases, is not a material, but a moral science.

As a test of our definition, a house or a motor-car is recognized as representing wealth, but so also should be a beautiful poem, that is, a poem which gives pleasure to, or in any way brings improvement to, men and women. It is true that it may provide no wealth for the poet who wrote it, but while it exists it *is* wealth, although it may be merely potential wealth.

Wealth is therefore something that exists. It can arise without man's intervention, being the product of Nature, in which case we may call it 'natural' wealth, although in substance it may be identical with that produced by man, or what we might term 'man-wealth.' In fact, so far as the substance of wealth is concerned, we need not make this distinction. It is essential, however, as we shall see later, to do so when we consider its exchange and distribution.

We will thus repeat our definition of wealth as, "Anything tangible or intangible beyond man's immediate necessaries of life which contributes to the welfare and improvement of the human race."

According to the dictionary, Economics is defined as "the science dealing with the production, exchange, and distribution of wealth," but two things should be borne in mind before accepting this as correct. First, that this definition is merely the personal opinion of the dictionary compiler, and, secondly, that Economics in its early days was known as 'the dismal science'; indeed, even to-day the average man leaves its interpretation to the experts, who do not agree, and have never agreed, with one another.

Other sciences which are accepted as exact do not number among their experts men whose opinions differ on fundamental points, even if in the time of Galileo astronomy was considered a science to attack the inconsistencies of which was a crime punishable with death.

If Economics deals with the production, exchange, and distribution of wealth, it is not, and never can be, an exact science, because the distribution of wealth is, and always will be, a matter of opinion. On the other hand, the production and exchange of wealth by man are governed by definite laws, independent of his opinion, and can therefore constitute an exact, even if a moral, science.

It is further evident that we must consider first the *production* of wealth, because we cannot exchange or distribute that which does not exist, and we are immediately confronted with the fact that before man produced any wealth whatever, Nature was busy, whence we are compelled, as already mentioned, to distinguish between natural and man-wealth. Further, Nature is so generous with some things that she supplies them in unlimited quantities, *e.g.*, air, of which there can be therefore no question either of production, exchange, or distribution.

Thus what Nature provides without man's intervention is natural wealth, belonging to no individual man, and what she provides in unlimited quantities is outside the scope of Economics, which deals with the production, exchange, and distribution of wealth by *man*.

Before, however, we pass to the production of wealth, either individual or national, we will consider the evolution of man from an isolated to a communal state of existence.

The Formation of Nations.—A man and his family make themselves a habitation, or home, whether a wigwam or a house. For mutual support and security, a number of families form themselves into a tribe, which is thus an aggregate of homes, containing human beings of similar race, language, ideals, and ambitions. A nation may consist of one tribe, or several tribes of various races, who nevertheless conform to one common condition of life, and as no one can deny that unless the sanctity of the home be recognized, there could be no civilization, the sanctity of a nation must be as inviolate as that of a home.

Let us inquire whether the formation and existence of nations is natural and permanent, and assume for a moment that all men are brothers, as indeed they should be, and that all men are equal—not in law, which they must be ultimately, but in capacity, which is nevertheless impossible, because if we recognize that men are unequal our question is already answered—when the indisputable fact would still remain, that all parts of the habitable world are not identical, nor indeed similar, and that no effort of man will ever make them so. Thus, avoiding the fatal error of considering two variables at the same time, viz., unequal men and unequal conditions, we have an assumed identical man inhabiting countries of different physical structure. Some parts of the world have a better climate, a more bountiful Nature, a more beautiful and an easier existence. If all men are to remain equal, and none has any right to an advantage over others, it is evident that man must live under equal conditions and be free to choose where he will live, for if not, we are compelling him to be unequal, and the formation of nations becomes inevitable. If, indeed, all the inhabitants of the world want to live in the most favoured country, and they naturally would, what will happen to the rest of the world? Are the internationalists prepared to live in Lapland, and if not, why should the Laplanders do so? The advantages of England, of France, of Italy, as compared with their own country have not been brought to the notice of the Laplanders; yet who can doubt that they would immediately avail themselves of an offer to inhabit a sunnier climate, and a more generous land?

Not merely do the physical conditions of a country vary, but they have a direct influence on the people who inhabit it. They *compel* men to lead different lives, to have a different outlook, to hold different ideas, and, most important of all, to perform different work. But civilization, or progress, is due to the work of 'unequal' men; and consequently this different work will accentuate the difference in the civilization of various countries, so that even assuming human equality, no nation can ever be the equal of another, although each nation may think itself superior to the rest. As man's physical surroundings affect not merely his material but also his moral development—witness the lack of both among the inhabitants of intemperate zones—it is obvious that environment has an enormous influence on the evolution of nations.

It is, therefore, evident that if we could design a new world, and simultaneously fill it with an identical race, in a few generations nations would have been evolved. Their boundaries would be defined by different climatic conditions, and although there would thus be fewer nations than at present, their divergences would be, perhaps, even more pronounced than they are to-day. The fact that there are so many nations is due to the migrations of man, whereby different races inhabit both similar and different climates, resulting in many more nations than correspond to the variety of climate; yet, given the conditions of the past, the formation of many nations was natural and inevitable.

Those who would invoke history as showing the transiency of nations must not overlook the cause, namely, force. For a stronger nation (and all can never be equally strong) to trample on a weaker is a relic of barbarism, and although a conquered nation may indeed absorb, or be absorbed by, its conquerors, either event is unnatural, and due to force in the first instance. If, then, nationality can only be destroyed by force, 'pacifists' and 'internationalists' should be at daggers-drawn; indeed Napoleon, who was certainly no pacifist, became, when intoxicated by his success, an internationalist, and thereby encompassed his own downfall.

It is therefore evident that, even assuming all men equal, we have one variable in our problem which is beyond the control of man, and which compels 'equal' man to unequal conditions, with the result that nationality is inevitable and therefore indestructible.

The Economic Effect of Nationality.—Nationality being indestructible, we are justified in considering the wealth of nations rather than that of the world, and, providing we investigate later the laws of international economics, we can claim to have treated the problem comprehensively.

Both the wealth and life of an individual are of great interest to himself, although not necessarily to his countrymen, and the same is true of a nation in relation to other nations, unless, indeed, the wealth of the one is coveted by the others. Nevertheless Economics is an ethical and moral science; that is to say, if the benefit of some individuals, minus the loss of other individuals, be negative, the result is not wealth, but what Ruskin called 'illth.' Consequently it is not sufficient to consider the wealth of the world as a whole, for while this could be enormous, many nations, although undeserving of such a fate, might exist in misery. There are, indeed, many persons who can, or think they can, visualize an immediate brotherhood of man, denying the importance of nations, and considering the whole world only; yet we have seen that the division of the world into nations is inevitable, so that until every man is prepared to sacrifice his interests for a stranger, no nation can be expected to impoverish itself for the benefit of another. Further, if we find that the laws applying to the wealth of a nation would hold good supposing that we imagine the extension of the nation's boundaries to embrace the whole world, these laws must be accepted as universally applicable, for just as a community of families constitutes a nation, an aggregation of nations constitutes the world.

The boundaries of a nation may be artificial or natural, and the larger the country under one government, the greater may be the variety of its climatic conditions and the self-sacrifice demanded from the inhabitants of the most favourable districts on behalf of the less fortunate. Thus, if one nation expanded to embrace the whole world, everyone would have to work for the common good of all people, and the workers of those countries which produced wealth with greatest ease would have to hand over a large share to the less fortunate, just as the rich are bound to help the poor, *nolens volens*, in the civilized state of to-day.

The economic effect of a country's climate on its inhabitants is obvious. The less favourable it is, and the fewer Nature's gifts, the longer hours or the harder a man must work to produce a given amount of wealth. Some climates, indeed, are so severe that it is difficult to rise above primitive conditions. On the other hand, where no work is necessary the inhabitants, if left to themselves, would remain in a state of savagery, and, generally speaking, a temperate climate, where man has to work to a moderate extent to keep himself alive, is most favourable to human progress. If, however, we consider nations as merged into the world as a whole, the favoured nations, whose workers now clamour for an ever shorter working day, would see that if they must contribute wealth to their less fortunate brothers elsewhere their dreams cannot be realized.

Further, so long as man is man he will not, and rightly, submit to work for the benefit of loafers, and although theoretically a government can judge its subjects, who is to supervise the energy and output of each part of the world and justly apportion its reward?

It is easy to talk of loving our brother-man thousands of miles away, but to pretend that we are ready to sacrifice our personal or national prosperity for the benefit of unknown races, before we have learned to do so for our own kith and kin, and our neighbours, is sheer hypocrisy. Those who consider the possibility of the world behaving as one nation have overlooked the fact that no two men are equal; no two nations equal, and thus not equally deserving. It is a well-known physiological fact that the intermarriage of white and black results in a race with the worst characteristics of each.

Internationalism thus stands revealed not only as imbecility, but as a cloak for perpetual war—class war—the origin of which we shall see later, and to argue that the wealth of the world is of more importance to men than that of their nation is to deny unalterable physical facts.

Nevertheless, in considering the wealth of a nation, we must keep before us not only the well-being—which is the meaning of 'wealth'—of all its inhabitants, but make sure that the application of our economic laws does not infringe the rights of other nations, and are not such that we should have good ground for complaint were similar laws enforced against ourselves. Again, in considering economic problems it is important to rule out the frailties of man, except in so far as it is necessary to guard against them. For example, it is obvious that both an individual and a nation can amass wealth at the expense of his fellows or of other nations, even if such wealth be not stolen. Similarly the animals, which know no economic laws, are actuated merely by greed, and recognize only force, so that the natural desire of men the world over to get as much as they can for as little as they can, either by swindling or *force majeure*, cannot be recognized as the basis of an economic law.

The law of the survival of the fittest, or most physically fit, is but the purely animal law of force, and its acceptance would have obliterated many of the world's greatest men; indeed, the progress and well-being of the world must depend on a denial of physical force, rather than upon its glorification.

THE FIRST DUTY OF GOVERNMENT.—Now, unless a bountiful Nature supplies all necessaries of life, man must work and produce, or starve, and until he has produced more than his essential requirements, he has neither leisure, nor enjoyment, nor wealth. Further, the more wealth produced and available, the greater is the possible share of each individual, and consequently the most intensive wealth-production should be the first care of every government.

Nevertheless, in spite of the fact that the prosperity of the nation depends solely upon production, whence, indeed, comes the wherewithal to defray the cost of government (for what are taxes but a share of production, paid over in the form of money?), the utmost economic licence is permitted to producers, and while there is interference in almost all other spheres of life, no laws designed to stimulate wealth-production exist.

The importance of the greatest possible wealth-production notwithstanding, civilization requires that the weak, either in brawn or brain, share to some extent with their more fortunate brothers, so that just laws of exchange and a proper distribution of wealth must also be of vital importance to the nation, wherefore, as Economics deals with the production, exchange, and distribution of wealth, a comprehension of all its principles is evidently necessary to every statesman.

Having established the inviolability of nations, from which it is evident that the laws which govern the wealth of nations must take into account their international relationships, we may now consider the production of wealth.

PART II
NATIONAL ECONOMICS

CHAPTER III
THE PRODUCTION OF WEALTH AND ITS MEASUREMENT

LET us first consider one man, an ordinary one, and assume that he can live on what Nature provides. He has a wife and family, and they can do the same. More families appear, and these do likewise. If Nature replaces all that they consume, the situation remains *in statu quo.* Nature may be generous and produce more than the people require, in which case the surplus is wasted, but if, on the other hand, the district became overcrowded there would be a shortage of necessaries. What happens? The people fight for food. No one has any exclusive right to it, and the strongest prevail, but herein there is no progress and no civilization, although natural wealth exists so long as there is a surplus of necessaries. By this is meant a quantity in hand beyond that needed until the next supply becomes available. Thus, Nature having ordained seasons and harvests, a man who has a supply just sufficient to last him until the next crop is garnered has no real surplus, and this is also obviously true if we ignore the seasons, and imagine a man consuming every day the necessaries provided by Nature on the previous one. It is evidently essential, as already mentioned, to distinguish between wealth due to Nature, and that due to man's efforts combined with the assistance of Nature, although the actual form of the two may be identical, because, whereas a man may claim the latter as his own, no one has a right to a monopoly of that which Nature provides.

A vital moral result follows, also, from this distinction, for men who live solely on the gifts of Nature and do no work never develop. They remain savages, whence we see again that to the useful work of the superior men is due the growth of civilization.

We do not know, even yet, all the wealth that Nature has provided for man, but it is certain that whatever the amount it can be no index to our civilization, or prosperity, and that in this world the wealth which most matters to man is that produced by his own efforts.

Next let us visit a lonely man living on a bare rock. On this rock he has to work—that is, to fish—in order to keep himself alive. If he catch a surplus of fish, as just defined, he has wealth, because a surplus of necessaries allows him leisure, or time in which to produce anything else he can. The same holds good if he catch sufficient fish in less than a whole day's work. It is true that we should not consider this lonely man wealthy, for in his case Nature is unkind, as, for instance, to the Eskimos, yet leisure is obviously the first form of man-wealth, and wherever Nature does not provide such wealth, the first man-wealth produced in that place must be an excess of necessaries, even if this be only sufficient to give a man daily some hours to himself, apart from those occupied in working, eating, or sleeping.

Let us now consider a man living in a temperate climate where, although Nature helps him, he must still work to keep himself alive. He must then produce on the average daily, first, his own necessaries of life, or rather any deficiency thereof not provided by a bountiful Nature. The same being true of all men the world over, on the average, although both their requirements and Nature's generosity vary with every clime, it will suffice to investigate the problem of necessaries in a given country, in which the climatic conditions are approximately constant.

Considering first unmarried men only, we will regard as their daily necessaries of life all that sustenance in the form of food, protection in the form of clothing and shelter, warmth in the shape of fuel, produced by man's labour, which is *essential*, on the average, throughout a year to keep them in health and strength, and fit to work to their fullest capacity.

Now, although one man's necessaries are not identical with those of another—*e.g.*, a big man generally requires more food than a small one, even if some small men have a voracious appetite—it is undeniable that the *average* man in any given climate needs daily a definite amount of food, consumable in various forms, which have been scientifically determined, and obtainable from a great variety of commodities. Thus, although one man's meat is another man's poison, the average man must consume daily a minimum amount of nourishment, as proteins, carbohydrates, and fats, without which he will die or deteriorate.

For instance, according to Bryce, *Dietetics* (1912), a normal adult, under moderate conditions of muscular work, requires daily 125 grammes of protein, 500 grammes of carbohydrate, and 50 grammes of fat, to provide which a mixed diet is necessary, a suitable one being 1 lb. bread, ½ lb. meat, ¼ lb. fat, 1 lb. potatoes, ½ pint milk, ¼ lb. eggs, ⅛ lb. cheese. On the other hand, the Royal Society Committee recommends 70 grammes protein, 550 grammes carbohydrate, and 90 grammes of fat. The exact constituents and quantities are immaterial—and we may eventually discover a better combination, to the advantage of all—yet the fact remains that the average man must consume a certain minimum amount of each, and that their production occupies a certain number of labour-hours.

It is undeniable, of course, that some persons can take no sugar, but, even if they be not suffering from diabetes, they must be abnormal, or they require, perhaps, more fat; in either case we are not considering individuals, but the needs of the normal or average man, which are neither a matter of taste, opinion, nor custom. The test of a 'necessary,' or of the value of an article as a 'necessary,' is whether man must, if deprived of it, substitute an alternative, or whether he deteriorates permanently in health, strength, or quality when unable to obtain it. For instance, although we are nearly all slaves to the habit, tobacco is not a necessary of life, because its use, on the whole, does not reduce our other needs. Indeed, not merely has man lived happily and healthily in the past without many commodities which are now wrongly considered necessaries, but, until he has acquired his essential necessaries of life, he will be forced to dispense with any luxuries.

The foregoing is also true of the average man's clothing, boots, housing, etc., which he wears out at a certain rate per day, and also of his fuel, although, owing to variable seasons, the amount of the latter he requires daily must be averaged over the year. It appears, therefore, so far, that the necessaries of life of the average single man are definite and constant in any climate, for a given race of man.

Further, although it is evident that the daily necessaries, perforce produced by man, of an Equatorial negro and an Eskimo differ enormously, those of dwellers in the more temperate climates, with which we are primarily concerned, are not so very dissimilar, because, although, for instance, the South of France is much warmer than England, and therefore its inhabitants require less warmth and shelter, food is the most important item in both countries, and its production occupies the most labour; indeed, ignoring race, and the effect of climate upon appetite, man's necessaries of food are definite. Consequently, in this investigation we shall consider the daily necessaries producible by man to be constant in all climates, for while the amount thereof varies inversely with the fertility of any country, the most civilized races enjoy temperate climates and inhabit relatively fertile lands.

In order, however, to perpetuate the human race, a wife and two children, who should reach maturity, must also be provided for, so that we can now define economically the daily necessaries of life of the average man as all his production which is essential, such as food, clothing, shelter, and fuel, to keep him and his wife in health and strength, and fit to propagate and rear at least two equally healthy children. We will denote these average daily necessaries by N, and repeat that their amount is definite and constant in any climate for a given race of man, and not a figment of our imagination, but a tangible quantity, although apparently unrecognized.

As an indication also of the economic importance of necessaries, we would refer to the investigations carried out by Mr Seebohm Rowntree upon the conditions of the very poor. Mr Rowntree showed that an unskilled workman, generally the son of an unskilled workman, with a wife and three children—the extra child allowing a margin for premature death or sterility—went below what he termed "the poverty line," *i.e.*, received less than his *bare* necessaries of life, three times during his existence, and that 22*s*. was in those days (1900) the approximate weekly sum required to purchase those necessaries.

Assuming, then, a population of 45,000,000, or 9,000,000 families of five each, this represents a total sum of £514,000,000 per annum, or, bearing in mind the present depreciation in the purchasing power of money, a total to-day of well over £1,000,000,000.

It is clear that wealth only results when man produces more than he must consume, or when the value of what he produces exceeds his cost of production. Let us investigate this latter.

A farm labourer, for instance, rises in the morning. He dresses, then eats and drinks. He next puts on his boots and goes out to work. He comes home, eats and drinks, and returns again to work. In the evening he comes home once more, eats and drinks, and goes to bed; this process he repeats day after day. If, apart from what Nature provides unaided, he does not produce on the average at least as much as he *must* consume, or wear out, *i.e.*, his necessaries, he will die. But again that is not all. If this man merely produced enough to keep himself alive, being unable to live for ever, his race would die out; consequently he must also provide the necessaries of his wife and two children, who again beget two children, when by so doing the loss of the man himself is compensated for, and the population is maintained at a constant level. If, then, by 'necessaries of life' we understand all that is essential to keep a man in health and strength and fit to work to his fullest capacity, and to propagate and rear two equally healthy children, these are, as far as man is concerned, exactly his cost of production.

The cost of production, considering labour only, is thus the consumption of necessaries by the workers engaged in production and their dependents, or *N*, and the resultant wealth must be the value produced less this cost. We must therefore see how to *measure* the value produced.

Now, whereas animals generally make provision only for the morrow, or at most for one season, man can accumulate a surplus of necessaries, which are storable even under the most primitive conditions. Nevertheless, it is obvious that any accumulation of necessaries which will merely last until the next harvest is gathered represents no real surplus; in fact it is much simpler, and equally correct, to imagine a man every day throughout the year just producing *and* consuming daily his necessaries of life, *N*.

So soon, however, as, but not before, he produces a surplus over *N*, he can rest from his labours and enjoy leisure, the very first form of man-wealth.

It is further evident that the quantity of leisure this man can enjoy is decided by the number of hours or days his surplus necessaries will support him.

For instance, if he had in his possession an excess of necessaries equal to two days' consumption thereof, this would allow him two days' leisure. Indeed, were food the only necessary, as it is in some climates, the nutriment contained in that which was stored would obviously decide the amount of leisure obtainable. Similarly, clothes last a certain time, in other words, a man wears out a definite length of cloth per day, and the value of any stock of material can be measured in a similar manner, as also that of housing, fuel, etc.

N consists, therefore, of *Na*, food, *Nb*, clothing, *Nc*, housing, *Nd*, fuel, and the value of any surplus food is measured by the first, of clothing by the second, etc. Further, as we know their relative cost, or the number of labour-hours required to produce each of them, there is no difficulty in calculating the number of complete units *N*, represented by various quantities of *Na*, *Nb*, etc., and in practice there will generally be the smallest store of food, because food is the most perishable of all necessaries.

Thus, while a man or a nation with a year's supply of each in hand would have 365 units of wealth in reserve, if a two years' surplus of food exist but no surplus clothing, there would be no complete wealth units, although, as we shall see, a still larger amount of wealth is actually available.

Up to the present the value of the nation's annual wealth-production does not appear to have been measured in absolute units, which is not surprising, as such a unit has not been recognized. It is true that figures are published showing the value of the national production in money, but such a calculation is merely relative, and equally applicable to our unit of value; *i.e.*, knowing as we do the price of *Na*, *Nb*, *Nc*, *Nd*, we can also express their relative value in terms of money. Nevertheless, to arrive at the number of complete units is not difficult, for if we know how many labour-hours are necessary to produce a year's supply of clothing, and of food, we know what reduction in food units would be required to allow of the production of clothing; in other words, basing our calculation on labour-hours, it is merely an algebraical proposition to find the number of complete units of wealth which could have existed had the labour been arranged so as to produce them.

While production could be readily organized to produce complete units, it would be disadvantageous, owing to the fact that all goods are not equally storable; indeed, the practicability of such organization affects the use of our multiple unit even less than it appears, because foods, the relative dietetic value of which is known, form by far the most important item, *i.e.*, their production occupies by far the most labour-hours. We shall return to this question when dealing with the exchange of wealth.

The fact that by consuming extra food one can economize in fuel does not affect the size of *Na*, *Nb*, etc., because every sane nation will endeavour to obtain its necessaries for the least labour expenditure, *i.e.*, *N* in every climate corresponds with the point of highest economic efficiency. By this is meant that combination of necessaries which can be produced in the shortest time, for supposing man could live on 200 grammes of fat per day alone, that would only benefit him providing they cost to produce a less total of labour-hours, because although *N* itself would be smaller, the surplus *N* produced by man might be proportionately still less.

This statement may appear to clash with our claim that *N* is constant and definite, yet so it is over a period of time, *i.e.*, until we discover a smaller *N*, or one produced in less labour-hours, when with a new but definite unit, in the first case our surplus will have a greater value, and in the second case even though *N* were larger man will be able to produce a greater surplus of necessaries, or enjoy more leisure. Consequently *N*, although consisting of several incommensurable commodities, is definite, constant, and tangible, and measures the amount of a surplus of necessaries.

Now the measure of wealth is its value to man.

The value to man of the daily necessaries he produces lies in their utility to him, *i.e.*, they keep him alive. The value of food lies in its nutriment, of clothes in their warmth, etc. Let us call this *intrinsic value*, and consider the measurement of such wealth only.

In order to measure any commodity whatsoever it is essential to have a unit, and every science worthy of the name has an exact system of measurement based on the acceptance of a clearly defined, constant, and tangible unit, even though it be equally as *arbitrary* as our *N*. For instance, the modern unit of length, the metre, is merely defined as one ten-millionth of the earth's quadrant from the North Pole to the Equator, while an electrical current has unit strength when 1 cm. length of its circuit bent into an arc of 1 cm. radius exerts a force of 1 dyne on a unit magnet pole placed at the centre (*Electricity and Magnetism*, by S. P. Thompson).

Thus *N*, being definite, constant, and tangible, and measuring directly the value of a surplus of all necessaries, may be accepted as a true unit of intrinsic value in the science of Economics.

As a shortage of necessaries will lead to a man's death, or deterioration, a nation, which consists of an aggregate of men, must also first produce sufficient necessaries of life for all, for otherwise health, or well-being, will be lost. Thus, a nation has no true wealth until it has a surplus beyond the necessaries of the whole population, the value of which is again measured by the necessaries of life of the average man in that country, or *N*.

Although animals do not know how to increase their production of necessaries, and originally uncivilized men living in temperate climates were also able to produce daily on the average but little more (witness the conditions of the early Britons), the higher mental or manual faculties of certain individuals (our superior or 'unequal' men) resulted in the evolution of improved implements, such as spades, ploughs, etc., whereby both themselves, their fellows, and future generations were enabled to produce their necessaries in a shorter time, and thus increase the amount of their leisure.

Obviously, the value of a labour-saving device depends upon the number of working hours it will save, and as this corresponds to a reduction in the consumption of necessaries, whereby their production is unnecessary, its intrinsic value is measured directly by the same unit of value, *N*. For example, the intrinsic value of a spade is measured by the labour it saves, or its utility, or the number of working hours, corresponding to an amount of necessaries, which can be saved through its use. If, indeed, more labour were required to produce the spade than it saved before being worn out, the world would be poorer and not richer by its production.

The production of man's necessaries of life was primarily the work of unskilled labour, and is to-day by no means that of the most skilled, for the most unskilled man must, in any climate, be *able* to produce his own necessaries of life, or alternatively he will die. Let us assume potatoes to represent the whole necessaries of man. If the use of a spade increase the production of potatoes, before being worn out, by more than its producer consumed while making it, it is better to produce spades than potatoes, because the former represent a greater intrinsic value or utility per hour's work. The maker of the spade, seeing this utility, will demand for it more potatoes than the equivalent of his hours of work, and if the potato-grower *cannot* make spades he must agree.

We will call this first spade-maker a skilled man; but it is obvious that if all the potato-growers learned to make spades, they would also become equally skilled, whence although the first spade-maker was skilled relatively to the potato-growers, all these men would now be considered relatively unskilled. Nevertheless, they are all better off than they were before, and consequently more civilized, because of the skill of the first spade-maker. Similarly the invention of the first plough was due to brains and skill; it enormously increased the world's wealth-production, although its originator may not have materially benefited.

Although skill does not arise solely from the consumption of necessaries, for the largest eater is not the best producer, nor the smallest one the cleverest man, energy and skill are nevertheless the result of the consumption of necessaries converted with varying degrees of efficiency into energy.

If, then, we define an unskilled man as one who, without implements devised by others, can produce daily his necessaries of life and no more, or can do other work of an equal quality, a skilled man is one who, by applying his mental or manual faculties, produces a greater daily value. Indeed, if a skilled man did not produce a greater value per hour than an unskilled, there would be no use in skill.

Skilled workers therefore should, other things being equal, be always better off than unskilled, because a man is not born skilled, and although in our present civilization all do not have equal chances, it is undeniable that a loafer cannot become skilled, for while brains are the gift of Nature, their application depends largely upon a man's own merit and efforts.

Consequently, skill must be encouraged and rewarded where possible (though many a genius has died unhonoured), or there would be no inducement to become skilled and a premium would be put on idleness.

Nevertheless, only because we have a common measure for the value of the production of all necessaries and labour-saving devices in our unit *N*, is the existence of skill demonstrable.

Notwithstanding the foregoing, it is evident that skill is only a relative term, for, as education improves, we should naturally expect an advance in the average capacity of the whole community, even if all men can never become equally skilled; or if they could, the world's work calls for varying degrees of skill. Thus, the more skilled a man becomes, the more the intrinsic value of his work rises above *N*. He should benefit always through such production, as should his nation, for the greater the amount of intrinsic value in the country, be it contained in the quantity or quality of the goods made available, the greater the share of each individual should be. Let us apply the foregoing.

Richard Arkwright invented a power loom, and although his works were burnt by his infuriated men, the world benefits to this day. James Watt watched a kettle, and doubtless history would have reported that he burned the cakes, like Alfred the Great, had there been any; he was not, however, dozing, but using his brains, and by producing an efficient steam-engine he ranks among the greatest of economizers of human labour and producers of material wealth. These men, indeed all inventors, used and developed gifts with which Nature had endowed them, and most inventors were of humble birth. They WORKED, and the development of brain, mind, or manual skill results from work. Thus, as civilization depends upon the production of wealth, we see again that it is due to the WORK of SUPERIOR men.

Wealth, when produced—*i.e.*, all surplus beyond man's necessaries of life—can be used up as fast as it is produced. If it is, man may work, produce, and use, again and again, but his wealth production cannot increase, no, in spite of the availability of skill and brains. Thus, when James Watt left the useful work he was doing, and started experimenting, which might have resulted in waste, another man did his work, and other men still had to work, to feed, clothe, etc., James Watt, who was enabled to work upon his experiments because of the surplus production of other men. But for this he could not have produced his new steam-engine. Such surplus material, or wealth, is Capital.

The first capital in the world was provided by Nature, and without it man could have produced nothing at all.

Capital, due either to Nature or to man, is essential for an increased production of wealth, and an artist cannot paint a masterpiece unless there is a surplus of necessaries, or capital, available for his sustenance. Nevertheless, capital does not produce wealth, if it remain unemployed. Thus, the man who produces more than he consumes may or may not contribute to the production of still more wealth. If he can hoard his surplus without deterioration, others will benefit, but only at his death, whereas if he use it or allow it to be used to increase production, the benefit is immediate. We see, therefore, that a capitalist may be a benefactor to society, but only if he help to increase production or to avoid waste. We refer here, of course, to actual wealth, not to tokens therefor, or money.

Similarly the unemployment of Nature's capital represents no loss of wealth so long as it does not deteriorate, as it can be brought into use at a later date, perhaps even to better advantage. For instance, coal is natural capital, its intrinsic value being the number of its heat units, or calories, which can be used up to sustain life or to produce more wealth. If not used, it is still wealth, although only potential; and in view of the brains at work the world over improving the efficiency of coal-conversion into energy, it is obvious that a nation should economize as far as possible its coal, or indeed any other irreplaceable raw material, which is of intrinsic value to man.

We have now shown that the mere existence of neither capital nor unskilled labour produces wealth. Wealth, consisting of a surplus of necessaries or labour-saving devices, results only when both are harnessed to skill (and we repeat that by skill is meant any effort of hand, brain, or mind, designed to achieve greater or better production, or a higher efficiency); so that labour and capital are the 'team' and skill is the 'whip' which must drive both and decide as to their work and their reward.

CHAPTER IV

THE PRODUCTION OF LUXURIES AND THEIR ESSENTIAL DISTINCTION FROM NECESSARIES

WE found in the previous chapter that leisure was the first form of wealth, and we talk commonly of a man of leisure. The result of leisure should be pleasure, or the production of more wealth and leisure. But leisure only *allows* a man to enjoy himself or to think, to use the faculties with which Nature has endowed him in order to improve himself and his fellows, or to produce more wealth, and does not *compel* him to do so. Thus man may squander wealth.

We have seen how primitive man worked with his hands, and produced only his necessaries of life. One more intelligent (a superior man) used his brains to devise a spade. He was therefore able to produce the same quantity in less time, and thus obtain leisure or wealth. Again, this man, or his successor, having learned to use his gifts, does not twiddle his thumbs in his leisure hours, but tries to improve still further his tools and implements, and also his conditions of life. He builds himself a better wigwam, cultivates a better garden; he puts up a fence to protect the fruits of his labour; he makes ornaments for his wives (plural), which accounts perhaps for the slow progress of polygamous in comparison with monogamous nations, etc. The superior man is never satisfied. He makes for himself (and others copy him) better houses, better clothes, better beds and furniture—in fact, he makes all sorts of things that are no longer necessaries, and which we call luxuries.

Luxuries comprise all things which are not necessaries; whether a man considers them necessaries or luxuries is of no importance to the fact. Leisure, which is the first result of a surplus of necessaries, permits of the production of luxuries, so that the very existence of luxuries depends upon a surplus of necessaries. We must admit that this is not true of a slave state, nor necessarily of an uncivilized nation, but, so soon as the sanctity of human life is recognized, it cannot be permitted that one section of the community starves while another enjoys luxuries. Economics being an ethical science, the well-being of all must be considered, and there is, therefore, no true wealth increase if it be obtained at the expense of other men's lives.

We have been brought up, indeed, to ignore the importance of necessaries, and to think only of pleasure and luxuries. Certainly the possession of these is a sign of wealth, without which life to most of us would not be worth living, yet necessaries come first and are economically of far greater importance than luxuries. For instance, if there be a shortage of the latter, we can go without them, or if the price of a luxury be considered excessive, this will fall if everyone combines to dispense with it, whereas combining to go without necessaries is impossible and would bring starvation and death.

In Chapter III we saw that the value of a surplus of necessaries in any climate is measured by the unit of value N, or the average man's daily necessaries of life, but that does not tell us how to measure the value of luxuries.

A man with a surplus of necessaries can, as we have seen, enjoy leisure, yet he may sacrifice this in order to produce a luxury for himself, and this sacrifice, or his cost of production, is just his consumption of necessaries while producing the luxury. The value of these necessaries consumed is, as we showed, measured directly by our unit of value N, but as we cannot measure the man's pleasure at the possession of the luxury, we can only say that the value thereof depends upon the man's opinion, or 'demand,' which is shown by the amount of necessaries he is prepared to sacrifice in order to obtain it. The value of luxuries, therefore, is only *relative* to that of necessaries. For instance, a man producing a luxury may be delighted with the result of his labours, although his neighbours may laugh at him; on the other hand he may be disgusted and his neighbours astonished. Alternatively, he might be delighted at first, yet subsequently get tired of his luxury. Evidently there is here no constant value; in fact, luxuries have *no economic* value, for one cannot measure pleasure.

We saw also in Chapter III that the *cost* of producing necessaries is the consumption thereof in so doing; and that the wealth produced is the balance of production over consumption. Likewise the *cost* of producing luxuries is the amount of necessaries consumed, and therefore it falls also as the efficiency of production of the latter rises. Nevertheless, it is impossible to say what increase of wealth is represented by the luxury produced, or even that there *is* any increase in wealth at all.

For instance, a beautiful pearl is a pure luxury, having no intrinsic value whatever, and its man-cost of production is the consumption of necessaries of life by the pearl-fishers, perhaps for many months. Now, who can say that the world is richer for that pearl, or that the woman who possesses it is better or happier therefor? If the pearl should be lost, the world would wag on as before, for there would be no loss of economic wealth. There are, indeed, three parties to be considered: the pearl-fishers, the lady, who are both presumably satisfied, and the producers of necessaries, who, although blind to the fact, lose because they must work longer hours in order to provide the pearl-fishers with necessaries. Had these men produced their own necessaries instead of searching for pearls, a shorter average working day and more leisure for all could have resulted.

Similarly, there are numerous other luxuries, such as artificial jewellery, articles of vogue, etc., upon which much labour is expended without its being possible to show that the world is wealthier or happier for their creation.

It is evident that a man with a store of luxuries is not in so safe a position as one with a surplus of necessaries, for so long as the latter can be preserved, they do not lose their value, whereas that of the luxuries may disappear in a night owing to a change of fashion; thus, we may recapitulate: man lives on necessaries and enjoys luxuries, but he cannot measure his pleasure.

We can hear the reader declaring that what is a luxury for one man is a necessary for another; but first we are considering the average man not used to luxuries (and of what little importance they are is illustrated by the health of armies in the field) or pampered; and, secondly, we consider everything a luxury that is unessential to keep him in health and strength and fit to propagate and rear equally healthy children. If a man will not eat potatoes he *must* take some other nourishment instead—as, indeed, he did before Sir Walter Ralegh introduced them; and if he cannot digest any vegetable except asparagus, nor any fruit save peaches, he may have to eat an enormous quantity, and will certainly have to pay an excessive price for his necessary nourishment, although the amount of nourishment required by the average man remains the same.

When we consider the *price* of man's daily necessaries of life we must take those articles which on the average yield the greatest amount of nutriment per hour's labour expended in producing them, for it is of these that the price is, or should be, the lowest and on such that the less fortunate must live. What the rich live upon is of no economic importance providing they do not waste, overeat, or overdrink, for that means longer hours of labour for others; and it is right for the rich to spend their money on luxuries, so long as the production of these does not entail excessive labour, when it should be forbidden, but wrong for them to eat common necessaries at a time of scarcity.

Although we have referred to articles as being either necessaries or luxuries, most luxuries, such as cakes, jam, beer, oysters, peaches, etc., obviously support human life to some extent, and therefore have a value as necessaries, in addition to their value as luxuries. Consequently, we must recognize two distinct values in almost every article: first, as a necessary which supports human life or saves labour; and, secondly, as a luxury which affords gratification. The 'luxury' value, therefore, of any commodity is that which is not a 'necessary' value; and, having defined the latter, the former is thereby also determined. We must therefore always distinguish as well between 'demand' or 'luxury' value, and 'intrinsic' or 'necessary' value, as between 'JOY' wealth, consisting of luxuries, and 'ECONOMIC' wealth, consisting of necessaries and labour-saving devices; and never the twain shall meet.

We have explained at length the distinction between 'necessary' and 'luxury' values, because it is as essential to an appreciation of the real principles of Economics as knowledge that the earth is round is to progress in the science of astronomy.

Further, the practical importance of this distinction arises from the fact that without it we cannot measure the value of wealth, so soon as it is produced, and consequently we are unable to recognize the merits of its producers; indeed, we make bold to state that in this inability lies the origin of our present industrial chaos.

In a school, for instance, the master endeavours to form from results some idea as to the merits of his pupils, for, were he unable to do so, and to reward the best, all inducement to improvement would be lost, and a premium be offered to inefficiency and laziness. Similarly, it is the first duty of every statesman to know how to measure wealth, because otherwise he cannot recognize the producer nor judge as to the distribution of the resulting wealth.

It is obvious that all men are not, and can never be, equal, and therefore not equally capable of producing wealth, and if, as suggested by pseudo-socialists, all wealth should be, notwithstanding, equally distributed (when there would nevertheless still exist rich and poor, because some men save and others waste), the result would be also the encouragement of inefficiency and vice, the downfall of civilization, and our reduction to the level of monkeys, who are all equal and have equally no wealth.

It is clear, therefore, that all man-wealth whatsoever in the world, be it material commodities, works of art, or leisure in which to enjoy them and the beauties of Nature, is due to the skill or brains of man, although the converse, that all brains produce wealth, obviously does not hold good. The importance of this truth cannot be over-estimated, for the discontent rife throughout the world is based on the claim that labour produces wealth, and is therefore robbed of its just reward.

We shall disclose the origin of this contention in a later chapter, but its fallacy can readily be seen from a practical example. An unskilled labourer working on a turret lathe may produce 1000 parts per hour; he imagines that this output is due to him, yet as it is obvious that without the machine he could only produce, say, two parts per hour, 998 parts must be due to the skill and brains embodied in the machine, and those of the tool-makers. The unskilled man would obviously retort that, without him, this production would cease, yet not merely is this equally true of the lubricating oil, but without him there would also be less consumption, leaving more wealth per head for the skilled men, who can always replace the unskilled.

The inherent truth of this argument is still more apparent when we remember that the turret lathe can be replaced by an 'automatic' machine, embodying still more brains and skill, which might actually produce 4000 of the same parts per hour, without any unskilled labour at all!

Having proved that the existence of all the wealth, well-being, and happiness with which we are concerned is due to man's own skill, we must consider next how this quality in man can be most readily developed.

CHAPTER V

THE SUBDIVISION OF LABOUR AND THE EXCHANGE OF WEALTH, OR TRADE

WE have shown how *men* can produce wealth by applying to *Nature's* wealth, or capital, their own quality, *i.e.*, skill, and when men saw that a greater wealth-production in a given time followed an increase in skill, they realized its importance and became aware that a higher degree was attainable by keeping to one job, or by learning a trade. Hence the English proverbs : "The cobbler should stick to his last," and "A Jack of all trades and master of none."

The principle of subdivision of labour was therefore adopted in the earliest times. In an army, for instance, each man was not trained to every job, and in the fields some used their implements, others looked after the oxen ; in fact, subdivision of labour appeared as soon as there was communal life, and certainly without appreciation of the fact that it was economically desirable. Even the animals follow the principle ; the male and female have different characteristics, and assume different responsibilities.

Subdivision of labour being natural and beneficial to man, it cannot be the real cause of monotony or discontent, for, if the production of wealth be desirable, it *should* be better and more interesting to do one thing well than many badly, and the man who prefers the latter course is devoid of the ability to appreciate skill or efficiency, or his obligations to his fellows, and is undeserving of any share of wealth. To learn one trade well and stick to it should not make men narrow ; on the contrary, if it lead to a greater wealth-production, it should give them more time in which they might improve themselves and widen their outlook. Nevertheless, if the average man receive an equal reward for doing many things badly and one thing well, he is likely to prefer the former.

Industrial Fatigue.—It is undoubted that for every man there is a certain maximum efficiency of output or productive capacity over a period of years, as compared with intake, or consumption.

Thus, an average showing the curve of industrial efficiency of a particular race under certain conditions can be arrived at.

Now, a machine running at a definite speed with a definite rate of feed would produce a definite number of articles per hour; it does not suffer from fatigue, only from wear, and those who say that modern industry tends to turn man into a machine have overlooked this essential difference and its importance.

What, in any case, is fatigue? There is fatigue of the body, and fatigue of the mind. With regard to the former, man may indeed approximate to a machine, but no figures have shown or ever will show that the biggest man produces the greatest output, except in special cases, and the fact that in our curves of fatigue we take an average shows that there is an inequality in man—an inequality by no means due only to differences in physical strength.

It is perfectly clear, therefore, that there are two fatigues, and that the most important is that of the mind or spirit. The exhausted but faithful horse will respond to the call of its master for another effort; a dog will obey its master's orders, even if it drop dead from exhaustion in the attempt; but man is master of his own mind and spirit, and if the great men of the world have suffered from fatigue of the mind, have they not fought and overcome it?

Take, for example, Clemenceau or Foch and their indomitable spirit in the War! Was it greed that inspired their work, desire for money, or power, or show, or anything that the pseudo-socialists pretend is the driving force of humanity and the cause of civilization? A million times, no! It was, surely, that greatest of virtues, sniffed at by the 'Intellectuals,' love of country, or patriotism. To love your own family, work for them, protect them, is indeed worthy, but in so doing man can hardly claim superiority to animals; but a nation, which consists of an aggregate of families, can only appeal to man's altruistic sense, a sense denied to animals, and patriotism, or love of country, is one of the lines of demarcation between them and man.

It is an undoubted fact that the deservedly successful man who has achieved success by his own efforts has not allowed fatigue of the mind to overcome him. Does this man, who works ten, twelve, fourteen, sixteen hours a day, and who concentrates all his energies of mind and body on what he is doing, not suffer from fatigue? Of course he does, but he thinks not about his fatigue, but about his work.

The inefficient and the lazy envy the successful man, and when a man works hard but is not successful, as often happens, for there is such a thing as luck, they say he is a fool. Have they ever realized that a man who does his appointed task and something over may become in himself 100 or 1000 men? That extra little bit of work, day after day, week after week, year after year, is the means of storing in this one man knowledge and experience which thousands of men together cannot equal. There is no parallel in Nature because man's power of accumulating knowledge is unlimited.

Returning now to the curves of output and fatigue, instead of accepting the average figure as final, we ought to look upon it as a starting-point and endeavour to raise all men, not to the average, but to the level of the highest. It is merely a question of a man taking an interest in his work. It does not seem natural to like work, yet civilization depends upon work, and the most civilized man is one who has compelled himself to overcome his natural disinclination for it.

The pretence of social reformers that machines have killed the interest of the workers will not bear examination, for if every man desired to do his best he would take an interest in his output, and that of others, and do his best to increase it.

Further, skilled artisans to-day show little better spirit than labourers, yet did they realize that they are among the wealth-makers, and that all wealth is due to skill and brains, they would not permit the unskilled to dictate to the rest of the community what should be their share of wealth, in the production of which they are the least important factor.

No! The cause of the widespread industrial mind-fatigue is ignorance, and the fact that nowadays a man works for a wage, and overlooks his obligation to produce an equivalent value, imagining that only his employer works for profit, whereas the employer has first of all to work in order to pay his men their wages, which, when higher than the living wage, include *their* profit. The relation between wages, work, and profit is, however, dealt with in later chapters.

Subdivision of Labour necessitates the Exchange of Wealth, or Trade.—In order, therefore, that men could develop their manual skill, or concentrate their intelligence on one problem, and thereby produce a greater value in a shorter time, a subdivision of labour was introduced, whereby a man, or a set of men, instead of producing everything for themselves, produced one thing only and *exchanged* all of this, or their surplus, for other commodities.

The first effect of the introduction of a subdivision of labour upon our civilization is thus to make *exchange* essential, exchange of goods, called trade, and exchange of labour, called service. The exchange can be goods for goods, services for services, or goods for services. It seems probable that the last was the first known form, and that the strongest man in a community, or the chief of a tribe, made others work for him as slaves, supplying them in return with their necessaries of life in order that they could continue to labour for him. The first exchange of goods for goods was probably a very one-sided affair, a stronger man felling a weaker and helping himself to his dinner, or a blow being given in exchange for food, and the first exchange mentioned in the Bible is that of Jacob and Esau. In ordinary human intercourse the producer of wealth *must* benefit by his production, or he will not produce, whereas an exchanger of wealth *may* lose through his exchange, and consequently it is most essential to investigate the laws which do, or should, govern such operations.

We will examine first an exchange of goods for goods, and, considering first necessaries or labour-saving devices only, return to our grower of potatoes and maker of spades, and investigate an exchange between the two. If potatoes be again assumed to represent the whole necessaries of man, a grower will sacrifice a number of pounds (or hours of labour) to obtain a spade, but not more than he can recover from its use before it is worn out. The maker of the spade must likewise receive in return therefor at least the weight of potatoes which will keep him alive while he is making it.

If the spade lasts a year and doubles the grower's output, he will only benefit by an exchange if he give less for it than one year's production of potatoes. The maker of the spade, if he take a year to make it, will only benefit providing he obtain for it more than a year's supply of potatoes, and did he not receive at least enough potatoes to keep him alive during that time, he would be better off growing potatoes himself. Whatever be the intrinsic value of the spade and potatoes exchanged, that party to the exchange thereof evidently benefits whose hours of work are least for the *production* of that value.

If the spade, although not edible, have utility to man (*i.e.*, increases the production of potatoes by more than its producer's consumption while making it), it is better to produce spades than potatoes, because the former then represent more intrinsic value per hour's work. The maker of the spade, seeing its utility, will demand more potatoes than the equivalent of his hours of work, and if the potato-grower *cannot* make spades he must agree, for he is then evidently less skilled than the spade-maker, who *must* be able to produce his own food (*i.e.*, potatoes) or starve, unless indeed other men will support him.

Again, if two men produce necessaries of life, say the one potatoes and the other artichokes, and they wish to exchange, assuming that for the same nutriment and weight the same hours of labour and the same skill are necessary, will not a fair exchange be pound for pound? If not, and two pounds of potatoes were exchanged for one pound of artichokes, the grower of the potatoes would have to work more hours to obtain his necessaries. The utility of the articles and the time taken in producing them should thus determine the exchange, unless one producer is to benefit at the expense of another.

Let us assume now, however, that artichokes have double the nutriment of potatoes, and that the labour per pound is still equal. The artichoke-grower need then obviously only work half the hours of the potato-grower, and, if he exchange pound for pound, he will receive only half the nutriment he gives, and would have to grow some more artichokes or starve. The potato-grower, on the other hand, would now be able to rest, as he has obtained a surplus of nutriment. To be equitable the exchange should again take place on utility, *i.e.*, half a pound of artichokes for one pound of potatoes, but this time on unequal hours of work, viz., half a day's labour for a whole day's labour. If instead of artichokes the man produced a more nourishing potato, the same would hold good, and also if he produced his potatoes in half the time.

It is evident, therefore, that the artichoke-grower is better off than the potato-grower becauses he *produces* a higher intrinsic value per hour, and that an exchange based on equal intrinsic value leaves both parties just as well off after as they were before the exchange took place, but that the spade-maker and the artichoke-grower are both better off thereafter because, owing to their more skilled *production*, they obtain more potatoes than correspond to their own hours of work.

Should the spade-maker become very efficient he could indeed afford, and might be prepared, to let the potato-grower have a spade for less potatoes than the equivalent of its intrinsic value. In this event the potato-grower would benefit, and the spade-maker lose through the *exchange*, although so long as he obtain more potatoes than the equivalent of his hours of work, the latter still benefits through his *production*. This argument is still clearer if we imagine the case of a man inventing a more nourishing potato; this man need work, say, only half the usual time for his livelihood, and can then either enjoy leisure or produce other wealth.

In the foregoing we have shown that an exchange, unless it benefit one party at the expense of the other, must, where necessaries of life are concerned, take place on the basis of equal intrinsic value; but we have considered only food, or an article for producing food, whose value is measured in terms of food, and in Chapter III we saw that our unit of intrinsic value (N) included not only man's daily need in food, but his necessary clothing, heating, shelter, etc. Now, although the physiologists can decide the life-sustaining power of each of the various forms of food, what is a fair exchange of, say, clothes for food?

It is immediately evident that it cannot be Na for Nb, or a day's supply of food for a day's supply of clothes, because not only does the relation between the two vary with every climate, but if the average length of cloth worn out daily by a man were only one inch, that might nevertheless be as essential to his existence as his day's food supply.

Let us visualize again simple conditions of life, where every unskilled man produces everything he wants for himself. If he must work 250 days per annum to produce his food and only ten days to produce his cloth, his daily need of cloth is worth to him only $\frac{1}{25}$ of his food, for he could produce it in $\frac{1}{25}$ of the time. Supposing, however, that a man invented a cloth the durability of which was double, its relative value would be doubled also, both in comparison with other cloth and with food.

The invention would have been due to brains or skill, maybe those of one man only, who, although demanding double value at first, might subsequently show the unskilled how to make the improved cloth. In this event the unskilled food-growers would refuse to supply double the food quantity, or allow the unskilled cloth-makers to be at an advantage, and, if the latter would not compromise, they would and could make the cloth for themselves.

Thus, although a fair rate of exchange *is* decided by intrinsic value, this assumes equal working hours for unskilled labour, or an equality of labour value, and evidently man's progress, inventions, and improvements, the result of his mind, brains, and skill, profoundly affect the cost and conditions under which this intrinsic value is produced. Although a higher intrinsic value is in the first instance due to skill, which must be rewarded, when this is thrown open to the world, and man's average degree of skill is raised, the whole world has the right to this higher intrinsic value, not merely the workers who happen to be producing it. If, for example, an invention enable us to produce our necessary cloth in five instead of ten days' work per annum, whereas food still requires 250 days, we should expect double the output from the still unskilled cloth-makers, who have no right to loaf or to be better off, and half of them, being no longer required to make cloth, should be compelled to produce food or other goods for the whole community. The relative intrinsic value, or fair exchange value, of Nb would then be $\frac{1}{50}$ of Na.

It is clear, therefore, that an exchange based on equal intrinsic value assumes that the same amount of labour value (or equal hours of unskilled labour) is necessary to produce it, or one section of the community would benefit at the expense of another. Nevertheless, skill, although relative—and men can be more or less skilled, even if the expression semi-skilled is as inane as semi-sane—is not a matter of opinion but of fact, for whereas a skilled man can replace an unskilled, the latter is lost without the former until he has *learned* to be skilled. Intrinsic value is likewise not a matter of opinion but of fact, and increases *pari passu* with the skill required to produce it, for if a skilled worker produce a less value per hour than a non-skilled one he could only be said to possess 'unskill.'

Thus exchange value should follow intrinsic value, and equally be measured by our composite unit of value N, so long as the same amount of skill or labour value is necessary to produce it; but if unskilled labour can produce artichokes, which may have twice the intrinsic value of potatoes per hour's work, it would be unfair for the growers of the latter to be at a disadvantage, nor would they permit it, but grow artichokes themselves. Nevertheless, the intrinsic value itself of any article is constant, and independent of the amount of labour, or cost of producing it, although the fair exchange value, which is relative, depends upon this intrinsic value as well as the amount of unskilled labour necessary to produce it, and must therefore be reduced as inventions increase the general rate of production. As an illustration, we might cite the patent laws, which give an inventor a reward for a term of years, yet recognize that thereafter the whole community must share in the advantages of the invention.

Now, in practice, the exchange value, or price, of necessaries does not generally correspond with the intrinsic value, or utility, or labour value used in producing it, but is more or less according to opinion or the 'demand.' For instance, the fact that a potato-grower urgently wanted a spade might cause him to offer for it a higher exchange value in potatoes than corresponded to its intrinsic value, so that if one party has a 'desire' for the product of the other, he may be prepared to sacrifice a greater amount of his necessaries, *i.e.*, his 'demand' for another necessary will increase its price or exchange value. The difference between this exchange value and the intrinsic value is therefore the *demand* value, which equals the potato-grower's loss and the spade-maker's gain through the exchange.

On the other hand, were there little demand for spades, their maker might accept less potatoes than corresponded to their intrinsic value, when the exchange value of spades would be less than their intrinsic value, and, in spite of his being more skilled, a spade-maker might be no better or even worse off than the potato-grower. This difference between exchange value and intrinsic value can therefore be + or —, and is always due to demand, which cannot affect the intrinsic value, although, if it be negative, it can cancel it.

For instance, if there be no demand for spades and they cannot be stored, they will be given away. Does it follow that the spades have no value and the spade-maker is not skilled? Not at all. The spade has the same utility and requires the same intelligence to make it. Conversely, if there be a shortage of spades, their exchange value, or price, goes up, but again the potato-grower cannot get any more work out of them. Demand can thus only increase the exchange value, or price, of the spades, and by the same amount as the exchange value of the potatoes is reduced, for more potatoes must now be sacrificed in order to obtain a spade. There is thus no increase in total intrinsic value; indeed, were it otherwise, the spade-maker might go about breaking those spades in use in order to increase the demand for his stock, when there would actually be an increase in value, or wealth, from destruction!

Neither exchange of wealth nor trade can therefore create an increase in the total intrinsic wealth available.

Again, demand does not *create* the supply, for not merely does the first supply always precede the demand, the production of the first spade being due to skill or brains, but the subsequent supply is due to skill and labour. Obviously, when once spades were made and used, it did not require great intelligence to see how many would be wanted, and if everyone turned to making spades, these would find no application, and all would soon be starving for lack of potatoes. Thus an over-production of spades would be due to stupidity, which might annul the skill used in their production, and even a nation of savages would have the sense to see that some men must grow potatoes and some produce spades, and that if the spade-makers found they were producing too many, so that the exchange value was less than the intrinsic value, they would stop their production and make something else, or even grow their own potatoes. To make an excess of a perishable article is to destroy wealth to the extent of the cost of its production.

Let us take another example. Suppose an improved spade is invented. Everyone wants it and might be prepared to pay for it more than it is worth, throwing their old spades away, when, although the makers of this new spade may make a fortune, the community will be actually poorer by its appearance until the labour saved through its use equals that required to produce the discarded spades.

Thus demand neither creates supply nor wealth, but results only in a transfer of the latter, the demand value or any increase in the exchange value over the intrinsic value merely benefiting the seller at the expense of the buyer.

In every transaction the party who has contributed the least labour to produce a given exchange value will benefit because of his better production; yet while the intrinsic value of every article is constant, the exchange value is variable, partly due to Nature, but more largely to man's *greed.*

If Economics, or, properly speaking, the Principles of Government, be a science, its laws cannot be subject to man's greed, and it is contrary to ethics and the social order that such a variation in exchange value should be permitted, particularly in regard to man's necessaries of life. We shall deal later with its prevention.

We have seen that exchange value, or price, = intrinsic value + demand value, but in practice it appears to be the cost and demand which affect the price, although to increase the price on account of the latter has no justification, and is merely a manifestation of man's frailties, like the desire to steal. On the other hand, it is evident that a man cannot permanently sell at a loss, so that the exchange value, or price, must exceed the cost, or exchange value = cost + profit.

From this it follows that intrinsic value + demand value = cost + profit, or if the intrinsic value = the cost, the profit = the demand value. This indicates that if our potato-grower produce on an average a value equal to his bare daily necessaries of life (which is his cost), yet, owing to demand for potatoes, receive in return a greater value of other necessaries, his profit is entirely due to and exactly equal to the higher price obtained through the demand.

It is possible also for his cost to be actually greater than the intrinsic value he produces, when, if the additional demand failed, he would receive for his potatoes less necessaries than he consumed in growing them, and would be poorer because of his inefficient production.

If, however, our producer be skilled, *e.g.*, a spade-maker or artichoke-grower, his cost is less than the intrinsic value produced, when, although the demand value be nil, there would nevertheless be a profit for the producer exactly equal to the excess of the intrinsic value he produces over that he consumes.

Thus, although cost affects prices (and on the average the intrinsic value produced must exceed the cost of production, or intrinsic value consumed, lest the workers starve), in so far as necessaries are concerned, their price should nevertheless depend upon their intrinsic value, and should not be allowed to vary constantly, but be fixed on the basis of cost, with a profit for the producer depending on the intrinsic value produced, an allowance to cover bad years being made where necessary from a reserve built up on favourable harvests.

In the foregoing argument we have considered only necessaries of life, and our arguments may appear, at first sight, somewhat unreal, because we have been brought up to take necessaries for granted, and to dwell continually upon luxuries. The fact is that we *want* luxuries, whereas we *have* to have necessaries. Only the very poor, who have had no opportunity to study the principles of economics, are grateful for their daily necessaries. So soon as babyhood is passed, the child wants luxuries. Not for him bread, bread and butter, and milk puddings, but cake, jam, and tarts ; in fact, in many households he has to be bribed to take his necessaries of life. The same lack of appreciation is apparent as regards other commodities than food and drink, and unquestionably in this respect " the child is father of the man," particularly of many economists. But it is only after man's necessaries are available, or in sight, that he can produce luxuries, and although most of these have some utility or intrinsic value, their high price or exchange value is due to demand, or it may be only to fashion. The world *lives* on necessaries, it *enjoys* luxuries, and the value to man of a pure luxury, such as a pearl or a beautiful picture, depends solely upon his opinion, which changes from day to day. Whereas our unit N measures the value of all necessaries and utilities, who can measure the gain to the world through the painting of a masterpiece ? Consequently wealth due to the existence of luxuries, or joy-wealth, cannot be measured, except relatively to that of necessaries, although it can be exchanged.

Thus, in an exchange of luxuries for luxuries it is impossible to say what is a fair exchange, or who has got the better of it.

If, however, we consider a producer of a pure luxury who desires necessaries, the amount of the latter he will receive in exchange will depend entirely upon the demand for his luxury, or its exchange value = its demand value. If there be no demand, the luxury has indeed no value, but then it never could of itself acquire any real value, for were all the articles of pure luxury in the world, such as pearls or artificial jewellery, thrown into the sea, it would be impossible to say by how much humanity was poorer, or whether it was poorer at all. On the other hand, if a man produce a necessary and no one wants it, providing it can be stored, he can use it himself, thereby enjoying leisure, or producing luxuries. The demand therefore increases the exchange value of a luxury, yet this is offset by the greater amount of necessaries sacrificed to obtain it, and the total value in existence remains unaltered. For instance, if a potato-grower buy a picture and give for it one ton of potatoes, both parties may be perfectly satisfied, but both are not richer. If the picture be a poor one and only the potato-grower's bad taste made him buy it, he may still be satisfied with his bargain, although if he try to sell the picture he can get no offer for it. His loss is, then, that ton of potatoes which the artist has gained. On the other hand, if he re-sell his picture and obtain the equivalent intrinsic value of two tons of potatoes, he is richer by one ton, but the painter is poorer by one ton than if he had sold direct to the second party, but so long as he is unaware of the fact he is quite content.

In the case of this picture, the exchange value, or price, = the demand value, which benefits the painter at the expense of the potato-grower, and if no one will buy his picture, the painter may die, although the same wealth, *i.e.*, the picture, be in existence.

When we consider the cost of production it is probable that the artist is better off by the exchange (and artists generally either do very well or starve), because he expends fewer labour-hours to produce his picture than were required to grow a ton of potatoes. Or again, when a potato-grower buys a fashionable hat for his wife, he sacrifices much labour for little labour and much intrinsic value for little intrinsic value, and loses wealth on the exchange, but is nevertheless satisfied, notwithstanding that the designer of the hat has the better of the bargain.

We see, therefore, that whereas in an exchange of necessaries that producer in the end should benefit who produces the higher intrinsic value per hour, in the case of luxuries one can only consider the exchange value; and although it is very profitable to produce luxuries, should the demand cease for them, the whole cost of their production would be wasted, so that it is safer to produce necessaries, especially if they can be stored. Further, the real cost of producing luxuries is also measured solely by the amount of necessaries consumed during the process.

We considered above a picture, or a luxury with no intrinsic value, because the truth is then more easily visible, but it is equally demonstrable where the article contains an intrinsic value also. Diamonds have an intrinsic value for cutting glass or as bearings for watches, etc., and a Rolls-Royce car has utility in its labour-saving capacity. Conversely, a machine-tool is finished off nicely to make it sell, and apples are polished to make them attractive in the greengrocer's window. The price of a motor car is its intrinsic value + a demand value depending on appearance, reputation, and number of cars available. The price of the machine-tool may be higher than that of a finer one which is not so nicely finished, and the price of the apples inside the shop is higher because those in the window induce you to think that the bulk are equal to what the latter appear. Thus, our equation exchange value = intrinsic value + demand value is universally applicable whether the demand be due to shortage or to fashion.

It cannot be over-emphasized that there is an eternal distinction between necessaries and luxuries, or, better, between the 'necessary' and 'luxury' value in all articles whatsoever, and that it is of vital importance for the exchange value of necessaries to be maintained as near to their intrinsic value as possible, after allowing for a definite profit for the producer. Liberty to raise prices on account of a shortage of articles essential to man's existence is a crime against humanity, camouflaged under the so-called 'law of supply and demand.' Many even of those who profess to be able to love the whole world believe in this 'law,' which is force naked and unashamed, far more barbarous than war, in which the other side has some chance, and if it be right for a set of men to hold up the community to ransom, man has indeed no obligation to his fellow-men, and civilization is non-existent. Why, feudalism is far preferable to the law of supply and demand (for the dependents were not, as a rule, starved), which, masquerading as liberty (its full title is "giving *free* play to the law of supply and demand"), is the worst form of tyranny humanity has ever suffered. The commercial tyrant has done no good in the world, although doubtless ignorant of the harm he has wrought, while many a despotic ruler has left a beneficent mark on civilization, and his people better off, for he could see the effect of *his* actions, and was, perchance, human.

If necessaries are the first consideration, and at least no sociologist dare deny it, the way to ensure a sufficient supply is for the nation, *i.e.*, the Government, to guarantee to the producers a profit, divisible among all, to be enlarged as the efficiency of the workers increases.

There need be no excess in the production of necessaries which cannot be stored, for even the early Britons must have known how much food they ought to grow, it being merely a question of population, and no one would want or should be allowed to waste his labour in producing food or necessaries which will never be used. With common-sense organization, if a country were self-contained, the price and cost of its necessaries would be practically constant, assuming an unaltered efficiency.

On the other hand, people can protect themselves in respect of luxuries, because the value of these being a matter of opinion, the same must also apply to the price; if this be thought too high, people say that the value is bad and go without the luxury.

The essential difference between necessaries and luxuries cannot be exaggerated. A change of fashion can destroy the whole value of a luxury in a night, but it never had any *real* value, while no opinion of man affects the intrinsic value of his necessaries of life. For instance, the value of a picture is variable and may become nil, but if so there is no waste to be made good before the world's wealth is again increased, and whether an artist paint a masterpiece or a daub is of little economic importance, for there is more economic loss in the destruction of ten tons of potatoes than there would be in that of the Venus of Milo, although one is replaceable and not the other. The world is, indeed, not richer economically for a masterpiece; in fact, it is poorer by the artist's necessaries of life.

The economic wealth of the world is measured solely by the total intrinsic value contained therein, for pleasure and beauty cannot be economically measured, and, as shown in Chapter III, the annual value of the necessaries of the inhabitants of the United Kingdom alone, which is independent of demand, exceeds £1,000,000,000.

The *recognition*, or otherwise, of wealth does not affect its existence, and to ignore the gifts of Nature merely leaves wealth potential instead of actual. For instance, the world to-day is richer by the food value of bananas placed upon the market, less the necessaries consumed by those concerned in the growing and handling of this fruit. Twenty-five years ago the banana represented potential wealth.

Disregard of the distinction between 'necessary' and 'luxury' value accounts for the extraordinary delusion that exchange, or trade, or anything but production, can produce wealth, and for definitions such as the following, from a professor of unimpeachable authority: "Value is governed by the relation of demand to aggregate costs of production, the chief of these being labour by hand or head," from which, assuming either factor alternately constant, on the one hand an infinite demand and on the other an infinitely small cost (or is it just the reverse?) can create an infinite value for a worthless article. And Economics is termed a science!

If the statement of the economists, that all value is due to recognition or demand, be correct, at what moment does value appear? If on the instant, it cannot, after all, be due to labour! For example, in buying food, at what moment is the value realized, before or after it is cooked? before or after it is eaten? Wealth being measured by value, if this be due solely to demand, a lunatic crying for a toy creates wealth, whereas he is merely prepared to sacrifice much accumulated wealth in return for little; or, again, the destruction of one article out of two might make the remaining one more than twice as valuable, and add to the wealth of the world, whereas there is an economic loss in any intrinsic value destroyed.

The real value of food to a man does not depend upon what he is prepared to exchange for it, and, should he be starving, so that one potato will save his life and he is ready to sacrifice all his possessions to obtain it, the result is an unfair advantage to the seller, but there is no enhancement of intrinsic value. Indeed, that potato will only keep the man alive for the few hours equivalent to its intrinsic value, when he will be starving again, so that he has to be saved once more, unless he, now ruined, be then able to feed himself. Further, his life may be of no economic value whatever to the nation or the world, as, for instance, if he were ninety years old.

Again, if one potato be worth £1000 becauses it saves a starving man, as suggested by our leading 'Intellectual' economist, the first mouthful must be equally valuable, and also the first infinitely small atom which passes his lips, so that this would have a finite value, which, as every mathematician knows, is impossible. Yet on such fallacies is founded the jargon of economists. No wonder that Economics has remained 'the dismal science,' and that its true principles are unrecognized by politicians.

The measurement of wealth is, as we have already shown, a vital question, for otherwise we shall know neither to whom it is due, how to increase its supply, nor how to apportion it, and we repeat that value is not governed by labour at all, but in the case of intrinsic value, or necessaries, measured by utility or our unit N, and in that of demand value or luxuries by man's opinion. Hence the less labour used in all production the better, the only relation between it and value being found in the fact that in the case of necessaries the intrinsic value produced must at least equal that consumed, otherwise the rest of the community suffers, and that in the case of luxuries continuous production is impossible unless the exchange value of the article produced is at least equal to the price paid for that labour.

Thus the sole object of a subdivision of labour is the production of a greater value in a shorter time, and as *wealth* exists so soon as the goods are produced, the necessary exchange can in no wise effect a further increase.

CHAPTER VI

THE NECESSITY FOR HANDLERS OF WEALTH AND THEIR ESSENTIAL DIFFERENCE FROM PRODUCERS

SUBDIVISION of labour increases wealth-production by allowing men to concentrate on one job and become skilled, but as the value of necessaries is decided by their power to support human life whereas that of luxuries is only relative thereto, its consequence, exchange of wealth, or trade, cannot increase the total value of that wealth, and merely causes its transfer. In fact, as we shall see below, when goods are once produced their exchange must decrease the total wealth available.

We referred in the previous chapter to the exchange of goods for services, but under primitive conditions, except for menials, practically all men were engaged in production, whereas to-day, of those employed in services, domestic servants form only a small, though necessary, section.

When men engaged in production exchange their labour for goods, the value of their services and the fairness of the exchange is decided by the intrinsic value of what they produce, or their relative skill. We will therefore now consider the services of non-producers, brought into being by trade, and a further subdivision of labour whereby some men are engaged solely in handling goods.

We have seen that the production of wealth is due to skill and brains, and that the amount or quality produced is a measure of the skill or brains employed, but it does not follow that skill and brains may not be advantageously employed in trade even though they *produce* no wealth.

We stated above that the exchange of goods actually decreases the total wealth available, and this is due to the fact that the non-producers have to be fed, clothed, and housed by the producers, *e.g.*, the transport workers who load and forward potatoes in bulk also eat them, for although they may not pilfer the trucks, they too must live.

It is evident, therefore, that as these men eat more or less potatoes per ton of goods transported, and that as the less they eat the more is the wealth available, a high efficiency in labour of all those engaged in trading operations, by reducing the consumption of necessaries, is equivalent to producing them. Nevertheless, just as the unskilled producer, without the assistance of implements due to generations of skill or brains, cannot of himself produce wealth, except in very fertile climates, and then not much, and by working harder or more efficiently can increase the supply only in direct proportion to such effort, whereas, with less labour applied, an invention can double the value produced, so the actual transport workers cannot save much labour although there be no limit to the amount of necessaries they can waste through inefficiency.

In fact, there is, on the whole, and relatively, but little skill in handling goods, or in any trading operations. It is true that those directing them must have intelligence and powers of organization, but a few such men can control thousands of workers, and even they cannot compare in superiority with the master producers. As for the other workers engaged on production, a large factory generally requires the brains and skill of a large number of specialists—that is, men who have spent laborious days and nights in mastering the technicalities or science of the particular industry and in keeping abreast of developments—whereas a handful of men can control the sale of the output, if it be wanted, and the intelligence required from the employees of traders is incomparably less. There is absolutely no comparison between the quality of the leaders and that of the rank and file, of producers and of handlers of wealth, and this must be so, man's glory being the power to create.

Subdivision of labour necessitates exchange of wealth or trade, and therefore also wealth-handlers engaged in trading operations, the justification for whom is an all-round economy in production; and there are others, such as shopkeepers, wholesalers, and, of course, some merchants, who handle finished articles, and whose work is to make goods accessible. Nevertheless there are many of these for whose existence there is no economic justification.

For example, a town has a number of grocers' shops which meet all needs of the inhabitants and make good profits. A new shop is now fitted up and filled with similar goods, but other shop assistants. The real cost of fitting up this shop and the maintenance of the assistants falls on the nation's producers, who have now to work longer hours, or can keep less of their produce for themselves. Now this new shopkeeper must draw custom away from the other shops, whose assistants will have more time to waste, but will consume the same amount of necessaries, and he does this by judiciously cutting some of the prices. To effect it he may beat down the producer's profits, or palm off inferior goods, or satisfy himself with a smaller profit for a time. If he adopt the last course the townspeople are better off by the same amount as the collective grocers are worse off. There is here, therefore, no communal increase in wealth, but a destruction thereof owing to wasteful competition, and the saving of the individual shoppers is effected in every case either at the expense of the middlemen, who are generally prosperous, or the mass of producers.

There are other classes of wealth-handlers to whom a desire to save national wealth is not even attributed, but who are merely wealth-handlers for their own profit—thus, the Stock Exchangers, many financiers, and quite a considerable proportion of those classes already referred to. We will not detail here those engaged in foreign trade, many of whom, as we shall see in Part III, actually benefit by causing a loss to the whole nation, but emphasize the fact that everyone *nolens volens* lives on the producer, who must 'economically' for ever be the enemy of the wealth-handler.

Thus the existence of handlers of wealth or middlemen is the penalty we must accept for a further subdivision of labour, and their cost is the first charge on any higher efficiency of production which may result.

Every *unessential* non-producer doubly reduces the amount of divisible wealth, first through being withdrawn from production, and secondly by diminishing the amount the producer may retain for himself.

If no other justification for this book existed, the pretence of the middleman that he is the best friend of the producer and consumer would provide it. We have already seen that the consumers, who of course include all the producers, can only benefit by cheap prices at the expense of their fellows, and while it is true that a middleman, who acts as a sole agent, benefits a certain set of producers, even then every order he obtains for his firm means a loss of a corresponding one to a competitor. Thus, there is here also no increase in total production, unless indeed the middleman can induce the customer to buy what he does not really need, when there is an actual loss of wealth, or waste, which must be made good by the producers working longer hours.

And what of the army of middlemen, the merchants, the commission agents, the factors, the shopkeepers, etc., who buy from anyone, and by setting producer against producer beat down their share solely to benefit themselves? We shall see in Chapter XI that this applies to both employers and their employees.

The non-producer, if he be occupied in service as a middleman, or a carrier, can only help to *create* wealth if he economize its consumption, and not merely does his profit represent a loss to the producers, but any unnecessary increase in his number, or labour, actually results in a reduction in the average share of wealth, because its amount is decided solely by the producers.

Now both the production and the handling of wealth are, and always will be, carried on for profit. The producer of wealth, *i.e.*, the man who produces daily a greater value than he consumes, originally claimed that he had the right to all of it, but, although this is no longer permissible in a civilized community, no one can deny that he is entitled to retain *some* share of this increased production for himself, which share we term his profit.

The profit of a wealth-producer, therefore, is not obtained at the *expense* of the community, because the latter is enriched by the greater amount of divisible commodities.

The profit of the middleman, however, represents no wealth increase, but merely a transfer from the producer to himself, for, although he *may* save some labour, that does not decide his profit, which may by far exceed it. Yet no limit is put on the fortune he may amass.

It is, by the way, astonishing that the essential difference between a producer and a middleman is not generally recognized.

A producer, whatever his craft, sets out to make the best articles he can for the market which he aims at supplying. Has anyone ever heard of an inventor trying to invent something inferior? The producer wants a profit on his article, or why produce it? If he finds the world will not pay the price for the best, he may have to sacrifice quality. Frequently the middleman makes him do so, yet he still endeavours to provide the best he can, and is there any producer who takes no pride in his products, or does not try to better his competitors in quality, or does not improve his output to the best of his ability? On the other hand, the middleman is only a stepmother. He buys and sells anything, and has no cause for pride in what he sells; he thinks only of his profit.

It is therefore essential to distinguish between the riches amassed through the production and the exchange of wealth, and to realize that the interests of the producer and the handler of wealth are diametrically opposed; indeed, it is into these two classes only that every nation is divided, for, all being consumers, they cannot form a class.

Nevertheless it is not possible to open a newspaper without finding a reference to trade, exchange, or buying and selling. It was the same before the War—the papers were full of it and its vital importance. The cry "Business as usual" during the War is not forgotten, and to-day it is "Trade after the War," and so forth. True, production is now also mentioned, but it is not recognized that trade is merely its consequence. Apparently the greatest calamity that can happen to a nation is anything that interferes with its trade. No wonder that Napoleon said that the British were a nation of shopkeepers!

How often do we read and hear of the 'romance of trade'! Was there ever any romance in trade, or had the 'romance' really anything to do with trade? What is the meaning of 'trade'? What more does it stand for than the exchange of commodities or goods? Is there any romance in that? Is there romance in exchanging a sack of potatoes for a sack of apples? Is there anything more than this in trade? Yes, there is romance—at least there *was* variety, adventure, risk, etc.—connected with foreign trade. There is romance in travelling, in going to strange countries, in exploring and seeing what is as yet unknown to those who stay at home. There may be romance to-day in travelling, but to travel in order to exchange commodities surely does not heighten the romance. To travel or go into danger for the sake of sport, adventure, discovery, science, does indeed enhance the romance of travel, but to travel for trade! To go into unknown countries with a pack of cheap cottons and exchange them for ivory is only romantic until the exchange begins. At that point, is the romance to be found in obtaining a good bargain or a bad one? To get more from ignorant people than is fair, is that romance? To get less is either foolish or philanthropic; is the latter, forsooth, allied to trade?

Trade follows the Flag, *i.e.*, the romance has preceded the trade. Again, a trader dies and leaves a million. He started with nothing. That is called a romance. No question is asked how that million was amassed. At whose expense? Certainly it must have been at someone's, because, as we saw in Chapter V, creating demand, or making goods available, cannot create wealth, which exists as soon as the goods are produced. It is the profit on the exchange, not the exchange itself, which built up that million. Whose life or blood pays for this profit? And has the trader added to the wealth of the nation?

Fortunes are amassed at home in trade, buying and selling. A shopkeeper makes a fortune. Has he done anything to enrich the nation? Not by one halfpenny. Has the banker enriched the nation? and who pays for his palaces? Why, the producers to be sure; there is no one else *to* pay.

There is no difference in principle between the village grocer and the great department store. A big store may reduce the average middleman's profit, although the display and his riches make it doubtful, while their sometimes lower prices, unless there is a real increase in the total efficiency of wealth-handling, are obtained mostly by reducing the producer's profit, which, if it be not enormous, must lower wages. No one is really better off for palatial stores, and who pays for them? Surely the producers! A newspaper article states: "Gordon Selfridge has written a book about business and romance. Almost he persuades us *all* to become Merchant Princes." Shade of Napoleon, a nation of middlemen indeed!

Further, apart from politicians and lawyers, it is traders who influence government policy, and for their own benefit. Nothing should interfere with trade, they say—that is, the exchange of commodities—or the nation will suffer. Does this really mean that the traders will suffer? Would that matter to the nation? They do not necessarily enrich it. Why are traders necessary at all, and why are so many necessary? What are their functions? A direct exchange of a sack of apples for a sack of potatoes requires no trader, and neither party is richer after the exchange than the moment before, presuming that the two commodities have equal intrinsic value. Yet there is a widespread delusion that the creation of wealth is due to trade. What is any trader—that is, a man handling wealth—but a middleman? Are middlemen necessary? Yes, to some extent they are, because it is not always practicable to bring producer and the user of his product into direct contact, notwithstanding that trade so originated.

There is to-day little direct exchange because it is not convenient, and hence the middleman. He does not improve the goods he handles—in fact, he reduces the total intrinsic value available by his expenses and his profit, like the transport workers and the potatoes, and therefore increases their price. How then does a trader, a small local shopkeeper, obtain his living, or a large one, a big store, or merchant, amass wealth?

From two sources. Firstly, from the buyers, usually called the consumers, and secondly from the producers, not generally recognized as the workers (productive labour), who are the principal consumers also. The middleman asks from the buyer the highest price for his wares that he can get, as much more than he paid as he can induce the latter to pay. If there be a shortage of the commodity, up goes his price. The profiteer is known at last. The actual cost to the nation, *i.e.*, consumption of necessaries in producing the goods, does not enter into his calculation. The middleman (if fortunately he be limited to one) gets his supplies from the producers or workers. He beats their prices down, being aided therein by rivalry of one producer against the other, not out of love for the consumer, but for his own benefit. How great this benefit is, the enormous fortunes made by middlemen in a few years clearly demonstrate. Figures would probably show that, apart from the advance due to higher wages, most of the rise in prices during the War was due to the various classes of middlemen.

The producer's price is based on his cost. The producer's capital, risk, and skill (is this the romance?) are incomparably greater, yet he is satisfied, as a rule, with a reasonable average of profit on his cost. The producer must also wait a far longer time for a return on his capital, because production or manufacturing are not done in a day. For him there is no pretence of "small profits and quick returns."

There is no *comparison* between the education, ability, and brains necessary to control production, as opposed to selling. It is the expert knowledge, efficiency, and inventiveness of the producer which enable the middleman to compete or offer a better article, or better value. Indeed, while one man with an unskilled staff can sell to the value of millions yearly, he could not produce the articles in which he trades; nor was it the middleman who in the four years of the War enabled Britain to equal, and in many ways to surpass, Germany in the efficiency and quality of production, in spite of two generations of neglect.

Nevertheless, the middleman is necessary; the community cannot do without him; but he cannot do without the producers, although they do not seem to be aware of the fact. The middlemen frequently combine and endeavour to dictate to producers. In addition to ever new shipping combines there are numerous combinations of banks, insurance companies, etc. The nation does not object. The result is more profit for the middlemen, their number is ever on the increase, and rarely is there only one middleman between producer and buyer.

On the other hand, a combination of producers, which would reduce the *real* cost of production and increase the *national* wealth, is considered detrimental to trade, and arouses murmurs of ‘trusts,’ and ‘monopolies’ in the place where our laws are made, whence it appears that our middlemen law-makers think of their own interests only.

There are but two classes of commodities, necessaries and luxuries. As regards the former, the trader adds to their cost before they get to the people who *need* them. As there is at present a shortage of necessaries which is likely to continue for some years, there will not be romance in selling them. The buyers will clamour for them.

Now let us consider luxuries. How are they made available? Through trade? Certainly not, but solely through production, primarily because the production of necessaries being intensified, and the demand for necessaries consequently being satisfied, labour is set free for producing luxuries.

When luxuries are once produced, even if the middleman creates a demand for them, he does not increase their value, which we have shown is only relative to that of necessaries, nor the amount of wealth which they represent, but only their cost and price. It is true, he may provide opportunity to dispose of them, but very rarely does he make a market for them; that is, again, generally due to the producers. The producer generally takes most of the risk, not the middleman. The middleman claims that he stimulates production, but, unless this means that he encourages waste, he merely provides the opportunity for exchange when the labour and the goods are available. That is the sum total of his service. He does not really obtain a better price for the producer, as this depends primarily on value, although also on competition, or demand; in fact he reduces the producer's profit by his cost. Frequently he sells foreign goods, often, as we shall see, to the detriment of the home producer.

When a middleman takes advantage of 'demand' to put up prices, his action usually benefits few individuals only, whereas a producer is intimately connected with his workers as one of them. The middleman requires generally less capital and contributes far less to the cost of government, both national and local, in taxes, rates, cost of gas, water, electricity, street maintenance, etc. He employs mostly unskilled and low-waged workers, for only a small proportion of clerks are really skilled and a few accountants can handle a very large turnover, and his profit is made entirely at the expense of the producers and consumers.

It should also be noted that the farther from the producer one buys, the less the price depends upon original cost, and the more on supply in relation to demand, and profiteering. Production almost always precedes demand by a long period, and variation in demand is not due to the producer as a rule, but is a 'temporary state.' The producer rarely hoards—in fact, he generally cannot afford to do so.

As far as our *enormous* home trade is concerned, it is obvious that the middleman, although necessary, cannot increase the nation's wealth; and are not the foregoing considerations also applicable to foreign trade? Is foreign trade any measure of a nation's prosperity? Many people think it is, but obviously a nation can become wealthy with no foreign trade to speak of, providing it has its necessary raw material and can produce its essential requirements. If it does not possess its raw material, it need import only raw material or what it *cannot* produce. We shall prove later that whether foreign trade benefits a nation depends upon *what* it exports in exchange for its imports, and a balance of exports over imports is no more an indication of national wealth increment than a balance on an exchange of goods between individuals is proof that the debtor has made less profit than the creditor.

We have, indeed, a Board of Trade, but there is no sign of a Board of Production, albeit only increased production benefits the whole nation, whereas the latter is impoverished by the army of unessential traders, whose interests are diametrically opposed to those of the producers, who *nolens volens* provide for the whole community.

In addition to the essential handlers of wealth, who, so far as their work, if not their profit, is concerned, are, or should be, the servants of the producers, anyone who is engaged in saving human life or labour ranks economically as a producer. Thus, doctors, architects, accountants, engineers, the clergy, may be producers, according as their work is good or bad. A doctor who saves a productive human life increases production. Architects and engineers, by using labour and material to the best advantage, save labour, and thus increase leisure or permit of a greater number of producers. Religion, when it helps men, influences their actions for the well-being of mankind; creative artists are also producers, if only of joy-wealth, and the stage has its place by affording relaxation which stimulates man to fresh effort. Further, as laws are essential, those who make good ones, those who interpret them, by avoiding time-wasting disputes also rank as producers; but a large proportion of the activities of lawyers is an appalling expenditure of brains which could be employed productively to better purpose, and the fortunes of lawyers frequently represent merely a transfer of wealth. The same applies to representatives of the people in parliaments and councils. By their fruits ye shall know them!

Having enumerated the various classes of wealth-producers, it is now clear who is the greatest of these. The output of an individual is generally limited by his own capacity, and such emulation as he can inspire others to attempt, whereas the possibilities of a teacher increasing the well-being of humanity are almost incalculable. His raw material is youth, from whose character, which he can develop, the material and moral wealth of the world is derived. But if this be true it is first of all essential that the teacher himself recognize his importance, responsibilities, and opportunities. Not only must the right to teach be limited to those who have a talent and love for the profession, but cleverness, or superiority, shall not of itself be a passport thereto. The object of a teacher must not be to impose his own individuality on his pupils, but to develop theirs, and this obviously requires a special temperament, as well as knowledge.

And when the super-producer is properly paid, so that the master mind is attracted to the profession, what new ambitions is he to instil into his pupils? The children of the poor are naturally taught to earn their living, but no distinction is made between the actual production of wealth and the transference of it from others; in fact, to get rich with the least possible exertion is the ambition inculcated in the schools. The necessity for work is obvious, but the dignity of creation is ignored, which is hardly surprising when teachers themselves believe that wealth is due to trade, and fail to recognize the fact that from production alone arises the well-being of humanity.

Further, just as labour can be used to produce or to handle wealth, so can capital, and the same arguments apply with regard to the individual or national benefit derived therefrom, although here also no distinction appears to have been made. Capital being essential to the production of man-wealth, its withdrawal for the purpose of handling wealth reduces the amount available for production. Thus the amount of both labour and capital devoted to other purposes than production, unless for necessary services and improvements in which all benefit, is a matter of primary concern. We shall see later that the more skilled an industry the more capital it requires and the more wealth it produces per worker, so that the most productive industries should have the first call on capital.

In addition, to *produce* a large quantity of goods requires, in general, far more capital, with, under our present anti-economic conditions, far more risk, than to handle it, and requires also, as we have seen, far more brains and skill, so that, as shown in Chapter XI, the reward of both capital and labour should depend upon the benefit to the community derived from their use and service.

That these truths are overlooked is apparently due to the fact that in the cities, where the middlemen do congregate, are the seats of government, and the producer is comparatively out of sight and forgotten. Yet even the towns were entirely built by the producer.

CHAPTER VII

THE INTRODUCTION OF MONEY

IN the preceding chapters we considered the principles governing the exchange of wealth, or trade, assuming an exchange of the goods themselves, and, although in practice this would be very inconvenient, the necessity for money, or tokens, does not arise solely because of it. Another compelling reason is the almost infinite variety in the comparative values of details of our daily requirements. Thus a man producing one article only could not divide his product, *e.g.*, one who has made a table would be unable to purchase a *single* reel of cotton, and so money or some other token is practically essential for exchange.

Most people know, or pretend to know, that money is only a token. They have read so, or been told so, and therefore assume that it must be true, but even those who ought to be most certain of it and are most affected by the fact, expose, as we shall see, their forgetfulness by their actions. We repeat like parrots, "Money is not wealth but a token therefor," yet seeing a man with lots of money and knowing that he is wealthy, we do not really believe it, or if we do, think the point is a theoretical one which does not concern us. We also know that there are other sorts of money than ours; that some savages use sea-shells, and that many boys find that marbles answer the purpose. William Penn, who conquered the American Indians without the use of weapons, whence a boy deduced that "the pen is mightier than the sword," is said to have used beads, the education of the Indians being insufficiently advanced to appreciate pens!

Although shells, marbles, and beads have thus been used, it is evident that tokens should not be readily counterfeitable, nor should the individual be permitted to choose or make his own, hence it is customary to use material of some scarcity, not because it has a high value, but because its supply is generally more easily controllable by those in authority. It is also desirable that tokens should be hygienic.

Gold and silver are to-day, therefore, the chief tokens, but their value as such is purely artificial and quite distinct from either their utility or luxury value. Thus, if we discontinued the use of gold for money and substituted platinum, the price of gold might go up or down. If the world then discarded gold ornaments, so much gold exists beyond the quantity needed in industries that it might become almost as cheap as copper. On the other hand, it is reported that the present cost of mining gold in South Africa nearly equals its exchange value, and that being the case, were the world dependent on this source of supply it would be within sight of having to pay more for it than its intrinsic value in money or of finding a substitute.

Paper is also largely used as a token, and there is no *economic* reason why a community should use any other. It is true that it would be inconvenient to have many sorts of paper money, and counterfeiters might get busy, yet there is no reason why, in place of gold, the world should not agree on an international paper currency, controlled, perhaps, by the League of Nations. The sole difference between gold and notes, as a token, lies in the fact that whereas notes are guaranteed by nations, gold is accepted by the world, yet everyone knows that their relative value is for ever changing, and notes are sometimes worth more than gold.

Money being merely a token for wealth, were it all thrown into the sea, the wealth which it represents must remain unaltered (excepting as regards the intrinsic value of the lost metal). Those who had held the money would be ruined, while those who held the goods would be richer by an equal amount, for with the disappearance of money goes that obligation to redeem it which gives it value, *e.g.*, if an individual burn a £5 note, the Government, *i.e.*, the rest of the community, gains £5. The same applies if an individual destroy postage stamps.

Money, then, being a token, it will be useless to a man on a lonely island. On the other hand, if the amount of money which each person possessed were suddenly doubled, all would not be twice as rich, nor indeed any richer. Money is a token merely, but the constant and universal clamour for higher wages is a proof that the fact is not realized.

It cannot, further, be denied that a man, even in this country, can be wealthy with large possessions yet little ready money, so that it is of real importance to know what decides the value of money, not under freak conditions, but normally, and then to test the universal application of our knowledge.

The statement that " the value of money is decided by the amount in circulation relative to the commodities available," is no more helpful than is its description as 'a token,' for how can we measure, or what decides, the amount in circulation, and is it immaterial of what the commodities consist? It is obvious that the mere issue of money cannot affect its value, and would millions of motor-cars, or unlimited tobacco, make potatoes cheaper? Let us again begin at the beginning, and consider how money first acquires its value, and the causes of any subsequent alteration thereof.

THE VALUE OF MONEY.—We need not go back to the savages, because, although they used tokens to some extent, no recognized value was attached to them, and we will therefore contemplate a simple civilized community employing a subdivision of labour which necessitates exchange and the use of money.

If an island like Britain (we are considering at present only *national* economics) have a population of forty millions (and at a given second on any day in any year it *has* a definite population) it must hold on a given morning (in Chapter III we showed that we can correctly ignore seasons and harvests) sufficient necessaries for the day for that number of people.

Let us assume first that each man is a producer and produces only necessaries of life, but not of the variety he requires, nor any excess beyond N, and in H hours. If he then sell these to obtain the variety of necessaries, he must receive in exchange enough tokens to enable him to purchase N, or his complete daily necessaries of life. If this number of tokens be T, their value is defined; they must purchase N, and every man, even the most unskilled, must produce a value and must receive in exchange for his day's product, or H hours' labour, on the average, T tokens, or N goods. Thus, if man lived only on potatoes, and required ten pounds *per diem*, their price is T tokens, and the purchasing power of money is definitely decided. The fact that man requires a variety of necessaries does not invalidate our argument, for we have already dealt with their fair rate of exchange, or relative value.

Thus, where all are producers, and sufficient necessaries of life for the whole population only are produced, the value of money is decided by the number of tokens paid to each producer, which enables him to obtain his daily necessaries of life, N.

We have already seen that, owing to further subdivision of labour, all men are not producers. All must receive their daily necessaries of life, however, whence if three-quarters of the total number of workers now produce just sufficient necessaries for all, and one-quarter handle them, each producer can only retain for himself three-quarters of his produce, which must, nevertheless, equal N.

He must therefore produce $1\frac{1}{3}N$, in H hours, unless he is to be worse off through the subdivision of labour, yet if he desire to sell these, in order, once again, to obtain the variety of necessaries, he will only receive T tokens for $1\frac{1}{3}N$, because he is only entitled to retain for himself, or purchase for himself, a quantity of necessaries, N. Obviously, if the producer obtained $1\frac{1}{3}T$ tokens, he could buy with them $1\frac{1}{3}N$, and there would be no necessaries left for the non-producers, who would perish.

Thus the producer now actually receives $\frac{1}{4}$ less tokens than correspond to his production, in order that the non-producer receive this proportion. Expressed otherwise, each non-producer, or wealth-handler, abstracts $\frac{1}{4}$ from each of three producers' output for himself, making a total of N.

This confirms our statement in previous chapters that the producer, *nolens volens*, must support the whole community, and that in a civilized state, *i.e.*, where men are not allowed to starve, he must surrender a part of his produce. Consequently, although the producer is now, through a subdivision of labour, more efficient than he was, yet this higher efficiency is wasted owing to the cost of handling the goods, and the value of money, therefore, remains unaltered, because T tokens will purchase only N.

Thus, where some men are not producers the value of money is decided by the number of tokens paid to the producer of necessaries for that share of his production which his relationship to the community entitles him to retain to himself, or which he must exchange in order to obtain the complete necessaries he requires. The value of money rises, therefore, as the ratio of non-producers to producers falls.

Returning again to our assumption that all men are producers and of necessaries only, we will now presume a higher efficiency of production, and N produced in, on the average, $\frac{9}{10}H$ hours, when, if T be still the price of N, it is paid for $\frac{9}{10}H$ hours' labour. That is, every man receives more tokens per hour, or if he works H hours, he will produce $\frac{10}{9}N$, and have a surplus of $\frac{1}{9}N$ necessaries or of $\frac{1}{9}T$ tokens after purchasing his N. Alternatively, if the rate per hour remains the same he would only receive $\frac{9}{10}T$ tokens for $\frac{9}{10}H$ hours' work, yet this would purchase N, which now costs $\frac{9}{10}T$ only, and the value of money for the purchase of necessaries has increased as 10 to 9.

This is also clear even in the case of men deciding to work only $\frac{9}{10}H$ hours, for as the cost of production is the necessaries consumed during that process, as shown in Chapter III, it depends on the number of hours worked. N, therefore, now costs $\frac{1}{10}$ less than before, and the value of money has risen proportionately. Indeed, although the men may still receive T tokens for $\frac{9}{10}H$ hours' work and have no surplus of necessaries, the T tokens will purchase not only N, but one hour's leisure in addition—leisure, as we have seen, being the first form of wealth provided by a surplus of necessaries. The value of money, therefore, also rises with an increase in the efficiency of production of necessaries.

We have assumed here that all men are producing at an identical rate, but let us now suppose that half the producers remain unskilled, and the other half become skilled, producing thereby $\frac{11}{9}$ of N in H hours, when the average production would be the same as assumed above. If, then, each class be entitled to that number of tokens which corresponds with its production, the value of money having risen as 10 to 9, the unskilled will only receive $\frac{9}{10}$ of T tokens, which will purchase their N, while the skilled will receive $\frac{11}{10}$ of T tokens.

On the other hand, did the unskilled still receive T tokens, yet were only allowed to retain what they produced, viz., N, the skilled would have to receive $\frac{11}{9}$ of T tokens in order to purchase $\frac{11}{9}$ of N, and we should artificially have kept the value of money at its old level, despite an increased production. In this case it is obvious that a greater number of tokens would be required to cope with an increased supply of necessaries, assuming the rapidity of circulation of money to be the same as before.

So far we have considered the distribution of wealth in accordance with the value produced, but if we now alter this distribution, say, make it equal in spite of the unequal production, the unskilled will receive T tokens as well as the skilled, and these will purchase not only N, but $\frac{1}{9}N$ in addition, whence the effect of an alteration in distribution is merely to alter the number of tokens paid to various classes.

The arguments in the preceding paragraphs hold good as concerns the further subdivision of labour assumed on page 76, whereby a quarter of the men are not producers, if, through a higher efficiency of production, the amount of necessaries obtained from each producer in $\frac{3}{4}H$ hours be $\frac{10}{9}N$.

Thus it appears that, considering necessaries of life only, the value of money, or its purchasing power, rises proportionately with a higher efficiency in their production, and with an increase in the number of producers as compared with non-producers. This is equivalent to saying that the value of money for the purchase of necessaries rises as the average number of hours falls which their producers have to work in order to provide enough for the whole population.

Let us next assume, again ignoring non-producers, a further increase of efficiency in the production of necessaries, which now require, say, only $\frac{1}{2}H$ hours, and let, therefore, half the workers be engaged on them, and the other half on the production of luxuries. The former, producing $2N$ per day, can only retain for themselves half the result of their labour, or N, for which they receive T tokens for H hours' work, but in addition they are entitled, assuming equal skill and an equal wealth distribution, to receive from the luxury producers, whom they support, in exchange for their surplus necessaries, half the amount of luxuries produced. Thus, T now buys N plus some luxuries, but *their* value being, as we have seen, purely a matter of opinion, and relative to that of necessaries, we can only say that the purchasing power of T is N plus a luxury which may be valueless.

If, indeed, we assume that the 'luxury value' produced per hour is equal to the 'necessaries value,' the value of the commodities available is doubled, and corresponds to a similar increase in that of money; yet not merely is this assumption, as we know, untenable, but the workers who should have produced luxuries might have produced nothing, enjoying the luxury of leisure at the expense of the producers of necessaries. On the other hand, had the work been equally shared, all workers would now enjoy a working day of half the length, obtaining their necessaries as well as $\frac{1}{2}H$ hours' leisure. Consequently the value of money for the purchase of necessaries would have doubled, despite no increase in the quantity of either necessaries or luxuries available, because the former are now obtained for $\frac{1}{2}H$ hours' work, and in the remaining half a complete supply of necessaries *could* have been produced as an alternative to the enjoyment of leisure. An increase in the amount of commodities is obviously, therefore, primarily attainable through a greater efficiency in the production of necessaries, the value of money for the purchase of which is unaffected by the production of luxury value.

The converse, however, does not hold good, for the cost of producing luxuries with a given efficiency is the consumption of necessaries of those workers employed thereon, so that, ignoring the question of profit, or considering its percentage constant, the value of money for the purchase of necessaries must decide also the price of luxuries, or the purchasing power of money generally. This conclusion is but natural, for man *must* produce his necessaries first, hence the value of money is decided before luxuries exist.

We have assumed in the above that the wealth produced is equally distributed, but all men are not equal, nor equally deserving, and never will be, and if the least fortunate were to receive only their necessaries of life, and no share of luxuries, it is evident that they would be interested only in the value of money for the purchase of the former, or the number of hours' work requisite for obtaining them. Nevertheless, assuming a constant distribution of wealth and proportion of producers to non-producers, it is obvious that the value of money will rise as the total number of hours required in the production of necessaries of the whole population decreases, for this decides also the amount of luxuries, or leisure, divisible.

Further, apart from the distinction between the production of necessaries and luxuries, the value of money is *not* decided merely by the commodities available, because an increased output might be due to longer hours of work necessitated by a *lower* efficiency, when money would consequently buy less leisure for the workers. The advantage of an increased output from the producers might also be lost by an increase in the number of non-producers, or by waste, both of which, as we have already seen, must decrease the value of money by reducing that share of the result of their labour, *i.e.*, commodities and leisure, which the producers of necessaries, who *must* live, are permitted to retain to themselves.

On the other hand, an increase in the amount of necessaries available with the *same* average hours of labour per man to produce them, does show that the purchasing power of money has risen. The cause of this, however, is either a higher national efficiency, or a smaller number of non-producers, of which the increased supply is but the effect. The practical importance of this truth is evident when we consider how much easier it is to watch the relative efficiency of production of each group of workers, than to arrive at their total production, even if we do divide by the number of producers.

We will repeat that the value of money for the purchase of necessaries also decides the cost per hour of producing luxuries, for this is merely the necessaries consumed by the producers of luxuries, whence the cost of the latter must depend upon the price of the former, and the value of money for the purchase of necessaries decides its value for the purchase of luxuries. On the other hand, although it is evident that, just as in the case of necessaries, an increased production of luxuries per hour, due to a higher efficiency, will increase the value of money for the purchase of luxuries, the cause of which is again the efficiency, the availability of luxuries being only the effect, it has no influence on the value of money for the purchase of necessaries.

Further, as necessaries must be available before luxuries can be produced, the fewer workers required to produce the former, the greater the supply of the latter can be, and the amount of necessaries required for a given population being constant, whereas our desire for luxuries is insatiable, only an increase in the total efficiency of production can yield both leisure and pleasure.

Man being unable to live on luxuries, and their value being relative to that of necessaries (although the price of luxuries, or the value of money as regards their purchase—of course we mean luxury value—will fall with increased efficiency), it is clear once more that, assuming a constant proportion of non-producers, the value of money is decided primarily by the total number of hours that the producers of necessaries have to work. This latter indicates the well-being, or otherwise, of a nation, for the lower the average number of hours' work required of all to produce daily the necessaries of life, the more luxuries can be produced, the more leisure can be enjoyed, and the greater the number of superior men who are set free to develop themselves and impose their superiority upon their fellows.

The delusion that the amount of commodities available decides the value of money is due not only to failure to distinguish the essential difference between intrinsic and luxury value, but also to that irrational doctrine which sees no well-being save in the possession of material wealth.

We have shown that the value of money is not decided by the amount of commodities available, nor does the *quantity* of money in circulation decide it, for not merely is it impossible to say how much is in circulation, but, were this the factor, the rapidity of its circulation (*e.g.*, wages paid twice instead of once a week) would affect the quantity, and therefore the value of money, without any alteration in the availability of commodities, efficiency of production, or number of non-producers, which is absurd. Indeed, other things remaining unaltered, it is the value of money which decides the amount actually in circulation.

Similarly, an increase in the amount of currency issued, whether it be gold or paper, has no influence either on the amount in circulation or on the value of money, for although the necessity for such an increase is an indication that the value of money has fallen, assuming a constant production, it is only the effect thereof, and not the cause.

Further, according to the theory that the quantity of money in circulation affects its value, if goods came into the country and money went out, its value would rise! It is clear, therefore, that so long as the number of tokens paid for N remain unaltered, an unlimited supply of money would make no difference, all prices being decided by their relation to that of N.

Consequently, the value of money, or its purchasing power in any country in any year (or on any day, if we ignore seasons), is decided by the number of tokens paid on the average to the producers of necessaries for that share of their produce which, owing to their relationship to the community, they must exchange in order to obtain their own full necessaries of life. Obviously, if the producer of necessaries, who first gives money its value, raises his price, he depreciates its value artificially, but as he must now surrender more tokens to obtain his necessaries, he does so equally against himself, for all prices should now rise proportionately.

The value of money for the purchase of luxuries is now also decided, for, as shown in Chapters IV and V, the value of the latter is purely relative to that of necessaries; indeed, once the nation's necessaries are produced, no one can say whether it were better off enjoying material luxuries or leisure.

In a civilized State where all men cannot be producers, the value of money rises, therefore, as the efficiency of production of necessaries increases, and the number of non-producers is reduced.

We promised above to test the conclusions at which we should arrive. Thus, that under normal conditions the value of money does not vary much from year to year, nor improve very rapidly, in spite of the constant introduction of ever new labour-saving devices, is due to the fact that no serious attention has been devoted to the contributory factors.

For instance, until the War, the importance of a nation's producing its own necessaries, and with the highest efficiency, was completely overlooked. Indeed, Britain imported a very large percentage of her necessaries, and we shall see in Part III why the exports wherewith she paid for her necessaries corresponded to a most inefficient and unprogressive production. Hence any increase in the value of money could not be anticipated.

Further, every thoughtful observer has remarked upon the appalling waste and thriftlessness prevalent in Britain, without realizing that to waste goods when they are produced is actually equivalent to not producing them, or to stultifying the advantage of labour-saving devices.

There is no doubt also that a large part of the wealth and power of France, in spite of smaller natural resources, as well as her happiness, arises from the real thrift of her people; indeed, thrift means well-being, whereas waste spells poverty.

Let us now subject our conclusions to the test of war.

It has been remarked that every considerable war in the past caused an increase in prices, and this, as we have shown, is but natural, for owing to the number of men withdrawn from production, and put to destruction, and the increased number of non-producers, that share of his day's work which each producer of necessaries is entitled to retain for himself has been largely decreased, with the result that, as we have seen, the same number of tokens purchases correspondingly less necessaries. Nevertheless, the real cause of inflated prices as a consequence of a war has been obscured, for the following reasons:

Although a rise in prices seems inseparable from war, there is nearly always some surplus of necessaries, or stock, and consequently if the war last only such a short time that this is only just exhausted, there *need* be no advance in prices. Nevertheless, history shows us higher prices even in short wars, and we said 'need' advisedly, for there is another non-economic cause for price increase in war-time, viz., man's greed—otherwise, our old friend the law of supply and demand.

What more 'natural' than that prices should rise? say the authorities, who believe in giving free play to the law of supply and demand when there is a shortage. Thus in the Great War it was only after several years, and when great unrest had developed, that the prices of necessaries were controlled by the governments. These prices, as we know, decide also the money cost of production of both necessaries and luxuries, as well as of war material. It is obviously not so reprehensible to attempt to profiteer in luxuries, because the public soon learn to go without them, when the profiteer may be hoist with his own petard.

We must not, however, forget that so far we have considered only a self-contained nation. It is obvious that a nation cannot control profiteering at its expense by other nations, but it is clear that if it produces its own necessaries —the first duty of a nation and its government—it will at least remove the opportunity to do so.

The production of its necessaries of life is manifestly of vital importance to a nation if it is to enjoy a real independence. From this point of view the importance of producing necessaries arises *out* of human frailty, and is not due to economic principles.

We have discussed a natural cause for an advance in prices, through war, and one due to human frailty, but there is yet another which is purely artificial. We assumed, for instance, that T tokens purchased N, because every monetary system must start with one assumption, but had we decided on a larger number of tokens, say $2T$, to purchase N, the purchasing power of each token would be exactly half. The selection of the primary value of a token being purely arbitrary (and we have discussed merely what subsequently decides it and causes variation therein) it is obvious that the rulers of a country may alter it at any time. Thus a decree that $2T$ tokens be paid to every man producing his N would immediately halve the value of money, and all would have to receive more tokens to enable them to purchase their N—in fact, any arbitrary increase in the number of tokens paid for N, or the labour which produces it, must decrease the purchasing power of money, and only if increased payment is followed, *pari passu*, by increased production does the value of money remain unaffected. Herein is indicated an important factor in the depreciation of the value of money during the War, and so long as present economic practices and rates of production continue, its recovery is an impossibility. Nevertheless, a nation's wealth does not depend upon the value of its money, for if all wages were cut down by 50 per cent. the sovereign would recover its greater purchasing power, without, however, prosperity being increased.

It should now be clear that not only the efficiency, but the occupation of every person affects the value of money. In our so-called civilization, however, it is actually permitted to an individual to spend his life and efforts amassing money, regardless of the fact that he is abstracting it from the pockets of others, and at the same time depreciating its value, *e.g.*, by becoming an unessential non-producer. It is true that a variation in the value of money must follow automatically and naturally, even with a constant efficiency and ratio of producers to non-producers, from good and bad harvests, new inventions, etc., but much of it is due to the manipulation and the greed of man, etc., as is still more evident when we consider wages, the introduction of which enormously extended the pernicious habit of thinking in terms of money.

Although money is not the root of all evil, the widespread delusion that money, whatsoever its form, is wealth (a paper to prove that gold is wealth was read in 1918 before a learned society) is responsible for many other misconceptions. This constant thinking in terms of money as wealth has led mankind to try to make money, to get more of it, to get rich in money, although we have seen that this can only be done at the expense of another, or of all others. The counterfeiter is looked upon as the concern of the Government, yet if successful it is the money in the individual's pockets that he depreciates, but so does every non-essential middleman. On the other hand, the man who *makes wealth*, unless he keep it all to himself, which is not possible in a civilized community, benefits not only himself but all his fellows, by increasing the value of money.

Similarly, while extravagance in money only hurts individuals for the benefit of others, waste of commodities is a crime against the community.

As examples of the confusion between money and wealth, we may cite a contents bill of a leading London financial journal: "MONEY STILL TO BE MADE." An author of books on Reconstruction and International Relationship speaks of 'spinning' money, and the expression, "London the centre of the World's Money Market," is well known. Now to 'make' or to 'spin' money savours of counterfeiting, or legerdemain, and that such ideas are widespread is shown by the issue, and booming in the public press in 1918, of a book entitled *The Great Plan*, wherein payment for the War, without hardship to anyone, was to be effected by means of an issue of £50,000,000,000 worth of bonds guaranteed by the Allies!

The same illusions are also responsible for the belief that Germany cannot pay the full cost of the War, and that she can only pay in money or gold. Yet German money, if to be any use to us, must ultimately go back there to purchase German goods, the price of which she could then advance against us artificially. Nevertheless it is obvious that the real limit of her annual contribution is her total production less only the necessaries of life meantime of all her inhabitants, and that it is independent of her supply of money. Now an Austrian economist has suggested that, with modern methods of production, a nation can produce its daily necessaries of life in an average working day of only two hours, so that if this be true, and we calculate the money value of those of Germany to-day at, say, £1,500,000,000 per annum, did she work a ten-hour day (and why not until she has paid for her crimes?), she could contribute annually goods to the value of £6,000,000,000 even after allowance for the seizure of her irreplaceable raw material such as coal, potash, iron ore, etc.

We will not disprove here the childish idea, although held by many, that a nation suffers in its industries through receiving goods for nothing, beyond recalling that an ill-paid chorus girl when she is given an extravagant box of chocolates, or an unrealizable ornament, instead of more mundane commodities, or the money wherewith to buy them, also receives an ill-chosen gratuity. It is sufficient to say that the Allies, not Germany, should decide the quality and kind of goods by which payment is to be made. We shall return to this question in a later chapter.

On the other hand, in spite of this confusion between money and wealth, we despise the money-lender, and, indeed, some include bankers, who do not even lend their own money, in this category. But if money be a token for goods, there is no *economic* difference between handling the tokens for wealth or the wealth itself, or between the money-lender and the middleman. No one would have a word to say against a man who lends money free of charge, from which we deduce that we begrudge and despise the profit of the money-handler, but overlook that of the wealth-handler, although in both cases the profit, as we know, is made at the *expense* of others, and therefore, when exorbitant, is a cause of justifiable resentment.

CHAPTER VIII

THE NECESSITY FOR WAGES, AND THEIR RELATION TO PRICES

THE INTRODUCTION OF WAGES.—The misconceptions referred to in the previous chapter are accentuated by the introduction of wages, and we will therefore consider the origin of the latter.

If every man worked for himself, and produced all he wanted, both necessaries and luxuries, there would be no need for money. So soon, however, as a subdivision of labour is introduced, whereby a man produces one article only, such as a table, money or tokens are wanted, as we have seen, in order to enable him to exchange his single product for his various requirements.

In order to extend efficiency of production, a further subdivision of labour was introduced whereby a number of men, instead of producing different complete articles, work upon details only, the parts being later combined in order to produce a complete and saleable whole. The introduction of machinery made such combination an economic necessity; without it, efficient production would be impossible, and increase in skill through specialization unattainable.

For instance, if a number of men combine to make tables under one roof, one of their number makes the legs, another the tops, another the drawers, another does the polishing, etc. One of their number undertakes to sell the finished product, and he obtains in exchange a number of tokens, or payment in money, which he must divide among all. The share each receives is his *wage*, the existence of which is due, therefore, to that combination of workers necessitated by a further subdivision of labour for a greater wealth-production, whereby men make parts of, instead of complete, articles.

Thus, we see, firstly, that the existence of money is made essential by a subdivision of labour; secondly, that a further subdivision necessitates the introduction of wages; yet, the term 'wage-slavery' is often used, as though the receipt of wages were an indication of slavery, instead, as we have shown, of being the logical economic result of a subdivision of labour for a greater wealth-production, from which the whole community should benefit.

The only explanation we can suggest for the existence of these delusions concerning money and wages is the fact that in no other science but that of economics is it customary for the student to start in the middle or at the end and work backward; were this permitted, for instance, in physics or mathematics, even the most intelligent would find the greatest difficulty in mastering them. Because economics deals with matters of everyday life the individual often approaches the subject with more courage than discretion, and from his own personal or prejudiced point of view, making startling assumptions which are at total variance with the fundamental facts of existence, or the real laws of economics, and arriving, naturally, at absurd conclusions.

We have already seen that the value of money is shown by the number of tokens required to purchase man's daily necessaries of life, and that the fewer the total labour-hours of the whole population required to produce these necessaries, assuming a constant ratio of producers to non-producers, the higher the value of money. This truth is also apparent when we realize that the cost of producing necessaries is proportionate to the number of hours worked in obtaining them. For instance, if a man produce his necessaries of life in six hours, he requires a certain amount of food, etc., for six hours' work, and if he produce them in three hours, his cost is exactly halved, assuming the result be due to more efficient methods, and not merely to greater physical exertion.

Having seen how the value of money is decided, it is evident that, wages being paid in money, their value also must vary, *pari passu*, with that of money, and the number of wage-earners and their power, compared with the rest of the population, is so large that a careful consideration of the relation between wages and prices is necessary, even if it should entail some repetition.

Higher wages are evidently of no greater value if followed by proportionately higher prices, and, conversely, lower wages, if prices fell more rapidly than wages, would actually be an advantage to the wage-earners. Let us therefore consider wages constant, and see how their purchasing power can be increased, this being the equivalent of a *higher* wage *without* an increase in prices.

The Relation between Wages and Prices.—The most unskilled worker is entitled to receive daily sufficient tokens to enable him to buy his complete day's necessaries of life. If N be the necessaries of life and a man take ten hours to produce them, and receive therefor T tokens, in an exchange of necessaries T tokens must purchase a complete day's supply, and the value of money is thereby defined. If now the workers, through increased efficiency, be enabled to produce their necessaries in five hours, or to produce $2N$ per day and each worker still receive T tokens—that is, the same wages—these must enable him to buy a quantity of necessaries similar to his own production, so that, as he is producing $2N$, T must now purchase $2N$. In other words, the value of money is doubled, and the worker is twice as well off with the same wages, because he has doubled his output.

Expressed otherwise, tokens, or wages, are given to a man primarily to enable him to purchase his complete necessaries of life, and the less time he requires to produce them—*i.e.*, the share, equal to N, which his relationship to the community entitles him to retain to himself—the fewer necessaries he consumes in that process, and the fewer tokens he requires wherewith to buy them. The balance of necessaries as of tokens then provides him with a daily supply either of leisure or luxuries.

Or, again, if a man be producing necessaries of life for a future provision, which owing to seasons and harvests is actually what he does, he must receive enough tokens to purchase his immediate needs while engaged in such production. The more quickly he produces them, the smaller the number of tokens he will require. Thus, once more, if a man take 3000 hours to produce that which he exchanges for his year's necessaries of life and receive therefor 300 T tokens, should he learn to produce the same in 1500 hours, the value of the 300 T tokens is doubled, for they will purchase him leisure, or, alternatively, other commodities in addition to his necessaries.

We have already seen that all men are not producers of necessaries, and it is evident that the non-producers must also be allowed their necessaries of life, and that such can be provided only by the producers. Consequently the latter cannot retain for themselves the whole of their produce, and were half the population producers and half non-producers, the former would have to surrender half the result of their labour. If now the above-mentioned producers of double their original efficiency have to surrender half their production for the benefit of the non-producers, and receive for the remaining half the same number of tokens (T), they are only entitled to receive from another producer half his production also. In other words, the value of money is now reduced to what it was before the increased production, and we may say again that it varies in inverse proportion to the average number of hours the producers of necessaries have to work to provide them for the whole population.

Thus, were all men producers, a double production of necessaries would double the value of money, whereas if the number of non-producers were simultaneously doubled, owing to a producer being then only entitled to retain half his product for himself, the whole increase in the value of money would be annulled.

So far we have considered only necessaries, but human beings desire also luxuries, and it is obvious that they are to be obtained and paid for only by working longer hours, and that the fewer the people required for the production of the necessaries of the whole population, the more labour will be available to produce luxuries. Further, as we saw in the previous chapter, the cost of producing luxuries being the consumption of necessaries, the cheaper the latter are, the cheaper also will be luxuries, other conditions remaining unaltered.

Nevertheless, just as the value of money for the purchase of necessaries, which is of primary importance, varies with the efficiency of production of necessaries, so that for the purchase of luxuries, which we insist on having, depends also upon *their* rate of production. Now in order to produce luxuries we must divert labour from the production of necessaries, and by so doing, as in the case of the handlers of wealth, depreciate the value of money for the purchase of necessaries. To obtain luxuries, that is, we are obliged to sacrifice some cheapness of necessaries, or, in other words, to work longer hours.

It is consequently clear that with a *constant wage*, its value for the purchase of both necessaries and luxuries rises with the output both of necessaries and of luxuries, and also with a reduction in the relative number of non-producers, and an improvement in the relation of wages to prices can only be anticipated from a recognition of these fundamental principles.

We have already alluded to the deplorable habit of thinking in terms of money, and as wages are nowadays paid in money (perhaps that is one explanation of the growth of this habit), it is also common to think in terms of wages. Thus, as we compete with one another to obtain money, so are we ever striving to get higher wages, or salaries; yes, each one of us; yet as the value of wages varies with that of money, it is obvious that we may be actually worse off when receiving higher wages.

In order to consider one question at a time, we have imagined wages constant and have discovered the reason for the fluctuations in the value of money and found that the value of our 'constant' wage must necessarily follow the same curve, so that our wages and our salaries will be worth more to us without the trouble of asking for a rise: (1) through a greater efficiency in the production of the necessaries of life; (2) through a greater efficiency in the production of luxuries; (3) through a reduction to the irreducible minimum in the number of non-producers or wealth-handlers.

To obtain the advantages of higher wages it is therefore only essential to increase the efficiency of production, primarily of the necessaries of life, and to compel efficiency from the *handlers* of both necessaries and luxuries, and to limit their number.

If this be true, it is surely remarkable that never do the wage-earners clamour to have the *value* of their wages raised; on the contrary, they demand higher wages with a less production, *i.e.*, wages of a lower value; in fact, if we reverse our assumption and consider a constant production with higher wages, say every man's wages increased by 50 per cent., then $1\frac{1}{2}T$ tokens must be paid for N, the value of money would be as 2 is to 3, and no one would be better off.

The explanation of this futility lies in the general lack of economic knowledge and the application of that injunction: "Each man for himself, and the devil take the hindmost," which is what the law of supply and demand amounts to; and, in truth, those who clamour for a higher wage, regardless of whether their work is worth more or not, are indifferent as to whether *every one* is to be better off, otherwise they would insist upon a greater production and a lesser handling of wealth, which alone can benefit all.

Further, the result of increasing the wages of one class of workers, while their output remains stationary, is merely to benefit them at the expense of the rest of the community by depreciating the value of money generally; other workers must suffer until they too have obtained a like increase, when no one will be better off than originally, and this game of see-saw, with its constant friction and waste, must continue until the truth is faced, and the relation of wages to production and production to price is understood.

In the foregoing we have contemplated only a self-contained nation producing all its own necessaries and luxuries, and performing also all its own most menial tasks, so that only a reduction in the number of non-producers and a higher efficiency in production, primarily of necessaries, can add to the total value produced, or improve the relation between wages and prices.

Indeed, a self-contained nation being compelled to provide all its own wants, the only choice open to it in regard to its occupation or production is in the matter of what luxuries are to be made available.

On the other hand, in considering international economics, we shall find that it is in a nation's power to *choose* its industries, developing some beyond its own needs and dropping others altogether, and by so doing still further to increase its wealth-production.

So far we have not discussed the *relations* between the various classes of wage-earners into which we have imagined the population divided, but have assumed an average equality, because the total of the divisible wealth, or well-being, is not affected by differences between the classes. As, however, misunderstanding more easily arises out of division of the spoils, or sharing out, than regarding questions of production, it is at least equally important to consider the principles which must govern the distribution of wealth.

CHAPTER IX

THE DISTRIBUTION OF WEALTH

THE problem of the distribution of wealth may be compared to that of sex, which is eternal, rather than to that of the poor, for the latter are always with us only because those who have posed as authorities upon the distribution of man-wealth have been ignorant as to its true source.

Given wealth, how is it to be distributed ? is a most attractive question. Those who have it are content ; those without it cry out for a share, yet, if the clamourers succeed in reversing the position, assuredly everyone will still not be satisfied.

The producers of wealth are silent on the subject, whence it appears that even they have not grasped the first principle that equitable distribution must depend upon the origin of wealth. For instance, we have been obliged to distinguish between natural wealth and man-wealth, yet few economists appear to recognize any difference, although surely no man can claim a right to monopolize that which *existed* without his intervention. Coal, for instance, belongs to the nation, and the spectacle of colliery-owners and miners quarrelling over the disposal of profits, while the rest of the nation takes sides, instead of the profits, must provide the economic angels with much amusement.

Natural wealth belongs to no individual, but he who makes it available has at least some claim to recognition, if, indeed, it be due to his own efforts. On the other hand, the man who produces wealth which was previously non-existent might claim the whole of it, and no one gainsay him, for his fellows are not worse off than they were before ; and if, indeed, he be not entitled to it all, is the man who produces no wealth entitled to any? Between these two extremes lies the whole question of the distribution of man-wealth, which is obviously incapable of definite solution. *No laws* of wealth-distribution can exist, for although religion and sociology enjoin that we have a duty toward our neighbour, which must impel the fortunate to help the unfortunate, they cannot advocate the despoiling of the deserving for the benefit of the undeserving.

On the contrary, we may cite the patent laws, common to every country, whereby an inventor who makes a discovery or effects an improvement is allowed to control his patent during a term of years in order that he may reap a reward. It would be manifestly impossible to say that any fixed definite term is a fair one, either to the individual or to the community, or to fix the extent to which a patentee should benefit, because an invention might be the result of thousands of hours of toil, or of a moment's inspiration; it might result in immediate and enormous profits, or remain unappreciated by the generation that received it; and most important of all, it may benefit or harm the community for evermore.

It is, indeed, true that men are actually allowed to make fortunes out of harmful or fraudulent inventions, another manifestation of liberty which is due to the craze for money-making as against wealth-creating, and to the fact that at present it is not recognized that the inventor's personal reward should depend upon the value of his service to his fellows—*i.e.*, both parties must benefit. Again we see the importance of a unit of value independent of demand, which, by enabling us to judge the gain of economic wealth over a term of years, permits us to compare the advantage of the individual with that of the nation. The contentment of a man with his reward must depend always upon his altruistic education, and the more civilized a nation, the more ready it should be to reward the pioneers of progress. For example, extension of patents should be more readily granted, with of course the necessary safeguards.

But for the existence of superior men, wealth should and would have remained equally distributed (although, alas!

there would be no man-wealth to share, for its existence is only due to the superiority of some men); but, as man is unequal also in his spending, the distribution would eventually become so, even if, in the first instance, all had received identical shares.

We have seen that civilization itself is due to the work of superior men, resulting in an unequal production of wealth, and the importance of a unit of value independent of demand is once more apparent, for only if we know to whom the wealth is due, and how to measure its amount, have we a basis from which to consider its distribution.

If no man produces wealth, there will be none to share, yet when some men do, it would appear just, both morally and economically, that those who produce equally should share equally. Thus, in all occupations, ignoring for a moment our social obligations, each man, whether producer or non-producer, should be rewarded according to his skill and brains, to which, as we have seen, all production of man-wealth is due.

Nevertheless, this is not possible quite universally. We can compare, for instance, the skill of two manual workers by the quantity and quality of their output, and also that of brain-workers, when the result appears in material commodities, or labour-saving; the reward of the creator of beauty, or of joy-wealth, in many forms, however, must remain a matter of opinion, or lie in the hands of his fellows. The greatest man may starve in his garret, and after his death a fortune may be reaped from his work by a man of no deserts, but such questions are beyond the scope of our present subject.

A true conception of the economic meaning of skill is of vital importance. Let us define an unskilled man as one who by his *unaided* efforts, can produce only his daily necessaries of life. He must be *able* to do this, as otherwise he would starve, and his necessaries, as we know, must also include sufficient for his dependent family during part of their life, or his race would die out. The first man who produces more than his necessaries is skilled. He may be merely more energetic physically, but we make no distinction between energy of hand or brain, although it is obvious that while man soon reaches the limit of bodily capacity, the activity of his brain is almost unlimited. Our friend the spade-maker was skilled, and through his invention all his fellows were enabled to produce more than their necessaries. Were they then skilled? Not a bit of it, but the spade, the outward and visible symbol of the skill of another, enabled them to rise above the first primitive level. Skill must therefore always be a relative, although a quite definite term, and a skilled worker to-day may be considered unskilled in ten years, for skill, education, and civilization go hand in hand.

Although we can generally measure the skill of producers by their output, as the subdivision of labour introduced non-producers, we shall have to find some means of comparison also.

The question is not so difficult as it appears. The manual worker, not engaged on production, rarely does work calling for much brain or training, and we need only ask ourselves, What would this man be fit for as a producer? To learn to do one job mechanically is not a sign of skill, in fact the man without implements is probably superior in many ways, and the expression semi-skilled for such people is therefore a misnomer.

It is more difficult to compare brain-workers, yet here also it is possible in many cases to judge by results. A good organizer saves labour in any walk of life, and his skill, or the value of his service, is measured by the total number of man-hours saved by it.

It is possible, therefore, to compare the skill of a producer and a non-producer, a clerk and a machine hand, providing we do not forget *how* they *became* skilled, but it is sometimes more difficult to gauge the comparative skill of various classes of producers.

For instance, nowadays each worker does not depend upon his unaided efforts, but implements and machines are provided for him which enable him to increase his output. Although, therefore, the skill of two men on identical machines can be compared, their rank in the world of skill is not indicated by their output at all, this being due to the brains of engineers, designers, tool-makers, etc. In fact, the unskilled or one-job manual worker no more produces the wealth (*i.e.*, the surplus output beyond that of a man without machines) than does the lubricating oil which is equally as essential as the unskilled labour.

When we compare the skill, or output value, of the machine-worker with that of the tool-maker, using both hand and brain, we see that the latter is the more skilled because he can replace the former, who, left to himself, would be lost. Although, therefore, we cannot say that the whole production is due to the tool-maker, we see that the latter is the more skilled, and should therefore receive a higher share of the joint reward, and while we are not able to fix the exact proportion, it is at least clear that he should get more than even the most efficient one-job manual worker.

It is easy to object that a delicate tool-maker could not do the work of a navvy, but equally unanswerable that a nation of navvies would be uncivilized as compared with one of brain-workers, and if wealth be due to skill, brains, or mind, we must assume two people of equal physical capacity and unequal mind, or *vice versa*, and not confuse the issue by considering two variables at one and the same time.

The distribution of wealth thus, again, depends upon altruistic education, for the reward we must promise a man to induce him to work to improve himself, and do more than he is asked to do, not just enough to rub along, decides also the share of his fellows. To whatever standard education is improved, some men will always be quicker than others to take advantage of their opportunities, and must therefore always receive a greater reward, for alternatively we should be placing a premium on laziness, stupidity, or brute force.

If, then, each man were rewarded strictly according to his skill, and the unskilled, who produce no wealth, received merely their bare necessaries of life, we should indeed have an economic distribution, but not one which recognizes any altruistic obligation of man toward his fellows. Assuming, however, that the producers of wealth do accept such an obligation, it is surely incumbent on the beneficiaries to recognize the nature of the benefits so obtained, and their utter failure to do so is the true explanation of our slow progress in altruistic education.

To endeavour to tear away by force, without a 'thank you,' that to which we have no right, is surely not the best way to stimulate the efforts of those to whom that wealth-production which benefits all is due. To tell the producer of wealth, the man who develops the best in him by laborious days and nights, that the more he produces the more will be torn from him is a curious form of encouragement. Yet that is the present attitude of one class toward another, and, if persisted in, it must result in killing the goose that lays the golden eggs; only by recognition and appreciation of the source of wealth and its producers can class warfare be abolished. Statues have been erected to the memory of many 'philanthropists' for returning part of that which they had stolen, but we have yet to learn to honour those producers of wealth who are content to share their creation with their fellow-men.

The Effect of Increased Production.—Having considered the question of relative distribution, and found that it must always remain a matter of opinion, we now note that the amount of wealth available for distribution is of primary importance, whence it is more necessary to encourage the skilled producers and workers, by whom wealth is created, than to satisfy the unskilled, who, with *unaltered* distribution, must also benefit by increased production.

When considering the relation between wages and prices, we found that with wages constant their value, and that of money, increased with efficiency, and that the work of the skilled helped also the unskilled, so that on both sides it is a matter of education, the skilled to share with their less fortunate brothers, the latter to appreciate the source of their welfare.

The question of taxation is allied to that of distribution, and dependent on the same principles, which must decide the contribution of each individual. Civilization requires management or government, so that a certain proportion of a population is engaged on behalf of the community in work necessitated thereby. Thus the Army and Navy and their upkeep absorb many workers, direct and indirect, and even though it might be possible to dispense with most of them on the institution of an effective League of Nations, there would remain a considerable army of officials engaged on both national and local communal work, whose number tends to increase with the advance of civilization. These workers must be fed, clothed, and housed, wherefore they receive salaries to enable them to purchase their requirements. It is for this and the wages of indirect workers that we pay taxes, which, in the form of money, represent that share of production which is handed over for the consumption of those engaged in governmental work or service.

There are two forms of taxation, direct and indirect. In the latter we are supposed not to notice that we are being taxed, thus admitting the profound truth that no one likes paying taxes. But then men do not enjoy giving up anything, so that once more we see the need for altruistic education that each one may contribute willingly his share.

The importance of this is evident when we realize that so soon as the tax-payers are unwilling to contribute to the expense of government, the limit of taxation is reached, for they pass on their burden to other shoulders perhaps less able to bear it without real suffering.

For instance, if the producer be dissatisfied he retains a bigger share of production for himself, out of which he pays his taxes. The middleman also asks for more, so that so soon as the limit of consent is reached, those who control the manufacture and sale of goods advance prices, which others are compelled to pay. Always the helpless suffer for the unwilling, and that all taxation is not direct is due to economic childishness, for which the pretence of a high cost of collection is merely an excuse.

We ought to *know* who is paying taxes, how much, and why he is to pay them.

The producers must consent to surrender a share of what they were entitled to retain for themselves : the non-producers a share of what they receive from the producers; otherwise their default must be made good by others.

When prices of commodities are increased on account of taxation, the value of money is depreciated thereby and the buyers pay the tax instead of the sellers; but we must not fall into the error of thinking that the latter are the less important: they are largely the men who produced the commodities concerned, and whose labour, therefore, is being sold. Thus, although the revenue increases, the sum total may remain ever too small owing to the fact that the value of money is depreciated by the incidence of taxation itself.

That this has not been generally recognized hitherto is due to the amount of capital or surplus wealth in the world, from which deficiencies, ultimately paid for by the willing or the helpless, are made good.

It is again clear, therefore, that each individual should be educated to contribute willingly that share of taxation, large or small, which his relation to the community justifies. It ought to be thought a *disgrace* to pay no direct taxes, and although the wind must be tempered to the shorn lamb, we shall see when we consider the distribution of wealth by means of wages that every man should be in a position to contribute his share.

CHAPTER X

THE DISTRIBUTION OF WEALTH BY WAGES, AND THE NATIONAL VALUE OF INDUSTRIES

THE DISTRIBUTION OF WEALTH BY WAGES.—The number of wage-earners, compared to the whole working population, is so large that the payment of wages offers the simplest medium for the distribution of wealth. We have already seen why wages are necessary, and how their value varies with that of money; we have now to consider what does, or should, decide the amount of the wage payable, and its economic effect.

We know that all men do not receive equal wages, and that none are satisfied therewith, at least not for long, but although the payment of wages and discontent appear at first sight inseparable, whence perhaps the idea of 'wage-slavery,' the question of an equitable reward will be found to be not insoluble.

The simplest solution would be an equal wage for all, but, first, we have already seen that all men are not equal, and, secondly, it is obvious at a glance that this would not solve the problem of discontent. There are many who think that man must ever struggle against his fellows, like dogs over a bone (the most useful dogs do not always get the most bones!), but this opinion is born of inability to gauge the relative value of men's work.

Let us once more begin at the beginning, and consider an uncivilized existence where the most unskilled man produces only his necessaries of life. Whether he work for himself and exchange his product, or work with other men, getting a share of what is received for the whole, his reward in money must be sufficient to enable him to purchase his daily necessaries of life; and, once more, if all men were equal and equally unskilled, all would receive this amount, which we will call the Living Wage, and no more.

We have already explained the meaning of the average man's daily necessaries of life, and need only say here that the living wage is its exact equivalent in money, and, again, that we may consider alternatively one man, or an average family of man, wife, and three children. If, however, our living wage correspond to the needs of the average man only, even though we are still assuming a nation of miserable unskilled workers, the total wages paid to him *must* cover the necessaries also of all his dependents. But all men have not got dependents, and, unless it be considered a virtue to have none, and a vice to have a wife and family, it is clear that it would be grossly unfair if the allocation of necessaries were otherwise than in strict accordance with the size of the family; and if only just the total necessaries for the whole population were produced, that is what *must* happen, or some dependents would starve to death.

This fundamental fact is so obvious that its non-recognition is explicable only by our chronic habit of regarding individual, rather than general, interest. In the days of Rome, the value of and obligation in regard to dependents was fully recognized; witness the word 'proletariat,' which is derived from *proletarius*, meaning a citizen of the sixth and lowest class, who served the State not with his property, but with his children (*proles*, offspring).

Children are, indeed, a burden to the individual, yet the State's greatest asset. The unmarried man takes no interest in, and sees no reason why he should support, the children of others, nor why he, getting the same wage as the married man, should not think himself a fine fellow and have a good time. It never occurs to this individual that he was a child once, and that his parents at least must have recognized their obligations.

The foregoing remarks illustrate the theory that a nation gets the government it deserves, for just as the people themselves overlook these obvious truths, so the government manifests a similar ignorance in allowing a small rebate to men with families (it was originally, perhaps, a party dodge to catch votes) who pay income tax, instead of recognizing their right to a full living wage for each dependent before they are required to pay any income tax whatsoever.

We thus arrive at a preliminary solution of our problem, that before there is any wealth at all, it is clear that every man must receive a living wage for himself, and a further provision for everyone dependent upon him. Not merely is there no difficulty in discovering the number of the latter and in allocating the right wage, but the total wages paid would obviously remain unaffected, although now shared upon an equitable basis, for they must always have sufficed for all.

The reader will immediately perceive a difficulty in the competition between a gang of married and one of unmarried table-makers, yet the remedy is quite simple. For instance, if, as at present, the number of dependents is ignored in the price of tables, a tax could be levied on the profits of the unmarried gang, to form a fund out of which all dependents of the married table-makers could be provided for. As a result, the price of tables, as of all other commodities, would, as it should, ultimately be based on the average number of dependents.[1]

[1] An interesting article from Australia comes to hand as this book is going to press. It is from *The Sunday Times* of Sydney, and we append the following extract:

" As things stand, the sum ascertained to be the sum necessary to sustain a family of four is to be paid to every individual male worker, married or single, with or without children. There is no discrimination of any kind. A man with no home ties and no responsibilities gets, other things being equal, exactly the same wage as a man with a home and heavy responsibilities. On the other hand, men with large families receive no extra consideration. . . .

" The Government is seeking to amend the law by substituting for that crude and obviously inequitable scheme a better one that will do substantial justice to every worker. The new scheme will not make it the law that employers shall pay married men more than single men, because the immediate effect of such a mischievous discrimination would be to make it virtually impossible for married workers to get employment at all, a thing altogether preposterous and unthinkable. But the employer will be called on to make a certain payment for every man he employs, irrespective of whether the men he employs are married or unmarried. The fund so formed will be distributed to married workers in proportion to the size of their families."

The vexed question of equal pay for men and women is simultaneously solved, for the woman bachelor has a right neither to the wage of a widow with a family, nor to that of a man who is the support of others, although for the same work she may claim the same pay as a single man.

It is indeed curious that, while in our assumed poverty-stricken community there are sufficient necessaries for all, in a so-called civilized and wealthy one a considerable proportion of the population should lack the means of subsistence. This state of affairs appears to be due, first to the disregard of man's primary obligation to produce his own and the average dependents' necessaries of life, or to do an equivalent amount of useful work (witness the toleration of beggars, not to speak of large numbers of unnecessary middlemen), and secondly to an abuse of liberty, whereby man is permitted to buy in the cheapest market, *i.e.*, at a price which does not allow for the necessaries of the workers and their dependents.

While the slave-owner and the feudal lord necessarily provided for all their dependents, or lost the use of their labour, it is evident that our gang of unmarried table-makers, if allowed to undersell the married, can compel the dependents of the latter to go short. No doubt the introduction of money and wages tended to obscure this truth. A man who would not deliberately steal another's necessaries sees no harm, if he accept the law of supply and demand, in obtaining as much money as he can and giving as little as possible in return, because, although this is equivalent to despoiling the weak, the result of his action is not visible to him.

To return to our uncivilized community.

A living wage is now provided for all, yet there is still no prosperity, and we will therefore advance to a state of civilization such as our own, where a surplus exists after providing for the total necessaries of life.

It has already been shown that all wealth-production, or excess beyond man's daily necessaries of life, is due to brains, skill, or mind, and that whether a man produce for himself or exchange the result of his labour is immaterial. Further, our unit of value *N* measures the wealth produced in so far as it has any economic value, and is not merely joy-wealth, or a matter of opinion, so that we do know *who* produces wealth, and how much, and therefore there should be no question as to the reward. The man who produces wealth by hand, brain, or mind is *entitled* to a higher wage, to retain to himself before sharing with others a part of the wealth *he* produces, although we must, of course, be sure that he does produce it. If this be termed the wealth-wage, it is evident that its amount should correspond to the output, whether of man or woman.

It is true that, under this scheme, the man with dependents would have to share his wealth-wage, and would therefore still be at a disadvantage as compared with the single man, whence it is evident that the latter should be content with less, in order that the dependents may have a share of what we call the 'amenities,' or all those things beyond the mere necessaries to which our present civilization has accustomed us. If we recognize the right to existence and thereby the living wage, we must also recognize the claim to a decent existence, although at present we do not appear to have advanced as far as either. On the other hand, the dependents have no *right* to an equal enjoyment of wealth with its producer, for although ultimately they can be forced to produce their own necessaries and even 'amenities,' they may never become wealth-producers.

In this the single man is evidently again at an advantage, but obviously taxation, which we have seen affects the distribution of wealth, and depends upon altruistic education, can ultimately compel him to contribute to a greater extent for the benefit of dependents.

The producer of wealth, then, is entitled to a wealth-wage, dependent upon his output, and, if it were strictly proportional thereto, *i.e.*, if the man kept all the wealth which he produced, the rest of the community would evidently be no worse off than if he had produced none at all. Nevertheless, as we have already seen, civilization does not permit superior men to retain all of the fruits of their advantage to themselves, but compels them to share with their fellows, so that the wealth-wage will vary in inverse proportion to altruistic education, sufficient being left to every worker to encourage him to put to the best use those gifts with which Nature has endowed him.

As we saw when we were considering wages, the skilled worker must always receive more than the unskilled, just so much that he will be induced to continue his efforts. The less the amount that contents him the better for the unskilled, but were he forced to surrender his whole advantage the effect would be to encourage idleness and stupidity. On the other hand, inasmuch as the unskilled workers produce no wealth, their labour does not benefit the skilled—in fact, it lowers the average wealth available per head. Everyone benefits through the exertion of the skilled workers, so long as the latter have a proper sense of their social obligation.

Although the inevitableness of a wealth-wage and its incidence is apparent, we find that in many instances the unskilled workers receive actually higher wages than the skilled men on whom they are dependent. For instance, machine-workers paid at piecework rates receive or can earn higher wages than the tool-makers, and even the foremen, although, as we have seen, the output of the machines is due to the skill or brains of their inventors. We dealt with this question fully in Chapter IV, and cited the practical example of an unskilled worker on a turret lathe.

We now come to the question of a special reward to workers in unpleasant occupations. Let us call such an additional wage 'dirty money,' the amount of which must be sufficient to attract suitable men, just as the reward of the skilled worker must be enough to encourage progress. We must recognize, however, an absolute distinction between the two, for a high rate of dirty money does not correspond with an advance of civilization, whereas a high wealth-wage is equivalent to a high rate of wealth-production and encourages efficiency.

Consider a railway porter and a stoker. There is little skill required of either, for any ordinary workman of the right physique could quickly learn to do what is required of these men, but there is no question as to which job is the more unpleasant. Again, compare the crossing-sweeper and the sewer-man, the A.B. and the stoker on a liner, and we see that it is usually found to be necessary to bribe the unskilled to do the unpleasant work of the community.

It is clear therefore that, notwithstanding the justice of higher pay for skilled men, some unskilled jobs under distressing conditions are actually more highly paid than skilled ones, and justly so, but this does not affect our argument that, for *equal* conditions, the skilled must receive more than the unskilled. It is a matter of opinion how much additional pleasure or leisure an unpleasant job must carry to attract a man to volunteer for it, but the additional wealth due to the skilled worker is a matter of fact.

It seems almost incredible, although true, that the secretary of a British skilled trade union in 1918 should have advocated higher pay for the unskilled than the skilled, on the ground that their work was less interesting. Evidently he ignored the origin of the latter's proficiency, and of civilization, and he is not alone in his tragic delusions, for the opinion is commonly held, even among skilled and brain-workers, that the latter receive more wages because of the 'law of supply and demand,' or, bluntly, because there are fewer of them.

We have already exposed the criminality of this so-called law, which is only natural if robbery be so, and such degradation of the status of the skilled worker indicates our present economic confusion. If, indeed, the skilled workers only get more wages because there are fewer skilled men, in the event of their striking, the unskilled men, being *unable* to replace them at once, or even ever replace many of them, could not resist their demands, however extravagant. On the other hand, if the unskilled workers demand in general higher wages than the skilled, the latter, who can laugh at a strike, are able to replace the former. Were it otherwise, a premium would be placed on 'unskill,' and farewell to progress and civilization.

The reader will be reminded here of the effect of Bolshevism, and in truth this is but the logical consequence of a belief in the law of supply and demand, or force, and denial of the fact that all wealth or well-being in the world is due to those who use their skill and brains for its production. If the proletariat are the unskilled workers of the world, they are not robbed of wealth, for as they do not produce it they have no right to it; they can justly do no more than invoke the so-called bourgeoisie to recognize the call of brotherhood and voluntarily share their wealth with the less endowed. To kill the bourgeoisie, or attempt to take their wealth by force, rather than persuasion, must result in the stoppage of wealth-production and misery for all.

If the preceding arguments be convincing, the relative wages of the various classes of workers should be decided according to their skill, with, of course, the addition of at least a full living wage for all dependents, and dirty money where necessary. It should not be overlooked that some highly skilled jobs are also very unpleasant; for instance, a locomotive-driver has a hard life and is also skilled, and nearly always a fine fellow, and in many occupations there are men such as doctors and experimenters who risk their health and lives in the cause of progress, even if they themselves imagine that it is purely for money.

Our conclusion holds good, whether the workers are producers or handlers of wealth, assuming the latter are essential; if they are not, the sooner they are squeezed out by under-payment the better.

When differences in regard to wages are at an end, it does not follow that all will not want to improve their position still further, and enjoy more luxury and more leisure, and we will now show that this can be effected.

In the preceding chapter we saw the effect of increased production on a constant wage, and that the greater the amount, or the better the quality, produced per worker, the greater the share of each, and the higher the value of his wages, and while the benefit derived through an increase in the supply of necessaries, or labour-saving devices, is directly measurable in terms of man's daily necessaries of life, this is not the case with a new luxury value. An increase in the supply of the same luxuries, with less labour, obviously indicates a saving in the consumption of necessaries, but the value of the new luxury introduced cannot be measured.

When considering an exchange of economic wealth, we saw that this should take place as nearly as possible on the basis of intrinsic value, in which case the wages paid would correspond with the value produced, but in an exchange of luxury value there is only demand to guide us. Thus a number of men producing luxuries might be in receipt of high wages through obtaining a very high price, or exchange value, for their product owing to demand, *i.e.*, more than corresponded to their skill, with the result that the distribution of wealth would be affected, and they would be gaining at the expense of their fellows, who might be working harder and better, and yet be receiving lower wages.

Nevertheless, the avoidance of this is not always possible, unless the State—that is, the people—employ themselves collectively, and *all* receive wages in strict accordance with their skill, the price of luxuries being then fixed according to the value of the labour required to produce them. There is obviously no equity in the workers on luxuries being better off than those on necessaries; this could be obviated to a large extent if the principle of payment according to skill became generally accepted, and prices followed, as far as possible, the cost of production.

We thus arrive naturally at the question of the national value of industries.

The National Value of Industries.—We know that the nation's ability to produce its own necessaries and luxuries depends upon the provision, first by Nature and then by man, of capital on which skilled labour may work to produce a higher value than previously existed, and remembering that we are still considering a self-contained nation it is evident that the people can enjoy only such luxuries as they are able to produce themselves, and that they must be content therewith.

It is, however, undeniable that all industries or occupations do not produce the same value per hour's work. For instance, men designing and making agricultural machines which save labour, and therefore the consumption of necessaries, produce a much higher intrinsic value per worker than those who work these machines and are naturally relatively less skilled, although some appear to think that machinery will ultimately replace brains, of which, as we have seen, it is merely the expression. If, then, we desire to reduce the average weekly hours of work and to increase leisure, or to produce more luxuries, the more brains and labour we attract to the manufacture of time-saving devices the better.

With regard to luxury-producing industries, although we can gauge the relative skill of the workers by comparing their qualifications and training, we cannot say definitely that any such industry is better than another, it being a matter of opinion which luxury is most valuable, and, as we have just seen, a high exchange value for a certain luxury, due to demand, merely benefits that set of workers at the expense of another. Thus, all that a self-contained nation can aspire to is to produce its necessaries and all the luxuries for which it has the raw material or capital, in the shortest possible time, after which the only luxury it can enjoy is leisure. And may we not maintain that leisure is often morally preferable to commodities?

On the other hand, when we consider an exchange of goods with another country, we shall see that it is only a question of the exchange value, or selling price, produced per worker, and that it is immaterial whether the goods are necessaries or luxuries. For instance, a designer of French millinery becomes wealthy at the expense of his fellow-countrymen if their wives and daughters pay him high prices for his models, whereas, if he exports his hats, which represent a high value per worker, he actually benefits France, so long as the goods imported to pay for them, such as cheap textiles, represent in their production more hours of labour than the millinery.

It will now occur to the reader that a nation could be quite wealthy and happy with no exports or imports whatever, that it can actually be worse off by export, and that a balance one way or the other is no indication of prosperity. For example, what if we designed our own hats?

We referred above to a country's capital or raw material, and we assumed that the application of labour resulted in the production of an excess over its consumption, and would continue to do so indefinitely, yet it is nevertheless possible for labour to destroy wealth. At the very beginning of this book we ruled out of economics a consideration of that which Nature provided in unlimited quantities available for all, but she is not so generous with everything.

Not so many years ago man obtained his necessary fuel from wood, which, with Nature's assistance, he can replace as fast as he consumes it, but when coal, with its far higher calorific value per given volume and hour's labour, was discovered, the demand for it was immediate and soon became enormous, particularly as its use was of great assistance to industrial development.

Although the age of coal-utilization has existed for a comparatively short time, we already foresee that the deposits economically, are not inexhaustible, and observe that the costs of mining rise rapidly, whence far-sighted practical men advocate the use of water or other power, wherever possible, to conserve coal. We are now entering upon an 'oil age,' and the same extravagance is noticeable, as also is the prosperity of countries which possess neither oil nor coal.

Now coal belongs either to the country where it is found, or alternatively to the whole world (although if it does *all* natural wealth must be pooled), yet mining does not really enrich a nation any more than a man is richer who pawns his shirt to purchase a meal. Nevertheless, if a nation uses up its coal in order to produce more efficiently and trusts to luck for future fuel, against which the unborn generations cannot protest, it must surely be for the benefit of the whole nation, and not of a section only.

Mining is a filthy job: no one would prefer to be a miner, and the men are usually dissatisfied, yet the excavation of coal is considered in countries like Britain and America to be one of the most important industries, although it is not a productive one at all. The miner, in fact, does not make the coal. The intrinsic value is the same wherever it lies, and if each miner received the most extravagant wage, this value would remain unaltered, although the rest of the world would be bled. Why should a miner be a privileged person? The coal no more belongs to him than to the colliery proprietor, from whom he desires to take it, and if we apply our previous wage-law we find that his wages should be that of a hewer, plus dirty money for working in the mines. A new call for miners would soon decide whether they were under- or over-paid, and their number could be enormously reduced if the export of coal for private benefit, *i.e.*, for that of miners and colliery proprietors, were restricted.

It seems astounding that the nation's irreplaceable raw material, or capital, should be disposed of by individuals, regardless of whether the nation obtains value in return, especially as it is obvious that if less labour were used in mining coal, more would be available for productive industries. That this truth has not been recognized is once again due to that fallacy, the law of supply and demand, according to which the coal has no value where it lies!

It is surely the duty of the Government to see that the very highest value is extracted from every ton of coal—*i.e.*, in addition to the installation of every device for its economical consumption, the coal should be utilized for the production of those articles which yield the highest value per ton. For instance, the production of sewing-machines requires much less coal than the same value of iron bars. We shall return to this question in the chapters on International Economics, but we have indicated here the true position of the coal, or similar industry, in the nation's economic life—*i.e.*, it ranks as one of the very worst, being of itself destructive and not productive of wealth.

It will be clear from the foregoing—indeed, it must have already been obvious to every thinking person—that all industries are not of equal value to the nation, wherefore their quality is of vital importance, and that an individual may benefit through industry at the nation's expense.

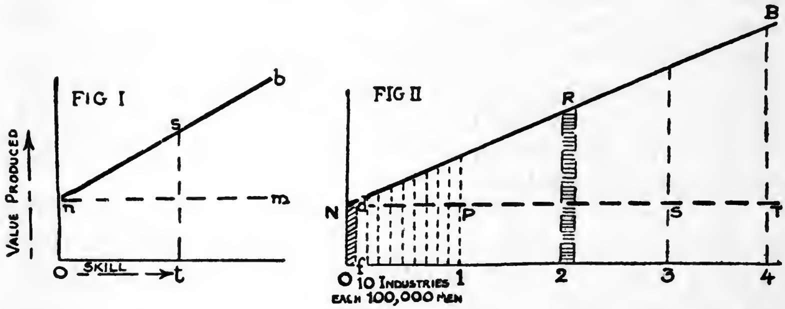
Ignoring for the moment the question of wages, and considering only the quantity of commodities produced (and if we believe therein, their intrinsic value also), it is undeniable that some sets of men produce a greater quantity or value per worker than others, and that the more workers engaged with the first, the more wealth must be available for distribution. Yet this obvious truth is ignored and no effort appears to be made to direct men to a higher productivity, apparently because it is thought that the value exists through demand. That horrible delusion, the law of supply and demand, is again revealed as responsible for our industrial and moral degradation. If value does depend upon demand there is indeed no such thing as skill in the world, and a man who invents a more nourishing food, a labour-saving device, deserves nothing, because it is the demand of stupid people, whom he generally has to convert, which creates the value! What better illustration of this do we need than George Stephenson and the 'coo'?

If, however, we for our part believe that all man-wealth is due to the application of brains and skill, and that they must be rewarded, let us examine a nation's industries, accepting the fact that a skilled worker does produce a greater value per hour than an unskilled, and that the exchange value or price, which also decides the wages payable, does, as it should, follow suit. Expressed otherwise, we may then say that, apart from fluctuations due to demand, which can be prevented to a large extent, skill is indicated directly by the exchange value produced per worker. We will endeavour to illustrate the foregoing diagrammatically.

If the daily necessaries of life (N) of the average man and his dependents, which the most unskilled worker must be able to produce, be represented by the height *no* in Fig. 1, the increase in production as a man's skill increases will be shown by the line *nb*, and the net wealth he produces by the ordinates between *nm* and *nb*. Thus, a man with the skill *s*, where the ordinate *st* is double *no*, produces per day twice his daily necessaries of life, or wealth just equal to *no*, and we will imagine every industry as containing a number of workmen producing an *average* amount each, according to the average skill, brains, or mind utilized in that industry.

Let us consider now one nation only, *i.e.*, a self-contained one, of which every man, say four million of them, is a producer, but with the average number of dependents, and let them be divided equally among industries increasing in skill from 0 upward.

In Fig. 1 the line *nb* shows how a man's production increases in proportion with his skill, and if we assume an identical number of workers of each degree of skill, their total production will be calculated by multiplying all the ordinates



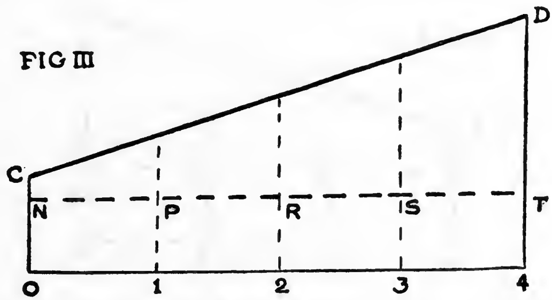
to *nb* (*e.g.*, *st*) by this number of workers, and will be shown diagrammatically by the line NB in Fig. 2, which must be parallel to line *nb*, although drawn to a different scale.

Let us next suppose that the four million producers are divided into four groups, containing one million men respectively, and let these be equally distributed among ten industries, each of a different degree of skill, so that every such industry will employ one hundred thousand workers. If, then, in Fig. 2 the shaded area ON*df* represents the *N* of 100,cco men, it indicates also the total production of 100,000 men in the most unskilled industry. Similarly the area ONP1 represents the daily necessaries of life of one million workers and their dependents, and the area ONT4 that of four million workers.

It is clear that 100,000 men of a certain skill, say R, produce more than their necessaries of life, as shown by the shaded area above the line NT, and that the area ONB4 represents the total production of four million workers. Subtracting from this the area ONT4, representing their necessaries, the triangle NBT indicates the net wealth produced by four million workers.

Education, as we know, can make men more skilled, and as not only manual skill, but the brains of inventors and organizers produce wealth through the medium of unskilled labour, we next arrive, through a corresponding increase in the efficiency of production, at the increased wealth-production

FIG III



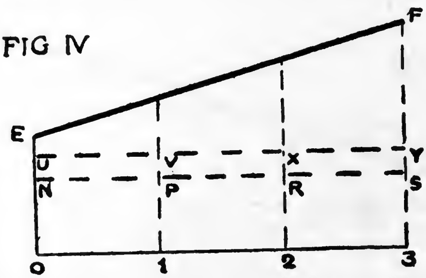
area NCDT shown in Fig. 3, from which it is evident that all the workers have every inducement to improve themselves, because, as we have already shown, the value of wages increases according to the value produced.

Naturally those workers engaged in industries toward the right expect to be much better off than those on the left, although, as we showed in the chapter on Wealth Distribution, the former must share with the latter in any civilized community.

We assumed above that all men were producers, but we know that a subdivision of labour was introduced in order to increase production and that all men are not producers, so that if out of our four million men, one million were withdrawn to handle wealth, the remaining three million must provide necessaries for all, and an equal amount of wealth to that of the four, or there would actually be a loss through a subdivision of labour. This is illustrated in Fig. 4, where the area ONS3 represents the necessaries of three million workers, and NUYS those of the million non-producers which have to be provided by the producers.

OEF3 represents the total production of three million producers, each of whom must be one-third more efficient than before, and the area UEFY their net wealth-production, which must not be less than NCDT in Fig. 3, unless there is to be an actual loss of wealth through the subdivision of labour. We see again the importance of keeping the number of wealth-handlers as low as possible.

FIG IV

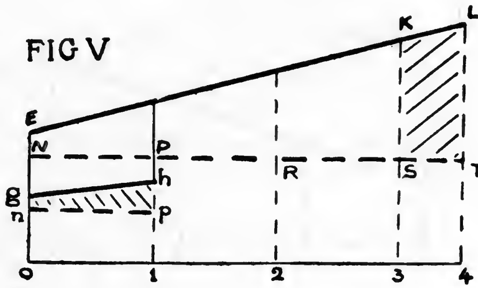


If we now go a step further and increase the efficiency of some of the most unskilled industries, or, alternatively, replace some of their products by others of higher value for the same labour expenditure, we should transfer workers from the left to the right in our diagram, as shown in Fig. 5.

Let us assume that of our first million workers, half of them are either gradually made more efficient or their products are superseded by better ones, and that the better half of the unskilled men have been promoted, thanks to education, to, say, the second column, and the same number from here to the third column, and so on, and that we also introduce new and still higher value-producing industries than previously existed. We will also suppose that our remnant of half a million most unskilled workers are still evenly distributed over the first ten industries (although the diagram would only be slightly altered if some of the industries were dropped altogether), but that our new half-million workers, promoted from the third column, are only spread over five industries, with 100,000 men in each. The necessaries of the first half-million are now shown by the area *onp*1, and their wealth-production by *nghp*, or half what it was before, but this decrease is far more than made good by the other half-million men, or the area SKLT, whose necessaries are measured by 3ST4 and exactly equal to *onp*1.

The great increase in total wealth-production through a growth of skill is most apparent, the net gain through a

FIG V



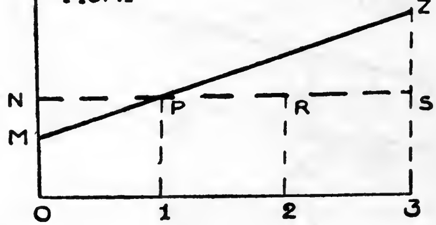
transfer of half a million workers being the difference between the two shaded areas.

In the foregoing we have been charitable, and assumed the value produced by each worker in every industry to be not less than his own daily necessaries of life, yet we know that there are industries which produce no wealth at all, such as coal-mining (although wealth is produced in other industries out of the coal), and further, apart from handling goods, there are so many occupations which produce no wealth, or so many non-producers, that the least skilled industries cannot bear their fair share of the cost of supporting them. Thus, in Fig. 6 the area OMZ3 shows the total production after charging each industry with its share of the non-producers' necessaries, and we see that the first million least skilled workers produce no net wealth—in fact, they destroy it, the area MNP representing a loss—and that if they are indeed to receive their full necessaries, it can only be from the other producers.

Here we observe the origin of sweated occupations, either productive or non-productive, in which the workers do not receive a living wage, because the value of their product or labour is less than that of the necessaries of themselves and their dependents. Prevention of sweating depends therefore upon the various classes of workers recognizing their obligation and interdependence.

It is quite true that sweating appears to arise from the greed of individuals, whence the failure to allocate a full

FIG. VI



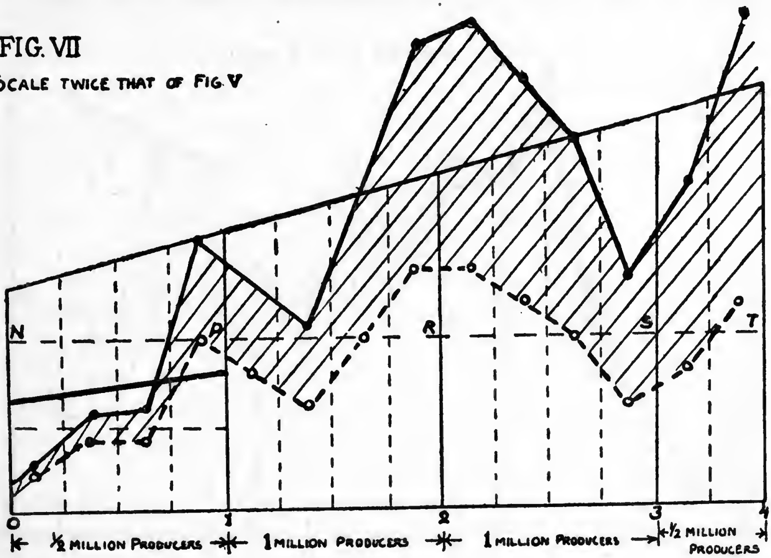
living wage for all useful and necessary work, yet this again is merely the application to the most unskilled labour of that liberty to buy in the cheapest market which allows the strong to prey upon the weak. For the weak and helpless are, and always will be, the great unskilled, so long as civilization endures, it being as impossible economically to sweat skill and brains as to deny that all wealth is due to their efforts. Skill is not compelled to plead for the value of its necessaries of life, because it produces a surplus beyond them, and when it recognizes its own power, and controls the distribution of wealth, it will see that its human servants are not treated worse than dumb animals.

It is evident that a wise nation will keep the number of its unskilled workers as low as possible, which is in its power so long as it reserves to itself complete freedom in the *choice* of its own industries, but, as we shall find when considering International Economics, a nation can actually surrender its economic liberty and be thereby compelled to do the unskilled work for another, thus lowering its average wealth-production, or standard of civilization.

Further, we have seen that, in any exchange, that party benefits whose cost of production for a given value is least,

FIG. VII

SCALE TWICE THAT OF FIG. V



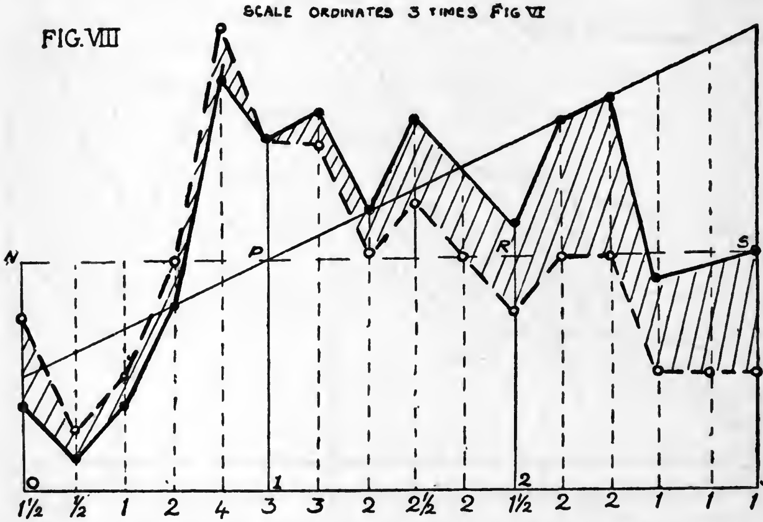
whence a nation which exchanges the products of its unskilled labour for those of another's more skilled labour loses at every transaction, although owing to the fact that exchange value, or price, is not always proportional to the amount of skill, the loss may be modified, although also accentuated, to a considerable degree.

For the sake of simplicity, we have assumed up to the present in this investigation an identical number of workers in each industry, and consequently our diagrams are bounded by straight lines, but the principle and result would be similar under the practical conditions of a varying number of workers in each industry. For instance, if we retain our assumption, in Fig. 5, of four *groups* of producers, two of half a million and two of one million, but spread their number unequally over the industries in their respective group, the wealth-production might appear, drawn to twice the scale of Fig. 5, as in Fig. 7, the shaded area between the two curves representing the net wealth-production.

If we go further, and consider the whole three million producers spread unevenly over all the industries, for instance

SCALE ORDINATES 3 TIMES FIG VI

FIG. VIII



The figures under the diagram denote the number of workers in hundreds of thousands in industries of varying degrees of skill

over those in the three groups shown in Fig. 6, the effect of multiplying the ordinates by very unequal numbers of workers might result in a curve, shown in Fig. 8, drawn to a larger scale, where a considerably lower wealth-production is indicated, owing to the smaller number of workers allocated to the more skilled industries. In this figure the shaded area to the left of the vertical line 1P represents a loss of net wealth.

In the above demonstration of the value of a nation's industries we have taken into consideration only the cost of labour—*i.e.*, the consumption of all its necessaries of life—but it will immediately occur to the reader, that if irreplaceable material be used up, both the cost of production in and the value to the community of an industry must be affected. And so they are, if the supply of material be not unlimited. Material provided by Nature in unlimited quantities may be ignored, except as regards the labour required to make it available, but where the quantity is limited we must consider, in addition to labour's necessaries, any depletion of Nature's store.

The most important irreplaceable raw materials provided by Nature in *limited* quantities are coal, copper, and iron ore, although to-day many skilled industries are dependent also on rarer products, such as tungsten, platinum, etc. Coal, being used both domestically and industrially, looms largest in our minds, and we shall therefore select it for consideration.

Were coal food, its intrinsic value would be measured by its nutriment per pound, as compared with that of potatoes or flour, but as the value of coal lies primarily in the heat units or calories which it contains, its intrinsic value per ton is measured by the number of days (averaged throughout the year) through which it will support human life. Coal is also used industrially, producing steam, gas, electricity; it thus saves labour and therefore the consumption of necessaries, and this may be its most efficient application. We also obtain from it by-products which make possible the supply of a variety of articles having both intrinsic and luxury value, *e.g.*, medicines and dyes, not to speak of explosives. Obviously, therefore, the intrinsic value of the coal destroyed lies in the coal itself; it is not dependent on whether we use coal efficiently or not, and the greater the intrinsic value we learn to extract from it, the more should we prevent its wasteful utilization.

If the foregoing be accepted, it is evident that the labour necessary to mine coal, and to distribute it, does not add to its intrinsic value, in fact detracts from the total intrinsic value available, because workers engaged in the industry consume all their other necessaries in addition to their average share of coal (most of which is found in latitudes where heating is essential to man's existence). Thus, the more labour-hours expended in handling coal, the more intrinsic value is destroyed, and were coal so inaccessible as to require an enormous expenditure of labour per ton to make it available, it might, as far as heating is concerned, be preferable to burn wood, which can be replaced as fast as it is used by reafforestation.

It is clear, therefore, that to the cost of labour in producing a given value in any industry must be added the labour-cost essential to obtain its coal, or other irreplaceable raw material, and also the intrinsic value of the material itself. Consequently, the value of an industry to the nation is reduced in proportion as it involves the destruction of Nature's irreplaceable raw materials. For instance, to make steel bars requires little labour per ton of coal, iron ore, etc., as compared with locomotives, of which both the intrinsic value and the exchange value are much higher per ton of raw material destroyed; therefore the production of locomotives or industrial machines, which employ in addition to other labour a relatively large amount of skill and brains, must rank higher among the nation's industries.

One reason for the importance of agriculture, or any other industry in which Nature and man together replace all losses, is now manifest, in that the cost of production is limited to the necessaries of the workers engaged therein. It will also be seen that, if we consider first an industry producing commodities having intrinsic value, or economic wealth, its national value, or the net wealth-increment yielded per worker, is calculated by subtracting from the total intrinsic value produced the sum of the intrinsic value of the irreplaceable raw material consumed and the necessaries of the workers engaged in the said industry, and then dividing the result by their number.

This can be illustrated as follows. If first we ignore the irreplaceable raw material, the value to the *workers* of an industry producing intrinsic value is the total sales less their living wage. This difference is, of course, the total wealth-wage of the workers, and, although the whole of it does not represent a national wealth increase, their advantage, providing the exchange value correspond with the intrinsic value, is not obtained at the expense of the rest of the community, because a higher intrinsic value is actually produced. To find the net increase in national wealth, we must subtract from the total wealth-wage the intrinsic value of the irreplaceable raw material consumed, which, as shown in Chapter III, can be expressed relatively to food, and therefore equally well in money. If now we divide the resultant amount by the number of workers employed, we obtain the net wealth-increment produced per head, or the net value of an industry to the nation.

As a practical example, let us imagine a number of men mining coal and iron ore, and utilizing them to make pig iron. Their cost of production is their own necessaries of life, or their total living wage, and their profit the total sales, less this living wage. On the other hand, the nation's cost is found by adding to the living wage of the workers the intrinsic value expressed in money of the coal and iron ore consumed, and, assuming again that the selling price correspond with the intrinsic value, the national profit is the total sales less this cost.

Of course, almost every industry depends upon others for its raw material, whether irreplaceable or not, and men making dynamos must buy iron stampings, iron castings, steel bars, copper wire, paper, cotton, etc., made by other groups of workers.

Ignoring for a moment the value inherent in the irreplaceable raw material itself, if wages were paid in accordance with skill, or value produced, the purchase price of raw material would indicate its intrinsic value, which must be deducted in order to calculate the national value of, say, the dynamo industry. Obviously, if the prices paid by the dynamo-makers for their raw material were higher than its intrinsic value, their industry has a greater value than would appear. To find the net national value of the industry, however, we have still to deduct the intrinsic value of the irreplaceable raw material it consumes.

But the reader may ask, What *is* the exact intrinsic value of iron ore, copper, etc.? And although it is possible to calculate approximately that of a crowbar, for instance, by the labour it saves, this does not altogether indicate the importance of irreplaceable raw material provided by Nature in limited quantities, because it is obviously affected by the quantity, often an unknown factor. Nevertheless, it is vital to remember, in estimating the quality of a nation's industries, that such material *has* an intrinsic value, which may not be ignored.

We will now consider industries producing luxuries. Their national value must be, as we know, a matter of opinion, as is the value of every luxury, although, again, those industries which employ the greatest proportion of skilled labour *should* produce the relatively highest luxury value, for it would indeed be foolish to employ skill and brains in producing articles for which mankind has the least desire.

It is now manifest also that in the case of luxury-producing industries the waste of Nature's irreplaceable raw material is only justifiable if it be quite certain that present happiness is not purchased at the cost of suffering of others at some future time. Although we *talk* of coal-conservation, no distinction is made between the use of national property for personal gain and for national welfare ; nor is there a demand for a more efficient production of necessaries benefiting all, rather than for the provision of luxuries for the enjoyment of the few. Ignorance is bliss, but folly must be paid for !

So far we have assumed bodies of workers banded together in co-operative production, or syndicalized. We shall find that the identical principles governing such co-operation hold good when we take the next step, and introduce that bugbear of our industrial world, the employer.

CHAPTER XI

THE INTRODUCTION OF EMPLOYERS

THE EMPLOYER AND HIS RELATION TO CAPITAL AND LABOUR.—We have seen how a further subdivision of labour compelled men to combine in order to obtain an increased efficiency of production, and also to pay one another wages in amounts varying with their skill, and therefore with the value of the industry to the nation, but we have not considered the necessity of employers. Nevertheless, although it is evidently possible to dispense with them, at least in theory, it is essential to analyse carefully their function in a nation's organism.

We know that capital is essential in order to produce wealth, and that in the first instance it is provided by Nature, yet any efficient production, as we understand it to-day, is impossible without man-capital, for Nature provides but primitive implements. It is true that, if Nature supplied without assistance all their necessaries of life to a combination of men, they could gradually produce their own tools, representing their capital, but as Nature is not usually so kind, and, where she is, man remains uncivilized, *opportunity* for their production necessitates man-capital.

Nevertheless, let us ignore this question of capital for a moment, and return to our first combination, our friends the table-makers, and imagine them either working in a generous climate, where Nature provides their necessaries, or, alternatively, each man working part of the day, or some days, to produce his own necessaries and then combining with his fellows at other times to produce tables. How came these men to be making tables together? Surely they were not all suddenly seized with the same idea! On the contrary, the idea of combination probably originated in the mind of one of them ; he may or may not have been the best workman, or the most enterprising, but he must have had some faculty for leadership. This individual would, in all likelihood, have decided the allocation of wages, for otherwise the men would probably not have agreed to combine, or having combined they would have spent their time squabbling and would have done little work.

It is essential for any combination of men to have a leader in whom they trust ; not only is this true in the sphere of Economics, but in all departments of human activity, in games, and in any manifestation of civilization whatsoever. Indeed, as civilization is due to the existence of superior men, its advance will be the more rapid the more power is given to natural leaders, providing, of course, that they are worthy.

The leader of our table-makers, in order to obtain the confidence of his team, must in the first place have had some outstanding knowledge, either in regard to making tables or to selling them, just as the captain of a football team is generally, or should be, one of the best players, or the one with the greatest all-round knowledge of the game.

In other words, the leader must be skilled, and as wealth results from labour and capital only when harnessed to skill, the first function of this superior man is evidently to have some pre-eminent skill, which must be recognized by his fellow-workers, if satisfactory results are to be obtained from combination.

Now this leader might have proposed, when originating the idea of making tables, that for his work of direction (and one cannot direct and do skilled manual work simultaneously) he should be allowed a certain number of extra tokens on every completed table, and as he proposed to show the other men how to make and dispose of tables efficiently, it is highly probable that, having confidence in his ability to do so, they would agree to his suggestion, in the interests of all. The arrangement therefore allows the leader to make a certain profit out of each worker with whom he is allied, as payment for his leadership, or, in other words, this man employs others to work with him. We do not say 'for him,' because that is a current delusion, these men working first for themselves, that they may receive the share agreed upon, *i.e.*, their wages, and only secondarily to provide their leader with his share. The first function of the employer, therefore, is the possession of skill or knowledge of the particular industry.

It is evident, also, that the larger the number of men to combine under a leader, the greater the latter's total share of the product of their work; in fact, he might amass much wealth while, at the same time, taking so little from each worker that it would hardly be noticeable. Thus we see the fallacy of the notion that the yearly income of the employers, if divided among their workmen, would appreciably ameliorate their lot. For instance, had a man employing 10,000 work-people an income of £100,000 per year, and the *whole* of it were taken away from him, this would mean but four shillings a week extra to each workman!

It is true, of course, that the easiest way to become rich is to employ other men to work for you, which accounts for the general desire of every man to be an employer; yet not merely is this obviously impossible, and only the best men can make good at the top, but the prosperity of an employer, as indeed of any man, is watched with envious and grudging eyes, largely because no distinction is made between the deservedly and undeservedly successful.

Now, if our leader of table-makers did not make good, his men would soon turn upon him, for he would then be unable to pay them wages, and men have no use for an employer who fails, however little he may be to blame. The second function of the employer is, therefore, to accept responsibility, for if he obtain too little for his tables, or alternatively they are too costly to make, his own return and his co-workers' hourly wage would be reduced. On the other hand, if he be successful, and his efficiency of direction advances, not merely will he get a share on an increasing number of tables as a consequence, but there will be a possibility of the other workers also receiving an additional share, or its equivalent, higher wages.

We thus find that an employer must be skilled in some way, and be also the bearer of responsibility, and in practice the latter is of far greater importance than yet indicated, for we assumed above that either Nature provided the necessaries of living, or the men each daily produced their own, before getting to work upon their tables. Under the conditions of modern life, however, these men would work as table-makers only, and the questions immediately arise: what are they to live upon before they have completed any tables and have been paid for them, and where are the tools with which, and buildings in which, they are to work to come from? Either every man must have a reserve of necessaries, his own tools, and a workshop, or the leader must be able to furnish these for all, or, what is equivalent, he must possess a number of tokens wherewith to acquire them. Thus, either the leader *is* a superior capitalist, or each of the men must have capital.

From what we know of human nature and its inequality, it is unlikely that all men will become capitalists under any social conditions, for to do so necessitates producing more than is consumed, or making more than is spent, whereas it seems to be ingrained in the nature of the majority of men to spend more than they make. The latter course is incomparably easier than the former. Hence, although there is in theory no reason why all men should not be in a position to do so, in practice it is generally one man, or a group of men combined, who finds the capital to start an enterprise, and the third function of the employer appears, therefore, to be the supplying of man-capital in order to produce man-wealth. We must not forget, however, that he can only hope to produce wealth. He cannot command the result, and must risk his capital in the hope of increasing it. In other words, the leader must have the courage to take risks.

As it is generally difficult to do that which is most worth doing, failure is often the first reward of enterprise, and success only follows perseverance. Thus, our leader must not merely have capital sufficient to make his first tables, but enough to enable him to hold on if the first tables are not a success, or recognition of their value follows slowly.

We assumed above that the leader provided the capital himself, and that those who were going to work with him did not provide it. But the leader might himself supply no capital whatever; instead of doing so he might go to some friends and get them to help him; he would then merely direct the application of the capital.

Thus the leader or employer must perform the following functions: He must be skilled, he must bear responsibility, he must have control of capital, and he must have the courage to risk both capital—if it be his or not—and also his labour.

As the employer may or may not perform a quadruple function, he may or may not deserve a fourfold return. Those who supply the capital will want a return thereon. Every man who saves instead of spending will expect some return if he lend his savings for any purpose, for otherwise there would be no incentive to *thrift*, that source of the increase in man-capital upon which a greater material prosperity and a shorter working day ultimately depend. Only the thriftless or the idealist are of a contrary opinion.

The return demanded by the capitalist will depend, firstly on the risk; secondly on his greed or otherwise. The latter consideration is influenced by education; for example a philanthropic capitalist with an unlimited supply, offering money at one per cent., would most certainly drive all others out of business. Thus a satisfactory return for capital, called interest in the case of money, and rent in the case of house property, is a matter of opinion. Every man should ask himself this question: If I had saved money, how much should *I* want in return for lending it? The answer obviously depends upon altruistic education alone, and it is curious that while the poor are often an example to the rich in their generosity to one another in the case of distress, they are sometimes very greedy when it comes to *lending* money.

The return on capital must not be confused with the reward of the employer as a leader, in which capacity he is justly entitled to a share independent of any other claim. We do not profess to know exactly how much he should have of the product of every man whom he leads, nor can the men say, for who can answer this simple conundrum: If a group of workers are producing one ton of goods per week, and a man shows them how to double their output, what ought to be his share of the increased production?

The employer thus appears in general as: (i) a leader of his men; (ii) the controller of capital.

Now the people who furnish capital (the result of someone's thrift), if there be any risk, tell the leader, or employer, of the men that they want more than the return usual for an absolutely safe investment—in fact, they demand as much as they can get—and seeing the capitalists getting a bigger return for their money, the workmen become discontented and want higher wages, whether or not they have themselves produced wealth, or are trying their utmost to do so. On the other hand, if the capitalists are getting poor returns, the workmen do not worry about them, and they have to bear any loss. The workmen have come to look upon the capitalist as an enemy, but their community of interest is obvious, for the more wealth produced the more there is for both to share.

This is quite clear in the case of our table-makers, for the more tables that are produced for a given amount of labour the greater the leader's share, and the higher the hourly return, or wages, of the workers can be, and if the community of interest between capital and labour, or between employers and employed, were only recognized, it would not be very difficult to decide upon an equitable distribution. For instance, both sides are entitled to security, the workers for their living wage, the capitalists for a standard return on their money. Thereafter, as the production of wealth results, a share should be given to the workers in the form of a wealth-wage, and to the capitalists in the form of increased dividends.

Although it is obvious that the more labour takes, the less there is for capital, and *vice versa*, and the greater share the employer receives for directing the better for him and the worse for the workers, yet the community of interest of all parties is undeniable, and the poverty of many cannot be due to the existence of the employer-capitalist, as such, for both capitalist and employer are necessary, but must arise from non-fulfilment of their respective obligations to labour.

If certain principles were agreed upon for the sharing of prosperity among all parties, this constant jealousy, which is as childish as it is futile, would disappear. Wealth is due to capital and labour when harnessed to skill, and it is the latter that should decide the apportionment between labour and capital in accordance with fair play and the deserts of the respective parties.

That an employer is not, in principle, the enemy of his workmen is obvious not from the variety of opinions on the subject, but from the nature of their relationship. The employer making tables has to promise his men certain wages, which he must pay irrespective of whether he sell his tables or obtain a good price therefor. If he be unfortunate and sell his tables at a loss, it is obvious that he must suffer, while his men will have benefited at his expense. On the other hand, if the employer induce his men to work for very low wages, and make such a profit that he could have paid them higher wages, and still have done very well, the position is reversed. Thus, as it is possible for either party to benefit the other, it is clear that they cannot be enemies in principle.

In Chapter X we considered the national value of industries, and the rate of wages which corresponded thereto, and it is evident that the value of employers, or capitalists, to the workers rises with the value or average skill of an industry. Thus, the fewer workmen necessary to produce a given profit, the greater will be the amount of wealth-wage shareable, and this is exemplified in the skilled industries, in which both the employer and the capitalist ought therefore to be better off, although this is, at present, by no means always the case.

On the contrary, unskilled workers, producing but little wealth, often obtain high wages at the expense of the rest of the community, *i.e.*, through high prices; and although an employer who controls a large number of unskilled workers may amass great wealth, this divided among so many men would not materially increase their wages.

We referred on p. 129 to the fact that an employer might keep to himself so small a share of the product of each worker that the latter would hardly notice it, and one would naturally infer that such an employer was the best friend of his workmen.

It must not be forgotten, however, that the employer of unskilled labour keeps a smaller proportion of the whole output to himself only because the net amount of wealth produced per worker is so low.

The employer of skilled labour, on the other hand, whose men create a high average rate of wealth, can not only pay them a good wealth-wage, but retain a larger share for himself.

The truth that the employer whose collaboration with his workers produces the most wealth is the latter's best friend is manifest if only we consider the division of the *wealth* produced, *i.e.*, after allowing for the full living wage of all employees.

We must remember that man-capital or accumulated wealth is not really money, but goods, and that with a given amount of the latter it is most beneficial that it be employed to produce the greatest quantity of further commodities with the labour available.

These commodities, such as buildings, machines, tools, etc., are themselves the fruit of skill and brains, so that the smaller the necessary consumption in producing further commodities the better. On the other hand, although, in general, the skilled industries require more capital per worker, it must not be forgotten that a greater total net wealth results therefrom (*i.e.*, after allowing for depreciation, or loss of commodities), in which all parties may share and benefit. If there were a shortage of capital commodities, men would certainly be forced into those industries which required least, until such time as by thrift they were able to remedy this. A nation which allows its capital to diminish while increasing its population cannot hope to become wealthy, and condemns its people to a lower standard of living.

As we have said, other things being equal, the more skilled an industry the greater amount of capital is necessary per worker, for apart from the question of plant, if the workmen are skilled they have a right to higher wages, to cover which more capital must be provided to finance the intervening period before their products are sold. The capital required to-day in many unskilled industries also is large, owing to the costly machines employed therein, yet not merely is the wealth produced per worker less; but these machines are generally the product of costly experiments in skilled industries, and it is to these that, so far as the nation is concerned, the wealth obtained from the unskilled industries must really be attributed. For instance, it is better to make machines than soap, and although a new machine in the soap industry might enable the unskilled workers to double their output, if their wages were doubled it would be unfair to other unskilled workers, and the increased production is due to the brains in the skilled industry which supplied the machine. From every point of view, therefore, skilled industries are best for the workers and best for the nation, from which it follows logically that the capitalist must be encouraged to put his money into skilled productive industries, and that just as we differentiate between skilled and unskilled workers, we must distinguish between the various purposes to which capital can be applied.

Leaving risk out of the question, the reward of capital, therefore, should depend on how its use benefits the community, and, to attract it into the right channels, viz., skilled productive industries, a higher rate of interest must be allowed.

It might be urged that when once capital is provided, any increase in production is due entirely to labour, be it skilled or unskilled, but as capital is as essential as labour for wealth-production, it is also entitled to an increasing share of the latter. Any industry must, in the first place, produce a value equal to the living wage of all the workers. This having been effected, the production of wealth follows, and capital has the first claim upon it for a standard and accepted rate of interest, let us say five per cent. If further wealth be produced (which would be the case in all but the worst industries), an equal percentage of the increase should be given to capital and labour. For example, a rate of ten per cent. on capital would then yield an average increase in wages, or wealth-wage, equal to the living wage, the total amount taken by capital and labour respectively depending upon the number of workers, *i.e.*, the total of wages would share in proportion with the total of necessary capital. We say *necessary* advisedly, because the watering of or other manipulation of capital has no more effect upon the production of wealth than gambling at Monte Carlo, or transactions on the Stock Exchange.

According to our suggestion the relative total reward of capital and labour would be dependent upon the amount of capital employed as compared with the total number of workmen. On the other hand, were the total profits *equally* divided between capital and labour, it is obvious that the smaller the amount of the former compared with the number of workmen employed, the worse off the latter would be as compared with the capitalists, through any growth in prosperity, so that, as indicated above, adjustment *must* be made on the basis of a *percentage* increase.

We saw in Chapter VI that the non-producer of wealth has *no right* to any share of it, and similarly only capital used in the production of wealth can claim to participate with labour in the result. Just as unskilled labour, however, whether productive or unproductive, must receive a living wage, capital essential for the handling of wealth must be allowed a minimum return. Further, while the reward of labour should depend upon its skill, the first claim of capital must also be affected to some extent by the *risk* in an investment; hence the necessity for debentures as well as preference, deferred, and ordinary shares, etc.

The so-called 'conscription of capital' presumably means calling it up for realization or destruction, yet although some capital might be conscripted, the advocates of such a step have never shown that they distinguish productive from unproductive capital. Indeed, it is apparently only because they *think* that such a measure would benefit labour, *i.e.*, the majority, and harm the remainder of the community that they propose it.

Although we trust that it is now clear that the calling up of capital used in the production of national wealth would be disastrous for all, particularly for the improvident and unfortunate, whether found in the ranks of labour or not, owing to the consequent reduction in available commodities, there is undoubtedly much capital that can be conscripted ; in fact, all commodities not required for production or for the sustenance of the community—in short, all luxuries and a mass of unproductive fixtures. As far as the latter are concerned it is obvious that they are mostly unrealizable, and as for luxuries, if we take them from those who can afford them, to whom will they be sold ? Obviously if the despoiled *can* afford to repurchase them without using their remaining capital it must be out of income, whence a higher income tax would be equally effective. In any case, luxuries cannot be converted by a self-contained nation into necessaries or utilities, the means required to pay the cost of government.

We have nothing to say against the conscription of luxuries and their exchange with another nation for necessaries, except that we are likely to be seriously disappointed, because if no one wants luxuries they have indeed no value. Further, if capital be the reward of thrift, notice of its confiscation should surely be given in order that we can become a nation of spendthrifts voluntarily, and thus avoid disturbance and unpleasantness.

Once more the trouble arises from thinking in terms of money instead of goods, and from forgetting that the conscription of money will force it into circulation (if not, it may as well stay where it is), when, if the total quantity of commodities remain exactly the same, its value will be depreciated and everyone will suffer thereby. Alternatively, the conscription of commodities for consumption will reduce their quantity, and, other things remaining unaltered, therefore depreciate also the value of money in the pockets of the poor.

It is now evident that the whole cost of government, as well as a greater share from the rich, can be exacted solely through income tax, without any depreciation whatsoever in the value of money, for true income corresponds with an increase in the amount of wealth available, while living on capital reduces it. Nevertheless, as shown in Chapter IX, the limit of taxation is prescribed solely by our altruistic education, because otherwise the *unwilling* tax-payers pass on their burdens by increasing prices, thus depreciating the value of money in the pockets of all. Further, the rate of income tax payable should not depend solely on the amount of income, but also upon its source, for whereas the profits of those who produce wealth correspond to an increase in the amount of commodities available, and in the purchasing power of money, those of non-producers represent only a transfer of wealth.

The organism for wealth-production can best be likened to that of a man, the arms and legs representing capital and labour respectively, and while a man whose members do not act in unison, or are not controlled by his brain, receives pity, presumably sane men to-day actually advocate war between the various limbs of the industrial body, and repudiate allegiance to its brain, ignoring the patent fact that the well-being of every man, woman, and child would be adversely affected thereby.

The fact that it is hardly possible to open a newspaper in which there are not reports of strikes in some parts of the world is an indication of the gravity of the disease from which civilization is suffering. Quarrels resulting in war between nations are far more natural, and sometimes more justifiable, than strikes, which are fratricidal and due primarily to false economic ideas. Were we all taught to realize that nothing mattered but production, and that everyone benefited from an increase and suffered through a decrease of it, the world to-day would be a different place.

Most people imagine that if there were no employers there would be no strikes, and although the origin of strikes is sometimes puerile, it is true that in general they owe their origin to a belief on the part of the workmen that they are underpaid or unfairly treated by their employers. In view of the current delusions as to their real relationship this is only natural.

But there is another cause of strikes, which would persist even if employers were abolished, in the unfair remuneration of one set of workers compared with another, with its resulting discontent, and it is just as important to understand the economic relationship of the various sections of workers as of employers and employed. We showed in Chapter X how unfair was the application of the law of supply and demand, which is merely camouflaged human greed, or robbery, and it is now evident that, assuming the relationship of employers and employed to be satisfactorily settled, if the law of value governed wages, *i.e.*, equal pay for equal services, every man a living wage for each dependent, and a wealth-wage according to his skill, the cause of strikes would be practically eliminated.

The spectacle of town-dwellers getting higher wages than workers in the country and insisting on buying agricultural produce cheaply, while the goods they make and supply to the countrymen may be dear, is an example of industrial strife not arising from any question of employers.

Again, the strikes for higher wages or less hours that are now of such constant occurrence are not really aimed at employers, but at the State, or by one class at another, and they will continue to scourge the community so long as the law of supply and demand, or force, be recognized, for what is a strike but an attempt to obtain by force more wages, or goods, regardless of the question of value? Indeed, strikes would not be tolerated in any really civilized State, for they are a form of civil war of the worst description, *i.e.*, merely for gain.

Although a strike may benefit one portion of a nation, and selfishness, therefore, be its cause, it is evident that it can only harm the whole. That the public and the Government in every country look on more or less passively can only be due to failure to recognize the fact that everything depends upon the producers, that when any section of men strikes, whatever their occupation, they are supported by those who continue to produce, and that the strike-pay given them depreciates the value of money. Thus, although the strikers *appear* to suffer, so long as strike-pay provides their necessaries they are just the ones who do not suffer, for they obtain a holiday at the expense of those who are working.

If all men were paid according to their value, no class of workers would allow another to obtain an advantage, and most certainly the producers of wealth would not allow the handlers of wealth to do so. If there is to be any advantage it must come to the producers, for, as we have shown, every man *should* want to be a producer, and an increase in the number of middlemen, or non-producers, is detrimental to the whole community. Obviously, the best way to encourage men to be producers is in all cases to pay producers rather higher wages than the non-producers for the same quantity or quality of work. The ever-increasing number of middlemen is one of the causes why improvement in the condition of the workers is slow, in spite of our ever greater facilities for production, and it is thus a cause of strikes.

The workers have been led to lump all employers, whether of skilled or unskilled labour, together as their enemies, not realizing that, in spite of his imperfections, a rich producer may have benefited his men and the whole nation, whereas the wealthy middlemen—and their number is legion—benefit both themselves and their employees—should the latter, indeed, receive a share of their prosperity—only at the expense of the producers. Thus, although the true interests of employers and employed are identical, it does not follow that those of many employers and many sets of workers are not diametrically opposed to the interests of the rest, *e.g.*, those of producers to those of non-producers, both masters and men.

It is now clear that the employer is not a distinct species in the economic world, but a sort of super-skilled worker whose reward must follow the law of value, and whose interest must be identified with that of labour rather than that of capital. Also that, although the question of distribution between all classes, capitalist, employer, and worker, will always be a matter of opinion—aye, even of strife, as between two brothers or the members of one family—it is essential in a healthy State that the common good and not that of a class be the deciding factor in settlements, and that the energies of the nation be so directed that the greatest possible wealth-production, by which alone the average conditions of living of the whole community can be improved, may result.

CHAPTER XII

CO-OPERATION *VERSUS* COMPETITION

IN our first chapter we referred to competition, and the erroneous idea, notwithstanding that there are many who still cherish it, that it is the cause of progress. We showed that civilization is due to the superior man, that its growth is dependent upon intercourse, and also that the only complete liberty compatible with civilization is that of the mind. We shall now find that the only competition beneficial to humanity is also that of the mind, or *co-operation.*

The haziness of economic thought is revealed in the fact that the workers throughout the world are told, and actually believe, that the most intense competition among sellers must be beneficial to them, whereas they must not compete with one another. In other words, that competition in the sale of goods is beneficial, whereas in the sale of labour it is not beneficial. What are goods, however, but the product of labour, and how is it possible to have competition in the price of goods and no competition in the price of labour? It is absolutely impossible, but unfortunately the workman has been led to think that his interests are divergent from those of the employer and that the latter decides his wages, wherefore the counsel that he should compel the employer both to sell goods to him cheaply and to pay him a high price for his own labour is attractive. Of course, it is the other employer's goods which he wants to buy cheaply, but as the other employer's cost is also the wage he pays, even if he would be generous to his workpeople the greed of other workers prevents him.

We know that the employer's profit, enormous though it may seem to the struggling workman, would in most cases, particularly in unskilled industries, if distributed among the workers with their present rate of production, effect but little improvement in their conditions of living. If for a moment we ignore the employer's profit, which, in general, is small compared to the total of wages paid, it would follow that a reduction in the selling price of an article must necessitate a reduction in the wages of its producers, *i.e.*, competition in the selling price of goods must bring in its train lower wages. The same is true if we consider the employer's profit per worker to be constant.

That the workers have not realized that they are fighting one another is, again, due to the fact that they are always thinking about their employer. If progress be indeed due to competition, the workers who do not favour it must be deteriorating (which, in truth, is the case if they be not doing their best—and the policy of 'ca canny' is actually a recognized feature of present industrial life) and only the employers who 'enjoy' competition can be improving!

Let us investigate the real cause of improvement. If one man, owing to his superiority, does a job better than another, the latter may recognize that he too should be able to improve. If so, it is the result of human intercourse. The latter, however, may be unwilling, and in some cases, therefore, it may be necessary for the better man to *compel* the other to improve. Thus, on the one hand we have liberty and willingness to improve, and on the other improvement by compulsion; the primary cause in both is the superiority of the first man. A man 'on his own' can do no better than he knows, but in company he can learn from others, and if he have any good in him, and be better than an animal, he can learn without the application of force. Where he will not do so, the sooner force is applied to him the better for himself and the community among whom he dwells.

Intercourse only is essential in order to ensure progress, and intercourse must introduce either competition, whereby, if two men do the same work, each tries to 'best' the other to his hurt, or co-operation, whereby each tries to help the other to their mutual advantage. In either case, neither can rise above the total higher inequalities of both, but whereas the first method is an appeal to man's lower and animal instincts, the second appeals to his better nature. The first is barbarism, and it cannot achieve the same result as the second, civilization, for the men who fight waste their energies in fighting. This is true of all competition, which, far from being beneficial to the human race, is the cause of untold waste and poverty.

We know that the wealth and well-being of the world depend upon production, *i.e.*, the surplus of production over its cost, or consumption, and it is evident that competition increases the cost of production, and that every unnecessary competitor in the handling of wealth increases the total number of people who have to be fed, clothed, and housed out of that industry, or by other producers.

Competition is merely another example of the animal law of the survival of the fittest, not that of the best, but very often the worst, and it is an appeal to man's lowest instincts; in fact, the desire underlying competition is not benefit to one's fellow-men. The purpose of all competition is increased profit for an individual, whereas only increased wealth-production which is obtainable through co-operation can benefit mankind.

For instance, if two manufacturers are producing an identical article, for which there is a certain demand, and they compete with one another, they must devote a vast amount of labour, energy, and time of their workers to the endeavour to 'best' one another. But from the point of view of the community every advantage obtained by one is offset by the loss to the other. Anything gained through competition would have been equally obtainable by co-operation and without the waste of energy. But, say many, co-operation would mean monopoly. What of that? If, indeed, all *producers* of *one* article were banded together to help one another, doubtless they might at first make huge profits by increasing their efficiency, but, even so, the rest of the community would be no worse off than before, while according to our New Civilization every one of the workers in this industry should profit *pari passu*.

Of course, if the monopolists advanced their prices, they would benefit themselves, and their workers, at the expense of the rest of the community, but we are contemplating wages, and therefore costs, based upon the value produced and the retention of big profits being dependent upon wealth-production. Further, as co-operation should effect a reduction in the number of non-producers, and increase the total power of production, an advance in the purchasing power of money would follow, from which the whole of the community would benefit.

Of course, if one set of producers, working in co-operation, were amassing wealth, and another set, equally deserving, *i.e.*, of equal average skill, although co-operating, were doing badly, this would not prove that co-operation, or monopoly, is ineffective, but merely that there was an unfairness in distribution which should be rectified. Moreover, competition does not prevent an unequal reward—in fact, it almost ensures that the least deserving obtain it, or that the weak and unskilled are crushed. We talk of honesty being the best policy, but the smart man in business is not the most honest, and the greater the competition the more dishonest a nation will generally be. If poverty be the mother of crime, competition is the mother of dishonesty.

Realization of the advantages of a subdivision of labour is a recognition of the necessity for co-operation as against competition, for our table-makers *combined* in the belief that they would increase their *total* output as compared with the results of their isolated and *competitive* efforts. If then it be desirable for one set of men to co-operate to produce one article, it must be right for all workers to combine to produce all articles, provided that the total real cost of production is thereby reduced. The question is of such vital interest that the failure of the producer to realize his overwhelming importance and power and to insist upon co-operative production demands explanation.

We have already appreciated the consequences which follow from thinking of money as wealth, and from working to obtain wages, instead of to produce wealth, or to do work useful to the community, but the failure to recognize the employer as a co-worker, and to appreciate that his interests are identical with those of his employees, is equally disastrous.

If all men were producers (*i.e.*, both producers *and* consumers, for the former cannot avoid being also the latter), competition between two groups of them, or a lower price for *their* product for the benefit of other groups of producers (acting as consumers) who might be less deserving, would entail a smaller share for each individual of the former, and a transfer of wealth, without increase in its total.

On the other hand, had these two groups of producers co-operated to reduce their costs of production while maintaining their price unaltered, the other producers (acting as consumers) would be no worse off than before, while our first producers would be better off, because a given quantity of their product is now made available with less labour.

Here we have an increase in total wealth, and obviously the first producers could afford to share with the others some of their advantage, and under the law of value might be compelled to do so. The essential difference between obtaining a cheaper price through a diminution of *profit* and doing so through a reduction in the *cost* of production is now manifest.

Competition, which results in a lower price for the producers, must mean longer hours of work for them for the same result, and if we forbid this, harder work, or a higher efficiency, is necessitated, but the latter being only obtainable from one of our superior men, it is the result of his superiority and not of competition. Force, or competition, is no more the mother of invention than is necessity, for were it otherwise man would never have progressed beyond producing his daily necessaries of life.

It is true that competition would keep men from somnolence, but so would war, and the one is no more essential to progress than the other. Fosterers of insane competition are no truer philosophers than were the German pedagogues who declared that the sword could advance civilization. Indeed, competition is the more insidious enemy because it comes disguised under the cloak of philanthropy.

The man who buys, and everyone does, is told that *he* will be better off because he can buy more cheaply, but the foolish man does not see that he can only do so at the expense of his fellows (evidently men who permit it must be fools), and that they in their turn will also endeavour to buy more cheaply, and will do so at his expense—that is, will pay less for his product or the result of his labour—so that in due course he is compelled to work harder, or to accept lower wages. Indeed, if a nation desires to go to sleep, who should say it nay, or why should not a people be permitted to lead its own life, and prefer leisure to commodities, a spiritual to a material wealth ?

Supposing it were possible to abolish all internal competition, all the people would nevertheless *not* all go to sleep, for we must not forget our superior man, and his inherent desire to express himself. For instance, if all the barbers in a town combined, and agreed to charge the same scale of prices, they would not all become careless in their habits, for being human and not merely animal, *one* of them might dislike dirt and cleanse his shop (or failing such action of his own volition, the complaint of *one* of his customers would incite him to do it), when the other barbers would be compelled to follow his lead, or example. Nevertheless, the first clean shop was not due to competition, but to the superiority of some man, imitation by others being the consequence. Under an autocracy a superior man would force his fellows to follow him, whereas under a true democracy they would do so voluntarily—that is, would co-operate with him—and there is nothing obtainable by competition which is not better realizable by co-operation.

We have recognized that competition does not effect wealth-increment, and that the producers do not gain by it, but it does benefit another section of the community, viz., the wealth-handlers. The greater the competition the more employment for middlemen and the larger profit they can squeeze out of the producers, while, as we have seen, every unnecessary middleman means a smaller total wealth-production, a diminished share for every individual, and a decrease in the purchasing power of money.

The middleman, the buffer between producer and consumer, pretends that he is the friend of both, while in effect he is his own friend alone. The world is divided into two classes, the producers and the non-producers of wealth (for *all* being *consumers*, these cannot be termed a class), and the interests of the two can never be identical.

Although we have shown that co-operation among producers results in an increased availability of wealth, not necessarily equitably shared, co-operation among middlemen might result merely in a greater profit to them without any real wealth-increase whatever, for only if such co-operation lead to a reduction in the number of wealth-handlers (up to the present an unlikely supposition) is there any gain to the community. The smarter the wealth-handlers, and the larger *their* profit, the smaller will be the profit of the producers, and whereas a higher efficiency of any producer, because he cannot keep the whole of the increased output to himself, increases the value of money, through which all benefit, a higher efficiency on the part of an individual middleman may mean only a larger profit for himself individually, unless labour be actually displaced and put to production. The difference is explained by the fact that a greater production by one individual, if it be wanted, does not mean a less production by another, for, as we shall see, there is no such thing as over-production, while a greater efficiency on the part of one middleman will be off-set by a lower efficiency on that of another, unless there be an increase in the total production. Thus, while, in order to encourage efficiency, the middleman must be allowed a profit, this being obtained entirely from the unconscious producer should be limited and advanced only as the amount of wealth handled per worker increases. Doubtless under these conditions competition would be likely to lose its attractiveness for the middleman, who would then realize that efficiency and a reduction in his number would benefit both himself and the whole community. There is, however, nothing wrong in the *desire* for profit (without the producer's profit there would be no wealth-increase, nor any civilization, of which it is the outward and visible sign), and it is only *competition* for profit which is degrading to humanity.

We have seen that one of the functions of the employer is to bear the losses, so that co-operation by ensuring profits will diminish his importance, although, at the same time, it should improve the feeling between him and his workpeople. But co-operation has another effect of far greater moment.

Competition which results in an advantage for one party must harm another, whereas, had we co-operation, profits would be assured in almost every industry, and most occupations, with the consequence that profit-sharing would become a practicable proposition.

Now profit-sharing is not merely right in principle, but possible in practice in every occupation, so long as profits are assured, and the search for profit made without detriment to others is not a sign of greed but of wealth-production, and a desire for material progress. Except in isolated cases, profit-sharing has been tried practically and with success only under monopolies, where profit is certain, and, if production were, as it should be, a monopoly, *i.e.*, of the nation, and the whole nation did not go to sleep, which, as we have seen, it will never do, there is certain to be a total profit. If, nevertheless, there were any industries which failed for some good reason to make a profit, or any deserving but unfortunate occupations in the same state, in view of the principles which decide the equitable distribution of wealth among the community, there should be no difficulty in satisfying a claim for assistance, even if some of the profits from one industry or occupation had to be used to support another.

Profit-sharing has made little progress hitherto because it has not been recognized that it necessitates co-operation, and not merely of one class, but of all, for competition by any class with another class means war, which prevents complete co-operation and profit-sharing. Many well-meaning reformers have advocated and attempted profit-sharing schemes, but have failed to discern that the cause of their failure lies in that much-vaunted competition which, while supposedly benefiting the workers through keeping prices down, actually increases costs (*i.e.*, real cost, or labour-hours), reduces the amount of divisible wealth, and prevents that certainty of profit upon which profit-sharing primarily depends. Universal profit-sharing is natural and inevitable, but realizable only by acceptance of co-operation among all for the production of wealth.

We referred in Chapter XI to the cause of strikes, but when we are educated to accept remuneration in accordance with the law of value, instead of that of supply and demand, equity between the various classes of workers will be established, and this, combined with universal profit-sharing among wealth-producers, and control of profits among middlemen, will effectually prevent those outrages against civilization. On the other hand, until these principles are recognized, industrial peace and progress are impossible.

It might appear that the unlimited co-operation we advocate, both in the production and handling of wealth, is equivalent to nationalization, yet even the most convinced supporters of this policy could not maintain that as high an efficiency was obtainable from a State as from a privately controlled enterprise. On the other hand, we have shown that co-operation will by no means lead to stagnation, and, if everyone is already doing his or her best to increase the production of wealth, and to avoid waste of labour, neither the nation nor its Government can do any better.

This panacea for our social ills is therefore not destined to lead to a greater efficiency in the *production* of wealth; indeed it is only the profits of one industry, or of all industries, that these pseudo-socialists really wish to nationalize, or divide among the whole population, regardless of individual effort. Consequently, nationalization is the very antithesis of our scheme of co-operation, in which, while an increase in divisible wealth is assured, everyone will be rewarded according to his deserts.

That in saying this we do the advocates of nationalization no injustice is shown by their own actions, for, seeking as they do the support of the proletariat, they dangle before the eyes of the latter a share of those coveted riches which we have nevertheless shown conclusively they do not produce.

For instance, if we nationalized one industry, the workers in that industry might be the most deserving, while the rest of the population were undeserving, whence it is manifest that the whole delusion of nationalization arises from failure of the economists and socialists to measure wealth, with their consequent inability to recognize the source of its production in brains and skill, or to devise a distribution of wealth in accordance with value produced, or services rendered.

On the other hand, did value really depend upon demand, it would be impossible to say who produced wealth, or deserved it, and nationalization of profits would be a sound policy. Thus, were all men equal, and all perfect, all wealth should undoubtedly be equally divided, and nationalization, or everyone working for everybody else, would be a natural corollary, but as this assumes two impossibilities, the subject is only an idle speculation, or of interest to those who wish to mislead the gullible proletariat, or to batten on the follies of humanity.

Desire for profit at the expense of others is as natural to man as many other of his failings. Desire of superior men to create wealth is also natural, and the real source of wealth-production resides in their brains and skill. Consequently, their claim to a first share of the wealth they produce, or to a profit, is undeniable; indeed, only perfect men (and perfection in men is apparently not realizable on earth) could be expected to put forth their best efforts if the *whole* result thereof was to be shared with others, whom they considered less deserving than, or to have no claim upon, themselves.

Those who discern in the desire for profit-making the cause of a bad distribution and consequent discontent must be blind to the essential distinction between the rights of producers and handlers of wealth, and to the fact that the abolition of all individual profits would certainly result in there being none to share. Thus only by an advance in our economic and altruistic education can a greater production combined with a more widespread distribution of well-being be ensured.

The nationalization of railways and coal-mines is, however, another matter, for neither are wealth-producing industries, and both serve almost everyone, so that there will be no injustice in any profits in their work being taken up by the State for the benefit of all. As we shall see, however, these profits will depend on personal qualities in management which only private enterprise can secure.

Nevertheless, as far as the railways are concerned, if transit is to be cheap, much profit will not be tolerated, or the largest users would again be unfairly taxed, so that the division of the profits of the railways is not of so much importance after all. Further, we must not forget that practically all railways were built by private enterprise, for it was the courage of inventors and capitalists which we all have to thank for progress, whence the State has absolutely no right to confiscate the property of others, from which it has itself derived enormous benefit.

That the object of the private promoters of railways is to make a profit does not affect the question in the least, for the privately owned railways must perform a public service if the money invested in them is not to be lost, whereas some State-designed railways have been projected regardless of the disposition of the population and questions of practical utility.

With regard to coal, or similar material, this not being the product of man, the profits from its recovery should certainly be nationalized, for coal belongs to the nation, and neither to the miners nor the present colliery-owners. Yet again, as individuals have been allowed to pay for and acquire interest in the mines, thanks to the delusion of the economists that "coal has no value where it lies," it is impossible to deny them the justice of full compensation.

Nationalization, however, does not necessarily mean another Government department, or working by the State, for once more, only when man is perfect will the same efficiency and honesty be found in Government service as in private enterprise. Thus, an efficient nationalization can only be secured by handing over the working to private and competent parties, and rewarding them and their workmen on the basis of efficiency—*e.g.*, in the case of mines, on the number of tons delivered per man employed.

CHAPTER XIII

THE QUALITY OF A NATION'S INDUSTRIES DECIDES THE LIMIT OF ITS ECONOMIC WELL-BEING

WE have seen in the preceding chapter how by co-operation the cost of production can be decreased, how by limitation of the number of non-producers waste may be avoided, and how at the same time more labour may be set free for production, so that the way in which a nation's wealth may attain its maximum is clearly indicated.

We also saw in Chapter X how, bearing in mind the cost of production, the surplus value produced, or the resulting wealth, depended upon the average skill of the community; that is to say, the greater the number of workers engaged in the more skilled industries, the greater the average wealth-production and prosperity. We know, also, that this is a real prosperity and not merely a material one, for the nation's wealth-production is in inverse proportion to the average number of working hours required to produce its daily necessaries of life; the higher the average skill used in the production of these, the shorter will be the working hours.

Thus, if happiness be the highest wealth, it is evident that a nation which, after obtaining its necessaries, has the most time in which to educate itself, to produce luxuries, or to enjoy them, is the wealthiest, yet, since the meaning of wealth is well-being, it is a matter of opinion whether a nation of Spartan philosophers, who produced their necessaries in a very short time, and had nothing beyond save leisure, should be considered in a higher state of civilization than one which devoted its spare time to the production of material wealth, leaving less time for contemplation, or even enjoyment of the wealth it had produced. As, however, it is undeniable that the possession of riches is no guarantee of happiness, it may be claimed that the spiritual, moral, and mental development of man is more important than his material prosperity, and that it is better to aim at more leisure, which affords opportunity for such improvement, rather than at merely a greater production of material luxuries.

Although it is natural to man to crave luxuries, history teaches us (in this case, we think, correctly) that an inordinate desire for material wealth lowers a nation's fibre and has frequently led to its downfall. We do not gather from this that nations should not attempt to improve their conditions of life, particularly the average conditions of the less fortunate, but that education should teach people to develop their intellectual and moral side. If those in power exhibit a lust for luxuries, one cannot blame the people for doing likewise, and again the superior man must set the example, and, if necessary, compel his weaker fellows to follow him, for just as bad money drives out good money, being easier to come by, man must if necessary be dragged out of low surroundings to which he may have become accustomed. It is, indeed, incontrovertible that the things which most make life worth living cannot be bought because they are not even material. One cannot buy love, happiness, affection, or the pleasure of human companionship, and enjoyment of the beauties of Nature can often be obtained free, or at small cost. As R. L. Stevenson wrote : " If we were charged so much a head for sunsets, or if God sent round a drum before the hawthorns came into flower, what a work should we not make about their beauty!" Every man should ask himself what he wants in order to be happy, and further what he would do with it if he had it.

How necessary it is to remember that wealth does not mean merely the possession of material commodities is shown by the fact that man builds himself towns, shutting out, as far as possible, the endless beauty of Nature, and gets so used to his unpleasant surroundings that he tends to lose all appreciation of what Nature provides for him free of charge, with the result that thousands of men find their principal enjoyment in drinking in public-houses, which by no stretch of the imagination can be termed beautiful. Moreover, do those who still enjoy a day in the country, a pleasure generally due to the desire to gratify the children, understand that their pleasure is not material, and that it is the fault of man himself that he cannot more often enjoy it?

Further, man's striving after material luxury is not instigated by appreciation of it so much as by covetousness. We want what other men have, because they have it; having attained it, we are again dissatisfied. The workman eating his bread and cheese, and drinking his beer, envies the rich man enjoying oysters and Chablis, but if the former food be good there is no question which man has most enjoyment, or derives the most benefit and the least regret from his meal.

We have shown that the nation's total working hours can be reduced, and its hours of leisure increased, but this might actually lead to degradation unless the latter were spent in surroundings which appeal to man's higher intellectual and moral capacity. Thus a nation's wealth or poverty, be it material or intellectual, its education and civilization, depend upon the quality of its industries, whereby the value of its production in a given time is decided.

Lest, however, we appear to underrate the importance of material wealth, and to advise the working classes to be satisfied with their present lot, we will add that it is impossible for a nation to produce too much wealth and leisure. It is true that we *read* of an 'over-production' which results in unemployment and the impoverishment of the whole nation, but this is due to a temporary or permanent excess of a certain commodity. No one has yet heard of a nation which has too much of everything, whence such over-production and consequent unemployment must arise simply from wrong production, it being obvious that if there be no alteration in the distribution of wealth, an increase in production must benefit every individual.

A nation's annual requirements in necessaries is a known quantity, so that their production is not a gigantic gamble, wherein man labours to produce on the off-chance of someone wanting his output, and although these commodities are mostly perishable, improvements in storage should be such that, without having to allow much margin, there will always be enough and to spare even after bad harvests. Yet under-production of necessaries is a crime, and if storage facilities did not exist over-production would be mere foolishness.

Once again, the responsibility for our omissions and poverty lies on those who invented the law of supply and demand, which deluded the workers into thinking that by reducing their output its value would be increased, and the same wages would be payable without depreciation in the value of money.

Economically, the quality of the agricultural industry, by far the most important of those producing necessaries, must be measured in the same way as that of others, viz., by the value produced per worker employed therein, yet, as an open-air country life, given decent housing, results in a far healthier race of men than indoor work, especially if carried out under unpleasant if not actually unhealthy conditions, or any sedentary occupation, it is evident that the more people the agricultural industry can absorb the better.

Although agriculture is regarded as a relatively unskilled occupation, this is a mistake, for the agricultural labourer does not do the same job, day after day, all the year round, but has quite a variety of work to perform, and must also understand what he is about and keep his eyes open. Compare this with the mass of unskilled workers engaged in many trades, working without any interest, often turning a handle or just moving goods about, and the frequently observed natural acumen of the agricultural labourer confirms his superiority even if many are misled by his slow-thinking mind, the result of a lack of social intercourse.

Further, the value produced per worker in agriculture, in England, at any rate, can be enormously increased by making co-operation compulsory, when the very best machines, delivery vans, etc., could be supplied to a group of farmers, both for growing *and* marketing their produce.

It suffices to say that agriculture can, and must, be made to attain the position it deserves, for there is no question but that in densely populated countries every acre of land ought to be farmed in the most efficient and intensive manner, whereby the greatest number of workers possible can be employed in tending the soil, breeding cattle, pigs, chickens, making butter, etc.

The cause of over-production of certain articles, as well as the lack of wealth due to inefficient production and an excess of middlemen, is economic 'licence.' We allow men in a community to do what they like within too great limits, regardless of the effect on their fellows. We allow a man to be what he likes, and instead of bringing him up to think that his first duty is to produce the equivalent of his daily necessaries, we lead him to think that it is to earn wages sufficient to buy them.

If, then, we compel a man to be a producer, we should ask ourselves what he is to produce. He should not be permitted to enter an industry employing labour of low average skill unless there were a shortage of such commodities as are produced for home consumption by such labour, nor to produce luxuries or try to stimulate demand for a luxury article in order to make a personal profit while there was a shortage of necessaries. It is true that it is no use producing things if we do not consume them, but it is also true that consumption is the enemy of mankind.

It is, of course, undeniable that an increase in the consumption of a given article can benefit certain individuals, for if the producers and the handlers of this are making a profit from it, the greater the waste the greater their profit. Indeed, all those engaged in its production would benefit. On the other hand, the whole of the remainder of the community would suffer, because they have to provide these producers with all other commodities, and if the waste in question had been avoided these very producers, as well as the whole community, could have enjoyed a shorter working day and thus have had leisure, or produced something else that was really needed.

Waste, then, is the enemy of mankind, and that this is not generally recognized is due to our selfishness, thinking always of the individual, or a set of men, instead of the whole nation.

Waste of money matters not a jot, save to an individual, for it represents merely a transfer, whereas waste of commodities reacts on the whole community. Necessaries of life should be treated with respect, for we should see in them the labour of their producer. Luxuries should also be treated with respect, for the more we waste the less there is for others, and as all we can extract therefrom is pleasure, we should at least see that we obtain the maximum amount possible, while wasting the least labour, and, so far as is possible, let others share in the enjoyment.

It is quite true that the greater the demand, or size of the 'market,' for an article, the more cheaply it can be produced, but that can never justify waste, and the increased efficiency is not due to the output, but, again, to the brains and skill of men who, seeing the possible demand, have devised methods whereby labour may be saved and the cost of production decreased. Nevertheless, although the cost per article decreases, the total cost—*i.e.*, destruction of irreplaceable raw material and loss of labour-hours—must increase, for could we produce 5000 articles at less cost than 1000, the method of manufacture of the smaller quantity must have been at fault. Neither the consumer as such, nor the waster in any walk of life, has any virtues, and could we suddenly do with half our necessaries, and make our luxuries last twice as long, the length of our working day could immediately be halved.

Waste, or an excessive consumption, certainly stimulates production, for the benefit of certain individuals or sections of the population, but at the same time it must mean harder work for the whole community. Production comes first, consumption can never overtake it, and the difference between the two is also waste. The large numbers of men engaged in trying to induce people to buy represents to a large extent a loss of labour. Because an article has been produced, to induce a man to buy it if he does not want it, or to waste what he has already got, benefits the producers and handlers of it, but the result to the community is merely a transfer of wealth, destruction of labour-hours, and therefore longer working hours for all.

For example, if the object of advertising were to let the public know where an article *needed* was obtainable, and not personal gain, it could doubtless be achieved at a thousandth of the present cost in labour-hours.

It is thus clear that an abuse of economic liberty, or economic licence, cannot be permitted in a civilized community, and that as complete liberty, either to the child or the man, is incompatible with civilization, so a nation's prosperity depends absolutely on the denial of economic liberty to the individual. Indeed, although a nation must be free to produce to the limit of its capacity, individuals must not be permitted to produce anything they wish, regardless of whether the goods are necessary or wanted, or yield a high value per worker, nor to become wealth-handlers instead of producers. After due allowance for the interests of the community, however, there should be complete liberty to produce as largely and efficiently as possible, and interference in this by one nation with another must not be tolerated.

The workers, when they read of unemployment of others, do not seem to realize that it is not the unemployed who necessarily suffer, but themselves, and that if the unemployed who continue to consume necessaries are given out-of-work pay, wherewith to buy these while doing nothing, the value of money is depreciated, whereby the whole community suffers. That is, those who are at work support the unemployed.

Unemployment means non-production, and this entails poverty. The producers do not seem to realize that, whatever the cause of strikes, lock-outs, or unemployment, they must pay the cost—aye, primarily the working classes, who blindly applaud industrial conflict in their ill-founded hatred of employers—and that unemployment should be not only impossible but forcibly prevented. It is quite practicable to hold in reserve work which could be undertaken at certain seasons of the year, reafforestation for instance, and although some choice of occupation could be allowed, the obligation of everyone to work, and if possible to produce, must be recognized. Bread and water for work-shies is not cruelty to them, but justice to the workers.

We have contemplated in the foregoing a self-contained nation, and before we pass on to its relations with others we will consider its potentialities of happiness, or the limit of economic well-being possible to it. Given the raw material, or capital, provided by Nature, the fewer hours required to produce its necessaries of life, the more luxuries it will be able to create, or the more leisure it can enjoy. Every nation can or must originally have been able to produce all its own necessaries of life, but many luxuries would remain unattainable if international trade were not permitted. It is partly for this reason that foreign trade has come to be regarded as of such great importance, for we know that many of our luxuries must be obtained from foreign countries, and we, as individuals, do not stop to think what the nation may be sacrificing to obtain that which, in giving us pleasure, may afford it but a poor return. Nor could any sociologist pretend that man is happier for attainment of those luxuries of whose existence he was contentedly unaware, nor that the *raison d'être* of foreign trade—a reduction in the world's labour-hours, is ever considered by those who profit from it.

The little English girl who during a shortage of bananas, on being told by her mother that they were unknown when she was a child, exclaimed: "What, no bananas! How dreadful!" could not be expected to consider the stokers, sailors, and dock-labourers concerned in their transport to England, nor the toil of ill-paid workers there, through which they were ultimately paid for, but surely an educated nation should not be so blind.

Needless to say the importation of bananas happens to be an excellent thing, but the fact is that domestic labour is not directly exchanged for foreign goods, and thus it is easy to overlook the longer hours of work and the hardships that the importation of the latter may entail for others.

It is evident that a self-contained nation can produce all its own necessaries, and attain a certain efficiency in so doing, and can also produce a certain amount of luxuries, and that if it then want other luxuries, it must sacrifice leisure and produce a surplus of necessaries or of its domestic luxuries in order to exchange them for the foreign luxuries, which it cannot produce from the raw material which Nature provides.

Further, although by allowing other nations to do that for which they are more naturally fitted than ourselves we may increase the efficiency of our own production, *i.e.*, produce a greater value per man, we shall only succeed in doing so if our efficiency in the industry we surrendered was less than it is in the one by which we replaced it.

Trade between nations, as between individuals, consists ultimately in an exchange of goods for goods, however many intervening parties there be, for although the producer sells for money, this is useless unless it can be employed for the purchase of other goods.

Thus it is evident that an exchange of the surplus produced beyond our own requirements for the surplus which another nation produces requires most careful scrutiny, because just as in an exchange between individuals both parties can never get the better of the same bargain, although they may think they do, in an exchange between nations one may, and almost always will, get the better of another.

It is undeniable that a self-contained nation can lead its own life. It can decide the number of hours it will work, and if it prefer to have a short working day with a consequent low production, and to enjoy much leisure, no other nation may prevent it, nor should anyone say that it is worse off, or less happy, than a nation which works longer hours in an endeavour to enjoy a larger quantity of material luxuries. On the other hand, a nation which deliberately limits its working hours to less than those of other nations—unless it can make good by a higher efficiency, attainable only through respect for skill—cannot expect to enjoy the same luxuries, nor to attain permanently such a high standard of living, or education. Man cannot produce luxuries and enjoy education and leisure at one and the same time, any more than it is possible to eat one's cake and have it, and a nation's material and moral prosperity, its possibilities of education and spiritual welfare are in the hands of its workers, not in those of its talkers, for they depend solely on the value produced per man—*i.e.*, the proportion of producers to non-producers and the quality of its industries—and upon nothing else.

PART III
INTERNATIONAL ECONOMICS

CHAPTER XIV
THE PRODUCTION OF WORLD-WEALTH

IN Part II the principles of Economics as applied to a self-contained nation were considered, and in Chapter XIII we saw that the limit of economic development of such a nation was prescribed by the education of its people, or the quality of its industries, combined with its natural resources, or the capital provided by Nature. The next step, therefore, is obviously an examination of the possibility of a further advance in its development, if advantage be taken of the education and natural resources of *other* countries. So far as the former is concerned, we found in Chapter I that this could be effected through intercourse, *i.e.*, without production or trade, and it remains therefore to investigate how one nation can rise to a higher state of civilization by taking advantage of the natural resources of another.

In any transaction designed to benefit the first nation the second nation must not be placed at a disadvantage, or it would be equivalent to resorting to force or robbery, and as Economics is an ethical science, neither a man nor a nation can be permitted to exploit his fellows. It is therefore essential to keep in mind that any real increase in the world-production of wealth through international relationship must be shared between all concerned.

We must once more emphasize the fact that we are considering not only material wealth, but the well-being of humanity, and those (generally rich men) who argue that, because an Italian workman with less commodities or wages may be happier than an Englishman with more, material wealth is not so important after all, have once again fallen into that error, so common to unscientific minds, of considering two variables at one and the same time. It is the *Italian* workman with more or less wealth that we must contemplate, and not merely more or less material wealth, but more or less leisure in which to enjoy the beauties that both Nature and man provide, and to say that a man, even a light-hearted Italian, can ever have too much well-being, or ever be satisfied to stand still, is to deny his essential characteristics and superiority to animals. Were man, indeed, content with his present surroundings he could not progress, and the same is true of a nation which is, or becomes, satisfied to remain stationary. Nevertheless, the mere desire to possess material wealth, particularly that of others, is no sign of civilization, as witness the black races when brought into contact with the white, and all discontent is not divine. Quite another matter is man's natural desire to *create* wealth; this should be beneficial to humanity.

We found when investigating the national production of economic wealth that the value of the resultant was measured by its relation to the average man's daily necessaries of life, the consumption of which determines the national cost of production, so that when we proceed to consider the world-production and measurement of economic wealth, we are immediately confronted with the undeniable fact that the same articles have a different value and cost in different climates. In other words, it is impossible to consider the world as a nation, or the production of wealth of the whole world as an identical operation. We must differentiate according to climatic conditions, or once again divide the world into nations, though neither their number nor boundaries need necessarily correspond with those existing to-day.

Our unit of value and cost of production are therefore only alike where both climate and race are identical, and, although it evidently benefits the world as a whole that goods should be produced where the cost of production is lowest, it does not necessarily follow that the producers themselves would be gainers if they worked for other nations.

For instance, if goods produced in a country where both the cost of production (number of labour-hours) and the unit of value (the daily necessaries of life of the average man) are lower be transported to another land where they are higher, a dual advantage results to the inhabitants of the latter, for the goods have there a higher value in that they save more daily necessaries of life and relatively cost less.

Indeed, considering the cost of production not in terms of labour-hours, but in relation to the consumption of necessaries, the rest of the world would certainly benefit at the expense of an undeveloped nation with small requirements of necessaries which worked long hours to supply it with certain commodities, and it might be quite prepared to compel the latter to do its unskilled work. Such action would not do violence to the economic interests of the majority, but it would not benefit the undeveloped nation and could not be advocated on humanitarian grounds, being akin to slavery and therefore anti-economic. It is clear, therefore, that economically the lowest cost of production can only be obtainable where labour-hours are at the minimum, and the two considerations are inseparable.

Nevertheless, if all men and all races be not equal, the least developed peoples cannot avoid economic subjection to a higher civilization, any more than can the unskilled to the skilled workers of a particular nation, and, providing that the superior recognize their responsibilities, and do not prevent advancement of their inferiors, there is no harm therein, economic and physical slavery being entirely distinct from one another. Thus a nation like the Romans, which imported slaves to do its menial work, is economically justified provided that it improves the conditions of living of its slaves, and does not deny them that liberty of mind to which all mankind is entitled. Physical slavery is, however, not permissible because owing to human frailties it is impossible to keep apart moral and material subjection.

We have considered above the lowest scale of wealth-production, *i.e.*, unskilled workers with different standards of living, but if we regard the other extremity we shall find a still further essential distinction between national and world-production, a further limitation of the law that goods should be produced where their cost of production is lowest.

In our self-contained nation, although all men did not produce wealth to an equal extent, they nevertheless all benefited by the development of higher industries owing to the increased availability of commodities, wherefore the obligation of the fortunate to contribute more to the cost of government and to participate with the less successful. So far, however, there is no indication that the world has neared that point at which a richer nation will be ready to share its wealth with a poorer one, or to bear the cost of government of another which is less well endowed.

If, for instance, owing to its natural resources or to its higher development, a nation enjoyed a monopoly of the best industry, it would not be willing to hand over part of the resultant wealth to another nation which had been naturally unable to develop this industry or had failed to educate itself to do so, because the altruistic education of no nation is sufficiently advanced to admit any obligation in either case.

It is clear, therefore, that nations do not share in world-wealth as individuals in national wealth, and that consequently there is a fundamental distinction between national and world-production of wealth.

Further, although every nation should in the first instance produce that which requires least labour-hours for a given value, *i.e.*, do that for which by nature it is best suited, and should not do that for which it is unsuited, it ought not to stand still, but endeavour, by utilizing its superior men and education, to rise to ever higher industries, of the fruit of which it must not be robbed.

It follows that no nation may be prevented from attempting to raise itself by education and the application thereof to higher industries, nor, even if it have less natural advantages, from endeavouring to develop them; for, alternatively, not only would the inequality of nations be accentuated by the more fortunate monopolizing the highest wealth-producing industries, but those countries with few or no natural advantages would become depopulated, and if migration were permitted some nations would eventually become extinct. If we compare the hardships of the Eskimos with the ease of living in temperate and luxuriant climes, and consider the consequences of all nations being free to remove to the most fruitful lands, it is apparent that the latter must indeed lead to continual war, conquest, and re-conquest. Thus, non-recognition of the sanctity of nations, advocated by many so-called thinkers who dub themselves internationalists and glory in having no nationality, would involve the downfall of civilization.

Although each nation should produce that for which it is best suited, it cannot be permitted to interfere with any other less favourably endowed, which endeavours to produce identical commodities. That is, an increase in wealth-production is not permissible if obtained at the expense of other nations. This principle of non-interference, and recognition of the right of each nation to its maximum economic development, is essential not only to the peace of the world, but for the very existence of small nationalities.

If, then, every nation should produce that for which it is best suited, the question naturally arises, what must it begin with, and the answer is *necessaries of life*—yea, even if it be at a disadvantage in producing them. That it *can* do so is obvious from the fact that it exists, and as no nation has yet reached the limit of its agricultural development, nor must of necessity depend upon the products of other climes (*e.g.*, it could dispense with cotton goods and use linen, etc.), the problem of over-population should nowhere be acute.

The greater importance of necessaries as compared with luxuries, to which we referred under National Economics, is intensified in the case of international relationships, for although a government should be expected to control its own subjects, and see that an adequate supply of necessaries is available before luxuries are produced, it cannot compel those of another nation to provide a surplus of necessaries beyond its own requirements.

Further, just as individuals have, up to the present, been permitted to profiteer at the expense of their fellow-countrymen, so can and will nations profiteer, and, indeed, with more excuse, for they are not fellow-countrymen; one may think the other undeserving or foolish, and, as the former does not share in the latter's prosperity, or benefit from its government, the latter has no claim to consideration.

Thus, both a man and a nation which are dependent upon others for their daily necessaries of life are at their mercy, and exposed to profiteering and coercion, for if a moment arrives when the people are starving, the nation must needs sacrifice everything to obtain food. Consequently a nation which gives up the production of its own necessaries of life surrenders its economic, and possibly its entire, independence, and so long as present human frailties endure no nation should be dependent upon another for its primary necessaries of life.

A nation misled by illusionists may indeed say: "Why work hard to produce necessaries when we can get others to do the rough work?" and it may give, in exchange for these, luxuries, easily produced, or raw material provided by Nature. Obviously this nation barters its security, like a gambler who, in a state of intoxication, stakes his life upon a throw.

There is, however, another non-economic factor which we must not overlook, viz., war, or force, for even were the League of Nations powerful enough to compel disarmament and universal arbitration, a nation which was dependent upon others for its necessaries of life would have no means of resistance, though its cause were just.

Thus, even if agriculture were an un-economic industry, even if it did not breed a healthy population, the maintenance, the integrity, the strength, and the defence of every country necessitates some sacrifice of wealth-production for many generations.

Having, then, safeguarded national security, how can a nation rise through international intercourse above the economic development possible to an isolated people save by increasing the production of those commodities which represent a high value per worker (be it 'economic' or 'joy' wealth) and by reducing the number of workers in the less skilled industries? It has, indeed (considering a given and efficient population), no more workers available, and does not wish to increase, but rather to diminish, its average working hours, therefore it can only benefit if it induces other countries to do for it work for which they are more suitable, and devotes itself to a *higher* production. As this must apply to every nation, unless wealth increase is to be obtained at the expense of others, the following principle must govern international economic relationships.

Every nation should do that for which it is best suited, but no nation should willingly do work for another unless the value, intrinsic in the case of necessaries, exchange value in that of luxuries, produced per worker in a given time be greater than would have been obtainable had it done the same work for its own consumption. By "that for which it is best suited" we mean, not that for which it is *naturally* suited, but that for which a nation by its education combined with the use of its own or other countries' raw material can fit itself. Thus the Swiss were intended by Nature for an agricultural community, yet have by education developed artificial industries, the electrical for instance, for which almost all the raw material is imported, yielding a considerably higher value per worker, to the advantage of the whole nation. Did the industry, indeed, produce a lower value than agriculture, Switzerland would obviously be richer without it.

In the foregoing we have considered civilized nations which can educate themselves by intercourse, but savage and less gifted races inhabit large tracts of land, much of the most fertile description. If the earth be made to support and nourish man, and certain races are incapable of developing Nature's resources where they dwell, there is obviously justification for interference, or colonization, if it lead to a higher civilization. We do not pronounce an opinion as to whether the lower races are intended ultimately to become extinct, but we do say that if colonization is to be justified it must improve the condition of the natives both materially and morally. Further, just as the producer of wealth while having the first call upon what he produces must share with his fellows, so the colonists are entitled to claim the wealth-increase due to their efforts, provided they recognize that they hold the land in trust, and suitably reward the unskilled labour of its original inhabitants.

Improvement in the moral condition of natives is a much more difficult problem, and calls for highly qualified teachers with high ideals, for unfortunately it is a fact that one race does not through intercourse necessarily imbibe the best qualities of another. Indeed, a lower race is apt to copy the vices rather than the virtues of its masters. The government of subject races, although of economic importance to the whole world, should be left to nations with approved capacity for undertaking it, and international rivalry could be obviated by some share of the wealth produced being paid to nations without colonies. This would not seriously affect the inducement to colonize, and in any case the exploitation of subject races for purely individual profit is quite unjustifiable.

Having seen the essential differences between the problems of national and world-production of wealth, and remembering that, in spite of the primary importance of production, a country's wealth, like that of an individual, can actually be increased, although also lost, by barter, because it may receive a less value than it gives, owing to the fact that when goods are once produced nothing can add to, or detract from, their real value, we will pass to an investigation of world-trade, or international exchange, which, obviously affording greater opportunity than production for interference, indirectly at least, by one nation with another, needs the most careful scrutiny.

CHAPTER XV

INTERNATIONAL SUBDIVISION OF LABOUR, OR INTERNATIONAL TRADE

JUST as a subdivision of labour in our self-contained nation, whereby men do work of various degrees of skill according to their capacity, necessitates the exchange of goods, or trade, so does international subdivision of labour —for when each nation does the work for which it is best suited, that is what it amounts to—introduce international exchange or trade. In the earliest days of the world's history nations exchanged unessential commodities with one another, each receiving in return for a surplus of its own products various articles which it could neither produce nor find within its own borders, and which, therefore, it prized inordinately. We read, for instance, of the Phœnician's purple dye, the pearls of Araby, and of how the early Britons exchanged tin for ornaments—in fact, most schoolboys have been wearied with accounts of trading transactions in articles which they have never seen nor tasted, which are of no interest to them, and the inner meaning of which has never been explained to them. It was the rich and powerful of those days who clamoured for these commodities, always more or less luxuries, for nations did not yet dream that their necessaries could be obtained save by producing them. The riches of Rome of which we read give no indication that its people generally were prosperous or happy. Little recked the searchers after new luxuries of how these were to be paid for; they thought only of how they could satisfy their desires.

Although, therefore, history is silent as to trade in necessaries, we frequently read of a shortage of food, due to bad harvests, and if in modern times the wealthy nations have been spared such suffering, it is not due to the thought applied by Governments to the supply of necessaries for their people, but to the agricultural and industrial development of new lands, which has provided a considerable surplus of food, etc., beyond the needs of the settlers, and has raised to an enormous extent the average production of the whole world. The reader may be tired of reading about necessaries, but assuredly he never will be of consuming them, and although trade in them is unsung, nations have frequently made war to seize them or the means of obtaining them in ancient and modern times. The rape of the Sabine women is an instance of force being used for the perpetuation of a race. It appears indeed that hitherto all trade has been war, each party having desired to get the better of the other or to give the least and obtain the most possible, and this state of affairs will continue so long as no equitable basis for exchange is recognized and the law of supply and demand operates.

We investigated in Chapter V the principles of exchange between members of a community, or in a self-contained nation, both for necessaries and luxuries, and found that whereas in regard to necessaries it was possible to say definitely when a fair bargain was struck, in the case of luxuries it was merely a matter of opinion. We shall find that this is equally true in international exchange.

Considering necessaries first, as the key to the problem, it is evident that in a direct exchange between two nations, as between two individuals, any departure from the basis of intrinsic value must benefit one at the expense of the other, and the intrinsic value produced being proportional to the skill, brains, and mind invested, the exchange value or price should strictly correspond therewith. We know, however, that, owing to non-recognition of this fact and to economic licence, or profiteering, the exchange value does not as a rule correspond with the intrinsic value, and that in every such case, assuming labour equality, the difference between the two represents a profit to one nation at the expense of the other. Thus, assuming equal quality of labour to produce woollen garments in England and potatoes in France if 1000

French workers obtain a lower exchange value or price for a month's work than 1000 English workers do for theirs, or, what is the same thing, obtain the exchange value of the labour of, say, 900 English workers, England benefits by the *exchange*, because the French labour, being of *equal quality*, should have been able to obtain the same exchange value in 900 hours had it produced itself the woollen garments. Although goods are paid for by goods, the exchange, at the bottom, is labour for labour, and, again assuming equal quality, the labour of both parties should be equal in quantity.

This conclusion is identical with that at which we arrived in considering an internal exchange of necessaries, but, as we should expect, knowing the essential difference between necessaries and luxuries, in an international exchange of the former for the latter there is a vital difference to be noted. As the exchange value of a pure luxury, or any luxury value whatsoever, depends entirely upon demand, if a producer of luxuries obtains a high price for his product in exchanging it at home for necessaries, the transaction merely benefits him at the expense of his fellow-producer of the latter and represents no gain to the nation, whereas, again assuming identical labour quality, if the French pay a relatively high price for a luxury produced in England, the latter is undoubtedly richer thereby. At the same time, it cannot be said that the French have the worst of the bargain, as they may prize the luxury inordinately, and the fact that England has benefited in the exchange is not due to unfairness, but to the foolishness of the French.

As an instance of a converse transaction, French fashion designers (let us hope also their work-people) become wealthy at the expense of other nations through the inability or unwillingness of the latter to design their own millinery and costumes, yet the fact that the extravagance of well-to-do women actually causes poverty to their fellow-countrymen and women is a cause of reproach not so much against them as against the false doctrines of economists. The wearer of an expensive French hat has never been told that our workers must produce common necessaries to the same exchange value to pay for it; she is, rather, praised for promoting foreign trade.

The same principles apply to an international exchange of luxuries for luxuries, because in every case that nation gains at the expense of the other which obtains the higher exchange value for equal labour, amount and quality. We have, however, noted the distinction between home and foreign trade, that while the former can only alter the distribution of wealth, the latter can actually increase wealth, and, similarly, while intrinsic value is of paramount importance in home trade, it is exchange value that matters in foreign trade, for until a nation has learned to consider the equitable reward of its own workers it is not going to concern itself as to that of the people of other lands.

We have seen that *a nation* can become richer by foreign trade, but that this is always at the expense of another one, whence it is clear that an increase in *the world's* wealth through trade is an impossibility. Nevertheless, we have all been brought up to believe that our nation became rich through foreign trade, and that it was vital to the interests of every people. On the other hand, home trade has been ignored and no appeal to the imagination has been made for it, whence it is essential that we should investigate the cause of such tragic stupidity, the effect of which is seen in the life of every man and woman among us.

We have already dealt with this question to some extent in considering internal trade, but as individuals who appreciate that a whole people cannot get richer by exchange of commodities among themselves nevertheless believe that not only their own nation, but all others simultaneously, can amass wealth through trade, we will not apologize for any repetition.

The original international traders referred to at the beginning of this chapter were confessedly deficient in altruistic education, they cared nothing about their fellow-countrymen, and certainly never posed as philanthropists. To-day men dare not admit such defects in their character, and have, in addition, the advantage of knowing that goods are paid for by goods. Some, indeed, argue that goods are paid for by money, but we know that this is only a token for goods, and the idea that goods are alternatively paid for by services is equally fatuous, for what are services but labour, and how is labour paid for but by goods? Thus, goods are always paid for by goods in the end, although payment may be deferred.

How comes it, then, that, knowing that whatever goods are sent out of a country corresponding goods must enter it, anyone can believe that a nation necessarily gets rich by exchange or trade? The answer is to be found in the profound reflection that goods ready for export have no value if they cannot be exported, whence export or trade creates value and wealth!

Once more we find the economists starting in the middle and ignoring the beginning, viz., the production of these goods. If they be necessaries, we have shown that they have value whether exported or not, because we can consume them ourselves and thus save future labour. If they represent only luxury value they may be wasted if no one wants them, but then they never had, nor can they acquire, any real value. It is true that the foreign consignee may give us value, either in goods or money wherewith to buy them; indeed, it is only in anticipation of this that the articles in question were produced. We know that the cost of production is the necessaries consumed by the workers, and if a set of men, or a nation, are so foolish as to waste necessaries, or real value, or their time, in producing articles which no one wants, and in exchange for which nothing is obtainable, they deserve no sympathy. Of course, they may make a mistake, but people have to pay for their errors of judgment, and such cannot affect value, nor the laws of Economics.

Our readiness to accept the foolish theory mentioned above is due to the fact that the individual exporter does obtain wealth through exports, and other people see him do it, yet neither he nor they have discerned the possibility that the goods exported may have a higher intrinsic value than those imported, or may cost more (*i.e.*, real cost, or labour) to produce. The exporter, who gets paid in money, is not concerned with the corresponding imported goods, he cares nothing for the amount of labour expended upon the production of those which he exports, and he probably believes that the nation, as well as himself, benefits through his activities, although, as we have shown, it is quite possible that the nation loses.

The law of supply and demand, which we have unmasked as merely a vast pretence, is the foundation on which these sand-castles are built. If demand, or carrying goods to those who want them, creates value, at what moment does it appear and who is responsible? Evidently not the producers of the goods, whatever their skill, for the goods have no value if no one wants them. It follows that *to want* must be creative also.

The evils arising from this delusive law of supply and demand in internal trade are intensified in international trade, for not merely are workers exploited and placed in economic subjection to their fellows at home, but they are the victims of unfair competition with workers of other countries.

Yet it is undeniable that nations *appear* to get rich through foreign trade, and we have an idea that the law of supply and demand was an accessory after the fact. For instance, the truth that most goods are made to order or to anticipated orders may have originated the notion of "demand creating supply," although we, for our part, are quite satisfied that brains and skill, and not demand, created the first locomotive and every improvement thereon. Thus it is desirable to disclose the real source of a national wealth-increase which follows international trade.

Let us assume, therefore, that exchange between nations takes place on the basis of equal intrinsic value as regards necessaries, and equal exchange value for equal labour quality as regards luxuries. In transactions upon this basis there will be no gain to a nation from the mere process of trading, but we shall find, nevertheless, that they may result in a nation's being gainer through them. We will not fall into the error of considering goods already made, but will begin at the beginning, and compare the nation's wealth before the production of its goods for export and after the receipt of the goods imported in exchange.

An order having been placed in England, say by India, for locomotives to the value of £100,000, to be paid for by the import of rice and raw cotton to the like amount, it follows that before the preliminaries were arranged there were certain irreplaceable raw material and labour waiting to get to work in both countries. Also at the completion of the contract England would possess a supply of cotton and rice, and India a number of locomotives.

Now, the English labour that built the locomotives might have been used for other profitable purposes, as also the material of which they were constructed, or the locomotives might have been built for home use. Similarly the Indians, who have lost the rice and cotton they produced, representing the labour of a number of workers plus the wear of any implements or machines containing their own irreplaceable raw material, might have produced something else, or kept the rice and cotton for themselves, and enjoyed the luxury of leisure. Thus the question we must answer is, are either or both countries, having received an assumed equal intrinsic value, now better off than they were previously? Undoubtedly the English are, because they have exchanged the labour of a small number of skilled workers for that of a larger number of unskilled.

The English workers consume necessaries (we can assume these to be actually rice and cotton), and the number of their labour-hours being much less than that of the Indians, the £100,000 worth of rice and cotton must represent a large surplus beyond their own consumption of necessaries, or intrinsic value. This surplus must exactly equal the intrinsic value of the locomotives less the necessaries consumed in their production. Expressed otherwise, the locomotive builders have got their necessaries, and a big surplus beyond, because the larger number of Indians engaged in producing the rice and cotton had obviously to live while doing so, whence, unless these people could not have existed on the rice and cotton they produced (or their equivalent in other necessaries), when their country would be poorer for having produced them, the quantity of necessaries they consumed, and consequently have produced, must far more than cover the necessaries of perhaps half their number of English locomotive builders. It is clear, therefore, that England has benefited by this transaction, that the gain is the difference between the value of necessaries received and of necessaries consumed, and arises solely from the *quality* of the English production. But, some may object, the Indians benefit also by receiving the locomotives, the use of which will save labour and increase the production of their rice and cotton. This is undeniable, and it will be noted that the source of their profit is *production*, but English production, the work of the brains, mind, and skill of English inventors, whence we again demonstrate that such men do indeed enrich the whole world. If every locomotive or other machine exported bore a plate stating the names of its inventors and designers, the Indians might be more appreciative of the true source of the improvement in their conditions wrought by foreign control. Since, however, we ourselves do not recognize the source of our well-being, we can hardly expect less advanced peoples to do so. Memorials in every land to the real wealth-producers of the world could but promote civilization and concord.

We would remind the reader that we prefaced our argument by the statement that the intrinsic value received by both parties was to be equal, whence it is clear that the wealth-increase attributed to trade belongs verily to production. Further, although both parties can never benefit by one and the same exchange, everyone *can* be richer by production, although not to the same extent, for so long as the intrinsic value produced per Indian worker is higher than that consumed by him during the operation, India increases its available wealth also.

Thus every nation can get rich through production, but only becomes richer through exchanging products with foreign countries when it improves the quality of its production whereby the workers produce a greater value per head for export than they would have done for home trade.

It is now clear how Britain amassed wealth by trade with India and the rest of the world at the commencement of the industrial era in the nineteenth century. Britain was not necessarily the greatest producing nation, but the one with the most skilled workers, and therefore with industries of the highest quality. And why was this so? Because the economics of an island are different from those of continental countries? No, but because Britain bred inventors and, being free from invasion, and her wars being fought in other lands, she was able to develop her inventions on an adequate scale, and thus become not only a great industrial nation, but the only highly developed one, a condition which continued down to about 1880, when the United States and Germany were becoming formidable competitors.

In these arguments we have considered necessaries of life or labour-saving devices, but the principle is identical if an exchange of luxuries be in question, for in every case that nation benefits which uses up least labour-hours to produce a given exchange value, and thus gains leisure, or the power to produce more wealth at each transaction. Moreover, unless one nation be exploiting the other, it is the quality of its production which permits it to benefit by its foreign trade.

The idea is thus exploded that a nation can produce a surplus of any commodity as a speculation and sell it advantageously abroad, for nations do not usually export rubbish or things they cannot use for themselves, and if they do, they had far better produce goods of high value for themselves.

Of course, if less advanced peoples prize rubbish, a more civilized nation may take advantage of their foolishness, but its benefit is only obtained at the expense of others. For instance, an exchange of bad gin for oil or ivory not only benefits the producers of the first but actually harms the receivers of the second.

We have here merely applied to international trade the principles which decide the national value of industries (see Chapter X), and further, just as one nation can only increase its wealth-production by an improvement in the quality of its industries, save at the expense of other nations, so can the wealth-production of the whole world only increase *pari passu* with a general improvement in quality or efficiency.

But—and a very big but—this increased production must not be obtained by working longer hours, nor by working day and night, for both are anti-social and anti-economic, but by the use of skill, brains, or mind, whereby the value produced in the same, or even less, number of labour-hours is increased. It is true that night work is essential nowadays for continuous industrial processes, but the suggestion that this practice should be extended in order to increase the value of our exports ignores the fact that the same result could be obtained without night work by the transfer of labour from less- to more-skilled industries. For instance, it is better to design, make, and export soap-making machines than soap, and we know that a country loses by exporting the products of unskilled labour in exchange for more-skilled, or more for less labour-hours.

Soap is a necessary of life, and it is an example of our economic chaos that a few individuals should be allowed a monopoly and to charge such a high price that, in addition to huge profits for the shareholders, the workers, quite unskilled, can be better treated than those equally deserving in other even more skilled if less fortunate industries. It is, in truth, the money of millions of other toilers that pays for the garden cities that have been built by certain 'captains of industry,' and it gives one furiously to think that it is usually employers of unskilled labour who are rich enough to pose as philanthropists.

We stated generally that goods are paid for by goods, yet we have seen that the exchange is really labour for labour, and that the quality of labour exchanged is the crucial question, whence that hidden plague, the exchange of goods for services, is now exposed in all its degradation. What lower form of labour can we find than services, from that of errand-boys upward, which must and will always be less well remunerated than skilled labour? The working conditions of sailors, dock labourers, and shipping and insurance clerks represent a condition of economic slavery. When there was more danger and less traffic, higher prices were justified for transport, and when steamships were first introduced England built them and manned them, and other nations were prepared to pay for speed, and so she had a practical monopoly. But to-day shipping, not ship-building, is the refuge of the unskilled labour of all nations, and those who advocate a large mercantile marine on the ground of national security are either ignorant or actuated by self-interest, or unbelievers in the League of Nations. If, indeed, we must insure against a war, let us pay our sailors as for insurance, and realize that in manning merchant ships we are in effect running munition factories in peace-time, and not supporting an economic industry. If, however, we believe in the prevention of war, let other nations carry at least their own goods. America realized long ago the economic superiority of the skilled producer, as compared with the unskilled carrier.

We have discussed the exchange of goods for goods, and also for services, but there is apparently another variation in the exchange of goods for capital. Capital produced by man's efforts is, however, indistinguishable from goods, save that it is the result of past and not contemporary labour, and the same is true of capital provided by Nature in the first instance, yet replaceable by man, as forests. There remains, therefore, only our old friend 'irreplaceable raw material' to be considered, and we will examine the most important, namely, coal.

If, as some economists maintain, coal has no value where it lies, and only acquires it through the labour of miners and transport workers, there is only this labour to be considered in its price or exchange value. Thus, bearing in mind that the miner deserves extra pay, or dirty money, which is not part of the wealth-wage, in an exchange of British coal for South American wheat, it is merely a question of labour in exchange for labour (both of approximately equal skill), so that the labour of 1000 British miners may correspond to that of 1000 agricultural workers in South America. There is thus *apparently* nothing much in it, the labour being about equal, Britain obtaining food and South America coal, and it does not, of course, matter whether the coal goes directly to South America or elsewhere. But there *is* something in it to those who are not afraid of the truth, for the South Americans can grow wheat or other produce again and again on the same land and for ever with Nature's assistance, whereas Britain can never replace her coal, which is the gift of Nature unaided by man.

Britain has therefore *lost* her coal; yes, lost it, or given it away. But why worry? The economists say it has no value! But neither have our winter clothes in summer! If we asked a man before an empty hearth in winter whether coal has value apart from the labour expended in obtaining it he would think we were mocking him, not seeking after knowledge.

If, indeed, as we have found, coal has a value in itself, what ought we to ask for it in export? The answer is found by testing its value as used at home. If one ton of coal will produce, when consumed in the most efficient manner, a surplus intrinsic value of a given sum, that sum should be the lowest export price per ton of coal. If coal be irreplaceable and the world is not drawing to an early end, this is irrefutable, and it is questionable whether a nation is justified in exporting coal at all, save in exchange for similar irreplaceable raw material of vital importance (*i.e.*, not for amusement or luxuries). Although one might say that not to use coal is miserly, to do so unnecessarily is the action of a spendthrift.

What, it may be objected, of the poor miners thrown out of work, with nothing whatever to do? Well, the land is calling them and telling them that they can get their bread and yet keep their coal also. What, the reader may go on, of a pamphlet entitled *The Quality of our Exports*, by an author who shall be nameless, which showed how the export of coal was vital to Britain's prosperity? Well, if this terrified its readers with a vision of empty ships leaving her shores, and higher prices for everything, it could only be due to its omission to comfort them by showing that goods being paid for by goods, Britain would require fewer ships, and, most important of all, would have, in addition to more coal for home consumption, more labour available for the *production* of wealth, upon which the true prosperity of the nation depends.

The existence of a Coal Conservation Committee is a denial of accepted economic doctrines, and it is indeed grotesque to find in real life one set of men giving property away as fast as they can (of course it is not really their own property), while another set tell us, in fact compel us, not to waste the crumbs that fall from the miner's table.

THE BALANCE OF EXPORTS OVER IMPORTS.—Everyone, even the most ignorant, is absolutely certain that a balance of exports over imports in money figures is a sign of national prosperity. Nevertheless, we have met one man who, having noted before the War that Germany showed a reverse balance and yet was prosperous, had come to a contrary conclusion, and if the reader has penetrated thus far he too will by now have doubts on the subject. At first sight, and as the moon appears as a *source* of light, it does seem that a balance of exports over imports must represent profit, yet any accountant would shudder were it suggested to him that a firm's net income was the difference between the totals of its sales and its purchases and especially between parts of them only, and he would call for the whole of the sales, the whole of the costs, and the stock.

Now the cost of our exports is not our imports, and might even be far in excess of their value; in fact, it has nothing whatever to do with them, for the imports are not necessarily used to produce these exports, the whole cost of which, as of our total production, is the necessaries of life of all the workers engaged in such production, plus the intrinsic value of any of our irreplaceable raw material destroyed. Should part of the imports be used up in the production of exports, the cost of this is, again, the necessaries of life of those workers who produced the exports by which the imports in question were paid for.

Our total sales might be enormous without any exports at all, for they include the nation's entire production, and it is indeed amazing that producing for home consumption should be termed "taking in one another's washing," while producing goods for other nations and receiving their commodities in exchange should be considered the royal road to amassing wealth. Of course the truth is that any surplus of goods beyond the nation's necessaries represents wealth, from whatsoever source it be derived.

An annual balance of exports over imports shows that a greater exchange value has been sent out of the country than has been received in return during the given year, that the nation has produced, at a certain cost, a surplus of certain goods and might much better have been employed in making something else for its own poor, and that the difference, in goods, is owing to it; yet that does not prove that it is richer through its exports, any more than the fact that Jones sells more goods to Robinson in the course of a year than Robinson sells to Jones proves that Jones obtains a greater net profit than Robinson, for the latter, obviously, might make a larger profit on the smaller value of his goods, a larger turnover being, of course, no evidence of a larger profit.

Again, a balance of exports over imports does not prove that on the whole a nation is producing more than it is consuming, nor that it is thrifty, for it may have consumed some of its own stock. Thus, if Farmer Brown (we cite a farmer because he, like a nation, must be a producer or die) finds that he has sold more in a year than he has bought, he does not jump to the conclusion that he has made a profit, but looks to his stock; if this be depleted in comparison with a former year, he realizes that he may have lost on the year after all.

Likewise, Mrs Brown and the little Browns may have had less to eat and be in want of new clothes, wherefore, before Mr Brown can say that he has had a better year, and we can say that the balance of exports over imports means a surplus production of material wealth, he and we must be sure that we have not drawn upon our capital, and that our conditions of living are not depreciated. It is essential, therefore, to be sure that the workers have not worked longer hours than was necessary and that the nation could not have obtained its imports at less labour cost had it produced them itself, *i.e.*, that it would use up more labour-hours to make what was imported than it expended upon the manufacture of the goods exported. If this were not so it is clear that the nation would be better off if it did not exchange its products for those of other countries. We refer, of course, to goods which could be made under advantageous conditions, and are not proposing to attempt what Nature forbids.

It should now be evident that a nation with a balance of exports over imports may be heading for disaster, whereas one with small exports and large imports might amass wealth at a prodigious rate, and that whether a nation is or is not benefiting through its foreign trade depends upon the nature of its production for export.

Notwithstanding the foregoing, a balance of exports over imports for a long term of years does show that the value of a nation's production sent abroad is greater than that returned, and that, other things being equal, the nation is accumulating wealth or capital, and presumably for this reason everyone concludes that this is the only or most important indication of a nation's capital accumulation. Nevertheless, any surplus of production over consumption is capital, and its value does not depend upon whether it is used abroad or at home, but upon the income derivable from it.

We saw in Chapter VI how, in an isolated community, capital could be used to produce more wealth, and to a variable extent, or merely in handling it ; it remains to be proved that capital invested abroad yields the nation a better return than if utilized at home. The capitalist will naturally accept the best offer for it, or the highest interest, and if a foreigner offer this, the capital goes abroad and the City rings with the praises of foreign investments. But we know that interest is only one result of the use of capital, and the least important, and that capital invested in the most skilled productive industries yields the largest increase in national wealth, of which the capitalists' interest represents but a transfer.

"But," says the foreign investor, "if I lend my capital abroad the interest does surely represent a wealth-increase," and it is true that foreign money paid as interest ultimately comes back in the shape of foreign goods, produced by foreign labour, which will reduce the balance of exports over imports. We do not imply that foreign investments are necessarily bad for the nation, but only that they are governed by the same laws as the home investment of capital. Capital is wanted at home for improvement in production, and if properly employed it will increase the nation's wealth to a far greater extent than if invested abroad, unless, indeed, the foreign workman can be induced to surrender all that he produces beyond his bare necessaries of life.

We have heard it argued that home capital lent abroad ought to be used by the borrowers for purchasing goods in the home country, but obviously it must be ultimately, whether by the immediate debtors or other parties. For instance, if we lend money to South America and she buys goods with it in Germany, the Germans accept our money because they know they can buy our goods with it. Thus, the ultimate effect of a foreign investment of capital is the production of goods for export in the home country, and the foreign capitalist must consequently stand before the same tribunal, and answer the same question, "What goods and what value have you produced per worker?" If the South Americans spend our capital directly in purchasing our goods, it is the *nature* of these that decides whether we are gainers or otherwise. If it be our coal that is exported, the nation loses; if it be the product of our unskilled trades, the nation gets only the bare cost of living. If, however, it be products of skilled labour, or articles of fashion with a high exchange value due to demand, that are exported, the nation benefits because few workers are required to produce this value, and the imported goods ultimately received should, if divided among them, represent a share of wealth for each man. Thus it is the quality of the home industries which governs the extent of wealth-production from capital investments, whether at home or abroad. The nation that develops its skilled industries is in a position to export the products thereof, and if she lends money abroad this, in the end, is spent in purchasing the products of her own skilled industries.

To most economists, however, all industries are equal, and in discussing national wealth they usually ignore the fact that a growing balance of exports over imports without shorter working hours and improvements in the workers' conditions of life represents a reduction in well-being, or wealth, and that the export of coal benefits people of this generation (and only few of them, judging by the conditions of the miners, seamen, etc., and the ever-increasing cost of what is reserved for home use) at the expense of those of the next. The ways of our economists can only be likened to a rake's progress, and not even they can reconcile our reputed wealth with our actual poverty.

CHAPTER XVI

WHO BENEFITS BY INTERNATIONAL COMPETITION?

AS it is clear from the preceding chapter that nations can actually lose through foreign trade, how comes it that never a doubt is raised, never a question asked, as to the position in such transactions of those most vitally interested, viz., the producers of the goods which are exported? The answer is found in economic ignorance, in the failure to distinguish individual from national wealth, and in the fact that on every export and on every import, as on every trading transaction, someone makes a profit. This person, whose wealth is obvious to all, is of course convinced of the benefit of foreign trade, convinced that the balance of exports over imports is proof of national wealth-production; and he is not to blame, for why should he indulge in introspection, when the experts unite in praising his operations?

The English Board of Trade, which pays no attention to the *quality* of particular industries, although its attention has been called to the importance of discriminating, assists the exporter of the products of sweated labour and of coal equally with other exporters, and although it tries to hold an even balance between the producer of wealth, in which all share, and the handler of wealth, who benefits himself alone, it is more strongly influenced by the latter for the reason that, as an importer, he poses as a friend of the consumer.

It appears that the riches and influence of those who benefit by foreign trade have led the community to regard this trade as a prime source of wealth, and the true origin of the wealth has remained unappreciated. The seat of government, as we have already remarked, is in the city, where the producer of wealth is largely out of sight and forgotten, although the city owes its existence to the producer. We will proceed to make the acquaintance of those, and their number is large, who benefit by this foreign trade at the expense of the nation.

Let us begin with the *producer* who amasses a fortune by foreign trade and brags about the *employment* he gives, and whose export prices are generally lower than those current in his home trade. If so, the value realized per worker producing for export may well be less than that of his daily necessaries of life, from which it follows that the average value produced per worker throughout the whole trade is reduced by this export, with of course his hope of higher wages. The nation is actually poorer for producing these goods for export than had it produced nothing at all, because men live on goods and not on wages, and the value of the imports to be received in exchange will not be sufficient to support the home producers in decency. Yet this employer makes a profit and thinks that he is a benefactor, although that his workers continue to exist is due to the rest of the nation, who pay higher prices for their purchases that he may export.

The employer of unskilled and badly paid labour thus benefits by export at the expense of his workers and the community, and the export of such products should be forbidden—yea, out of his own mouth is he condemned, for have not Lancashire employers declared that low wages and half-timers are essential for the export trade and the prosperity of Lancashire?

The next beneficiary we shall visit will be he who exports the nation's irreplaceable raw material. He calls his occupation an industry, and himself a producer, whereas he is a destroyer and a handler of Nature's wealth. The miners and colliery proprietors steal the nation's coal. The former may live well on it, doing three days' work and getting seven days' pay for it, but it is the nation's coal they live upon, the nation's capital they are destroying. The producer of pig-iron uses up coal and iron ore, which he cannot replace, and gives us a useful commodity which can be converted by skill and brains to yield a manifold wealth-production per ton. On the other hand, the exporter of pig-iron robs the nation, and it follows that the export of the nation's valuable and irreplaceable raw material should be forbidden, unless for reasons of national interest, except in the shape of articles which embody the maximum of skill and brains, and therefore the maximum value per ton of raw material destroyed.

We have now met those who produce or bring forth the goods to be exported, and who benefit while the nation loses, but we are also interested in the carriers and handlers of commodities for export, who are also out, quite naturally too, for profit.

The dock companies, the shipping companies, the export and import merchants, the insurance companies, etc., each and all seek and obtain a profit. The greater our exports and the greater our imports, the more goods they handle and the greater their income, yet, as we have seen, the volume of this trade is not the measure of national welfare. The cost (labour-hours) of all this handling adds to the national cost of production, and the profits represent merely a transfer of wealth. Those handling exports and imports always benefit by foreign trade, which thus explains their satisfaction with it, if it does not justify their delusions, for it is clear that they can amass wealth while the nation is actually losing it. The truth is, only the export of the products of brains, skill, or mind benefits the nation, and only on the handling of such goods is any profit to the exporters and the importers justified.

The fact that individuals or sections of the population are prosperous does not prove that all is well with the nation, and the satisfaction of the importers and exporters of every nation is no proof that trade promotes amity between nations; that this is widely believed is one of the many economic misconceptions. We referred in Chapter XV to the fact that all competitive trade is war, and in Chapter XIV we showed that each nation should produce that for which it is best suited, or rather that which will realize the greatest wealth for each worker, so that any interference with another nation's production is indeed an act of war. Thus, if exporters and importers be satisfied while their fellow-countrymen suffer loss through their operations, their amity is purchased at the expense of enmity between the toiling producers and workers. This is, in fact, the truth, and that it is buried beneath a mountain of falsehood is due to non-recognition of the real wealth-producer, and confusion of price with cost.

As an example, if one thousand English unskilled workers receiving a bare living wage, or the cost, produce goods for export to the United States, their employers, the English exporters, and the American importers may make a large profit between them on the complete transaction. The goods may be paid for by the products of more highly skilled labour, say of 500 men, for the same number of working days, in which case, with the same percentage of profit to employers, exporters, and importers, there will be a double living wage for the producers in the United States, who will consequently benefit in this exchange, not at the expense of employers, exporters, and importers, but at that of the English unskilled workers. For, presuming that the imported American goods could have been produced in England—though *less* efficiently—by the labour, say, of 750 men, these men could share between them the living wage of 1000 workers; that is, each could have the living wage plus an additional third. We are considering common industries where, given opportunity, it is possible to train men to produce a higher value, and the result of doing this, besides the increased wages to 750 workers, is that 250 men become available for production elsewhere.

Thus the English workers are exploited in the interests of exporters and importers, yet none of the parties see it. And why? Because it is accepted that the export *price* must be low if orders are to be obtained in competition, and, believing it to be vital to secure export orders, the English exporters compel their workers, and the workers consent, to produce commodities at a higher national cost, *i.e.*, at the expense of a greater quantity of necessaries or labour-hours.

And just as exporters and importers benefit at the expense of the unskilled workers when the products of the latter are exported, so do they alone flourish at the expense of the skilled workers when products similar to theirs are imported in exchange. Yet the workman is himself to blame, for he insists on buying his requirements at the cheapest *price*, thus inciting cheap imports, and allowing the importer to squeeze the home skilled worker, while at the same time he wants a high price for his own commodity, viz., labour. Of course the workmen imagine that their employers decide the wages payable, yet were they buying their *own* product, they would soon realize that the import of a cheaper foreign competitive article must reduce their own wages.

The home workers do not benefit in the end from this selfish attitude because the import of the competitive products of foreign skilled labour, even if the prices be cheap, reduces the value per worker at home, and thus also the value of money, wherefore that of their wages. The position is, of course, reversed when the products of unskilled foreign labour are imported, and those of more skilled labour are exported. Here, national wealth is gained at every transaction.

There is still another individual who amasses wealth at the expense of the workers, viz., the re-exporter. He buys anywhere and sells to anyone; he buys, at the lowest price, products of sweated or skilled labour from any country, wherewith he undersells his own countrymen in foreign markets, yet he claims that he brings money (his commission) into the country. He may point to the fact that he finds some work for certain people, yet we know that there is always work to do, and that unemployment is just national mismanagement; and what work, save invariably the most unskilled, *i.e.*, that of transport workers, which we are better without?

The re-exporter is far worse, economically, even than a producer who employs unskilled labour, because, like all middlemen, he contributes to a very small extent, as compared with the volume of commodities handled by him and the labour working for him, to his country's taxes, particularly to the cost of local government. He is often a foreigner, in which case the wealth which he gathers is generally sent abroad to be used to the detriment of the workers of the nation with which his money was made, and not to promote the purchase of products of its skilled industries, which, as we know, is the only way in which the nation can gain from the export of capital. In many instances, having made his fortune, the re-exporter leaves the country to which he is indebted, taking his capital with him. The re-exporter is the worst type of middleman, whose cheques are written in the blood of the workers.

We think that it has been clearly shown that international competition always benefits both importers and exporters—and there is one set to the export and another to the import—but that the workers of both nations lose if both be sweated, or those of the nation which exchanges products of less for more skilled labour. It follows that much of international trade is no less than war between the actual producers of each nation, the exchange being only equitable when the quality of labour is equal.

On the other hand, in traffic with uncivilized peoples, incapable by themselves of skilled production, the latter will have no real cause for complaint in an exchange of unequal labour quality, because as they *cannot* produce the goods they are not exploited by exporters or importers. It now appears that the acceptance by a nation of the products of more skilled labour than its own is an admittance of a lower civilization and standard of living.

Thus, that denial of a value independent of demand which, resulting in the acceptance of a law of supply and demand, invites each man to exact the highest price attainable from every other, regardless of the cost or intrinsic value offered, and incites every man to exploit his brother, results in the delusion that all exchange, particularly international trade, is beneficial to mankind, promotes amity between nations, and is the source of civilization; whereas the truth is that competitive trade, by setting the wealth-producers at one another's throats the world over, increases cost to all, reduces divisible wealth, and advantages only that nation which has the lowest appreciation of general well-being and sets the most store by material as against moral welfare. For instance, the Japanese, if they developed their skilled industries, could undersell and benefit at the expense of the skilled workers of other lands, as could also any more civilized nation which consented to work longer hours than its competitors. It is true that the general standard of living in Japan will probably rise as its material wealth increases, although, if the latter remain in the hands of a few, the mass of the people will still be left in an inferior condition; yet in every case a nation which permits the import of the products of competitive skilled foreign labour compels its people to accept unnecessarily an inferior material or moral standard. Indeed, unrestricted international competition promotes a scramble for individual wealth, but not universal well-being.

It is evident, therefore, that if we replace this competition by international co-operation for the production of wealth, and control its exchange and distribution, we shall not merely free labour for further production, or improve the conditions of living of all mankind, but deliver labour from the bondage of the wealth-handler, both national and international. Nevertheless, while every man is educated to regard money as wealth, one cannot blame the wealth-handlers for their unfair advantages or their delusions, although one millionaire importer has expressed the opinion that he had no right to his wealth and that he should not have been allowed to amass it.

CHAPTER XVII

THE EFFECT OF THE INTRODUCTION OF MONEY ON INTERNATIONAL TRADE

ALTHOUGH in the preceding chapter we referred to price, by which is generally understood the cost of an article in terms of money, our arguments on the advantages reaped by the wealth-handlers from foreign trade presumed a direct exchange of goods between two countries.

In Chapter VII we dealt with the effect of the introduction of money on the relations between the various classes of a self-contained nation. The evils discussed there are accentuated in foreign trade by the additional complication of international relationship, and this is only natural, for if the use of money is necessitated by a subdivision of labour among the producers in one country, it is even more essential in the international subdivision requisite for the exchange of goods between nations.

Further, a self-contained nation has only its own tokens to consider, the value of which is decided by the community, but that of the tokens of other nations is obviously beyond its control. We are thus faced with another problem in the exchange of goods between nations, and shall have to consider exchange of money for goods.

We saw in Chapter XV that there is an equitable exchange when an equal number of labour-hours of equal skill are exchanged between two nations, and we will now proceed to convert this expression into terms of money.

Although we know that in the first instance the value of a number of tokens is purely arbitrary, that this value can be altered just as arbitrarily, and that it varies according to the efficiency of production of necessaries, we shall first assume the value of money constant in both countries, and then proceed to consider the effect of variations, both artificial and natural.

Further to simplify the problem, we will begin by supposing that the producers in England and the United States, which countries we will select for our illustration, are both unskilled, and create daily the necessaries of life of themselves (with average family) and no more. Both sets of producers work the same number of hours daily, because we are supposing an exchange of labour equality, and, if the English workers receive T tokens and the Americans U tokens, both must purchase their daily necessaries of life, N, which also we will presume to be identical in each country. Thus, if the English token be the shilling, and the American the cent, and T be four shillings and U be 100 cents, or one dollar, the English workers for ten weeks' production of necessaries, worth 70×4, or 280 shillings, which they sell to the United States, should receive 70 dollars, and can buy therewith 70 days' necessaries of life in the United States. Similarly, the Americans would be enabled to buy an equivalent amount of necessaries in England. We have thus converted equality of labour into terms of money, and the fair rate of exchange is 70 dollars for 280 shillings.

Before we vary the rate of exchange, let us suppose N not identical in both countries, and 10 per cent. more in America because the climate there is less temperate. The American token U must then buy in the United States $\frac{11}{10}$ of N. The Englishman sending ten weeks' production of his necessaries to America, will not now receive 70 dollars for them, because they are not worth that to the American, who needs $70 \times \frac{11}{10}N$ in order to live 70 days upon them. He will therefore only give $\frac{10}{11}$ of 70 dollars, and the proper rate of exchange is no longer 100 cents for 4*s.* but 90·9 cents. Alternatively, let us reverse the transaction. The American produces $\frac{11}{10}N$ a day, for which he receives 100 cents. He sends his goods to England, and will not accept a rate of 4*s.* per day for his products, because that would only buy $70N$, which would last him only $70 \times \frac{10}{11}$ days. His day's product is also worth more to the Englishman, so that for his 70 dollars' worth of commodities he will want $280 \times \frac{11}{10}$ shillings, or the rate of exchange is $4 \times \frac{11}{10}$ shillings per 100 cents.

It appears therefore in principle that the harder the conditions of life, the greater number of tokens ought to be demanded from the more fortunate nations. Thus if English necessaries are double those of the Indians, the number of rupees which should correspond to 4*s.* must buy twice the necessaries of life of an Indian in India, and this is an incontrovertible principle. Were it not so, at every exchange one party would benefit at the expense of the other, the exchange rate of money being false and fraudulent.

Again, before we vary the rate of exchange we will see whether our presumption that the workers were unskilled, and equally so, has led us to a false conclusion, and now assume, therefore, that one of the workers, say in the United States, be skilled. He is in this case, as we know, entitled to more goods than corresponds to the living wage, although how much more depends upon the distribution of wealth in his country, which is not a concern of the English. If, however, he sends his products to England he must receive the number of shillings for his day's produce which enables him to buy the products of an equally skilled Englishman, and this number must bear the same relation to 4*s.*, the wage of the most unskilled Englishman, that his rate in America bears to 100 cents. Once more this is incontrovertible, for otherwise the skilled American would be better off producing only for his own market, and should cease to export his products to England.

Of course, if the skilled workmen in the United States were more altruistic than those in England, and allowed the unskilled worker in America to have a larger share of the wealth produced, they would also be satisfied with less in England, which would invite the English to take advantage of their altruism. On the other hand, the American unskilled workers, being used to a larger share, would want more for their exports to England than corresponds to the living wage in England. If they did not obtain more they also would be better off in producing for their own market, and consequently if England wanted their products she would pay the price. It is clear that the rate of exchange between the two countries, as we have seen, is dominated by the number of tokens which purchase the daily necessaries of life in both countries, although the amount of the wealth-wage receivable by the workers for export is affected by the wealth-distribution in each country, as indeed is that yielded from a country's home production.

Although we have recognized that unless the rate of money-exchange corresponds with the value produced, the American workers might be better off producing for themselves, it was shown in the preceding chapter that their wishes are not consulted, that lower prices are actually offered to exporters than to home distributors, with the effect that the average wealth divisible among the workers is reduced. In short, the exporters and importers benefit by every transaction regardless of the interests of their own wealth-producers.

That this economic iniquity is permitted is due, among other causes, to the fact that the workers have an eye on the profits of their employers, and are pleased when they see that these are reduced. They have not realized that the employers are, and must necessarily be, their partners, nor that a lower average profit reacts upon wages.

The anti-dumping laws of, say, Canada, which require the British exporter to show that the selling-price in his country is not more than his export price, although framed in the interests of Canada, and strongly resented by British exporters, in reality protect British workmen, who do not, however, recognize this, from exploitation by international middlemen; in fact, these laws, we think unintentionally, express the truth disclosed in the last chapter, that competitive international trade is a war carried on at the expense, and behind the backs, of the ignorant producers of all countries.

Although it is reasonable to hold that with an unfair rate of exchange the American skilled producer should not send his goods to England, it is nevertheless true that it is better in all cases to export the products of skilled rather than unskilled labour, save for temporary price fluctuations particularly noticeable with regard to articles of luxury, because, whatever the rate of money-exchange, the price received per worker is higher, and even a higher relative wage for the unskilled worker, which we assumed in America, due to a different distribution, is primarily rendered possible, as we know from a study of national economics, by the development of skilled, or high-value-producing industries.

Having revealed the principles upon which the rate of money-exchange between nations should be decided, we must now consider the effect upon international trade of any deviation therefrom. This can be brought about both artificially and naturally, for everyone knows that the rate of exchange constantly alters, and that such variations are not necessarily the effect of changes in the real value of money, but usually of other considerations, for instance, *credit.* If two men transact any sort of business together they must trust one another. If you, the reader of my book, buy anything, except by payment of cash on the spot (even then in 99 cases out 100 you trust the seller for the quality of his goods), the seller of the article either trusts that you will pay him, or if not, *you* send him money and trust that you will receive your purchase. Now, if the seller has doubts about you he will put up his price (sometimes he offers you 5 per cent. for cash, which proves that his price is in the first place higher than it need be), and the advance will depend upon the extent of his lack of confidence. The extra price is an insurance against loss, the sum of the seller's advances balancing his occasional bad debts. This is the principle on which money-lenders work, as can be seen from the reports of frequent cases in the law-courts.

Bankers, apparently, still proceed on similar lines, and, of course, originally they were only money-lenders. In the olden days they had some justification for their procedure, because people frequently repudiated their debts—yes, even nations, as the semi-civilized peoples do to this very day. It was, indeed, not easy to compel payment, and it is equally dangerous to-day to allow credit to a man of no reputation, or with nothing to lose, because usually such a man does not greatly care whether anyone trades with him in future or not.

To-day, in spite of the growth of international intercourse, bankers act in the same high-handed way. If there be a balance owing by one country to another, the bankers, who apparently control international exchange, say to the former, "No! we will not advance you more money except at an enhanced rate." In so saying they practically impugn the credit of the debtor country, regardless of its admitted honesty, and of the fact that as every country that produces more than it consumes, or need consume, is able to devote the whole of this difference to paying its debts, no nation that works and wishes to pay its debt can, unless for cataclysms such as earthquakes, etc., become insolvent.

This variation in international terms of credit, therefore, is nothing less than an outrage on civilization, and no country, or its bankers, is justified in refusing to give credit or advance money to another, providing that money is going to be used for the benefit of the lending country, *i.e.*, to purchase for others the products of its skilled labour. It may be noted, in passing, that this condition does not appear to be taken into consideration by bankers, who will cheerfully lend money, albeit unconsciously, to their country's detriment, *i.e.*, to finance skilled industries of other lands.

Justification of our charge against bankers is to be found in a speech at Manchester in April 1919 by Lord Milner, who said: "The only thing which terrifies me is the possibility of a restriction of credit," and his fear provided the text of a similarly gloomy leading article in a daily paper with a circulation of over a million copies daily.

Nevertheless, the creation of wealth, or production, is not dependent upon credit, which merely facilitates exchange, but upon the possession of goods, or capital, which *every* civilized nation has in some form or other. Should, indeed, credit be refused to any nation, it might suffer for a season, yet, if it set to work and produced more than it consumed, prosperity must return, and perhaps bring with it revenge. Many of the world's most successful men, starting with nothing, made their fortune without having borrowed one halfpenny, and credit is not more essential to a nation.

Ignorance of the laws which govern finance explain the widespread delusion that the withdrawal of national credit is natural, inevitable, or permissible, and this delusion enables the bankers arbitrarily to withhold money, which is not theirs, and the value of which they do not create, and gives them power artificially and unnecessarily to alter the rate of exchange between countries.

Let us next consider the effect of an artificial alteration in the rate of international exchange brought about by a restriction of credit. A nation does not as a rule refuse to supply another with goods, but alters its rate of exchange, thus forcing its customer to pay a higher price—that is, to hand over more of its own commodities in exchange. It is indeed curious that enormous variations are permitted in the exchange value of money regardless of the disposition of commodities, which alone give money its real, or token, value, and that fortunes are more rapidly made (and of course lost) on the money market than on any market for goods.

On page 194 we assumed that the cost of a day's necessaries of life in the United States was 100 cents and in England 4*s*., and that the rate of exchange corresponded thereto, and we will now suppose that English purchases from the United States largely exceed those of America from England. England is thus called upon to pay a large sum of money, and when she has exhausted any reserves of American money in her possession she offers English money or bills, both merely promises to pay in English goods. Now, England possesses a proud record for commercial honesty, yet the American financiers seize the opportunity and declare that the dollar instead of being worth 4*s*. is now worth 5*s*., or more. Of course, were there another source of supply, which, however, there may not always be, England would avail herself of it. But this is not what America wants; she is not really doubtful as to England's honesty or ability to redeem her promises, but she seizes, and justifiably according to current ideas, the opportunity to profiteer. In consequence, America obtains a large sum of English money, for which she has only given four-fifths of the proper value in goods, or for which, in buying from England later, she will obtain a greater quantity of commodities than she has given.

If now the United States buys from England and the latter ceases to buy, it does not necessarily follow that the rate of exchange will be altered, because America is not compelled to buy from England ; she will only do so if prices are cheap, which is ensured by the existing rate of exchange. Further, America can pay in dollars, and hoard English money against the day when the exchange is altered, when this money will buy back more dollars, whence it would appear that England should now only accept payment in English money.

We have obviously been considering conditions which have become familiar to us since the War, but this does not weaken the example, which shows how fluctuations in the exchange arise, and which reveals the hollowness of the pretence that they are necessary to redress the balance of trade.

The Balance of Trade.—If America has sold a greater quantity of goods to England than *vice versa*, England has the goods and America has the English money, for which sooner or later goods must be supplied. Of course, if England possesses American money, the balance from previous transactions, she can exchange the dollars for sterling, and thus cancel her obligation to pay in goods, and if, while England holds American money to the full value of her indebtedness, the United States alters the rate of exchange against England, it will not affect the latter because she will be advantaged through the dollars she holds. If, however, England has no American money, or holds less of it than the United States possesses of sterling, England must suffer if the rate of exchange be raised. America's excuse for such action is that the balance of trade must be redressed. The effect is to discourage England from buying because goods cost more, and to encourage Americans to buy from England because English goods cost relatively less according to the rate of exchange.

Obviously England will only pay higher prices if she *must*, and bankers will only alter the rate of exchange if they believe that a foreign country has no alternative markets, *i.e.*, if they believe that there is an opportunity for profiteering.

But there is no real justification for all this, nor, if a nation wants another's products, is there reason why it should not pay the proper price for them. America knows that in exporting to England she must ultimately take English goods in exchange, either directly, or indirectly *via* another nation (as, for example, when she buys from Germany and Germany buys from England), for goods are paid for by goods, and the quality of the goods received decides the nation's wealth increment through exchange. This last consideration suggests that one country should not only be prepared to exchange its products, but to give equal labour quality; if it has bought the products of skilled labour, to redress the balance by exporting those of unskilled labour is to sustain a further loss on the exchange. Should a nation buy the products of skilled labour, and be therefore a good customer, it is strange that prices should be advanced against it, for in ordinary business transactions it is not usual to increase prices as more goods are sold to a customer, but rather to favour him.

If the rate of exchange were kept constant and the United States did not want to keep English money, there would be nothing to prevent her buying from England and thus redeeming the value of her exports. Doubtless international trade would be discouraged thereby, for obviously a higher rate of exchange in her favour encourages America to buy back from England, but we know that such trade, when unnecessary, benefits only the middlemen and financiers at the expense of the mass of wealth-producers. Nevertheless, until the latter realize that they are exploited, awaken to their power and true interests, and insist upon a fixed rate of exchange corresponding to the real value of money, this variation, together with much superfluous international trade and competition, is likely to continue.

We have assumed above an internal currency of constant value, and an artificial variation in the rate of foreign exchange, but let us now suppose that the latter is constant whereas the currency of one nation has depreciated. If 100 cents will no longer purchase a man's daily necessaries of life in the United States the rate of exchange, if unaltered, again favours America, for English money will buy less there, and as such a depreciation in the value of internal currency is easily effected, *e.g.*, by a general advance in wages without an increase in production, the importance of this point is manifest.

An alteration in the home currency may be effected by various other causes. We saw, for instance, in Chapter VII, that the purchasing power of money is increased by a higher efficiency in the production of necessaries, whereby, these being provided in a shorter time, the production of a greater supply of luxuries, or more leisure, is rendered possible, so that generally speaking an increased supply of commodities is an indication that the value of money has risen. If, for example, America by the introduction of more efficient machinery and better organization gradually increases the availability of her commodities, the purchasing power of 100 cents will rise, and an American should demand a larger number of shillings than correspond to the rate of exchange, because otherwise he will not receive a similar supply of English goods. (The effect is equivalent to that of a higher N in the United States, as demonstrated at the beginning of this chapter, and naturally so, because that also indicates a greater efficiency in the production of necessaries, providing of course that they are produced in the same number of hours.)

It is clear, therefore, that unless the foreign rate of exchange corresponds to the true value of money in both countries, both will not be able to buy a quantity of goods which represents an equal amount and quality of labour. The power of financiers to injure another country is consequently enormous, and obviously they are in a position to exercise it when there is a pressing need for the products of their country, as in time of war, when there is great temptation to take advantage of that infamous law of supply and demand which spells profiteering. In times of peace their power is not so great, and profiteering is only possible with monopolies, wherefore it is again clear that the principles on which international trade and competition are at present carried on are equivalent to war and not to peace. The producers are but pawns in the game, and are set to fight one another for the benefit of exporters and importers, financiers and middlemen.

THE RATE OF EXCHANGE AND INTERNATIONAL COMPETITION.—Although we stated that the rate of exchange between two countries ought to be decided by the true value of money in each, this would not be of great importance if the rate were fixed and constant, for it would then be *known* that in a particular market a fair value was not to be anticipated, and only goods would be purchased there that were not obtainable elsewhere. An increase in international competition, the disadvantages of which have been shown, is thus another result of a variable rate of exchange, and we will consider a further effect.

If a set of men *A* in the United States, and *B* in Britain, be producing the same article in the same number of labour-hours, and the rate of exchange corresponds to the real value of money, neither party can undersell the other without sacrifice. But if the rate of exchange be arbitrarily altered, so that three shillings instead of four are now worth a dollar, Americans who want dollars for their production will accept a smaller number of shillings, which amounts to underselling England, it may be, even under the English cost price, because the shillings received in payment will realize a larger number of dollars. But it can only benefit America to export these goods if they be the product of skilled labour. If otherwise, America would receive in exchange goods of a less value than the necessaries of life of her own workers, and England might be buying below her own *cost—i.e.*, necessaries of the workers—and she would be advantaged (if the detrimental effect of a smaller output upon cost of production be ignored).

Further, while the American middlemen concerned in exporting goods to markets where there is an adverse rate of exchange are increasing their turnover and profit, they are doing so *at the expense* of their fellow-countrymen, who will receive less goods in exchange for these exports. Thus whether or no a *nation* benefits by underselling another depends upon the *quality* of the goods produced, and this equally affects the other party to the exchange, so that a false rate of exchange, which encourages underselling, conceals the real result and can in no case be to the advantage of both parties. It is true that an individual who undersells another is usually gratified, but he thinks only of his personal profit, which may be obtained at the expense of his fellows, as, for instance, if he be paying lower wages than his competitor.

Of course if America continue to sell—and more than she buys—the rate of exchange *may* be altered in her favour, but frequently a nation is compelled to buy, as, for instance, if it permits another to produce for it its whole requirements in certain goods, just because the first nation was best suited therefor, and thus allows the creation of a monopoly. The rate of exchange may therefore remain unfavourable to America. On the other hand, if America were exporting the products of skilled labour which the English could themselves produce, and was able to undersell England, owing to an artificial rate of exchange, the latter would not benefit, but would lose by accepting these goods, for her own skilled industry would be demoralized, and its efficiency of production adversely affected by an interruption in its output.

It is true that some individuals in England would gain through a cheaper price, but this might be trifling compared with the national loss in wealth-production. For example, if a foreign *price* were one per cent. below that of the home price an individual would have an advantage of one per cent. in purchasing, but in the home skilled industry affected the workers' wealth-wage would be lost. This loss would probably be far in excess of one per cent., and further loss, or increase in cost, would attend the consequent smaller output. That this is unrecognized is due to a confusion between price and cost, for whereas a cheaper cost benefits the nation if permanent, a cheaper price may actually harm it. It is once more a question of individual profit as against national loss.

It appears, therefore, that although in an interchange of labour equality a rate of exchange unfavourable to the first party will benefit the second as regards the value of the goods it receives, the latter's advantage may be lost if the first party exports the products of the more skilled labour. Thus whatever the rate of exchange, a nation benefits if it exports the products of more skilled labour than was used in its imports, and we shall deal with the possibility of ensuring this result in the following chapters.

Before passing on, however, we will recapitulate, and we make no apology for so doing, because to the average man fluctuations in exchange and their consequences appear natural and inevitable, whereas we would insist that they are as artificial as civilization itself.

Let us suppose that England and America respectively are proceeding to exchange cotton goods for raw cotton. We will assume that the amount and quality of labour in 500 lb. of the former are equal to those in 1000 lb. of the latter. Further, we will arrange for the exchange to take place in mid-Atlantic, so that both parties will pay an equal share of the cost of transport, although, alternatively, whoever bears it must allow for it in fixing his price. Let the true value of money be 1 dollar for 4*s.*, and the rate of exchange correspond thereto, when, assuming the price of the commodities to be 240*s.*, or 60 dollars, the Englishman upon receiving 60 dollars converts them into shillings, and is neither better nor worse off, and likewise the American upon receiving his 240*s.*, exchanges them for 60 dollars.

Now assume that the rate of exchange does not correspond to the purchasing power of money in each country, and is equal to 5*s.* per dollar. The Englishman is satisfied if he receive 240*s.*, so the American buyer need only give him 48 dollars, whereas the American seller must demand 300*s.* in order to obtain his 60 dollars. Both sellers are content, yet the result of the transaction is that the United States has 500 lb. of cotton goods and 300 English shillings, and England 1000 lb. of raw cotton and 48 dollars. As this sum will redeem only 240 English shillings America has thus gained 60 shillings.

This is clearer still if we consider that one and the same party carries out the deal, for an Englishman receiving only 48 dollars *cannot* buy with this the 1000 lb. of raw cotton, but only four-fifths thereof. Further, if the two parties had directly exchanged goods for goods, it would have been 500 lb. for 1000 lb. It is the introduction of money and a false rate of exchange that has provided conditions which have enabled America to gain at the expense of England.

It is evident, therefore, that trade such as we have been examining is carried on for the benefit of individuals at the expense of their fellow-countrymen, and that the interests of *international* financiers and capitalists are, in general, totally opposed to those of producers, who should be represented by *national* financiers, for even when one nation does benefit by such international trade, it is always at the expense of another.

CHAPTER XVIII

THE IMPORTANCE OF MARKETS, AND INTERNATIONAL COMPETITION

THE ambitious youth looks upon the world as *his* oyster, and similarly the individual man thinks that the markets of the world are his to exploit, as, also, his fellow-countrymen's. If he be a Briton he looks out from his little country, with its population of some forty-five millions, upon the teeming millions of the world, and exclaims, "There is my market!" The man with a big export trade is self-satisfied, and attributes his success to his own enterprise, and the failure of others to lack of this quality. He may export huge quantities of goods per annum, and sees no reason why an infinite number of fortunes should not reward himself and his fellow-countrymen. This man thinks in terms of money, and not only so, but in terms of his own domestic currency, whereas it is foreign money that really pays for his goods. This is changed afterward into his home currency, and ultimately foreign goods must come into his country to redeem the foreign money. This should make him pause, but it does not, because he, in fact, cares only for his own, and not his country's interests.

Goods are paid for by goods, and if for everything exported something must be imported to pay for it, it would appear that a larger market cannot, after all, be secured through export.

Let us return to our self-contained nation and see what decides the size of a nation's market and how this can be enlarged. If every man produced everything he needed for himself there would be no trade, and no necessity for a market. The subdivision of labour, however, makes the exchange of goods essential. But exchange does not affect output, for the total trade cannot exceed the total production. Moreover, as re-exchanging goods does not increase their quantity nor create a larger total market for them, it is only the first exchange, or rather the direct exchange, of goods which matters. Thus, goods being paid for by goods, a nation's home market, or its purchasing power, is exactly measured by its own production, and this applies equally to its foreign markets.

Although this may sound revolutionary to those who have been brought up to believe that a nation's wealth is dependent upon the exploitation of world markets, it does not follow that a nation cannot enlarge its market, and, indeed, in Chapter XIII we showed that it can increase its wealth-production, and therefore also its total internal trade. Similarly, it is possible to enlarge its market through foreign trade provided that at the same time there is a larger total production.

Yet how is this attainable, if for everything exported something is imported to pay for it, and if an increased output of one producer is offset by a reduction in that of another? The answer is, By exchanging the labour of the few for that of the many, the products of more-skilled for those of less-skilled labour. We demonstrated that this can be effected in Chapters X and XIII, where we proved that by the transfer of workers from less- to more-skilled industries a greater total wealth-production resulted. This applies equally to the production of goods for export, and foreign markets offer a further opportunity to develop the more highly-skilled trades. The effect of exchanging the products of skilled labour for the less-skilled of other nations, or less labour-hours for more, is equivalent to an increase in the home population, and therefore in the number of workers producing goods for the exporting nation.

It is thus evident that a nation *can* increase its market through foreign trade, and that the fact does not contradict our assertion that a nation's market is identical with the volume of its home production, for the increase in its market corresponds with, and is the consequence of, the increased efficiency or improved quality of its own industries.

The delusion that *all* foreign trade benefits a nation is so widespread that its origin is worth a moment's consideration. We have often read in history books that nations have amassed wealth through trade, although the historians have not told us how. It is true that two nations trading together can get richer simultaneously by discarding the *production* of that for which each is unsuitable and thus improving the *quality* of their industries. In many cases, however, it is clear that one nation gained at the expense of another because the exchange was between a civilized and an uncivilized people. Frequently such exchange was a form of robbery, the civilized nation exporting valueless rubbish, and receiving goods of high intrinsic value in return. We have also read of individual exporters and importers who became rich through trade, and we have not paused to inquire whether they benefited their nation, nor as to the real source of their wealth.

Belief in the superior value of foreign trade is due to ignorance, but it is fostered by personal greed. If men think that riches are obtainable they hasten to realize them, as we have seen in the periodical rushes to seek gold or diamonds. There are undoubtedly riches in foreign trade for some, even if the goods for export are sold at special low prices. The manufacturer or exporter who reduces his price in the foreign market in order to obtain orders is not influenced by the consideration that their execution actually harms the nation if the exchange be unskilled for more-skilled labour, more for less labour-hours. It is sufficient for him that he personally can make a profit. The plea that the entire nation benefits from increased output and reduction in cost of manufacture can only be admitted if the industries concerned yield a higher value per worker, for since goods are paid for by goods increased output in one industry is counterbalanced by a reduction in that of another, and consequently solely the *quality* of our output may be affected by the growth of an industry through export.

Further, higher prices in the home as compared with the export trade mean that the exporter receives from his fellow-countrymen more goods than he is entitled to, some of which he then presents as a bonus to the foreign buyer. It appears, therefore, that a nation's interests demand higher prices for export, and a skilled industry which, owing to excessive foreign competition, produces goods which can command only a low exchange value abroad may be, for a time at least, of lower national value for export than an unskilled one, from which there is a shortage in output, or which has less competition. It should be remarked that a civilized and educated nation should be able to *choose* its industries, for only uncivilized or misguided people are compelled to submit to economic slavery.

In general, however, statistics would show that skilled industries yield the highest export prices per worker, and that many of the 'great unskilled' industries yield less than a living wage to the workers and handlers concerned in them, whereby the standard of living of the nation is reduced, for a lower price for export may entail a higher average national cost of goods for home consumption. Thus although a nation should benefit by the export of the products of skilled labour, reduction in their price must detract from the value to it of such industries, because in the result it receives a less quantity of goods in exchange, even if the profits of individuals are considerable.

In the middle years of the nineteenth century England amassed enormous wealth through her foreign trade, *because* she was, almost exclusively, exchanging the labour of a comparatively few for that of a greater number of workers of other nations, and the value of the production of her small population was enormous compared with that of countries with a much larger number of inhabitants. The English were, indeed, *the* skilled producers of the world, the greatest industrial nation, thanks to freedom from invasion and a long sequence of inventors, etc. It was the English inventors who made England wealthy through her foreign trade, and we now see that the idea that a nation can become wealthy through its foreign trade without regard to other factors, and can always increase the size of its market thereby, must be regarded as a most dangerous delusion.

Nevertheless, the importance of having as large a market as possible cannot be exaggerated, for neither production nor any industry can have stability without the certainty of a market.

For instance, the agriculturist grows wheat and grass, breeds cattle, sheep, and pigs, keeps ducks and chickens, partly for his own consumption, but principally in order to obtain a surplus which he can exchange for other commodities or for money wherewith to purchase them. Thus, although he can consume some of his own production (and were it indefinitely storable he could consume it all), his inducement to produce as much as he can, and in the shortest possible time, and thereby increase both the nation's wealth and its hours of leisure, depends upon his certainty of selling his output at a profit.

Consequently, the object of a subdivision of labour, on which the material progress of mankind depends, being a greater efficiency in production, the reservation to the producer of a market, as well for his labour as for his goods—for they are inseparable—is essential to civilization. Indeed, the producer, at least of necessaries and labour-saving devices, has an obvious *right* to his market, for our requirements of the first are known and all benefit from an increased supply of the second.

Further, it is evident that efficiency in the production of any one article depends upon the market for it, although this is only true up to a certain point, for while it varies in every industry, after a certain concentration is reached the reduction in the cost of production is small and may be far exceeded by the additional cost of transport, etc.

For example, a hundred men could not efficiently build locomotives; 5000 or 10,000 can do so, yet 20,000 men might not effect any considerable reduction in cost unless their larger output justified other methods of production, only economical in the case of such a large number of workers, and even then these methods would only apply to certain parts. Generally speaking the number of men who must be concentrated to produce an article efficiently depends upon the number and size of parts, and the difficulty in making them. A gas works provides an example of a limit soon reached, also electric generating stations, etc.

It is necessary to lay stress on this point, because many people think that reduction in cost through a larger output must go on indefinitely and at the same rate. The existence of enormous industrial concerns fosters this idea, but these have usually continued to expand because of efficient management, and the continued investment of capital due either to self-denial or to confidence in the management. The larger capital does not command a higher dividend. Sometimes expansion is due to a certain selfishness. A firm decides to manufacture all of the details that go to make up its speciality, instead of allowing other specialists to contribute. Indeed, if economy in production continued indefinitely in proportion to the number of workers employed, small nations could not compete successfully with larger ones, as they do, unless, indeed, they were superior beings.

Nevertheless, a certain size of market is essential for efficient production in every industry, and it is obvious that the whole world does offer a larger market for some commodities, provided that a nation is prepared to accept a smaller market for others, or, in fact, to give up its home market for these. We have seen, however, that in total no nation can have a larger market than its own, and under what conditions it can gain by export, and it is clear that only strong advantages can justify the surrendering of a home market.

As an industry cannot exist efficiently without a market, and as it is undeniable that every nation has a right to its own industries and economic development, it must have a right to its home market, and therefore should itself decide whether a portion should be surrendered or not. A nation's market, being exactly equal to its own production, is not a figment of the imagination, and to lose it without adequate compensation is to betray the nation's vital interests.

We found that the benefit a nation derives through foreign trade arises solely from exchanging the products of more skilled labour for those of less-skilled workers—that is, from gaining a larger foreign market for its skilled (or high-value-producing) industries. On the other hand, as a nation may lose through obtaining a larger market for its unskilled industries, it may well be prepared to sacrifice even its home market therein in return for a larger market for the products of its skilled labour.

Thus a nation may gain by giving up its own market in unskilled industries, provided that it obtains in return a larger market for the products of its skilled workers. This policy might well not coincide with the desires of individuals who export the products of unskilled labour or their country's irreplaceable raw material, but it is nevertheless essential for the well-being of the whole nation, because export trade *per se* neither increases the size of a nation's market nor the volume of its total production, but merely affects the quality thereof.

It may appear surprising, at first glance, that the purchasing power of the whole world for a nation's products does not exceed its own, yet a moment's thought shows that foreign money is of no use unless it be spent (and it must be spent abroad), and that if, therefore, particular commodities be needed, it is just as remunerative to produce them for home consumption as for export—in fact, it is only from its production that a nation is enabled to buy, and the total value which it can produce depends solely upon the quality of its industries.

Our statement that the size of a nation's market, or its purchasing power, exactly equals its own production obviously ignores accumulated wealth or capital. If such capital be due to man's labour it is the result of previous production, and therefore whether or no there be capital available does not affect the fact that a nation can only increase the size of its total market, as compared with its home market, by exporting the products of those industries which yield the greatest wealth per worker.

It should be noted also that the effect of high-class exports is cumulative, for if it enlarges its market in such industries a nation has the opportunity of increasing its efficiency, and therewith its power to compete. The significance of this fact is still further emphasized when we remember that a skilled industry usually requires much capital, and must therefore be worked at the highest possible intensity.

We need not discuss the larger market obtainable through the export of a nation's natural capital, or irreplaceable raw material, save by remarking that a man who lives on his capital is not adding to his wealth.

Of course one may ignore the limitation of such supplies, or argue airily that new discoveries are sure to be made, yet these might be in other lands, when, our supplies being exhausted, we should again be dependent upon other nations. Already, every year, the recovery of coal becomes more costly, whence, considering the duration of the industrial era, its dissipation is evidently unwise, for a nation which has not sufficient motive force of its own, be it coal, water, or oil, cannot expect to remain in the vanguard of industrial progress.

It is clear, therefore, that the development of the skilled industries of a nation is of vital importance, not only for its wealth-production as a self-contained nation, but for any hope of a larger production (unless indeed we propose to lengthen the working day) through exchange with other nations. Further, the material welfare of a nation, not to mention leisure for improving its moral qualities, depends upon education and the application thereof to industry. It will be observed that if all nations ought to concentrate on skilled industries obviously all will want to export the products of them, in which case international competition will be more severe in industries which yield the greatest wealth per worker. This is true, for just as no one wants to compete with a man making a loss, or only a small profit, so a nation will not want to rob another of those industries which yield little more than a living wage to the workers engaged in them.

If this be true, they are indeed foolish nations which compete with and export the products of unskilled labour, and try to persuade other nations to take their irreplaceable raw material. For instance, England thinks it right and praiseworthy to compete with Indians in the world's market for cheap cotton goods, instead of educating her workers to undertake work beyond the capacity of the Indians. What the

Indians can do let them do, for just as it benefits a nation to export the products of its skilled workers, so is it benefited by importing the products of less-skilled labour than its own.

While it is clear that a nation with the largest home market —*i.e.*, population and wealth—for the products of skilled industries will have an initial advantage, yet we have seen that this is not such a severe handicap as might appear. The success of Sweden, Switzerland, and Belgium in such industries shows that a small nation may overcome this natural disadvantage if in attempting to develop them it utilizes all the brains and skill to be found in its people.

We have assumed here that each nation will retain for itself its home market for its most valuable industries, for if not it handicaps itself irretrievably. It must be recognized as not merely the right but the duty of every nation to keep such industries inviolate; to neglect to do so is to commit economic suicide.

Confirmation of the foregoing may be obtained from a study of the industrial development in all civilized countries since 1885, when the monopoly of the English as the skilled workers of the world came to an end, and particularly from the British census of production of 1907, published in 1913, which exposed the disgraceful value output per worker in what are termed the 'greatest' British industries.

Thus, every country should not only produce that for which it is naturally most suitable, improve its education and apply it to the existing best and every new and higher industry, but it cannot allow any interference with these, for upon the maintenance and growth of them national well-being depends, and it must at all costs preserve its market for their output against all international competition whatsoever.

CHAPTER XIX

THE FREE PRODUCTION OF WEALTH AND ITS ASSURANCE

IN Chapter III we showed that the existence of man-wealth is due primarily to the employment of brains and skill in production, and in Chapter V that nothing can increase the intrinsic value of goods when once produced, that trade or exchange only increases their price, and that all wealth amassed through trade is obtained at the *expense* of other parties.

In Chapter X the variable value of a nation's industries was discussed, and we saw that this is determined by the wealth produced per worker, from which it appears that if the wealth-wage paid were proportional to skill, which it ought to be, the national value of an industry would be readily calculable by adding to the employer's net profits all wages paid in excess of the living wage, and dividing the result by the number of workers.

Although in applying this to a self-contained nation we had to realize that it was not quite a true guide, because wages at present paid have no relation to value, and one set of workers may be benefiting at the expense of another, when we are comparing the respective values of industries engaged upon *export* the problem is much simplified, for the exchange value produced, or the selling price obtained, per worker now decides the total amount of goods receivable in exchange, and therefore also the value of this production to the *nation*.

In the preceding chapter we deprecated interference by one nation with the *best* industries of another, and if, as we have shown, all national wealth is due to production, and the nation's total wealth-increment to the quality of its industries (ignoring profit obtained through unfair exchange with other nations), it is clear that such interference (usually through underselling) must, if permitted, reduce the nation's wealth-production, wherefore it must be prohibited. Thus the first clause in the charter of every nation must be FREEDOM TO PRODUCE, and the question naturally arises as to how this is to be assured to all.

In the earliest days of man, when he produced his daily necessaries of life and no more, if he took necessaries from another without giving an equal value in return he did so by force or fraud, and this was equivalent to murder, for a shortage of necessaries meant death.

At a later stage man produced more than his necessaries of life, or wealth, and the first producer thereof, the farmer, who compelled the land to yield him wealth, marked it out and fenced it round, with the approval of the community, as indeed is done to this day, in order to prevent interference with the results of his labour, and the more valuable his crop, or the 'quality' of his production, the more care he naturally devoted to his soil, his sowing, and his fences. In other words he 'protected' his wealth-production from interference. Further, the righteousness of this does not apply only to that greatest industry which supplies mankind with food, or his primary necessities of subsistence, but to all industries, and a nation's best crop being derived from those that are most skilled, they must be the most securely fenced.

In those early days there was no question of the existence of a market, for man lived a more hand-to-mouth existence, yet, as we showed in the preceding chapter that the reservation of a market was essential to efficient production, the protection of production includes the reservation of a market for the resulting output. Consequently, if the prosperity of farmers depends upon the security of their market (and they are at least assured one for perishable produce), how much more so does that of the skilled industries, which yield the highest value per worker, and also need, in almost every case, a greater capital outlay per head for buildings, machines, experiments, high wages, and therefore require a continuous output for any efficient production at all.

Again, neither the farmer nor his workers nor any producers can dissociate themselves from their country, its welfare or misfortunes, and as under any scheme of taxation or existing distribution of wealth they are bound to part with some of it to help the less fortunate, it is obvious that the more wealth produced, the larger the share of the latter may be.

Some socialists, however, suggest that we abolish private ownership, but if we dispossess a man of the wealth he produces, the next step, logically, is internationalization of wealth, and we doubt whether intelligent men, or an industrious nation, are so far developed in their altruistic education that they are willing to work for the less deserving, or to share equally with them, and as civilization is due to the work of superior men, so all will *never* attain an equal perfection.

Thus, although man has so far advanced as to appreciate that he has obligations to his fellow-men, all men will never be selfless, nor would all be contented with an equal share of production. Were all the wealth in the world divided equally to-day it would be unequally distributed to-morrow, because all men's habits and desires are not identical.

If freedom to produce and to acquire wealth be so obviously essential to civilization and the economic development of nations, how comes it that its antithesis, underselling, or the right to buy in the cheapest market, has come to be generally accepted as the first consideration? The answer is, once again, the confusion of money with wealth.

The man with money in his pocket naturally wants to obtain the largest amount of goods for it. He stops to think neither of how the money got there, nor of what decides its value or purchasing power—indeed, he generally looks upon the latter as constant. Let us consider the question apart from money, and, to remove prejudice, between three equally skilled men of the same nation.

If Peter and Paul are both growers of potatoes, while Arthur produces artichokes (both of which products have a definite intrinsic value corresponding to an equitable exchange value), the latter has two markets to choose from. We will assume that Peter and Paul are *equally* efficient, and that each produces such a surplus over his own consumption every day that he can, on the average, rest not only on Sunday, but also on Saturday or some other week-day. Arthur asks them both how many pounds of potatoes they will give him for 10 lb. of artichokes, which he produces in one week and which have an intrinsic value equal to 20 lb. of potatoes. Paul suggests 20 lb. of the latter, which amount he also produces in a week, but Peter dislikes Paul, and to do him a bad turn offers 24 lb., or the result of his labour for one week and one further working day. The result is that Arthur gains through the exchange at Peter's expense, and if the conditions were maintained the latter would have to work six whole days a week, and his standard of living would be lowered. If it is convenient for Paul to consume all of his own potatoes he is not injured, but if he grows them with a view to exchanging some of them for artichokes, he is also adversely affected, because if Arthur can obtain all the potatoes he needs from Peter he will not make Paul a better offer. Thus, the result is that Arthur's gain is exactly balanced by Peter's loss, and, having accepted a lower standard of living, the latter's position may affect that of Paul also.

In this transaction Arthur is the consumer or buyer, and, as every man, woman, and child are consumers, consumers will always be in the majority. While the consumer, Arthur, is better off at the expense of Peter, not only is there no evidence that he, as buyer or consumer, is more deserving than the producer or seller, but there is no gain to this community, for all three consumers are not better off, there being at least one who is worse off by exactly the same amount as the other is better off, as we have seen.

Were our community limited to three persons, having no other requirements than potatoes and artichokes, there is nothing more to consider, and Arthur retains the ascendancy through Peter's foolishness. Let us introduce, however, William, who grows wheat for this community, when unless Peter be a philanthropist he will endeavour to pass on his loss by making William give him more of his wheat for his potatoes, and if he be successful he will thereby reduce also his standard of living. The process will now also affect Arthur, who, though a buyer of potatoes, is a producer and seller of artichokes. He will consequently have to surrender more in exchange for wheat, and the little community of four will now therefore have a six days' working week, and, although producing more material wealth, must confess to a lower civilization.

The introduction of money does not affect this hypothesis, for the money in Arthur's pocket is the result of a certain number of his hours' work, and if he buys more cheaply he will have to sell his labour more cheaply, unless he can fool everybody all the time. Thus, liberty to buy in the cheapest market affects production and interferes with those who desire a higher standard of living. It compels the whole community to live upon the same degraded level.

A desire to obtain what others possess, and at the cheapest possible price, is natural to man, and is dealt with in the Tenth Commandment. If permissible without regard to any conditions whatsoever, it would result in the strong and clever compelling the weak and foolish to be their slaves, the right to buy on price alone, regardless of the value exchanged, giving the strong the power to force the weak to work for them for an inadequate return, a condition which is indistinguishable from slavery.

So far we have assumed an equal efficiency in production, or equal skill, but if Arthur be unskilled and Peter skilled, and they exchange according to value produced, Arthur must give more labour-hours to Peter than he to Arthur, and must thereby confess that he is less civilized. Similarly, if a group of men exchange more for less labour-hours with another, the former would have to confess to a lower standard of living, and that the fact is not realized is due to indirect exchange and the use of money.

For example, if Arthur were to buy 10 hours' labour from Peter with 20 tokens, and then allowed Peter to buy back from him 20 hours' labour with the same tokens, he doubtless would soon realize the disadvantage of the proceedings, but what happens is this: Arthur with 20 tokens in his pocket, the result of 20 hours of his work in producing some articles, buys some articles *M*, produced in 10 hours by Peter, from a middleman, who uses the 20 tokens to buy some articles *P*, produced in 20 hours, from Paul, who is presumed, like Arthur, to be unskilled. The latter with these tokens buys, directly or indirectly, from Arthur the articles *L*, representing equal labour-hours, but neither Paul nor Arthur, for both are equally concerned, realizes that he is in a worse position than Peter, and should consequently endeavour to become skilled, because they do not know, and are apparently indifferent to, the number of labour-hours exchanged.

Let us next assume that Paul and Arthur are sharing their wealth-production, and that the former succeeds in producing in 12 hours the articles *M*, which he proceeds to offer to Arthur for 24 tokens. Now, although Arthur poses as a friend of Paul, he says, "Business is business," and continues to buy *M* from Peter, who, with the tokens received, again buys *P* from Paul, thus compelling him to remain in an inferior position, for had Arthur bought *M* from Paul the latter would only have had to give up the labour of 12 hours. Thus Arthur can, if he buys in the cheapest market, condemn Paul to a lower standard of living. He is not so clever as he thinks, however, for although he has saved 4 tokens, had he bought direct from Paul the latter would have had 8 further hours available for production, upon which, if he and Arthur were working together, Arthur would have a claim, with the result that the value of the money in his pocket would increase. The average hours necessarily worked by Paul and Arthur would now be $\frac{1}{2}(20+12)=16$, and as alternatively one section of the community in a civilized nation has no right to slack while another works, Paul would have been *forced* to work another 8 hours, in the result of which Arthur would share. Thus, Arthur and Paul as one community would have gained 8 hours of Paul's labour, worth $\frac{2}{3}$ of 20 tokens, or 13·3, as compared with a gain of 4 tokens to Arthur. Consequently Arthur has succeeded in condemning both Paul and himself to a lower standard of living, the while Peter benefits, for a greater purchasing power of money follows from the increased rate of production due to exchanging less for more labour-hours and indicates a greater prosperity.

The confusion between price and cost is again manifest, for while Arthur buys at a cheaper price from Peter, the cost (borne eventually by both Paul and Arthur) of that which he has to surrender in return is higher, for the true cost being the necessaries of life consumed by the workers is proportional to their hours of labour.

What then is Arthur and Paul's remedy but to refuse to buy from Peter? Yes, actually refuse to buy in the cheapest market, refuse to exchange more of their labour for less of another, and refuse to accept a relatively lower standard of living. If Peter can produce *M* in 10 hours, they must, assuming equal natural advantages, also be able to do so, even if at first Paul requires 12 hours, unless indeed Peter be better educated and they are content that he should remain so, in which case if they are not to fall further behind, they must close their market to Peter and start at once to produce *M* themselves, *i.e.*, they must adopt FREE PRODUCTION and deny the right of any individual to buy in the cheapest market to the detriment of his fellows, and ultimately of himself also.

Even if Paul be at a natural disadvantage—*e.g.*, is not able to produce *M* in less than 12 hours—he is better off in achieving that than in producing *P* in 20 hours, and consequently Arthur and Paul should in this case also close their market to Peter, unless they can offer him an alternative article representing less than 12 hours' labour.

The application of the foregoing to international trade is obvious. If we, Arthur and Paul, buy from a nation with a higher standard of living, represented by Peter, an article which we could have produced ourselves in less labour-hours had we closed our market, we confess to a lower civilization, *i.e.*, less leisure or power to produce material wealth. On the other hand, if we buy at a cheaper price from a nation with a lower standard of living an article which we also make ourselves, we compel our workers to accept the same low standard, and our remedy is to give up the production of this article in favour of a product of a more-skilled industry.

The quality of international trade can therefore only be gauged by the number of labour-hours exchanged, and not only does a nation which opens its market to the products of labour more skilled than its own confess to a lower economic development, but it actually prevents an appreciation in the value of its money, for the consumer in buying that which ought to have been produced at home is preventing that more efficient production upon which, other things remaining unaltered, an increase in the purchasing power of his own money depends.

The distinction between national and individual cost was shown in Chapter X, and although an individual who in his own personal interests buys a foreign article cheaply, thereby sending less money abroad, may submit that as a result a lesser quantity of goods need be exported to redeem it, it does not follow that a lesser number of labour-hours (national cost) are required in the making of these goods for export than would have been necessary to produce at home the goods imported. If an individual pays a higher price to his own countrymen, this represents but a transfer of wealth, and a less cost in the labour-hours may, as we have seen, outweigh any possible saving in price, wherefore it is equally the duty of a nation as of an individual to refuse to buy in the cheapest market.

In other words, an article produced in a skilled industry should represent a high value per worker, and therefore a high wealth-wage, as shown in Chapter X, and even if the workers producing this article received exorbitant wages, so that the home price was excessive, indicating an unfair distribution of wealth, the nation would still lose if a similar article were imported from abroad merely because its price was cheaper, and the products of unskilled labour were exported to pay for it. In such a case the nation would actually be poorer by the whole of the wealth-wage, probably exceeding by far any price difference, and to urge that men thrown out of employment would immediately find a better job is equivalent to saying that a man would choose the worse of two posts offered him.

Although, to the thoughtless, Free Trade sounds natural, and Protection artificial, civilization depends upon a restriction of man's liberty, and no one publicly advocates Free Love, which is equally natural. Indeed, Free Trade, or unrestricted liberty in buying and selling, be it of goods or labour, is a reversion to the law of force, and if it be rightly forbidden to purchase labour below a certain price by the threat of starvation or force, it cannot be right to ignore this condition in the purchase of its product, viz., goods. Similarly "giving free play to the law of supply and demand," as applied to necessaries, is neither more nor less than profiteering.

That the workers themselves have not realized these truths, and the importance of the quality of industries, is due to the fact that they have failed, in the absence of a unit of value, to measure the *national* value of industries and to recognize the identity of their interests with those of their employer. Free production in those industries which most benefit a nation is essential, and can only be assured by that protection of industries, or reservation of their market, which, as we have shown, is as natural as civilization, and part and parcel thereof.

Nevertheless, the real advantage of Protection has been overlooked. This lies solely in the *opportunity* afforded for the development of skilled industries, and for the application thereto of those continual improvements in education the importance of which is universally recognized. For a nation to protect all its industries equally would be wrong, although it would be better than protecting none of them, for labour must not be attracted to the unskilled industries, because only the retention of its skilled industries benefits a community. Indeed, if less civilized or more foolish people will do the unskilled work of another nation and become its economic slaves, that can only be to its advantage. No civilized nation covets the unskilled industries of another, nor does a farmer build walls or fences on barren ground, but protects his crops and bars out trespassers. Similarly a nation is justified in reserving to itself its whole market for the products of its skilled labour, for otherwise its industries cannot be efficient.

Thus, prohibition of imports of all such products, to the extent of the nation's utmost capacity to produce for itself, is right and desirable, and this right being exercised, a mass of unnecessary and wasteful competition would be obviated. Nevertheless, a skilled industry which, on account of natural difficulties, is unsuitable for a country should not be protected; but for no other reason should a civilized nation abdicate its privilege, to do which is to confess that its education is inferior.

It is evident that the consequence of universal Protection, based on the value of national industries, would be to limit competition to those industries for which a country was unsuitable, or which it did not wish to develop, whereas underselling by one nation of another, or Free Trade, permits unlimited competition, waste, and the degradation of humanity. Free Trade can now be recognized through all its disguise as false, artificial, selfish, and materialistic. It allows those who are crafty or grasping to exploit the helpless, uneducated, and unsophisticated classes, while a Protection based on the value produced per worker is natural, national, and moral, defends the weak nations against the strong, right against might.

We will deal later with the origin and effect of Free Trade, and only remark here that the astonishing failure to recognize wherein industries are valuable to the nation, which is equally shared by the so-called Tariff Reformers, is due to acceptance of the fundamental fallacy that all value is dependent upon demand, and wealth is derived from trade. Were that true there are indeed no skilled industries, there is no such thing as skill or brains, and the least educated men throughout the world who carry goods about, thus making them available, create the wealth, and must therefore rule humanity. Bolshevism, it appears, is not a Russian menace, but the logical outcome of the teachings of the Victorian economists.

CHAPTER XX

THE EFFECT AND REAL OBJECT OF PROTECTION

HAVING shown that free production is as vital to a nation as to an individual, let us consider next the effect of that Protection which is essential to secure it. We will for a moment ignore the brand of Protection at present in vogue throughout the world, because it does not appear to be based on any logical principles, and consider a *real* fence, which allows of *no* trespass, or, in plain words, prohibition of any imports whatever which can be advantageously produced at home.

All our producers, both masters and men, now enjoy a monopoly, and will, according to the sages, immediately advance their prices and exploit their fellow-countrymen—yes, all exploit all: in fact, logically, their prices will be so outrageous that no sales whatever will be possible! But they must sell, or their production would be valueless to themselves, and, while it is true that they will profiteer so long as the law of supply and demand is recognized, that is only what everyone else is doing at the present day. To buy as cheaply as possible, and sell at the highest price obtainable, is surely the present meaning of 'business,' so that even if one set of men only enjoyed Protection they are no worse than the rest, and it is surely a curious idea to bring in the products of foreigners in order to prevent our own co-workers becoming rich.

It is true that a *sudden* prohibition would, given free play to that false law of supply and demand, allow profiteering in necessaries (we know that people can go without luxuries and thus prevent profiteering in these), unless prices were regulated, yet one season later the exploitees should ensure that the nation produced *its own necessaries and a surplus.*

Further, the wholesale attempt to exploit the rest of the country must result in retaliation by the latter, whereby all prices would ultimately be advanced. Any thinking person, therefore, can see in a moment that one section of the population cannot exploit the others *permanently*, that there are such things as value and equity, and that in every state of civilization there are recognized principles of distribution which forbid a man to keep all his wealth to himself. We must admit, however, that so long as the law of supply and demand is allowed to govern wages and prices, gross abuses must exist, yet were the principle adopted, as shown in Chapter X, of wage-payment according to value, and control of the profits of wealth-handlers, prices would also correspond to value, and an improvement in the distribution of wealth would follow an advance in altruistic education.

Higher prices, unless they are controlled, are indeed the *first* effect of Protection, a depreciation in the value of money, whereby, although everyone has more, ultimately no one is better off, because the amount of commodities remains the same; yet with an unaltered wealth-distribution no one will be worse off either.

This can best be recognized by considering employers abolished (and we have already shown their community of interest with their employees), when Protection for one set of workers, without price-control, or wage-payment according to value produced, would permit them to raise their prices and profits, or to alter the distribution of wealth to the detriment of their fellows. This set of workers, therefore, would now be receiving higher wages than correspond to their skill, but when the other workers recognized their disadvantage through the advance in prices which would be bound to occur because with the *same* distribution prices rise *pari passu* with wages or cost, they too would clamour for higher wages, and so the game would go on, the value of money constantly decreasing, because more tokens would now be necessary to purchase the daily necessaries of life.

It is evident, therefore, that the first effect of Protection is exactly similar to that which follows an increase in the wages of one set of workers without a corresponding increase in their output; yet other workers do not raise any objection nor realize that they are being exploited, or that the wealth-distribution is altered to their detriment, because they think that the employer keeps a sack of gold, labelled 'Wages,' from which higher wages can surely be drawn! If indeed an advance in wages were followed by a proportionately greater output (the ultimate object of Protection) the value of money would remain unaffected, yet not merely is this not the case, but a reduction in hours and amount of work is often demanded as an accompaniment.

The perpetual strikes for higher wages and less work show how deep-rooted is the delusion of the working classes that they necessarily benefit from higher wages, without reference to increase or otherwise of production. This is due to their habit of considering individuals, instead of the nation as a whole, as well as to their ignorance of the relation between wages and prices. An individual who obtains a 'rise' undoubtedly benefits, but it is at the expense of his fellows unless his work be now *worth* more, although this passes unnoticed, because the effect of the resulting, if infinitesimal, depreciation in the value of money is spread over the multitude.

The workers have also deceived themselves by considering the nation divided into employers and employed, instead of into producers of wealth and non-producers, and by imagining that Protection which only *affords* opportunity for increased production benefits the employer only.

It is true that the employers, both good and bad, amassed fortunes last century, regardless of the conditions of their workers, the fruit of which is still visible in filthy manufacturing towns, yet the cause of this was merely a defective economic and moral education.

The distribution of wealth among the inhabitants of any country, or the amount which the greatest wealth-producers share with the less capable, is artificial and regulatable by taxation, etc., and the effect of a general increase in wages upon distribution may be nil.

Similarly, a general increase in wages has no effect upon the real, *i.e.*, national, cost of production, which, as we know, is measured solely by labour-hours, or the amount of necessaries consumed for a given output, and it is merely equivalent to introducing a new set of tokens with less purchasing power.

Of course, as we saw in Chapter XVII, a fictitious rate of international exchange, *i.e.*, one not corresponding with the real value of money in each country, does help one nation to undersell another, sometimes, sad to say, to its own detriment, even if its wealth-handlers and certain producers benefit, but this underselling is due to the false rate of exchange and not to a depreciation in the home currency.

It follows, therefore, that Protection, or any artificial increase in prices resulting in a depreciation in the value of money, has no effect upon our real power to compete in neutral markets.

This truth, as must, indeed, be the case with all truths, is confirmed in practice, for it is notorious that nations which protect their industries and often depreciate their own money are most successful competitors with Britain in foreign markets, although it must be admitted that they do not seriously attempt to undersell sweated British labour, nor the products of Britain's 'great unskilled' industries, textiles, shipping, etc. It would be a fruitful task to compare the wages and standard of living of the employees of English millionaires with those in the United States.

It is true that nations still compete with one another in the export of coal, etc., each trying to get rid of its capital, but that again arises from ignorance of the economic value of the mineral, and the licence accorded to individuals, colliery proprietors and miners, to exploit their countrymen.

If, then, Protection of itself merely depreciates the value of money, and affects neither cost of production nor power to compete in neutral markets, it is impossible that it should harm a nation, which is obvious, and is confirmed by the advancement in protected countries during the twenty-five years preceding the War. Bearing in mind the enormous wealth-production last century of Free Trade Britain, why is it that her miserable towns compare most unfavourably with those of other industrial nations? Despite the unfair distribution in Germany and the withdrawal of men for military service, even there huge expenditure, derived from her production, was laid out on municipal and State improvements, in which even the poorest classes share.

Protected countries have competed with Britain successfully in neutral markets, in the products of skilled industries, because, as already indicated, these industries, requiring more capital per worker, are most dependent upon a large and continuous production, whence, having their home market, an increased output for export is possible at a low cost.

The last is also true to some extent of unskilled industries, yet not merely have many of these nearly reached the limit of their efficiency, but, owing to the low wealth-production per worker, their growth does not benefit the nation. Those in England who submit that Protection injures the nation as a whole, have much to explain away, and that they have managed so long to delude the workers arises from the ignorance of the latter as to the source and measurement of wealth and their narrow conception of the employer as one who pockets all the price-increase derived from Protection, ignores totally the interests of his workers, avoids taxation, and finally takes his wealth with him to that hell for which all employers are ultimately bound.

Obviously if the employer could retain the whole price-increase an alteration in the existing distribution of wealth would be demanded and be made.

That Protection or Prohibition for skilled industries, which increases the wealth-production of the *whole* nation, has not been generally accepted, is due to the confusion of 'necessary' and 'luxury' values, whereby all value depends upon demand, wealth cannot be measured immediately upon its production, and a 'quality' in industry is non-existent. From acceptance of the sham law of supply and demand arises also the delusion that wealth, save that of an individual or nation at the *expense* of another, is due to trade, and that it benefits *the majority* to buy in the cheapest market, yet we have proved that the *whole* nation loses when it imports the products of foreign skilled labour because they are cheap, and pays for them by exporting the products of its less-skilled labour, and consequently it can only be the individual who benefits by such cheap prices at the expense of his fellows.

On the other hand, there is another school which believes that Protection of itself benefits a nation, and produces revenue, thus relieving the taxpayers. This is equally illusory, for Protection only *allows* men, or a nation, to produce more and does not compel them to make use of it, or to progress to higher industries, while the additional revenue being ultimately paid for by the consumer (unless the foreigner pays the whole tax, in which case he could equally well reduce his price by the same amount) necessitates a correspondingly higher home price. Thus, this method of procuring revenue is unsound, as is indeed all indirect taxation, for it is impossible to direct its incidence equitably.

Of course the real object of protective duties is to keep out certain commodities, make these at home, and thus add to the wealth produced, but if the home production be unequal to the nation's requirements, and it is desirable to buy from foreign countries, importation under licence is preferable to the imposition of import duties. The distribution could be effected through the ordinary channels, when if the foreign price be cheaper the average home price should be reduced, and, if dearer, increased. In either case the increase in price necessary to cover the cost of handling can be controlled.

It is obvious that if the foreign price be dearer, the home producer will have every inducement to increase his output, whereas if cheaper, the question arises whether it is advantageous to the nation to continue its home production. The nature of the answer would be determined by the quality of the industry, and whether it provided necessaries of life.

It is true that the tariffs in force to-day appear to ignore these considerations and to have been imposed through influence and with reference to the home selling price, but this is hardly surprising when it is remembered that the means of gauging the national value of an industry remain unappreciated. Usually a set of manufacturers demands a duty in order to handicap foreign competitors, and this is imposed irrespective of whether the industry yield a high wealth-wage or not. Those who demand free imports most loudly, the employers of unskilled labour, and their dupes, are not actuated by less worldly considerations, for although certain individuals benefit, the nation as a whole does not, unless the imports be entirely the products of unskilled labour, as during Britain's industrial supremacy in the nineteenth century, when she had no foreign competition to meet and nothing to protect save agriculture or the production of necessaries.

We have already learned that a nation's material and moral welfare depends upon the quality of its industries, so that no good purpose is served in protecting or keeping out the products of unskilled labour, articles which a nation cannot itself efficiently produce, nor any of Nature's irreplaceable raw material that exists in limited quantities, and which is offered at a favourable rate of exchange.

As compared with protective duties, it is obvious that Prohibition has an advantage in the avoidance of the cost of collecting duties, and if this be much less than is often asserted it nevertheless represents a considerable labour wastage. Moreover, the most important object of Protection, the prevention of underselling and interference with production, is not entirely achieved by the imposition of duties, because the latter system still permits a mass of men to be engaged in import trading for their personal profit, and that of certain producers, or, once more, it puts the workers of one nation in competition with those of another.

The object of Protection being admittedly the prevention of trespass upon a nation's production, it follows that behind this barrier a nation must be able to live its own life and produce what it likes—as much or as little as it deems necessary. So long as it admits that which it cannot produce efficiently a protected civilized nation need lack no material commodities whatsoever. The world, however, is now turning away from this search after ever more material wealth, ever new and unnecessary luxuries, and clamouring for shorter working hours and less work, and here also a protected nation is at an advantage.

It is true that many imagine that more material wealth and less labour expended upon the getting of it is simultaneously possible, but this is because they do not recognize that leisure is the alternative form of wealth, and that a man cannot do nothing and something at one and the same time. A world consisting of old ladies who sometimes sit and think, and sometimes just sit, is unthinkable. Of course those who expect to eat their cake and have it are not contemplating their own baking, but another's, and are apparently indifferent to the conditions of everyone but themselves, for it is obvious that if all the manual workers are to have a six hours' day, unless they work much harder or there is a surplus in the hands of others of which they may get a considerable share (and the relatively small number of rich compared to the mass of the poor must not be overlooked), there will be less goods for all, even if there be more leisure. We may add that the deservedly successful brain-worker has generally laboured for many years, twelve, fourteen, and even sixteen hours a day.

Another objection to Protection has been discovered by one of the most respected of the English Labour leaders, Mr G. N. Barnes, who publicly expressed his opinion to the working classes that Protection would make them and their employers, in fact, the whole country, slack.

It is true that Mr Barnes did not respond to an invitation to compare the average output of all the protected countries with his own, and well might he hesitate, for even if he could discover other satisfying explanations, he would still be confronted with the fact that Free Trade has not made Britain energetic. Of course, Mr Barnes spoke under the influence of the shibboleths of the professional economists. Another English Labour leader, Mr G. H. Roberts, went so far as to say that "one cannot get more out of an industry than is put into it," yet he too did not differentiate one industry from another, because he also knew no true unit of value, nor the source of wealth-production.

This fear that slackness will result from Protection is contradicted by experience, and in the first chapter of this book we showed that civilization is the result, not of competition, nor of trade, but solely of the superiority of some men, and of man's inherent desire to create, propagate, or to impress himself upon his generation. Were this not so, Free Trade England ought surely to have had a monopoly of inventors during the forty years immediately preceding the War, whereas before 1914 it was the habit of British 'intellectuals' to decry even the intelligence, much less the energy, of their countrymen. That they were wrong has been demonstrated by the wonderful inventions made during the War.

Of course a nation, like an individual, may neglect to take advantage of its opportunities. A potential inventor may not invent, because being the originator he has no competition to stimulate him to action, and so on, with regard to artists, poets, etc.; and as the individual, so the nation, which is a collection of individuals. The man who gets most out of his land does not usually have the worst hedges, and the delusion to which we have already referred, that the desire for wealth is the great driving force of the world, arises largely from the fact that so many great men were born poor, which compelled them to work the harder to develop themselves. The fact that many rich men lead arduous lives, remote from money-making, supports the view which we have expressed—namely, that the real cause of progress is the inequality of superior men.

If a nation does not take advantage of Protection it is no worse off than before, and it may reach, as we know, a higher state of civilization than one which worships only material wealth. On the other hand, no sensible nation will deliberately remain inefficient, for, as Mr H. G. Wells has said, "No one really likes work," and man will therefore endeavour to get it done in the shortest possible time. Further, Protection, although it sets a limit on trade and international competition, in no way hinders intercourse, nor that international co-operation which alone is necessary for the advance of civilization.

A sister delusion to that referred to above is found in the widespread belief that living is more expensive in a 'protected' country. It is true we may find that British money does not go so far in, say, the United States, but although that is of great interest to Englishmen, it is of no importance to the United States. The workers there *know* that they are better off, in that they need work fewer hours to obtain a given quantity of goods, and they find that their money actually goes farther when they visit England, whence they too jump to the corresponding and erroneous conclusion that living is cheaper in a Free Trade country, even though English workers have obviously less actual wealth and work at least as many hours.

The phenomenon results from the rate of exchange between the two countries not corresponding to the true purchasing power of money, for if it did a dollar in America would purchase an identical quantity of goods with 4*s.* in England (assuming that the rate of exchange were 4*s.* = $1). That it does not do so follows from an adverse rate of exchange due to the internal depreciation of American money, without a corresponding alteration in the foreign exchange. The disadvantages of this were shown in Chapter XVII.

Did the rate of exchange correspond to the true purchasing power of money, the Englishman in the United States would be equally well off there as in England, although, owing to the greater quantity of commodities in the former country, due to a more efficient production, the average amount of money in the pockets of an Englishman would be less than in those of an American. Consequently an equally efficient worker from England would be poorer than his American brother, although prices would not now be higher, because *his* money had taken him longer to amass.

It is obvious that a nation can start a brand-new coinage, or may depreciate its own tokens, without affecting its wealth or well-being in the slightest, and the dollar has depreciated in America by other causes than Protection, such as universally higher wages, and by the amount corresponding with the extent to which such causes have not been counterbalanced by increased production. Notwithstanding a steady decline in the purchasing value of the dollar, the rate of exchange between England and America prior to the War remained practically unaltered for many years. Commodities are really cheaper to home consumers in a country with the greatest production per head, and only dearer to foreigners if the rate of exchange be against them.

Thus, neither Protection nor Free Trade of themselves affect real, or labour, cost, although the former, even if devised regardless of the national value of industries, allows of the development of the wealth-producing industries, because, given a free choice, they must be the most attractive, whereas the latter prevents it, and the widespread conviction that living is more expensive in the United States than in England in spite of the obviously greater well-being of American workers is another example of those false deductions and doctrines with which the manual workers of the world have been deluded.

Just as a nation must protect its wealth-producing industries in the interests of its home workers, so must it prevent its workers from engaging in low-class industries producing goods for export. From a wise restriction of both exports and imports would follow prosperity for the nation's best industries, and labour would flock thereto and their products would be exported because they yield the greatest national wealth, and because a nation with a monopoly in its home market can cheaply produce a surplus for foreign markets. In consequence less, if any, labour would be available for the unskilled industries producing for export. And this is as it should be, for no nation ought to do unskilled work for another, unless it be willing to accept a lower civilization and standard of living.

Having seen that the effect and object of Protection is the maximum wealth-development of every nation, it is evident that if we recognize the sanctity of nations and their right to an independent economic existence, Protection for their workers, or their charter of self-preservation, cannot be a ground for international offence; in fact, the delusion that unlimited competition and trade between nations—that is, the setting of all workers against one another—is conducive to a world peace can only be paralleled by the belief that Protection benefits the employer and harms the worker.

These misconceptions arise from the same cause, viz., a division of communities into employers and employed, instead of producers of wealth and non-producers, and failure to consider the nation as a whole and to recognize its real source of wealth. It is not its unskilled workers that most benefit a nation, or should dictate its policy, but those whose skill of hand or brain bring about a development to that higher civilization which is the craving of all, and which evolves as the relative number of unskilled workers diminishes, for that country is most wealthy both materially and morally which has the greatest proportion of skilled workers, through whom the production of maximum wealth in a minimum time is alone possible.

CHAPTER XXI

A PROTECTION GRADED ACCORDING TO THE NATIONAL VALUE OF INDUSTRIES

HAVING seen that Protection is necessary for the economic development of every nation, and at the same time conducive to the peace of the world through a reduction in that international competition which most affects the well-being of each country, *i.e.*, in the products of skilled industries, we will pass to a consideration of the principles and purpose which must govern any genuine economic scheme of Protection.

We referred in the previous chapter to the possibility of Protection through prohibition and rationing, yet, although this may ultimately prove the right solution, existing organizations are not ready for it, but are more suitable for dealing with a variation, more or less, in the usual method of exacting import duties or customs. The proper purpose of Protection being to stimulate the production of wealth, and not to obtain revenue, it is obvious that the obstacles to importation should be greater the higher the national value of the industry in question, for if the products of foreign skilled labour be allowed entry, the home producer loses his certainty of selling and thus his incentive to increase his output.

It follows, therefore, that a flat rate of Protection, whether per weight, volume, or *ad valorem*, is fundamentally wrong, and that the import duties on any article should follow a sliding scale, according to the national value of the industry producing it. We discussed the latter question fully in Chapter X, and proved that this value was not a matter of opinion, but could be measured by adding to the employers' net profits all wages paid in excess of the living wage, and dividing by the number of workers. Although such a method of calculation might, in home trade, allow a benefit to a group of less-skilled workers at the expense of one more-skilled, until such time as payment according to skill be recognized, in the case of foreign trade it affords a true indication of the *nation's* wealth-increment through export.

Thus, when we import the products of foreign skilled labour or of industries yielding the highest return per worker, which we should have produced ourselves, we lose this wealth-increment, while when we export such products we gain it, so that a Protection graded according to the national value of industries will afford the most help to the best, and will therefore benefit them and the whole nation at the same time, for, as we know, the nation's material welfare depends upon the quality of its industries.

It is clear that any other form of Protection is unsound, and if it leads to the bolstering up of low-class industries it fails in its primary purpose, the encouragement of national wealth-production. That this has occurred but little in practice under existing haphazard systems of Protection is due to the fact that in spite of the economists, in spite of acceptance by the thoughtless of the law of supply and demand, sane humanity has generally recognized that payment should vary according to skill, whence labour has flocked to the skilled industries whenever these were kept available through being protected.

In truth, any form of Protection, although it may lead to abuses, is preferable to none, so long as it does indeed protect, because by its aid the nation can voluntarily drop its unskilled and develop its skilled industries, whereas with free imports the foreign product of skilled labour may undersell the home product, driving workers into ever less-skilled industries, the products of which the nation may be compelled to exchange for foreign imports. If the home market be left open to the products of foreign skilled labour, these will undoubtedly enter it, for their export most benefits the foreign nation, and a nation of equal civilization should not attempt to compete in its neighbours' own home market in industries which yield little national wealth.

The truth of the foregoing is so obvious that the failure to realize it would be quite inexplicable were it not for the preposterous economic fallacies current throughout the world. If value be due to demand, if carrying goods to those that want them increases their value, the most unskilled labour produces wealth, there is no virtue in skill, and it is a flight of imagination to believe that the nation's welfare depends upon its skilled industries.

An unwholesome economic diet has caused the manual workers to choose the wrong leaders, practically none of whom are skilled producers, and only when they realize that the value of a man to a nation depends upon the skill and energy which he applies to production or labour-saving, and not upon whether his hands are dirty or clean, will they come to recognize economic truths and their rightful advisers.

The leaders in our New Civilization will control the nation's industries, each year they will examine their quality and see that those of the highest value are developed, with the result that their stability will correspond to their national importance. It will then be appreciated that, given a higher standard of education, this cannot be better utilized, from an economic standpoint, than in the nation's most skilled industries, and that the preservation of the home market for such industries is as vital for the development of education as for that of the higher industries themselves.

For instance, a longer training and higher salaries for teachers, as indeed all general improvements, necessitate a greater wealth-production, so that Mr H. A. L. Fisher was wrong in declaring that no industries are sacrosanct. Mr Fisher's further dictum that " Industries are made for education, not education for industries," is equally fallacious, for, like a self-taught man, skilled industries can arise through individuals without extraneous education, while a higher education for the people depends for its possibility, progress, and material application primarily upon the said industries.

Educational facilities supply only the foundation ; a man's real education occurs in his work, which, if useful, is productive, *i.e.*, again generally used in or in connexion with industry.

This may not be apparent to people brought up to believe that a man's duty consists in obtaining his living in the easiest possible way, yet while the term 'a nation of lawyers' sounds eminently respectable, and their education certainly does not equip them for industry, all they have is derived from industry.

If, then, the home market for the products of skilled labour be preserved, and every new or better industry be immediately protected, the highest possible number of skilled workers will already be employed, unless it is possible also to export such products, in which case this number will grow. Success in exporting, however, will depend upon efficiency, and not upon the amount of Protection, provided this suffices to preserve the home market, and the nation will gain owing to the high value of goods it must receive per worker in exchange for its exports. Indeed, so much will it gain that the question forces itself upon us, whether it pays a nation to stimulate artificially the exports of the products of skilled labour or to 'bonus' such an industry.

At first sight this may appear absurd, and it would be so were industries all equally productive of wealth, but just as a longer period for education, scholarships, etc., is justifiable in the case of a promising boy, so is the transfer of wealth to an industry which in return therefor will yield still more wealth. Of course, if the individuals concerned in the industry were able to retain all the wealth-increment to themselves, the rest of the population would have good ground for complaint, but we know that in any civilized community this is impossible, and that all derive benefit from an increase in the average wealth-production.

If therefore the soundness of the principle of giving a bonus to an industry be admitted, it only remains to consider the amount of assistance which should be given, and this obviously depends upon the wealth-increment per worker engaged in it compared with that realized in the next lower industry making goods for export. For instance, comparing the English textile trade, seventy-five per cent. of which is devoted to export (*vide* Mr J. Smethurst, of the Cotton Spinners' Federation), in which the average weekly earnings in 1906, according to a pamphlet entitled *The Nation's Income*,[1] were only 17*s.* 6*d.* per week, with, say, the metal, shipbuilding, and engineering trades, in which the average was 27*s.* 4*d.* per week, a bonus not exceeding 9*s.* per head to stimulate the export output of the latter and so enable them to absorb the lower-waged textile workers would benefit the whole nation by increasing the total wealth produced. True, the other workers would have to contribute, but their contribution would not merely return to them indirectly *via* taxation, but directly by the appreciation in the value of the money in their pockets.

We have ignored here the question of the employer's profit, yet this would obviously strengthen our argument, the profit per worker employed being generally higher the more skilled he is. If not, such a worker would be better off at the expense of his employer, *i.e.*, the total wages paid compared with the profits would be more favourable to the workers.

Further, if we artificially stimulate the skilled industries, the textile-workers thrown out of employment will, so soon as they have been taught, be able to enter a better industry in which over-production, unemployment, etc., are much less frequent. Thus, Protection for skilled industries, far from permitting the nation to slack, incites the leaders of labour to wake up and insist on the development for export of those industries which benefit not only their own workers but the whole community.

And when the export of the products of unskilled labour is prevented, and competition for profit with sweated labour as the pawns is restricted, a mass of labour will be set free for the further development of wealth-producing industries, or the betterment of the conditions of living of the least prosperous workers.

Restriction of international competition in the products of unskilled labour, which will follow a reduction in such exports, and in the products of skilled labour which would follow Protection, will not merely benefit one nation, but all nations, and consequently increase not only national, but international, or world, wealth. Moreover, the sanctity of

[1] By Herbert G. Williams (London : The British Commonwealth Union).

every nation's skilled industries being recognized, their profitable working will be assured, and universal profit-sharing will become immediately practicable, particularly in those industries from which the amount divisible per worker attains its maximum. Thus, recognition of the justice of a graded system of Protection is essential both to the peace and prosperity of the human race.

CHAPTER XXII

A REAL 'INTERNATIONALE'

THE reduction in international trade and competition indicated in the preceding chapter as the result of a graded system of Protection, or indeed of any universal Protection, may awaken qualms in the mind of the reader—and it would doubtless deplete the bank balances of many interested parties—but we are afraid neither of the word 'Protection' nor of its effect upon the world.

There must be no compromise on so vital a matter. We must erase the illusory picture impressed upon our plastic minds of the teeming harbours of the world, the endless procession of mighty ships, all intent on carrying goods to those that want them, on saving men from starvation or from exploitation by *their own brothers*, and we must realize that those who, across the ocean, discern the approach of such welcome co-operation have but seen a mirage; yea, what reaches them may be competition for their own kith and kin. These ships—and were ever such stately things put to so ignoble a use?—are the modern equivalents of the giant horse used at the siege of Troy, and, despite their outward seeming, bear in their holds the destruction of communities. The flag at the main-mast spells co-operation, but when moored alongside the wharves the flag of competition is run up.

We have emphasized the necessity for co-operation for the production of wealth among the inhabitants of any one country, and it is equally essential that nations should co-operate if an advance in their civilization is to result from international intercourse. There is, however, this distinction, that whereas a nation can compel its people to co-operate, it cannot compel another nation to do so, except by war, which in such a cause is immoral, and therefore international co-operation must depend upon the higher development of man's moral and economic education.

It is undeniable, however, that such haphazard international co-operation as exists does not arise from praiseworthy motives, and that when it is not limited, as it ought to be, to the exchange of those commodities which both parties cannot efficiently produce, it becomes competition. Further, as even in existing co-operative trade there is no thought of a fair rate of exchange, such co-operation comes dangerously near to international exploitation.

Indeed, not merely is all international trading carried on at present solely for profit, but the profit is that of the individual, it may be at the expense of a mass of his fellow-countrymen, and the benefit of the nation is not considered.

We have referred in previous chapters to the delusion that cheap imports necessarily benefit the buyers, who forget that they too have their labour to sell. If a people have recognized the importance of co-operation and fair dealing among themselves, it is indeed extraordinary, and a confession of moral inferiority, if they look toward another nation for rescue, not from shortage, but from high prices. The deliverer will have, of course, no altruistic intentions. Indeed, it is merely a foreign individual who, for personal gain, often at the expense of his own fellow-countrymen, comes as a knight in shining armour to people among whom he may not have a single personal acquaintance.

If the reader thinks that we have dwelt unduly on this topic we would assure him that we have only followed to their logical conclusion the ideas of many so-called sociologists. Thus, Mr G. H. Putnam, an American advocate of Free Trade, writes, " It is always a crime, and it is always a blunder, to make unnecessary additions to the *cost* of the things that are needed." He imagines the foreign merchant rushing to the rescue of a community and accepting payment in money, whereas we know that payment must be made by labour, that Protection has no effect whatever on the real cost of the goods received or those manufactured for export, and that by allowing of the development of skilled industries it actually *reduces* the amount of labour necessary to pay for them.

Real co-operation implies the profit of all parties to the transaction, whether it be among individuals or between nations, for under it neither an individual nor a nation can be permitted to benefit at the expense of another, and this is even more important in the latter case than in the former, for the following reason.

A people living under one Government have to contribute to its cost according to their ability, but not equally, so that the rich are compelled to help the poor, the producer of wealth to part with it sooner or later, and consequently, although there is no justification for unequal bargains, the loser may at least hope to recover some of his loss, if only indirectly.[1] On the other hand, and we are of course alluding not to isolated transactions but to a permanent inequality, it is quite obvious that when one nation makes an unfavourable exchange with another there is no chance of recovery and the loss is permanent. Consequently in co-operation between nations we must look beyond the individual's profit and consider the labour quality, *i.e.*, where articles which both nations of equal civilization can produce are concerned we must forbid underselling in the products of skilled labour.

For instance, it has been said that Britain cannot produce the Ford car at a price to compete with America in the home market, firstly because the United States market is so much larger, and secondly because British manufacturers are less efficient, but the former is no reason for adding Britain's market to America's, and if the latter statement be true Britain would probably have to pay for the Ford cars with the product of less efficient labour, whence they will cost her even more in labour than if she had produced them herself. Thus, unless Britain

[1] That this is true is illustrated by a White Paper issued by the British Board of Inland Revenue in 1919 showing that of the total income-tax and super-tax, estimated at £338,300,000 for 1919–20, £163,393,000 is derived from 59,100 persons with an income of over £2,500 per annum, or an average contribution of £2,764 each, £65,484,000 is derived principally from various companies, and £100,942,400 from 3,346,900 people with incomes under £2,500 per annum, or an average of less than £33 per head.

is prepared to admit that her people are less efficient and less well educated, she must make the Ford car, or some British model, or go without, for no one could maintain that this is an industry for which the British are not, or ought not to be, well suited.

On the other hand, it is evident that the successful competition of the American car would benefit the United States at Britain's expense, and the result represents therefore the antithesis of co-operation, for, although nations were not intended by Nature to be equally rich, and could never be so unless all countries and all people were identical, no country need be poorer than its natural resources combined with the quality of its people dictate. Indeed, the material wealth of a nation is measured not by the number of its millionaires, but by its annual wealth-production per head of its population, or the quality of its industries.

Up to the present no attempt has been made at international co-operation for the production and exchange of wealth, presumably because the principles we have enunciated have not been understood, but we have seen the formation of the 'Internationale.' The members of this association, however, aim not at increasing the well-being of the world but their own, and at decreasing the production of wealth, whence it is obvious that their intention is to seize the wealth of others.

Who are the members of the Internationale? Apart from its leaders, many of whom are not workers at all, and a number of political sycophants, the association is composed of the manual workers, and not even all of these. The skilled manual workers do not appreciate their own importance and have made no attempt to assert themselves, wherefore this association is run solely by, and in the interests of, the unskilled manual workers. Thus, the object of the Internationale is to transfer wealth from those who have created it (for although its intended victims include a number who have stolen it, that is immaterial, because the Internationale makes no distinction) to the unskilled workers of the world, the majority of whom are merely wealth-handlers, transport-workers, miners, etc., who, as we know, do not produce wealth at all.

We should be the last to suggest that the present distribution of wealth is equitable, but it is only by altruistic education that it can be improved, and the real wealth-producers will ultimately realize their power (aye, even if it came to war, brains will win) and refuse to hand over compulsorily what they might have been prepared to yield to persuasion. Obviously, the skilled by hand and brain will decline to exert themselves if they are to be despoiled, and, brain-work being far more exhausting than ordinary manual labour, much of which is healthy, they will work with less interest and ever less hours, so that the wealth of the world will diminish, and therewith all chance of that amelioration of its condition which the proletariat anticipate. Of course, many of these misguided economists appear to think, among other delusions, that existing wealth, as castles, motor-cars, pictures, etc., can be divided among the poor, and while it is undeniable that jewellery can be distributed, we doubt whether that would bring much happiness or well-being in its train. Indeed, these illusionists overlook, in the search after foolish luxuries, the real objectives, prevention of labour-waste, and increased efficiency in the production of necessaries, whereby *alone* all can have simultaneously more possessions and more leisure.

It is true that the declared policy of the Internationale is to prevent competition, or what its members term "the exploitation of the proletariat by the capitalist" (as though either, and not skill and brains, produced all wealth), and their belief that this will follow from a universal eight-hour, or shorter, day proves that they do not understand the elementary principles of international co-operation.

For, assuming that an eight-hour day be agreed upon, and all employers abolished, or industry syndicalized, this will not prevent the workers of one nation underselling those of another in industries which most benefit the latter, whence competition with its waste of labour will be as rampant as before. Thus, unrestricted trade between nations, which is the policy of the

Internationale, will ensure a continuance of competition, and prevent that co-operation which, necessitating as it does Protection for the skilled industries of every nation, alone can benefit the proletariat.

Nationality being indestructible, the destiny of the manual workers is inseparable from that of their own countrymen with whom they live and work, whether they desire it or no, and does not lie with that of their class in other lands, and if a man or a set of men cannot live in amity with neighbours, the remedy is emigration. The present policy of the Internationale is anti-national, and will lead to universal civil war, which, whatever the result, will no more promote a world peace or the well-being of humanity than an international sex-war, or an alliance of children against parents. To Karl Marx is generally attributed responsibility for these ideas by the trembling capitalists, yet his gospel is only a logical application of the false economic theories in which they themselves believe, for if value be due to demand, and wealth to trade or to carrying goods to those that want them, wealth is indeed derived from unskilled labour and the capitalist and bourgeois are robbers of the unskilled workers to whom only it belongs. Recognition of the fact that all wealth is due to brains, skill, or mind, and neither to capital nor labour, is clearly essential to the continued existence of ordered society in face of the growing threats with which it is menaced.

Professor Edwin Cannan in his *Wealth* naïvely asks whether Economics is the one science in which no progress has been made, and the answer is in the affirmative, for the theory that wealth is due to trade is fundamentally false, and thus the whole structure built thereon is misbegotten. The Jevonian law of supply and demand upon which it rests, or, as it is expressed by Professor A. Marshall to-day, " Value is governed by the relation of demand to aggregate costs of production, the principal of these being labour by hand or head," is as absurd as the claim of Karl Marx that because wealth is due to labour, labour is the measure of wealth, for in the one case an infinite demand, and in the other an infinite waste of labour, can create an infinite value for a worthless article !

On the other hand, having found a unit of value, the daily necessaries of life of the average man, which is independent both of demand and the amount of labour expended in its production, and realizing that it is only the luxury value which is dependent upon demand, as indeed no one can measure pleasure, we are not faced with the problem of extracting sunbeams from cucumbers, or reconciling the impossible. Further, wealth being now measurable, it becomes evident that man's ability to produce it is due to his brain or skill, and consequently the false claims of the proletariat are exploded, and the real builders of civilization recognizable.

A League of Nations for the prevention of future wars may be a magnificent conception, but only if its foundations be truly laid can its purpose be realized. As its name implies, it recognizes the inviolability of every nation, yet even its most ardent supporters pursue that mirage of universal and unrestricted trade which we have shown must lead to the most intense economic war, in which the most materialistic nation, or the one with the lowest standard of living, will triumph, and to a denial of the right of small nationalities to an independent economic existence.

Loose thinking by untrained minds has led to the hallucination that a nation which is undersold has only itself to blame, and must be less efficient, yet, assuming *equal* efficiency, it is evident that a large nation is able to undersell a small one because of its larger home market. A nation's preference for happiness to a mere striving after material efficiency is also no justification for robbing it of its best industries.

A similar lack of logic is responsible for the nebulous argument that a nation should be ready to resign an industry for which another is better suited, for this ignores both the fact that it might nevertheless be the former's best industry, and that there is a large number of industries for which many countries are suitable, even if they are not quite equally so. It is obvious that if the varying national value of industries be realized, no nation should surrender its best ones, and that the prevention of economic war can be assured by conceding to each nation the right to refuse importation of commodities in the home production of which a high value per worker is realizable.

Thus, if a desire for wealth be a cause of war, the League of Nations must recognize that a nation cannot be permitted to obtain wealth at the expense of another, and must therefore be forbidden to steal the latter's best industries, and that not universal Free Trade, but Protection by each nation of its skilled industries and non-interference with production will alone ensure the peace of the world.

Further, just as one nation may refuse to accept goods made by another, so it is justified in refusing admission to aliens, or in restricting immigration. Nevertheless, it is obvious that a nation benefits through an increase in the number of its wealth-producers, and history shows how the migration of *skilled* men from one country to another has enriched the latter.

Conversely, a country is poorer by the loss of its wealth-producers, and although it may be described as interference with the liberty of the subject, a man should not be free to desert his homeland when and how he likes. Unrestricted liberty, except that of the mind, is incompatible with civilization, and as the youth must of necessity live at the expense of producers until he himself is old enough to work, his departure before he has made some return is not to be justified.

That the justice of this has not been appreciated arises from our habit of thinking in terms of money, for although a lad's father pays for his upbringing, the money he spends has acquired value from the work of the producers. It is true that if the married man works harder than the unmarried, he might claim to have supported his son, yet not merely is this usually not the case, and it would be grossly unfair if it were, but the son would then be under an obligation to his father. Indeed, we showed in Chapter X that the married man *ought* to receive extra wages to enable him to purchase the necessaries for each and all his children, and under these conditions the son's obligation is apparent, and toward the State rather than the father. Thus, restrictions on emigration correspond to those on exports, but whereas the latter, if the products of sweated or unskilled labour, must be prohibited altogether, the former may be permitted on certain terms, and for special reasons.

The so-called problem of over-population is often discussed, although so far it is no more serious than that of over-production, and where there is room for all to live under healthy conditions, and the community can produce sufficient necessaries for all, it will not arise. Man is for ever increasing the efficiency of his production, and therefore providing for the growth of population. Nevertheless, in certain countries the question of over-population will appear some day, and Nature will not solve it, her law of the survival of the fittest applying solely to the animal kingdom. Improvements in the conditions of living and the abolition of war—by increasing the chances of life—will doubtless hasten the day of its arrival.

Last, but not least, we must consider the connexion between Economics and religion. Many children have been shocked by the divergence between practice and precept, between what they hear on Sunday and observe during the week, and how little our daily life is affected by religion was demonstrated in an eloquent and sarcastic sermon we once heard on "Humility as a commercial asset." Were there indeed no wealth in the world, and man merely existed, religion need control only his moral duties toward God and his fellows, but as an appreciation of wealth is concomitant with the evolution of man, religion cannot ignore his material obligations, or the laws of Economics.

We make bold to say that herein lies the explanation of the failure of Christianity. A man of aggressive moral rectitude provokes our distrust, so much so that his example is less than useless, and this is not surprising, for such men have often been observed to be hard in their dealings with their fellow-men, and even more eager than the average man to amass that wealth which, according to their professions, they should despise and share with the less fortunate. No wonder the ribald mock at the fortunes left by the so-called righteous men, many of whom, so far as is discernible, have merely enriched themselves at the expense of others, and have in no way added to the material or moral wealth of the world.

We read that a man dies "full of riches and honour," yet we know that his wealth may be a sign of dishonour, and that there is an essential and enduring distinction between amassing wealth and producing it. The man who produces wealth for others may have none himself, and if the man who seizes wealth, thereby impoverishing his fellows, be respected, it is clear that both our obligation to the former and the degradation of the latter are quite unrecognized. All honour to those who produce wealth for their own and future generations, and are ready to share it with their fellow-men, yet while this was actually recognized by the ancient civilizations, which lauded and rewarded the arts, to-day the world's benefactors are unsung, and the handler of wealth is looked up to and admired. In our present age the fundamental truths of Economics are hidden beneath a mountain of falsehood, whereas two thousand years ago they were not unrecognized. Possibly this accounts for the absence of economic guidance from the New Testament.

So long, however, as religion does not distinguish the true benefactors of mankind from the sham, it is hopeless to expect a world of men to reflect its teachings, and its dissociation from Economics and the latter's connexion with politics is the root of our present sham civilization, for neither the laws of Nature nor of life are subject for debate, nor a matter of opinion.

But religion cannot ignore Economics even if it would, for the commandment "Thou shalt not steal" is common to every faith, and represents the first step in the ascent of man. To steal does not mean merely to take another man's property, but to take it by force (robbery), or stealth, and further to leave nothing in exchange therefor, for alternatively the theft might be beneficial to the robbed. If, then, stealing means to take and give nothing in return, it also includes giving a fraction more than nothing, and consequently to give a less value than one receives is also stealing.

To take by stealth is inseparable from theft. It may be said that robbery by consent is not robbery at all, but any exchange to effect which there has been constraint upon one party and in which the other receives a greater value than he gives is indistinguishable from stealing, wherefore the law of supply and demand which 'justifies' a man in demanding the highest price he can get for what he holds, regardless of its true value or cost, and the use of force, which he exercises in the case of necessaries, or deceit on other occasions, is consequently a direct contradiction of the commandment "Thou shalt not steal."

This commandment is not the only one which expresses an economic law, for "Thou shalt not covet thy neighbour's house, thou shalt not covet thy neighbour's wife, nor his man-servant, nor his maid-servant, nor his ox, nor his ass, nor any thing that is thy neighbour's," implies that there is no condemnation of possession, only of the desire therefor without working to attain it. No religion or code of ethics can deny a man some share of the wealth he creates by his own efforts without a sacrifice on the part of other men, whereas the acquisition of wealth *from* others without equitable return can have no moral justification.

From its failure to distinguish between the producer and the handler of wealth, and its acceptance of a 'law' which countenances robbery, Economics as taught to-day is not merely a non-moral but an immoral science, and its teachers corrupters of civilization; consequently, until the leaders of every Church denounce it, and adopt a truly ethical system of Economics, the power of religion to influence man for his well-being cannot be effective.

PART IV
ECONOMIC DELUSIONS

CHAPTER XXIII
THE ORIGIN AND EFFECT OF FREE TRADE

WE have endeavoured, starting from simple yet natural conditions, to construct a science of Economics on irrefutable facts and principles, and to apply this to our apparently complex civilization, but before we sum up and arrive at our new system of government we must devote some space to an analysis of the consequences of the economic order, or so-called political economy, as now taught.

If Economics be a science, its principles cannot be a matter of opinion, prejudice, or politics, yet it appears undeniable that those who propound its philosophy are lacking in scientific knowledge, or indeed in any logic at all. In its early years Economics was known as 'the dismal science,' and to-day it were better described as a fraudulent one, for in no other science have sophistries been admitted or incontrovertible facts denied in order to support statements which are irreconcilable with the truths of existence. Thus the statements that value depends upon demand and wealth is due to trade entail a denial of the essential distinction between the value of necessaries and of luxuries, or of that which supports human life as against that which merely affords gratification. We would draw the reader's attention to a little book entitled *Economics and Syndicalism*, by Professor Kirkcaldy, in which are exposed the illogical conclusions of numerous divergent schools of thought. Surely a science which cannot satisfactorily account for every manifestation related to it is unworthy of the name.

It is often more easy to obtain credence for a statement, especially if it appeals to man's passions, than to refute it, and it is manifestly impossible to deal within the scope of this book with the mass of literature on the subject. We will, however, endeavour to expose the origin of certain false theories taught in practically every school of Economics. It is evident that the subject of wealth is the most susceptible of any to prejudice, and to individual rather than general reasoning.

We have met the scathing criticism that we could not conceivably be right and all the experts wrong. The latter at least is surely not impossible, since many of these pundits contradict one another. Numerous sciences, particularly those that make a popular appeal, such as astronomy, botany, zoology, have suffered from charlatans, whereas others, such as those dealing with sound, heat, electricity, have been preserved from these and have therefore been developed not by seekers after popularity, but by seekers after truth.

Every science that deals with matter has its accepted units, which are defined in relation to a known quantity or result, and the failure of the economists arises primarily from inability to measure wealth or to discover the true unit of value, which, as we showed in Chapter III, is, in each country, simply the daily necessaries of life of the average man. That such an obvious truth was not recognized can only be attributed to absence of scientific acumen, for any thoughtful man can grasp the essential distinction between necessaries and luxuries, and appreciate the value of an article which supports human life as against that of one which merely gives gratification.

Every economist has nevertheless sought after this unit of value. Thus the 'agricultural' economist found it in 'food,' the 'labour' economist in 'labour,' the 'business' economist in 'trade,' and as the latter school grew, coinciding with an increase in world wealth, it ultimately obtained the support of the modern professional economists, who *invented* the law of supply and demand to account for the increase in wealth which they *assumed* arises from the exchange of goods.

Any child or fool can see an effect although its cause may be quite beyond his comprehension. Not that we suggest that failure to recognize the real unit of value, or to perceive that all the man-wealth in the world is due to production, the result of the application of brains or skill, is necessarily a sign of insanity. We do, however, suggest that it denotes an unfitness to teach Economics.

The schools of Economics have been described as hotbeds of political propaganda, and, for example, the doctrine of a natural enmity between capital and labour, between employer and employed, where it is not inspired by ignorance, has ulterior motives. As we have seen, neither labour nor capital produce wealth, except they be harnessed to skill or brains, which, although ignored by the economists, are the sole source of all man-wealth in the world. The policy of Free Trade obtained enormous support because it appealed to the majority, the wage-earners, who were told that their earnings would go farther and that it would prevent their exploitation by the employer, although no economist has so far established that it can improve the relation between wages and prices, which alone would really benefit the whole community. The workman's undoing arises from thinking that the exchange is his money for goods, whereas it is his labour-hours which he exchanges, if he be working for export (or, if not, those of a fellow-countryman), in return for those of a foreigner, and that nation gains whose people expend the fewest hours.

The working classes were further deceived by the fallacious division of the nation into employers and employed, instead of into producers and non-producers, because they were led to believe that individual employers were the producers, and could keep to themselves the results of increased production, whereas we know that they *must* share this with their co-workers. Otherwise it would be the distribution of wealth that required alteration. It is obvious that with the latter constant, increased production must benefit both masters and men, for no one can deny that the amount of wages *payable* depends upon output and not upon a whim of the employer, as becomes clear when we consider production without an employer.

In Chapter XIX we exposed the illusion that buying in the cheapest market necessarily profits even an individual, yet the influence of Free Traders, due to the apparent success of their policy, and the failure of the Tariff Reformers, owing to their inability to measure the *national* value of industries, show how widespread is the fallacy that a nation's wealth is due to trade.

To many people the words 'Free Trade' imply a natural condition of things, yet personal liberty is incompatible with civilization, and as no one has suggested that Free Drinks or Free Love would promote the well-being of a nation or humanity, it would appear that the attraction of this policy must arise from the virtues of 'trade.'

Free Trade, or buying in the cheapest market, is in evidence at home, where, however, it is realized that an employer may not starve or ill-treat his workpeople, that the man who pays the lowest wages is not a benefactor, that the buyer of sweated goods is not a hero. But as regards foreign trade these crimes are virtues and everything is different. Hence, the same people who maintain that a nation cannot become rich by exchanging goods at home—which process they term 'taking in one another's washing' (washing being considered, of course, an unproductive occupation)—imagine that when a nation exchanges goods with another it necessarily benefits. In fact, they often go so far as to believe that this is the *only* way for a nation to get rich, whereas the truth is, as demonstrated in Chapter XIII, that the wealth-production of a self-contained nation depends solely upon the quality of its industries, and in Chapter XV, that only through an improvement in its industries does a nation gain by foreign trade. Consequently, although certain individuals may benefit through an increase in the export of the products of unskilled labour or irreplaceable raw material, their country is actually poorer thereby.

The hold that Free Trade has on the minds of Englishmen is not due to any appreciation of economic principles, but to the abolition of the Corn Laws, which undoubtedly gave the country cheap bread. England was at that time the greatest industrial nation, due to her numerous inventors and their opportunity for development consequent on the country's freedom from devastating wars, so if she did ruin her farmers she had other more lucrative industries available from which to pay for foreign wheat. Her advantage was due not to Free Trade, but once more to the *quality* of her industries, and the statues erected to Sir Robert Peel, Richard Cobden, and J. S. Mill should be replaced by memorials to those who gave the country cheap goods, as James Watt, George Stephenson, Richard Arkwright, the real wealth-producers.

Ignoring for a moment the danger of dependence on other nations for necessaries of life, a graded system of Protection based upon the national value of her industries would have given England identical advantages with those claimed for Free Trade, and at the same time would have secured her industries against future competition.

If agriculture was an industry of very little value, it was right, again ignoring the risk, to surrender it, but this was not desired. The free import of foreign wheat was designed to compel the farmers to sell more cheaply to the town-dwellers—regardless of the fact that if their profits were excessive these could have been controlled or properly taxed—or, alternatively, to sweat the agricultural workers for the benefit of the rest. Not merely was the immorality of this overlooked, but also the truth, which no socialist could deny, that for the same labour-quality there should be no difference in favour of the town-dweller. Recognizing the need for a healthy population, a nation should rather over-pay than under-pay its food-producers.

Forty years later conditions had altered entirely. England had no longer a monopoly of the skilled industries, and with the exchange value produced per worker falling continuously, she would have been far better off producing her own food under healthy conditions than in exporting cheap cotton and woollen goods and the nation's irreplaceable coal, all the fruits of unhealthy toil, or in acting as the transport-workers of the world. Indeed, in the middle of the nineteenth century England had no industries which needed 'Protection,' except agriculture, and the term fell into contempt, whence 'Tariff Reform,' the adherents of which, however, seem equally barren of ideas as to which industries should or should not be protected.

Although we proved in Chapter XIX that Free Trade, or buying in the cheapest market, was incompatible with civilization, almost every social reformer believes the contrary. This is, however, not surprising when one considers the conditions that existed in past centuries, when all power resided in a few who, compelling labour to work for little if any more than its keep, or necessaries of life, took the lion's share of production. At a later period, as transport facilities increased, the merchants or middlemen also waxed in wealth and importance, yet they too, as indeed to this very day, were no more fair to their workers—whether of pen or spade.

Now, as trade between nations increased, the sympathizers with the working classes, and the most intelligent workers also, foresaw that if other nations were allowed to compete with home producers their monopoly would be broken down, and the necessaries of life would become cheaper in terms of money. It was not realized, however, that if the employer's profit were reduced he would endeavour to reduce the workers' wages, so that in the end the latter would be no better off, and the employers would be worse off. Further, it was entirely overlooked that anything which lessened the national production must reduce its divisible wealth, and that the interests of the workers lay in compelling their employers to give them a fair and just share of the wealth produced.

It cannot be pretended that this was impossible of attainment, for the power of the workers was constantly increasing, but as there was no real demand for it, it is evident that their representatives were either ignorant or deliberately misled them. But are we wiser to-day? For while all are agreed that the workers should share in their employers' prosperity, providing they give of their best—when a proper wealth-distribution would mean a contented and prosperous people—most British political leaders advocate economic panaceas which would impoverish the nation.

Those who argue that there are more consumers than producers have apparently not stopped to consider that all are consumers, the producers being the most important consumers, and that as the latter produce everything consumed, the non-producing consumers derive everything from them, wherefore increase of wealth-production will, with the *same* wealth-distribution, benefit the consumer *pari passu*.

If this be true, and it cannot be denied, refusal to adopt that Protection which we proved conclusively in Chapter XXI is essential for the development of a nation's wealth-producing industries is a confession of impotence of government, equivalent to forbidding the production of wealth because of inability to devise an equitable distribution of it. Further, if employers were abolished, the difficulties would remain, for all workers are not equally deserving and would not be content with a flat-rate reward ; indeed, by considering the employer abolished the workers will more clearly see the essential necessity of Protection for the best industries, *i.e.*, those which yield the highest value per worker, and therefore the highest wages.

It is obvious that freedom to buy the products of lower-paid foreign labour means depressing labour conditions at home. Given an *equal* efficiency of labour, the value of the goods produced by the cheap foreign labour will, because of the lower wages paid, be higher than that of goods produced at home for the same total wages. Having therefore to produce goods of equal value to pay for those imported, some home workers must work longer hours for the same money, or accept less wages.

If individuals had complete liberty to purchase goods abroad, they might possibly benefit the foreign workers and themselves, but it would be at the expense of the home workers. Even the argument so constantly used by Free Traders, that goods are paid for by goods, makes it evident that in return for every import something must be produced to export, and the question is, would the nation have been better or worse off had it produced the imported article itself ?

We have exposed the delusion that in an exchange of goods, or trading, both parties can benefit simultaneously, as compared with their position the moment before the exchange was effected, for the value lies in the article itself. Otherwise, at what moment subsequent to manufacture does the value appear ?

It is true that both parties may be better off by exchanging than if each produced the article he wanted, but this advantage is derived from more efficient *production*, of which the exchange is not the cause, for the production is complete *before* the exchange takes place. (See Chapter V.)

The argument of the economists that both parties are better off because each gets what he wants, that value depends upon demand because an article which a person does not want has no value to him, is based on a denial of intrinsic value—*i.e.*, denial that there is distinction between necessaries and luxuries, or that any unit of value exists—and the assumption that there is no other market for the article. But if this assumption were reasonable, no one would be so foolish as to produce the article. When goods are once produced, no handling can increase their intrinsic value nor reduce their cost, although it will undoubtedly increase their price.

All theories which assume that value is dependent either upon demand or cost of production are fundamentally false, although many books have been written to demonstrate the contrary, for the most important value in the world, viz., that of the necessaries of life of all mankind, is independent of man's opinion, or his costs of production, and resides in the fact that these necessaries keep him alive and able to produce luxuries or to enjoy leisure.

The unit of value in any climate is thus the necessaries of life of the average man for one day. He who produces in a day twice his necessaries creates one unit of wealth.

It is true that the value of luxuries depends upon demand, as no one can measure pleasure, yet the price of a luxury is decided by the amount of surplus necessaries a man will sacrifice to obtain it, for although in an exchange of luxuries both parties may be *satisfied*, they cannot both be richer, and in an exchange of necessaries any departure from the basis of intrinsic value results in one party benefiting at the expense of the other. (See Chapter V.)

To admit that wealth is due to the exchange of goods, and not solely to their production, demands acceptance of the above quoted axiom that goods have no value unless someone wants them, that value depends upon demand. If this be true, the same article in the same place can have a variable value, and the total value of the wealth in the world is a matter of opinion, not of fact, wherefore wealth itself must indeed be a will-o'-the-wisp!

Lest the reader imagine we are exaggerating the consequences of an acceptance of this absurd axiom, we will cite 'the order of appetite,' according to which the value of each particle of food on his plate at the beginning of a meal falls continuously as his appetite is satisfied, whereas in fact its real value, *i.e.*, nutriment, must be constant.

The prophets of this cult overlook that man *must* eat in order to live, and the fundamental distinction between necessaries and luxuries, between the value of that which supports human life or economizes the consumption of necessaries, as compared with that which merely affords pleasure. Thus, in an attempt to refute this distinction, a prominent Fabian wrote to the author: "There are not two sorts of value, but an order of appetite, and if a loaf has one sort of value and a diamond another, you are committed to every article having a different sort of value." The answer is, that there are just two sorts of value, and that almost every article has them: (*a*) an intrinsic value, (*b*) a demand value—the former being derived from the fact that it supports human life, or saves its labour, whence it is measurable; the latter to shortage, fashion, or demand—and the sum of these two values is the exchange value or price. Thus, a diamond has a small intrinsic value, from its utility for cutting glass, etc., and a huge demand value due to fashion. A loaf has relatively a high intrinsic value from its nutriment, and a shortage will add a demand value to this. Only jewels of no practical utility, like pearls or artificial jewellery, have one sort of value only, viz., demand value.

The same correspondent stated that "A man cannot sacrifice necessaries in order to obtain luxuries without dying, but only superfluities." Hence, a surplus of necessaries has no value for the next day, in spite of the fact that it will support human life for a time and thus permit of the enjoyment of leisure, or the production of luxuries. Evidently, to this economist an article not required for *immediate* consumption is a superfluity and has no value, or the remainder of our Sunday's joint has no value on Sunday, but acquires it again on Monday!

As a further example of the absurdities upon which the whole structure of Free Trade depends, we would also cite this gem from the same source. "Although to a starving man one potato may be worth £1000, the fiftieth one would not be worth 2*d*., the value falling with every potato until it becomes disutility or loathing"! As a result we see the same potato having different values, although the fiftieth potato is equally as capable of saving a man from starvation as the first. Value is confused with price. Further, although the first potato may save the man from starvation, it does so only for such length of time as corresponds to its nutriment, or, again, its intrinsic value, at the end of which period he would be starving once more, when the second potato would also be worth £1000.

The potato is never really worth £1000, and its high price merely represents a transfer of wealth, in the shape of money, from the buyer to the seller and no increase in wealth whatever. Yet such preposterous theories, which would have delighted the heart of Lewis Carroll, have been evolved by the brains of grown-up men in their endeavour to square the circle, or prove that the value of wealth depends upon demand, appetite, or opinion. A child could see that this only applies to a pure luxury value, and could realize that the value of all articles which support human life or save labour is independent of opinion and measurable only by the length of time they will support it or the number of hours they will save. If a loaf of bread will keep one man alive for one day, its value inheres, whether the man eat it, leave it, or die, for it *will* support human life. On the other hand, the value of a pure luxury does disappear if no one wants it, but then it never had of itself any real value, only one relative to that of necessaries.

In spite of the absurdity of the contention that wealth is due to the exchange of goods, it is obvious that in every export and import some individuals actually do make a profit, and consequently such men naturally consider all export and import advantageous, and clamour for Free Trade. Nevertheless it is undeniable, although apparently overlooked, that if an exporter stole his material, or starved his workers, his profit must be made at the expense of the nation, and therefore it is clear that all exports cannot benefit a nation, and that the individual's cost of production is quite a different consideration from the national cost. That of an individual is the sum of the price he pays for his raw material and his wages bill, but the whole may remain in the country, and thus there is merely a transfer of wealth, whereas quite an elementary consideration of this matter, to which we referred fully in Chapter X, shows that the national cost is the destruction of irreplaceable raw material, plus the consumption of necessaries of life by all the workers, the latter, expressed in wages, being the living wage.

Thus, through an exchange of goods between two nations one, or even both, may be worse off than if it had itself produced the imported article and, if we ignore the irreplaceable raw material, that one benefits whose national cost of production is lowest, *i.e.*, which employs the least number of workpeople to create a given exchange value or selling price, which condition is generally found in skilled industries.

Further, as shown in Chapter XVIII, under a condition of Free Trade the more skilled and profitable an industry, the greater the international competition in the home market, so that the free import of the products of skilled foreign labour tends to drive home labour into less-skilled industries, increase the national cost of production of the exports, reduce wages, and make their relation to prices less favourable.

On the other hand, the free import of the products of foreign unskilled labour, corresponding to a low value per worker, will drive home labour into better industries, wherefrom to pay for the imports, provided that the nation reserves to itself the market in these industries and educates its workers for them.

It is undeniable that every nation has a right to its own industries, and as markets for them are essential to their existence, every nation must also have a right to its own market. The lack of a market will prevent the establishment or proper development of the best industries, which are the most subject to competition, keep them small and inefficient, and force labour into ever less-skilled and worse-paid occupations. Indeed, it has always been claimed by Free Traders that their policy provides cheap labour, and that this stimulates exports. These very exports, however, are the products of sweated labour, which, as we have seen, do not benefit the nation or workers, but only certain individuals.

It is evident, therefore, that although goods are paid for by goods, despite the belief of some Tariff Reformers to the contrary, all goods are not of equal value to the nation, which, if civilized, must endeavour to exchange the products of its own skilled for those of less-skilled foreign labour.

Industries which yield a high value per worker (regardless of the employers' profit) have a right to Free Production, whereas such as employ masses of unskilled labour should enjoy those 'blessings' of Free Trade which, for their own personal advantage, some men desire to rivet on the community.

A nation can no more be dissociated from its country than a family from its home. The entity of a nation comprises a country and its people, the wealth of a nation resides in the land and people. A nation which exported all its people would cease to exist. A nation which exported all its natural resources would starve; nevertheless that is the logical conclusion to a policy of unrestricted free exports and Free Trade.

The term 'Free Trade' suggests 'liberty'; in reality it means 'licence.' While every man (and every nation) should be free to develop and use the gifts of Nature to their fullest extent, *i.e.*, to produce both for the benefit of himself and his fellow-men, liberty to steal what he cannot replace of a nation's resources, to exchange the labour of his fellows for that of a lesser number of workers of another nation, to take advantage of a man's necessitous condition and compel him to hand over in an exchange more than an equivalent value, is incompatible with the elementary principles of civilization and good government, and the concession of the right to do these things is the fruit of false economic postulates.

Nevertheless, although Free Trade can never be beneficial to a country, because it in no way helps those industries which result in the greatest wealth-production per worker, it is possible for it to be innocuous, viz., when the nation enjoys a monopoly of skilled industries, or when all its workers are fully occupied in such. The former condition obtained in the middle of the nineteenth century, and the leaders of the British Free Trade movement of that period were not so foolish as those of to-day; they were only wrong in assuming that other nations would be content to remain permanently in an inferior economic position to their own.

Their insular conceit was indeed astounding, unless they really anticipated that the Continent and America would always be devastated by war, and therefore be unable to educate themselves to become rivals of the British in industrial development. The preposterous theories evolved to prove that wealth was due to trade, and therefore to justify *perpetual* Free Trade, such as those of Jevons on "Value," were of subsequent date, and indicate their authors' lack of appreciation that the true cause of Britain's wealth-increase in their time was the *quality* of her industries.

We saw in preceding chapters that the effect of Protection upon the national cost of production is nil, yet the argument is sometimes advanced that if a nation protects an industry for which its conditions are naturally and artificially unsuitable its cost of production will be high. Of course this is so, but it is due to that same unsuitability, and not to Protection. For instance, if Britain tried to grow cotton and protected the workers, the latter would certainly benefit at the expense of their fellows, *because* their labour would be in vain. They would produce nothing, and live on the rest of the community. On the other hand, if they ultimately succeeded in producing a large amount of cotton per worker, the protection given them would be justified. The nation must decide what it can produce efficiently, and this is not a matter of opinion, but of fact, depending solely upon the actual value produced per worker, as fully explained in Chapter X.

We have shown the detrimental effect of a one-sided Free Trade, yet many of its fiercest antagonists would withdraw their opposition if Free Trade could be universal, thus proving conclusively that they too have no conception of the real object of Protection—namely, the stimulation of high value-producing industries—nor of the cardinal evil of Free Trade —namely, the prevention of their establishment. As a natural corollary they have failed to discern that universal Free Trade, if indeed they ever visualized such a condition, would mean the most intense economic war among the workers of all nations, with victory to those with the lowest standard of living.

The prevalence of a contrary opinion, which sees in the widest competition the salvation of humanity, arises from acceptance of three cardinal fallacies. It is assumed that if one nation cannot compete with another in price it is (1) its own fault, (2) due to a lower efficiency, and (3) beneficial to surrender that industry and take up another.

Considering the first, if we assume *equal* efficiency, there are still two factors independent of man, viz., the assistance given by Nature and the size of the nation's market, this being dependent upon its population, or its total production. Thus, a nation might not be able to compete owing to a handicap by Nature, and a small country will always be at a disadvantage with a larger one. The second fallacy is now also exposed, for a nation with a lower efficiency but greater natural advantages might be able to compete successfully with one with a higher efficiency but lesser natural advantages.

The third illusion, that an industry should be given up if cost of production be higher than abroad, is the most dangerous of all, and shows how the *national* value attaching to industries has been completely lost sight of, for the nation's very best industry might be one that other countries could more successfully develop because of superior natural advantages. If such an industry be surrendered, the nation must needs descend to a worse one, not merely because the first was the best, but because, had there been a better one available, labour would or should already have been attracted thereto, the total wages payable in an industry depending upon the total value realized by that industry.

Thus a nation only benefits through surrendering an industry when there is a better one available for its workers, and as competition will always be the more severe the better the industry, the result of unrestricted competition is to drive labour into ever less favourable ones. Further, the nation with the longest working day, or lowest standard of living, will always be able to undersell the rest, so that universal Free Trade must lead to the degradation of humanity, the only remedy, as we have already seen, being that every nation should reserve to itself the market for those industries which most benefit its workers.

It is also evident that if all the markets of the world were open, every large nation would have an advantage over every small one, assuming equal efficiency (to avoid the error of considering two variables at the same time), with the result that the former with its larger home market could afford to undersell the latter, and would naturally do so in the most profitable industries. Consequently a country with a small population would have its best industries stolen by the power of numbers, or of might over right, and be compelled to descend to a lower industrial level or well-being. Universal Free Trade would lead to the economic subjection of small nationalities and to denial of their right to an independent existence. Although advocated by many supporters of the League of Nations, it is totally at variance with the basic principles of that great conception.

We do not denounce the tenets of Free Trade for any other reason than their utter fallacy, and we express no opinion as to whether its votaries, who mostly benefit from the system, are ignorant of the elementary principles of Economics or are merely hypocrites. We incline, however, to believe the former, because most of them are so-called business men who lack any scientific education, and are therefore unable to subject to the tests of logic those fallacies, the law of supply and demand and the indistinguishability of necessaries and luxuries, upon which the teachings of their mentors are based. As for the latter, history will rank them with the long series of impostors and charlatans who in all ages have succeeded by appealing to the ignorance, greed, passions, or prejudices of the multitude.

On the other hand, if we accept the aforesaid fallacies, Free Traders are right and consequently Tariff Reformers, having failed to detect the flaw in their arguments, yet denying the consequences, are guilty of even greater foolishness. Nevertheless, numerous ardent Tariff Reformers, such as professional men, must be honestly mistaken, for as their pockets are not directly affected they can only anticipate a personal benefit from the policy they advocate if it leads to an increase in *national* wealth.

CHAPTER XXIV

THE REAL BENEFICIARIES OF FREE TRADE AND THE FALLACIES OF THEIR CONTENTIONS

THE popularity of Free Trade indicates that some must actually benefit thereby, or many must imagine that they do so.

Considering first the former, it is evident that all engaged in handling goods, both inward and outward—that is, importers, exporters, shippers, carriers, bankers, merchants, shopkeepers, insurance brokers, in fact, a mass of middlemen, many of whom are essential—make money or their living by Free Trade. The greater the volume of trade, the larger the number of transactions; the more often the goods change hands, the greater the total commissions.

The next class which actually benefits by Free Trade comprises those who manufacture principally for export. They obtain a larger market for their manufactures, but, as we know, that in no respect increases the size of the nation's market, for as goods are paid for by goods the community must eventually import other goods, some of which it might have made itself in place of those which it exported. Consequently the manufacturers in question merely gain a larger foreign market at the expense of the home market of other producers.

Now all manufacturers naturally desire a larger market, and freedom to export (and restrictions on exports at normal times are economically unknown) implies that no questions will be asked as to how the goods to be exported are produced. That this is so is exemplified in the practice of quoting lower prices for export than for the home market, which necessitates, of course, a lower rate of wages in the production of these goods. The lower the wage paid, the easier it is to compete in world markets, whence an employer of sweated labour is at an advantage and may make a very large personal profit by exporting the products thereof, if he is not called upon to answer questions as to whether his workers would have been better off had they been producing instead the goods to be imported to pay for those exported. As we have stated previously, it is often urged that cheap labour is essential for the export trade, and claimed for Free Trade that it makes labour cheap. A consequence of the latter is that Free Trade benefits the employer of cheap labour, whereas no one has suggested that it helps the employer of highly-paid labour. On the contrary, it is obvious that if an employer desired to pay higher wages, he could only do so, unless he were making an exorbitant profit, if he could feel that his market was certain.

We now come to another important class which benefits by liberty to trade, and no questions asked, viz., those men who export the nation's irreplaceable raw material, such as coal, or slightly manufactured, such as pig-iron, iron bars, etc., which could obviously be utilized at home to produce a higher value per ton consumed, *e.g.*, in making locomotives, sewing-machines, needles, etc., or, alternatively, conserved for future generations. These individuals benefit at the expense of the nation by using up material provided by Nature, thus impoverishing the soil, but their disservice does not end here; they may actually help other nations to compete with the home manufacturers and workers in the home and foreign markets, by giving them raw material, often at an especially cheap price, which otherwise they might have lacked.

So much for those who actually gain through Free Trade, and investigation would show that they are mostly employers of cheap and relatively unskilled productive labour, unproductive labour, such as sailors, dock labourers, clerks, shop assistants, women, and even children, or of labour working under unpleasant conditions, as miners. True, some of the first named make such enormous profits, *e.g.*, manufacturers of soap and chocolates, that they can afford to build garden cities, but it is the public that provides these, by paying high prices, for, as was shown in Chapter X, there is no justification for one section of unskilled workers being better off than others. Further, supposing that employers were abolished, the profits of those using cheap labour divided up among the mass of their employees would yield but little per worker, because being unskilled the average wealth-production of these men must be low. Hence such unskilled productive industries advantage the employers alone.

We now come to that much larger class which has been *led* to imagine that it benefits by Free Trade, viz., the mass of manual workers.

We have seen that this system benefits employers of cheap labour, and such labour *must* in general be unskilled because a man will not educate himself to become skilled if he is to receive less wages than if he were unskilled. A skilled worker, then, being one who produces or does work of a greater value per hour than an unskilled—or there would be no object in education or skill—he must, in fairness, assuming similar conditions of employment, receive more wages than workers in unskilled industries which yield a lower value per worker. His superior value was recognized by Napoleon when he criticized, and rightly, the Austrian system of recruiting, whereby the blacksmith and the carpenter, instead of the ploughman and the labourer, were torn from village and town. The former can hold a plough, whereas the latter cannot at once replace the carpenter at his bench, or the blacksmith at his forge.

The unskilled manual workers, compelled irrevocably to accept the lowest wages, can only benefit, as their employers profess that they can, through Free Trade, if it causes prices to fall without any reduction in their wages. The question immediately arises, therefore, What decides the relation between wages and prices?

Assuming an existing distribution of wealth, or a certain standard of wages, the purchasing power of wages, or the relation between wages and prices, is decided, not by exports or imports, but by the quantity and value of goods available, *i.e.*, by production, which is their sole source, and, as unskilled labour produces a lower value per hour than skilled, a transfer of workers from skilled to unskilled industries will result in the production of a lower aggregate value, and, consequently, in higher prices, or a reduction in the purchasing power of wages. Conversely, an increase in the relative number of skilled workers would result in a greater total production, thus causing prices to be cheaper and improving the relation between wages and prices.

We discussed this fully in Chapters VIII, IX, and X, and that the manual workers have not recognized the importance of skilled industries to *themselves* is due to their acceptance of that fallacious law of supply and demand, according to which value depends upon demand. Were this true there would indeed be no such thing as skill, and no unit of value by which to measure wealth, whereas we have shown that skill really exists and can be measured by the value it produces relatively to man's daily necessaries of life. (See also Chapters III and IV.)

If, therefore, the development of a nation's skilled industries improves the relation between wages and prices, we must investigate the effect thereon of a policy of Free Trade.

It is undeniable that competition is always most severe in any walk of life where the reward or profits are highest, for no one wants to compete with a man making a loss. Both wages and profits, that is, per worker, being higher in skilled industries, international competition must be far more intense in these than in unskilled ones. Indeed, in those of the latter class which merely provide the workers with their necessaries of life, or a living wage, foreign competition would entail starvation for the foreign workers, unless they belonged to nations with a lower standard of living, in which case competition may indeed be severe, as witness that with Japan and India. More highly developed nations must not, however, descend to their level; they must develop higher industries, for it is at least certain that if a nation of *equal* civilization undersells another in the products of its most unskilled labour it must do so at a national loss, even though some individuals make a profit.

It is also a fact that the more skilled the industry, the more capital, brains, machinery, and experience are necessary to start it, and the greater the effect of a larger output, so that in the face of unlimited foreign competition, and without a monopoly of even the home market, it is practically impossible to inaugurate, or certainly to develop successfully, skilled industries.

As an example, a few men can start chicken-farming, or buy some machines and make metal parts, and if they dispose of their produce successfully they may make good. If, however, they propose to make a complete and complicated article, as a sewing-machine, not merely must they sink considerable capital in plant and tools before they can complete a single machine, and thereafter keep their plant fully engaged, but in order to develop and keep ahead of their competitors they must maintain a staff of skilled men, constantly experimenting. All this demands capital, from which outgoings must be paid before profits are recoverable.

Thus by subjecting the home market for the products of skilled labour to the fiercest competition, the establishment of high value-producing industries is prevented and capital is driven therefrom, and Free Trade, by keeping wages low and their relation to prices unfavourable, stands revealed as Protection for the employers of unskilled labour, for not merely in their factories, but in banks, offices, shops, and ships is employed a mass of degraded and badly-paid workers.

A critic asked: "Do brains require protection?" and the answer is obviously in the affirmative, for what is their use if they cannot be applied? nor can an unskilled industry offer equal scope for their employment.

Only England, of all civilized and industrial nations, has surrendered her vital industries at the bidding of the Free Trade despots, and persistently exports the products of unskilled labour in exchange for those of skilled, thus losing leisure or wealth at each transaction.

That the British working classes have never realized the fraud foisted upon them, and have accepted Free Traders as philanthropists, is due to the fact that each worker has been so busy thinking about his antagonism to his own employer that he has failed to see that all employers are not alike, and that his interests are identical with those of employers of skilled labour. The workers have failed to recognize that the greater the production obtainable through the protection of skilled workers, the greater is the available share for all parties, and that the question of distribution of wealth is distinct and a matter of opinion which must be settled on a socialistic basis. Further, they have overlooked the truth that the real divergence of interest is found, not between employers and their employees, but between producers and middlemen, for the wealth of the latter is obtained at the expense of the former—yes, of both masters and men.

Unlimited competition, or Free Trade, by encouraging a continual increase in the number of middlemen, or wealth-handlers, thus still further reduces total production and the share of wealth to which each individual is entitled, consequently making still more unfavourable the relation between wages and prices, and particularly affecting the conditions of living of that class which anticipates amelioration from Free Trade, viz., the unskilled workers.

We know, however, that a skilled industry is one in which a high exchange value per worker is produced either through manual skill, or the brains of inventors, designers, managers, etc., acting through unskilled labour, and consequently that it benefits a nation to export the products of such an industry.

It is true that high prices, due to fashion or demand, for the products of unskilled labour also mean a high exchange value per worker, and while in the home market the effect is merely to benefit an employer and his set of workers at the expense of the community, when such goods are exported the whole population undeniably benefits. On the other hand, not only is fashion often fickle, but it will also be found that the export prices quoted are frequently lower than those current at home, in which case much of such advantage is lost. Hence it is of vital importance that a self-respecting nation should endeavour to export the products of skilled labour, and to import only the products of industries less skilled than its own, or to exchange the labour of as few of its own for that of as many as possible foreign workers.

A nation which reserves to itself its skilled industries will be prosperous, will enjoy shorter working hours, can rebuild its towns, etc., but one which follows the policy of Free Trade will see itself outstripped by other nations, and be condemned in perpetuity to an industrialism such as that of Lancashire, which is a disgrace to civilization.

We have now seen how in a Free Trade country the employers of unskilled labour benefit, while the misguided proletariat and the rest of the nation lose, and the result would be similar were Universal Free Trade adopted. Everywhere the employers who paid the lowest wages would be at an advantage, and the workers the world over would be forced into competition with one another for their benefit, and that of the ever-growing army of middlemen. A ship with a cargo of wheat might voyage round the globe seeking whom it might devour, or the highest price obtainable, and against a higher individual profit thus realizable must be set the loss of labour-hours, and consequent larger consumption of necessaries by the sailors, etc., which would react on the well-being of the whole world. The vision of a joyful universe wherein everyone can buy at the cheapest price ignores the fact that the real cost depends solely on the quantity of labour used, and that not increase in trade, but increase in production, can alone benefit the world. Further, as we saw in Chapters XXII and XXIII, Universal Free Trade means the most intense economic war among all nations, with victory to that one content with the lowest standard of living. *Quem Deus vult perdere, prius dementat.*

Although we have exposed the delusions upon which the arguments for Free Trade are based, beginning with the fundamental principles of Economics, its apologists have evolved a set of catch phrases wherewith to confound their enemies, and which they have hitherto found very effective, more particularly as their opponents have fought with weapons blunted by acceptance of the law of supply and demand. We propose, therefore, to set out the most important of these spurious axioms, indicate their real meaning, and expose the flaws in their present application.

1. Every nation should produce that for which it is best suited.

Perfectly true, and the basis of world Economics. But what is the meaning of 'best suited'? The Free Trader imagines that it means 'naturally suited.' Assuming (the most favourable case for his argument) that any one country is pre-eminently suitable for producing one article and could do so with the minimum expenditure of energy and brains, it would thus be an unskilled industry with a low exchange value, so that the nation's wealth would increase but slowly.

Supposing there was an alternative industry for which the country was not naturally so suitable, and which required more brains and skill, the exchange value of this industry would be higher, so that, assuming a better education, the national wealth-increment would be more rapid (it is apparent that education will have no value unless the industry can make use of it), and the nation would be advantaged by cultivating the alternative.

In general a country is not pre-eminent in any one industry, and even if it were and could exist on one alone, its rivals would not long permit a monopoly of a best industry; in fact, a nation that has left a 'natural' for a 'better' industry will find other countries acting similarly, and the 'better' the industry the greater the competition. Thus, no nation, unless it be prepared to accept a lower standard of living, and be content to be driven by Free Trade into the worst industries, will be left in peaceful possession of its really best ones, unless Nature has assured it a monopoly.

And how is the comparative national value of an industry measured? Not by the manufacturer's profit, nor by his sales, less the cost of wages, materials, etc., as the money representing this cost may remain in the country, but by the value of the goods produced by a given number of men less the value of material and labour destroyed, the latter being expressed by the living wage of the workers (allowance being made for their dependents and the cost of their up-bringing, and for provision for old age).

Thus for the production of a given value at the lowest national cost the fewer men's lives needed the better, and this condition, as we know, is fulfilled in skilled industries because they yield the highest value per worker. Further, as high wages can only be paid permanently in such industries, it follows that these are the best both for the nation and for labour, and that they may be other than those originally most suitable, because of natural conditions, for the country. As examples we may cite Switzerland, which has protected and developed highly skilled but quite non-natural industries, and pre-War Germany, which, while urging Britain to retain Free Trade and her low-grade industries, developed her own skilled ones and obtained almost a monopoly in these because of Britain's Free Trade.

A nation is therefore best suited to produce that which through the expenditure of the smallest amount of labour yields the highest value per worker; notwithstanding that as Free Traders recognize no quality in industry, this is not their interpretation of the term 'best suited.' Free Trade, by allowing competition therein, may destroy a nation's best industry.

We think that it is clear from the foregoing that the value of an industry which involves the destruction of much irreplaceable raw material is low, and that a nation's raw material should not be used up irresponsibly, nor exported before the nation's needs and future interests have been fully provided for.

2. Goods are paid for by goods.

And so they are, in spite of anything some Tariff Reformers may say to the contrary, but all goods are not of equal cost to the nation, and the benefit from the foreign exchange depends upon the nature of the goods exported, and what is obtained in return.

It is actually possible to lose on an exchange of goods. To export irreplaceable raw material, or only slightly-manufactured goods (*i.e.*, national capital), and import in return highly-manufactured goods which could have been made at home, represents loss to the nation, unless the value received be so high that it contains the whole profit which would have been realized from their utilization in all branches of manufacture at home. To provide for this, there should be, for example, a huge export tax on coal.

A nation, also, loses every time it exchanges goods made by a hundred of its workers for those manufactured by fifty foreign workers, or unskilled for skilled labour, so that the expression "goods are paid for by goods" is equivalent to saying "One cannot obtain something for nothing."

3. Wealth is due to foreign trade, and the balance of exports over imports is a measure of a nation's prosperity.

Trade means exchange. If two men exchange goods of the *same value*, which obtains the better of the bargain? That one who paid least for his goods, *i.e.*, secured the biggest margin of profit, or produced them at least cost. Which goods cost a nation least, and what is the cost of production? It is *not* the sum of the price of the materials plus the wages paid. The price of the materials remains in the country, the wages paid are merely transfers of tokens. The cost to the nation is the sum of the materials destroyed and the labour destroyed, the latter being indicated by the living wage of the workers. Every nation should therefore manufacture that for which it is best suited, and which yields the highest value at lowest cost, as defined in (1), and only benefits by foreign trade when it exchanges an article of lesser production-cost for another which would cost more if produced at home. The cost as defined is lowest relatively to the value of an article in the highly-skilled industries which produce articles of high exchange value for the minimum destruction of labour. The value produced is least in unskilled industries which consume a vast amount of labour, or human lives, or in industries which destroy a relatively large quantity of irreplaceable and precious raw material.

The size of an industry is thus no measure of its value to the nation, and the goods which cost us least and which we should export are the products of highly-skilled industries. *Wealth may thus be lost through foreign trade and export.*

A permanent yearly balance of exports over imports does show that a nation is building up capital, or wealth, abroad. But there is no virtue in accumulating capital abroad until home conditions of living leave nothing to be desired. Further, a nation can only realize advantage from foreign capital by ultimately receiving goods therefor, so that an increase in wealth abroad is no more beneficial to the nation than it would be at home, nor the production of goods for export more advantageous than manufacturing them for use at home. The dreariness of English towns compared with those on the Continent is a striking example of this truth.

The balance of exports over imports may therefore be obtained at the expense of national well-being. Indeed, production for home consumption may be actually less through an increase in exports, and consequently the nation may be poorer, and this certainly occurs where exports include irreplaceable raw material, as, in addition to the capital lost, labour is wasted which might have been utilized in production. Thus, a balance of exports over imports may, until the value of coal, etc., has been subtracted from the total, conceal an actual loss of national wealth.

As a corollary, *a nation may be increasing its store of wealth and wealth-production, yet have a reverse balance, or greater imports than exports.* If, indeed, but a very big *if*, we produced nothing for our own consumption, a balance of exports over imports would prove that our production was greater than our consumption, and our wealth increasing, yet even so we should be no better off than in producing for ourselves, nor is such an excess of production of more value abroad than at home.

4. If goods be bought from abroad at a price 10 per cent. less than that of the home producer, the nation has gained 10 per cent., because less goods must be exported to pay for the import.

This argument ignores the fact that neither individuals nor nations supply at cost, and that a nation may lose profit through not itself producing what is imported. This lost profit may be the whole difference between the price of the foreign goods and the cost as defined in paragraph 3. The employer's loss of profit is not the whole of the loss; in fact, we may assume a condition in which the employer is abolished, or is making no profit, when, if his be a skilled industry which pays high wages, the loss, which is national, falls upon labour. The workers' loss is the difference between the total wages they receive in this industry and what they would receive in the *lower paid* industry into which they would be forced in order to produce goods wherewith to pay for those imported, and it may amount to the whole of the wealth-wage.

Further, the first industry might be dependent on another highly-skilled home industry, so that the same loss would recur, and might well amount to 30 per cent. or 40 per cent. of the selling price. We have not taken into consideration here the varying destruction of raw material in different industries. This influences the value to the nation of exports, and has to be considered in relation to the desirability of providing employment. Free Trade makes no distinction between one industry and another, but it is clear that loss through non-production depends on the value of the industry as defined in (1), and that if it were unskilled and therefore low-waged, or if it destroyed much irreplaceable raw material, there would then be an advantage in *importing* such foreign goods. But it was this class of goods which the Free Traders *exported.*

A nation may thus lose much more than 10 *per cent. in importing highly-manufactured goods and exporting to pay for them raw material, goods approximating to raw material, or the products of low-waged industries.*

5. Labour displaced from one industry will be absorbed by another.

Certainly, if it does not emigrate. If, however, it is driven to other lands all its power of wealth-production is lost to its country. Presuming that it does not emigrate, the industry into which it will be driven must generally be of a lower grade—that is, one which pays less wages—because not only would labour already have been attracted to it had its wages rates been satisfactory, but as competition is more severe in a better industry, it can only be avoided by descending to a worse one. *The better paid and skilled industries are the ones that suffer most through the unlimited competition of Free Trade.*

6. A duty on partly-manufactured goods would ruin those industries which are dependent upon them, and Protection will prevent a nation competing in neutral markets.

This is a favourite argument with British Free Traders, but why should such an industry purchase its raw material at a cheaper price than similar industries in a protected country? *If it cannot live without this advantage, the industry is unsuitable for the country.* If it can, the individual manufacturer is merely greedy.

If British workmen were paid higher wages than in other countries and had a better standard of living, the individual manufacturer would be handicapped, but in protected countries, where necessary, he is assisted by 'drawbacks' which cost the nation nothing and merely amount to one section helping another. The policy is designed not to increase the employer's profits, but to enable him to pay the high wages which otherwise might handicap him. As protected countries compete with Britain successfully in foreign markets, particularly in goods of high value as defined in paragraph 3, the export of which alone benefits a nation, it is obvious that duties cannot be a real handicap—in fact, it is because they have protected their skilled industries, and have thus been able to develop them, that protected countries can cheaply produce a surplus for export.

The explanation is indicated in paragraph 3. *The national cost of production being the sum of the labour and material destroyed, and thus independent of wages or artificial variation in prices, not Protection but restriction in the value of output increases the real cost and prevents a nation from competing in neutral markets.*

7. TEXTILES, SHIPPING, AND COAL ARE BRITAIN'S THREE GREATEST INDUSTRIES, AND HER PROSPERITY DEPENDS UPON THEM.

The true greatness of an industry is measured by the value produced per worker, and this to-day is low in all three industries, notwithstanding their size. Thus Britain's prosperity depends upon their diminution. The coal industry *produces* no wealth at all, and the untaxed export of coal amounts to squandering the nation's capital. In an exchange of coal for wheat, ignoring any question of profit, the labour of discontented miners is exchanged for that of healthy agriculturists, and whereas the cost of the latter is merely so many hours' work, for next year they can reproduce their wheat, the cost of mining coal is the labour *and* the coal, which is not replaceable. Through the export of coal, therefore, Britain loses its calorific value, which could have been best realized in a home skilled industry, and were this export reduced, more labour would be available for productive work at home and the coal would be correspondingly conserved for future use.

Free Traders tell us, however, that ships would then go back empty to foreign parts, freights would rise, and with them the cost of commodities, but they have forgotten that goods are paid for by goods and that we *must* produce something else to pay for our wheat, unless indeed we grow it ourselves, when still less shipping would be necessary and some of our sailors and dock labourers might turn agriculturists!

That Britain does in fact exchange coal for labour, or pawn her shirt to obtain food, is well illustrated by the following reply of Sir Auckland Geddes in the House of Commons to a question by Colonel Burdon as to the principal countries to which British coal is exported and the chief imports received from those countries.[1]

France: Wines and spirits, silk manufactures, wood, leather, chemical manufactures, fancy goods.
Italy: Hemp, silk fabrics, fruit, and vegetables.
Spain: Iron ore, lead, copper, fruit, and vegetables.
Sweden: Timber, wood-pulp, iron, paper, iron ore.
Norway: Wood-pulp, timber, paper, fish.
Denmark: Eggs, butter, bacon.
Egypt: Cotton, cotton-seed, onions, eggs.
Algeria: Iron ore, zinc ore, vegetable fibres for paper-making.
Argentina: Grain, meat, hides, butter, linseed, dyeing and tanning materials and extracts.

It is obvious that we could have produced many of these commodities ourselves, thereby conserving our coal and at the same time transforming our discontented wealth-destroyers into wealth-producers.

The export of its coal impoverishes a nation, as does that of the products of unskilled and low-waged labour, so largely employed in the textile and shipping industries.

8. Free Trade keeps prices down.

That is true, but it keeps wages down still more, and it is only the relation between the two that really matters.

Free Traders say that they must have cheap labour, and that anything which increases the home cost of production is bad for the nation. If so, high wages must be bad, but workmen in the West will not accept the wages paid in the East. High wages may be a handicap for the individual employer and his workmen in a Free Trade country, but not in a protected country, where the market for an industry is assured, and if production of articles representing a high value per worker be increased, which can only be done under Protection, wages will go up more than prices. For what are prices?

In a state that is stationary (one, that is, which does not

[1] *The Times*, August 5, 1919.

permit of profiteering, politely termed the law of supply and demand, and in which the distribution of wealth is fixed) the total cost of a man's daily necessaries of life must not exceed the value of that share of the wealth produced by all to which an unskilled workman is entitled. The greater the proportion of skilled to unskilled labour, the higher will be the average value per worker of the wealth produced, and therefore the greater wealth-increment per worker, after allowing for all necessaries of life. The greater also the proportion of producers to non-producers, the larger will be that share of the wealth produced to which both unskilled and skilled workers are entitled.

Without alteration in the present distribution of wealth, the effect of which on the large number of workers would be much less than many seem to think, the relation between wages and prices can most readily be made more favourable by developing skilled industries in place of unskilled, and by decreasing the number of non-producers. Obviously any higher efficiency in production will also help.

Free Trade, by preventing the establishment of skilled industries, compels labour to remain in those which are unskilled and badly paid, and which, producing a less value per worker, lower the amount of wealth available for distribution. This is still further reduced by the ever-increasing army of middlemen, who flourish on this policy, and we conclude that *Free Trade, by diminishing the wealth share of each individual, lowers the purchasing power of money, and increases the real price of commodities.*

9. Free Trade benefits the working classes.

Not if wealth arises from production, for it is that which stimulates the latter which must benefit the working classes, assuming that the distribution of wealth remains unaltered.

As Protection helps skilled industries, which create wealth most rapidly, it stimulates production and therefore increases the wealth of the nation, in which the workers will and must share. This is evidenced by the higher wages which can only be paid permanently in such industries, and in several protected countries the workers were better off on the average, although this did not apply to Germany, where in pre-War days the distribution of the wealth-increment was much less favourable.

Every protected country has developed either new or highly-skilled industries, and as it is difficult to do this in the face of unfair and unrestricted competition, Free Trade England has had to remain content mainly with low-grade and low-waged industries.

Free Trade is really a wrong form of Protection: it protects the millionaire employers of unskilled or semi-skilled labour, and allows individuals to export irreplaceable raw material to the detriment of the State, and thus, by reducing the wealth of the nation, harms the working classes most of all.

10. Protective duties are detrimental to the consumer.

All are consumers, and live on the producers, who are themselves the largest consumers. The producers are not the individual manufacturers, but they and the whole of labour engaged on production.

All consumers depend upon the producers for their living, they have no other means of support, whence it is evident that the wealth created by the latter must, *nolens volens*, gradually filter through the whole population. *Thus, if Protection stimulates the production of wealth, by helping the skilled industries, it must benefit all, and 'all' are the consumers.*

11. Everything is more expensive in a protected country and the distribution of wealth less favourable.

This is only apparent, for the first effect of Protection, or any artificial increase in prices, or wages, is to depreciate the home currency. Assuming, however, no alteration in the distribution of wealth (relation of wages to profit), no one would be better or worse off than before, and if the effect of Protection were to increase the value produced per head, which follows the transfer of labour from unskilled to more-skilled industries, more commodities would be available in return for an hour's work, and the relation between wages and prices would be improved thereby. (The fact that

English money has not equal purchasing power in, say, the United States is due to a fraudulent rate of exchange—see Chapter XVII.) The working classes particularly would now be in a better position, as they share first in the national wealth-increment through the higher wages paid to skilled workers, whereas under Free Trade, where certain individuals amass wealth at the expense of a very large number of unskilled and badly paid workers, the distribution of wealth is most unfavourable. The measure of a nation's prosperity is the wealth-increment per head of the population, excluding interest, which is due to wealth previously accumulated, and *the apparent high prices of commodities in a protected country afford no proof that articles are more expensive relatively to wages, the relation between wages and prices with a constant wealth-distribution being decided solely by the output per worker.* (See also paragraph 8.)

12. THE REVENUE FROM PROTECTIVE DUTIES IS INSIGNIFICANT AND NOT WORTH THE COST OF COLLECTION.

The benefit from Protection would exist if there were no revenue whatever, and if the consumer pays the whole of the import duty there is no gain, such revenue being only a form of taxation.

The real benefit from Protection, obtainable also from prohibition, when there would be no revenue, arises from better conditions for production—that is, security for capital, return for enterprise, certainty of the home market, and continuity of output. For skilled industries and modern methods of manufacture such conditions are essential, no efficient production being possible if they be not observed. *Protective duties thus increase the wealth-increment of a nation, not by the amount of revenue but by reserving to itself its home market in the most profitable and competitive industries.*

Having shown that the flaws in the arguments of Free Traders arise from acceptance of fundamental economic fallacies, it follows logically that any economic system which fails to repudiate them must be equally at fault.

Thus the Fair Traders, the Protectionists, the Tariff Reformers, or whatever they term themselves, are all equally responsible for the absurdities to which we have called attention. They have not detected the faulty reasoning of their opponents, although, while accepting it, they deny its inevitable consequences.

For instance, the claim that Protection results in higher wages *without* a corresponding increase in prices is untenable if wealth be due to trade or the law of supply and demand be admitted. According to this law, the value of the output of an industry depends on the demand for the product, and not solely upon the producers, whence, demand being variable, one industry is as good as another, and it would be impossible to say that the transfer of labour to any particular class of industries would permanently yield an increase in national wealth, upon which higher wages with an unaltered distribution must depend.

On the other hand, if wealth can be measured immediately on its production by our unit of value N, an increase in the value produced is clearly due to the brains and skill engaged in production, whence the development of skilled industries under Protection will permanently increase the value produced per worker, and consequently justifies the claim of an advance in wages greater than that in prices.

The further suggestion that Protection would of itself reduce unemployment is equally fatuous, for imports are not the cause thereof, corresponding goods having to be made for export. Unemployment is not due to over-production, but solely to wrong production, and only through stimulation of the skilled and new industries, for the products of which the demand is insatiable, will Protection have the desired result.

Most present advocates of Protection, however, are necessarily silent on the ' quality ' of industries, having accepted the axiom that national wealth is due to trade. Some even hold that goods are not paid for by goods. Of course, were that true, a nation could increase its output by exporting goods, since it would not have to accept their equivalent in commodities in return. As a nation is not able to eat foreign money, however, it certainly would not be benefited by doing work for which it received nothing in exchange.

Again, apparently these politicians would protect any industry which was influential enough to command notice, without reference to its quality, with the result that certain unskilled workers might receive higher wages than some skilled workers, which would tend to draw labour from the wealth-producing industries. Being indifferent to the national value of an industry, these politicians might also attempt to produce that for which their country is unsuited, thus wasting labour and reducing production.

History will doubtless admit honesty of purpose in Joseph Chamberlain; he died with his aspirations unfulfilled because he failed to apprehend the real justification for Protection.

That goods are paid for by goods or services is no guarantee that a nation is advantaged through trading with others. The prices of goods exchanged must, of course, be equal, but if those of *A* represent the labour of one hundred men for one week, and those exchanged by *B* only that of fifty men for one week, *A* loses on every such transaction, loses leisure and the resulting power to produce other goods or to enjoy life. It is true that individual exporters and importers benefit, but they do so at the expense of the workers, and even a balance of exports over imports is no more proof that a nation is gaining through its foreign trade than a balance in an account between two traders proves that the debtor has the worst of the bargain. Gain depends, in this case, as with two nations, on the respective costs of purchase, or production.

Here, indeed, we arrive at Chamberlain's fundamental error. He had not realized that the national cost of production (ignoring irreplaceable raw material) is the *workers' consumption of necessaries*, and therefore that the wealth produced per worker, or the national value of an industry, is the value produced less this cost. Consequently he failed to appreciate that although goods are paid for by goods, it does not follow that a nation necessarily benefits by sending goods abroad. The same argument which proves that a nation loses by exporting the products of unskilled labour applies to services, for no one can seriously believe to-day that carrying goods about the world produces a high value per sailor, dock labourer, or drudging clerk, even though ship-owners and export merchants be millionaires.

Chamberlain's failure to appreciate these considerations arose from his ignorance of the essential distinction between necessaries and luxuries, with his consequent acceptance of the absurd theory that value depends upon demand. As a further result of this confusion, Chamberlain omitted to note the fact that while Free Trade hinders the skilled industries, it actually benefits the unskilled, thus keeping down the wealth produced per worker, and paying for the foreign labour of the few by home labour of the many.

Chamberlain failed because he had not himself fathomed the principles of Economics, and therefore did not realize that only those industries need protection which, as they yield the greatest wealth per worker, are naturally the most subject to competition. Instead of advocating Preference for the British dominions and the payment of import taxes by foreigners, which is impossible, Chamberlain should have advocated Preference for home producers, the right to its home market for the products of the nation's skilled industries, the growth of which, without alteration in wages or wealth-distribution, benefits the whole community through the greater wealth-production per worker, and consequent increase in the purchasing power of money.

As another example of economic confusion, we might cite a statement of Mr George Russell,[1] who is interested in the Irish co-operative movement, to the effect that the sole advantage to Ireland of a protective duty would be the benefiting of, say, the Irish butter-makers at the expense of their fellow-countrymen. It is true that if these producers increased their prices (but why should they if Ireland already has a monopoly of her home market?—and, if not, the output of butter will increase), successfully avoided payment of

[1] See an article in *The Irish Homestead*, February 1, 1919.

any taxes, and prevailed on all other Irish producers to refrain from altering *their* prices, they would be the sole beneficiaries, but this protective duty, if it only caused prices to advance, would depreciate the value of money generally, and therefore, unless we admit an alteration in the distribution of wealth, which is preventable, the butter-makers would ultimately have to pay more for their bread, boots, clothes, etc. Further, these Irish butter-makers do not, in fact, suffer from competition, so that unless they increased their efficiency and output Protection would be of no benefit to the whole community, and would merely have depreciated the value of money.

If, however, England now adopted Protection, and decided to compete with Ireland in her own market—ignoring for a moment that the Irish climate is particularly favourable to the industry—she should be able to undersell her and ruin her butter industry, because, having already a larger market, she would have Ireland's in addition. It is evident, therefore, that this advocate of Free Trade for an already naturally protected industry, falling into the trap of considering the effect of two variables simultaneously, *i.e.*, two countries with *different* natural advantages under Free Trade and Protection, has not shown the effect of the latter, but merely that to introduce Protection where it is already operating would be futile.

The writer of the same article suggests that stimulation of intelligence and technical skill is an *alternative* to a policy of Protection, forgetful of the fact that skill is useless without industries. If a protected England undersold her, the brains of Ireland would find less employment in her butter industry, and the latter may not be able to exist at all without Protection, which is to be demonstrated, not by considering one nation as more clever than another, but both as equally so.

Writing on the subject of unemployment, although failing to indicate its cause or to suggest a cure, Sir Hugh Bell makes the statement in a pamphlet issued by the Free Trade Union that in his experience it has never been possible to find 10,000 able-bodied men available, and thereby seeks to disprove the existence under the Free Trade *régime* of any undue unemployment. Needless to say, Sir H. Bell, being interested in the spoliation of the nation's irreplaceable raw material, coal and iron ore, and employing masses of unskilled or semi-skilled labour, much of it working under distressing conditions, has not been called upon to find men for highly skilled and well-paid industries working in favourable surroundings, and has failed to be struck by the fact that Free Trade prevents their establishment. Indeed, as his writings show (they are circulated by the Free Trade Union), Sir H. Bell does not recognize any advantage in one industry over another, and believes that the squandering of a nation's capital, coal and iron ore, increases its wealth. We have never been able to understand why such 'economists' do not advocate the export of the nation's surface soil!

We must not leave the fascinating subject of economic delusions without referring to Bolshevism, that shadow which threatens the downfall of civilization. If, indeed, the ascent of man be due to the work of superior men, the production of wealth to their brains or skill, the threat of the least-skilled workers throughout the world to seize all wealth and control its production and distribution portends a descent to the level of the lowest. To talk glibly about improved conditions of living and a better distribution of wealth without recognizing the source of the latter is charlatanism. When a man jumps into a river to save a life we do not decorate the spectators; because some men commit crimes, we do not put all under restraint; the school curriculum is not framed for the most stupid or the laziest, nor are the prizes distributed equally. Thus, before any distribution of wealth is made, its creators must be acknowledged, and it is for them to decide how they will share with their less endowed fellows, not for the latter to dictate this. While no one would suggest that the present distribution of wealth corresponds to man's obligation to his fellows, nor hold that huge individual fortunes are desirable in the interests of the community or beneficial to their possessors, it is undeniable that a higher altruism cannot be anticipated from the less-gifted than from the men of brains or skill, nor that the production of wealth will increase more rapidly if its fruits be in the hands of those least able to create it.

True, many dogs have peculiar ideas upon the distribution of wealth, and to see a bone in the mouth of another sets up an irresistible impulse to seize it, but the survival of the fittest is a purely animal law, and rule by those most fit is the first condition of good government. Indeed, it is better for a community to be controlled by one super-man than by mediocrity or ignorance, which are at least equally susceptible to the lure of self-aggrandizement at the expense of the governed.

Incredible as it may seem, the origin of this threatened assault on civilization is found in the teachings of the economists themselves, who, failing to discern the true source of wealth in brains or skill, have encouraged the growth of a delusion in the manual workers that *they*, the cogs in the mighty machine, are the wealth-producers. If value be due to demand, wealth does not exist through the labour of the producers, particularly the most skilled, but, for instance, through that of the transport workers, always among the most unskilled, or even through that of beasts of burden, who might thus equally well claim that they too are robbed by their drivers.

Truly the most flagrant robbery prevailing is that of producers by the handlers of wealth. Misled by the economists, the manual workers tolerate this because they fail to distinguish Codlin from Short, those who increase the wealth of the world—and therefore their share—by production from those who reduce this wealth through handling it, and whose profit decreases the amount divisible.

Bolshevism is not a genuine cry for greater wealth-production, less waste, and better distribution, but an attempt of the proletariat, springing from the false principles of so-called Political Economy, to seize the reins of power and terrorize the world by brute force, and those who believe in the right of every human being to decent and ever-improving conditions of living will discern in a triumphant Bolshevism the destruction of all their hopes.

A better world will not be brought into existence by brute force, nor by threats, for no permanent solution can arise from compulsion which denies reason, and the antidote for Bolshevism lies in the education of the masses as to the conditions of creation and the identity of the real producers of that wealth of which they crave a share. This being effected, a long last honour shall be rendered where honour is due.

While the cinema is the best vehicle for economic propaganda, the truths of Economics can also be explained simply in conversational form, of which the following is an example :

Protection and the Workers

But our bread will cost us more.	What does it cost you now ?
Five shillings a week.	What is the value of five shillings ?
Five shillings, of course.	So you think its value constant, but did you find it so during the War ?
Well, no.	It is evidently time, then, that you really thought about it, so tell me, how do you earn five shillings ?
By working three hours.	Then the value of five shillings is three hours of your work, and during the War you were getting more than one shilling and eightpence an hour, but were you better off ?
No, hardly at all.	And you found that the more wages rose the higher prices soared ?

That is true.	Well, instead of repeating that 'our food will cost us more,' which you have been doing like parrots for twenty-five years, tell me how the cost of your food can be reduced.
I don't know.	Well, it is obvious that by sweating the agricultural worker your food will cost you less, and is not that exactly what you are trying to do? You want high wages for yourselves, which means that the price of the article you produce must be high, and must be paid by the agricultural worker, who has to buy your product just as you have to buy food.
Yes, but food is the first thing of all.	It is well that you realize that, although you haven't worried about its production, but you do not live on food alone, and if you had nothing else you would soon be calling out.
I suppose I should.	Well now, would you be satisfied if you could get your food, not for five shillings, but for less than three hours of work?
Of course, if it were possible.	Well, it *is* possible.
How?	By everyone producing more.
But would that not merely benefit the employers?	Let us consider the employer abolished.

Well?	Then if more were produced it would be shared by the workers, would it not?
Yes.	So that each man would be entitled to a bigger share for himself, and everyone would be better off?
Yes.	Now wages are given you so that you can exchange your share for the variety of things that you want, and therefore for your larger share you would get a larger share from the other workers by means of your wages.
That seems all right.	So that your wages will be worth more, and with the same wage you will be better off and your food will cost you less.
Well, but how are we to produce more?	By working longer hours.
No, thank you.	I thought you would say that, but there is a much better way.
What is it?	By becoming skilled, because a skilled worker produces a greater value per hour than an unskilled, or there would be no virtue in skill.
That sounds true.	Therefore if more and more of you workers get into skilled industries, the value of your production will go up and your food will cost you less, not more.

But how are the skilled industries to be enlarged?	By protecting them from foreign competition.
But does not Protection increase prices?	Certainly it does at first in money until there is an increase in production; but even if this did not result, it would only mean a depreciation in the value of money.
How do you make that out?	Well, if everyone's wages were doubled to-day, all prices would be doubled to-morrow, and with the same distribution no one would be better or worse off than before.
Then what's the good of Protection?	Its sole advantage lies in the fact that it provides the opportunity for increasing the value of your production, without working harder or longer hours, through your advancement in skill.
Well, why haven't we become skilled?	Because of Free Trade.
What do you mean?	I mean that under Free Trade it is impossible for a nation to develop its skilled industries.
How do you make that out?	Oh, that is another story.

PART V
RECONSTRUCTION

CHAPTER XXV

A NEW SYSTEM OF GOVERNMENT

"A city, then," said I, "as I imagine, takes its rise from this, that none of us happens to be self-sufficient, but is indigent of many things; or do you imagine there is any other origin of building a city?" "None other," said he.—PLATO'S "REPUBLIC."

TO ridicule the idealists and the Utopians is justifiable, for many of these dreamers assume that that which is is not, and that which is not is, with the result that their projects cannot possibly materialize. They are, indeed, deserving of harder names, for the quest after a condition which cannot exist or a state of man inconsonant with the laws of Nature is no more worthy of respect than a quest after perpetual motion to-day would be.

Any scheme for the betterment of this world which does not take into account the frailties of humanity is doomed to failure. All men can never be equally perfect, however much the race may improve, and in consequence there will always be defective men in the world, and, the downward path being ever easier than the upward, unless their number is to multiply and their example to contaminate the rest, the use of force, moral or physical, by the higher on the lower natures is not avoidable. It is therefore essential to decide by whom such force shall be wielded.

In every community, be it large or small, there will always exist divergent desires and differences of opinion, whence rulers or a government are unavoidable. It is clear also that the nearer humanity approaches to perfection, the less important is the form of government, although the ideal head would be a perfect man. The widely held opinion that the head of the State should be changed periodically suggests that we are a long way from perfection, for a community could not have a better ruler than the best, and to remove a man from fear that he may become too powerful shows that his people believe that he is unfitted for his position.

As a modern government, however, does not consist of only one man, it is necessary to consider who should constitute its members, for although, whatsoever its form, its function is the promotion of the well-being of all, we have already shown incontrovertibly that its power to perform its duties is not derived from the whole but only from one section of the community, *i.e.*, the producers of wealth.

The inhabitants of every civilized country are divided broadly into two classes, the producers of wealth and the handlers of wealth, for, all being consumers, they cannot be termed a class, and dependents must ultimately belong to one class or the other. Now an examination of the moral characteristics of both classes would assuredly not reveal that the producers are inferior to the handlers, and as for intellectual attainments, all the well-being in the world being due to brains or skill, those of the producers are, and must be, incomparably the greater. Notwithstanding this most important fact, the world is at present controlled by handlers of wealth, and for two reasons. The first is, the middlemen's wealth gained at the expense of the producers, which has allowed them the necessary money and leisure for public affairs. The second, which we have dealt with more fully elsewhere, is the economic ignorance of the masses. From the beginning of the world all man-wealth has been due to the producer, and so it must ever be, yet so far he himself has failed to realize this truth; consequently he has made no concerted effort to assert his rights, and it is not to be wondered at that others have not recognized them.

To illustrate how the wealth-producers have in fact allowed themselves to be exploited by the wealth-handlers, we have analysed the official records of the wills proved in Great

Britain for a given year. We restricted our investigations to fortunes exceeding £50,000 in amount, choosing 1913 as the last complete pre-War year, and we make no pretence that the declared occupation of the deceased necessarily indicates the true source of his wealth.

Under middlemen, A, we have included bankers, merchants, shipowners, lawyers, stockbrokers, auctioneers, shopkeepers, and those whose wealth was apparently derived from handling of the nation's irreplaceable raw material, such as colliery proprietors, iron-masters, etc. We are, of course, aware that a number of middlemen are also directly interested in production, but the records do not permit us to make any distinction.

The wealth-producers have been divided into three categories—B, engineers, doctors, architects, farmers, and manufacturers (except those included under C and D); C, spinners and weavers of cotton and wool, chocolate, biscuit, and tobacco manufacturers, and sugar refiners, who are all largely employers of unskilled labour; and D, brewers and distillers. We have differentiated the latter, not because it is a matter of opinion whether or not they add to the well-being of the community, but because they merely transform existing commodities, as barley, hops, oats, potatoes, rye, wine, etc., into another form of wealth which cannot be maintained to have a higher intrinsic value.

We had hoped to show separately the wealth derived from land, even if we could not distinguish that due to production from that due to rent, or the sale of land. Unfortunately, the source of such wealth is indicated in so few instances that we have included the landowners in the last list, E, which comprises, therefore, in addition to these, all those whose source of wealth is not defined, such as women, priests, peers, gentlemen, etc.

The totals are as follows:

A	£30,761,204
B	£12,520,408
C	£8,037,704
D	£5,190,231
E	£45,221,327

and the average amounts of the estates:

AA	£161,053
BA	£121,557
CA	£309,142
DA	£305,307
EA	£119,950

Bearing in mind that the profit, *i.e.*, wealth, of the middleman represents no increase in national wealth, the total of A, as compared with that of B, or even with the sum of B, C, and D, is illuminating, while the low average BA, as compared with AA, CA, and DA, and the fact that of the producers the largest amounts were left by employers of unskilled labour, or those who, according to the British Census of Production, paid on the average the lowest wages, should give Labour furiously to think, and confirms our statement that up to the present it has been permitted to an individual to amass wealth regardless of the interests of the community.

It might appear at first sight that the large total under E must weaken our conclusion, but we would suggest that on the contrary it strengthens it, for the following reasons. First, if a man be a producer, his source of wealth is usually known, so that, apart from wealth derived from land, much of which is not due to production, in all probability the greater part of this total would have to be added to that of A. Secondly, although the wealth of those with no occupation may have been derived from industry, it is more than probable that it was derived from non-productive occupations, because the calling of the middleman having been allowed to become so profitable, money is naturally attracted to it, unless the investor be personally interested in production.

The wealth-handlers employ also almost entirely unskilled labour, which has no claim to wealth, and so it is obvious that had the middleman's profit been controlled, and the wealth filched from the producers been handed back to them, the latter—both workers and employers—would have been better off. They have been so busy fighting one another, however, that they have meekly permitted their own exploitation.

The widespread poverty existing is not due, therefore, to producers keeping an unfair share of the wealth which they create, but, on the contrary, to their being despoiled by non-producers, combined, of course, with the slow altruistic development of man, which has necessarily influenced distribution in the community.

In the earliest stage of primitive man he worked separately to keep himself and his dependents alive, but as tribes or nations were formed a class gradually arose which, by force or guile, stole the wealth of the producer, and, finding that they could do it successfully, these men gave up any attempt at production themselves. There was little question in those days of employer and employed, but merely of producer and non-producer.

Before the employer appeared, therefore, the producer of wealth was robbed by rich merchants, bankers, etc. Then, at a later date, the great employers of labour appeared upon the scene, since when we have heard the cry of the manual workers, not necessarily producers at all, that they are robbed by their employers of the wealth they produce. But we have shown that in many cases the worker produces no wealth; he is merely the medium, like the lubricating oil of a machine, and hence there is nothing of which to rob him. Undoubtedly he has been ill requited, but the cause of this was not necessarily his employer's desire to deal unfairly by him; it was, rather, his ignorance of his economic obligations (see Chapters IX and XXII) and the innate selfishness of man, which urges him to get as much as he can, and to give in return as little as he can—in short, acceptance of the law of supply and demand.

This, surely, corresponds with the attitude of most of the manual workers to-day, for few workmen can conscientiously say that they do their best for their employer. The explanation of their blindness to their true interests is found in the belief which obsesses them that they work for wages. They have lost sight of the fact that their labour (or produce) may not be worth that which they purchase with their wages, and if it is not, that they themselves are depreciating the value of the money paid to them.

While the handler of wealth is necessary, and he must be allowed to live and his efficiency must be encouraged, his profits and wealth should be restricted, and, if necessary, be subjected to differential taxation, so that his occupation would become unpopular, for it must be recognized that his gains do not increase the total wealth of the world, and his profit is the producer's loss. Further, any increase in the number of middlemen beyond that absolutely essential for the well-being of the community should not be tolerated, and the profession of money-making being circumscribed and less attractive, the most capable and ambitious would devote their energies to the production of wealth, from which alone not only they but the whole of their fellows can benefit.

The cities, however, the seats of government, are trading centres. It is here that the laws are made and that the wealth of the nation obtrudes, although it was created elsewhere. In these surroundings the producers have naturally remained unrecognized and unhonoured.

If the middleman is controlled as we have suggested, his power to influence will disappear, and the wealth-producer having now a lesser struggle and consequently leisure to devote himself to affairs of State, will train himself for public work and come forward as representative of the community's true interests.

And what a change would follow! The gift of the gab would no longer be a passport into politics, and although men of brilliant intellectual attainments would not be debarred from government, the eyes of the people generally would be opened, and no longer would they suffer the bad old disputations on matters of opinion or prejudice, or submit with patience to government by expediency and compromise, which have no place in science or in Nature.

An expert would no longer be dubbed an ill-balanced enthusiast, nor his heart be broken and the truth overwhelmed by a mass of persiflage, nor would men of real knowledge and scientific attainment any more declare that Economics, or the science of government, is unworthy of their attention. The acid test would be, not "What have you said?" but "What have you made?"

Here are the new representatives of the people: scholars, scientists, engineers, architects, accountants, artists, writers, doctors, farmers, manufacturers, together with the labour representatives of all skilled trades. We have not forgotten lawyers; their real function is the clarifying, not the framing, of a nation's laws, and these services are needed by the State. In short, any man or woman who has enriched the world by hand or brain would be welcome.

The heads of Government departments, both temporary and permanent, would be selected for their expert knowledge gained in actual experience, and the practice of playing 'general post' for positions of national responsibility would no longer be tolerated.

Having decided upon our producer-rulers, we will now consider the question of the distribution of wealth.

Again referring to primitive conditions, it is obvious that a man who lived by himself and produced a surplus beyond his necessaries could retain this for himself, for there was no one to say him nay, or to take it from him. But when he had a family he participated with them; they did not force him to provide for them, he did so by instinct. To-day we have got farther than that, and although no scheme has been suggested for the distribution of wealth between father, mother, and children, all civilized people compel the parent to provide for his family.

Similarly, civilization recognizes the claims of the poor upon the rich, the unfortunate upon the fortunate, the weak upon the strong, and repudiates the animal law of the survival of the fittest. Were it otherwise, since wealth-production is due to brains or skill no one could deny that economically a man who by his individual efforts, and not at the expense of others, created wealth was entitled to retain the *whole* of it for himself. Indeed, the manual workers to-day, although they resent being robbed, as they wrongly call it, by their employers, adopt a very similar attitude, and want all they make for themselves, without troubling to inquire how much of the things produced is due to their own efforts and how much to those of others.

Nevertheless, as Economics is an ethical science it does not admit the right of a man to wax wealthy even through his individual unaided efforts, if he be surrounded by people starving or in poverty, and here we come to the moral side of Economics, which may be stated as follows:

No man in a civilized community is entitled to retain for himself the whole product of his labour, but progress is impossible if he be not allowed to retain for himself such a share of this as will induce him to do his best. Between the two extremes of all or nothing lies the whole question of wealth-distribution, and while the production and exchange of wealth are controlled by definite laws, its distribution is, and always must be, a matter of opinion, or of altruistic education.

Failure to recognize the true wealth-producers and that all men are not capable of producing wealth, and consequently are not all entitled to an equal share, is mainly responsible for the present unrest throughout the world. The problem is not to be solved by force, and in particular it is an absurd idea that the unskilled manual workers, who are of themselves incapable of producing wealth, and may not be constrained to work, should be permitted to force others to produce wealth and to dictate how it should be distributed.

On the other hand, the true wealth-producers, being honoured by the community, and no longer fearing that they will be forcibly despoiled, will voluntarily agree to share their wealth to an ever larger extent with their less fortunate brothers. It is through education alone that men will lose the desire to become millionaires, and although there is no economic reason why they should not strive to amass a fortune, provided this represent but a portion of the national wealth-increase due to their labour, in a properly governed State the existence of a millionaire non-producer, be he a handler of wealth or of money, would not be tolerated.

So long, however, as the community honours those who amass wealth regardless of its source, *i.e.*, whether it be an equitable share of increased production or is filched from others who produce it; and so long as no inquiry is made as to the use to which it is put, *i.e.*, whether it is used for further production or not, little progress is likely to be made toward a higher civilization. Only when it is regarded as a distinction to increase the production of wealth and widen its distribution will the world be a different place, and its control be in different hands.

"He who pays the piper should call the tune," runs a popular adage, whence the true creators of wealth have the right to decide its distribution, and not, as at present, those who merely handle it in money or in kind.

And is it to be believed that these wealth-producers, who, as we have shown, cannot keep to themselves permanently the entire fruits of their labour, will have a lesser appreciation of social equity, or of the nation's true interests, than those who merely enrich themselves at the expense of others? It has ever been advocated by serious educationists that responsibility and power must go hand in hand. To set a thief to catch a thief has considerable justification, but only in politics has the idea been extended to setting wealth-stealers in authority over wealth-producers!

Thus a lower morality need not be anticipated from our new rulers, the men of brains and skill, who enrich the community, than from such as amass wealth at the expense of their fellows, although it is in truth easy to be generous with the property of others.

It is illustrative of the truth of our contention that the highest wages, the usual means of wealth-distribution, are already found in productive industries.

Lest the reader should point to the admitted ill-treatment of the manual workers in the past, we would remind him that, as stated on page 303, this was due to ignorance of the true source of wealth, and to non-recognition of man's obligations to his fellows. Further, not only was the latter failing common to all men, whether workers or employers (and we showed in Chapter XI how the interests of an employer and *his* workers were identical, although not those of all employers and all employees), but the 'employer-producers' were themselves robbed of their reward by the middlemen.

It is obvious that the application of our principles must clash with many vested interests, and although we cannot consider these where their continuance is opposed to the well-being of the community, it would be manifestly unfair to destroy them *suddenly*, bearing in mind that they originated in general acceptance of false economic principles. Nevertheless, ultimately all power must fall into the hands of those to whom wealth is due, viz., the skilled producers by hand and head.

The Government being now constituted, we must decide what the nation should produce, and then how it must set about it. An Industrial Council will regulate exports and imports, and, realizing the importance of skilled or high value-producing industries to the national well-being, it will have no option but to adopt the principle of Free Production and protect them from any and all competition by workers of other lands; in fact, the moment it is recognized that there is such a thing as *quality* in industry, the measures to be taken are self-evident.

The nation will decide to produce that which on the average represents the highest value for the time taken in producing it, and, consequently, it will seek to develop the education of its members so that the maximum number may be absorbed by its most skilled industries, and as the adoption of this principle will become general, every nation's unskilled industries will now be limited to those which it cannot induce nations of a lower culture to undertake.

Further, all irreplaceable raw material will be regarded as the property of the nation, and the wealth arising from its utilization will be devoted largely to the benefit of the whole community. Thus, the wages of the miners must be regulated by the law of value, and although there is something to be said for a tax on coal as a means of raising revenue, owing to the fact that the amount of coal used by the members of the community is so diverse, if those who consume it industrially share their resulting wealth equitably it is quite unnecessary, and, moreover, a difference could be made in the price of coal for domestic and industrial use. Those who control the mines will be allowed a small profit for their responsibility, and the price of coal can then be regulated by the total cost of getting and handling it. This price would be reasonable, whereas, so long as bureaucracy is inefficient, nationalization, although theoretically sound, will be wasteful and must result in an increase in cost and therefore in price.

Profit to individuals on the mining of coal for home consumption is bad enough, but having at long length realized its national value, it is clear that such profit ought not to be allowable on mining for export, which, as we have already indicated, should in any case be permitted for special reasons only, when the entire profit should be taken by the State.

The same arguments apply to the exploitation of the nation's irreplaceable, and not inexhaustible, raw material, in a partly manufactured condition, *e.g.*, pig iron. The national wealth-increment would be enlarged through a reduction in its export and the consequent liberation of labour for more profitable production.

Having decided what to produce, we will now consider how the maximum production is to be obtained.

The same Industrial Council which will analyse the quality of industries and regulate exports and imports will decide the hours and wages in every occupation, in accordance with the law of value.

This Council will be comprised of employers and workers, but it will appoint a committee of the latter, with perhaps an expert employer as an impartial chairman, as a Wages Board to decide the minimum wages to be paid to every class of worker from *A*, the most unskilled—the crossing-sweeper, the railway porter, the labourer, etc.—to *Z*, the highly-trained craftsman, draughtsman, mechanic, engineer—in short, those essential men who act as mainsprings in the best industries of every nation. This Wages Board will decide on and fix the living wage for man, woman, and dependents, the dirty money to be paid to labour working under unpleasant conditions, as well as the wealth-wage—which latter will become higher as the total value of national production increases—and although the men concerned will always be heard and all trades will be represented, the executive will be chosen from the higher classes of labour, who should have not only better judgment, but, being little concerned in questions relating to the living wage and dirty money, will be more impartial.

When the skilled workers get together, they will doubtless realize that, despite their numerical inferiority, they hold, through their skill, the sceptre of power, and will no longer allow the nation to be terrorized by its miners, its transport workers, or indeed any unskilled workers, who, producing least, if any, wealth, cannot justly demand, although they may hope for, an increasing share.

In Chapter X we discussed the principles which should govern the distribution of wealth by wages, and in Chapter XII we showed how the adoption of these principles, together with the substitution of co-operation for competition, would remove the cause of strikes.

Consequently strikes of any kind will no longer be tolerated, for wages being regulated according to value, there will not merely be no ground for them, but the other workers will realize that a strike, even in a good cause, is civil war, and that as man lives on the product of labour, not on money, *production* must not cease for an unnecessary moment. Recognition that strikes harm the community will result in the necessaries of life being withheld from the strikers, who will not be permitted to enjoy a holiday while others toil for them.

In the past strikes have been directed against employers and the Government, but when the workers themselves decide scales of wages and conditions of employment, the former can no longer be held responsible for unsatisfactory conditions, while as in a democratic state the Government consists of the elected representatives of the people, the remedy for any faults lies obviously in choosing better rulers. The referendum is a proper method of ascertaining public opinion, and its unpopularity is apparently due to the opposition of politicians, who anticipate that the adoption of it would decrease their power and influence.

Obviously the trade unions must abolish their restrictions on output, the fruit of two economic delusions. The first is that by restricting output unemployment is reduced. Now, it is true that any section of labour which restricts its production may avoid unemployment in its trade, but success can only be purchased at the expense of other workers, for whom less goods will be available. Indeed, if all the workers restricted their output, the whole community would ultimately starve. The truth is, as we have already shown, that over-production is impossible; it is only wrong production, or the over-production of certain commodities—generally the products of unskilled labour, or articles of fashion—which causes unemployment.

Again we see the weakness of thinking in terms of money. Labour imagines the object of work to be wages, instead of the production of goods, whence it might logically follow that there is a virtue in employment, or in working long hours, apart from production!

The second delusion is that the workers are benefited by compelling their employers to pay all a standard wage, regardless of the value of the varying product. The result is that the more efficient restrict their output to avoid setting an uncomfortable pace to their fellows, and this, of course, means reduced production, with a depreciation in the purchasing power of the wages paid to both efficient and inefficient. The former, while believing that they injure only their employers, thus actually harm themselves and the rest of the community.

Nevertheless, one can hardly blame the trade unions and the workers, because all have been taught to believe in the law of supply and demand, according to which a reduction in the supply of goods increases their value. The general acceptance of this perversion of the truth has induced the bulk of the workers to do less than their best, and this has resulted in a widespread demoralization to-day.

Every country is suffering, more or less, from the same disease, although all have not, like Britain, neglected their skilled industries, so that each could anticipate a considerable improvement in its economic condition if it adopted the principles here advocated.

Having a monopoly in the home market for the best industries, the workers will be assured of the high wages which correspond to their skill, and as the nation has a monopoly in the sale of their products, a national profit is a matter of course.

Now equitable profit-sharing is only practicable if there be no danger of a serious loss, over a period of years, and consequently it has, in general, only proved successful in the case of monopolies or in trades yielding on the average a fair return. However, as we propose to hold sacrosanct our skilled industries, from which the production of wealth is mainly derived, these in effect constitute a national monopoly.

Obviously profit-sharing will be introduced first into the most skilled industries, because, producing as these do the greatest amount of wealth per worker, a given percentage increase in their output will yield the largest total for distribution.

The value of an industry will be regarded as proportionate to the average wages paid by it, payment according to skill being assumed, and neither a man nor a set of men will be permitted to amass riches in wealth-destroying industries, *i.e.*, those employing the most unskilled labour.

The profit allowed to the employer per man employed, regulable by taxation, should depend on the average wealth-wage paid by him. Hence a community of interest between masters and men will be assured.

The vexed question of the workers' share in the control of industry now finds a solution, for antagonism between labour and capital, or employers, being dead, all will strive together for the maximum output, recognizing that the interests of employer and employees are identical. Thus, whereas at present the economic body is diseased, in that its legs (labour) and its arms (capital) refuse to obey its head (brains and skill), it will enjoy health when sanity is restored.

In our New Civilization improvements in education will bear fruit, for the best industries will be capable of absorbing an unlimited amount of brains and skill and the limit to a country's advancement in real culture will be set only by the abilities of its inhabitants. The higher the quality of the industries, the greater will be the advantage accruing through foreign trade, for a nation's superiority will manifest itself in the import of the products of unskilled labour in exchange for those of its skilled industries.

The re-housing of the poor will now be practicable. Money will not do this, nor will it improve and provide for a longer education or yield the full necessaries for every inhabitant, as well as a greater share of luxuries for all. Only an increase in the value of production through the development of skilled industries, combined with a reduction to the absolute minimum in the number of non-producers, can secure them.

Production of sufficient necessaries for all in a shorter time, and increased efficiency in the production of luxuries, will alone set labour free for rebuilding and provide it meantime with its share of necessaries and luxuries, will alone ensure a greater share also for teachers, without detriment to the rest of the community (obtainable through higher salaries), and will alone permit of an extension of the period of education.

Those who believe that in nationalization lies the remedy for discontent should remember the characteristics of those who would be in control. They must not make the mistake of comparing the imperfect employers whom they know with ideal persons in unnatural conditions, and must bear in mind that the nation could only be advantaged if nationalization led to a higher efficiency. The institution of another privileged class would not justify a change for the worse (see Chapter XII).

To advocate that the land should be equally divided among the population is as absurd as to hold that wealth should be equally distributed, or to believe that men are equal, for were each man given a piece of land, all would not make the same use of it, nor could they even work it profitably, owing to the fact that subdivision of labour is essential for efficient production.

It is, of course, obvious that economically land, like irreplaceable raw material, cannot be the absolute property of any man, and should be held only in trust. So long as a man makes the best use of his holding, however, he must be given security of tenure. That individuals are allowed to possess land regardless of any duties to the community arising out of their tenure is a survival of the law of force, and its continuance is due to the acceptance of false economic principles. Nevertheless, the vested interests created can only be abolished equitably by degrees.

As an equal share of the land cannot be held by all, the question of rent, or a share of the resulting wealth-increment, must arise, and this should ultimately be paid to the State, and not to individuals. On the other hand, a man who builds a house on a piece of land has a perfect right to demand rent for it, as obviously everyone cannot build houses, but the amount of rent he receives should depend upon the house, and not on its position, for the additional rent exacted in towns or in fashionable localities in reality belongs to the community, who create this higher demand value.

Far more unjustifiable, however, than the possession of land or the payment of rent to individuals is the making of profit from undeveloped land, *i.e.*, by buying and selling sites, etc. That this is allowed is but another illustration of that economic licence permitted to middlemen.

Thus the condition of land-tenure should be the maximum output at the minimum cost, combined with its maintenance in good condition, and with an equitable distribution of wealth as advocated here, it would not matter if the farming of the whole country were controlled by one man!

There is, however, one direction in which governmental development is essential, because of the delay in any return on capital; that is, in reafforestation. While other countries have been active with reafforestation, Britain has stood still, presumably because, as was replied to the author many years ago, " It is not practical politics "—which affords still another illustration of the influence of politics, or vote-catching, upon Economics.

In the land ruled by the principles we have set forth there will be no permanent army of unemployed, and casual labour, always unskilled, will be considerably diminished by the reduction of exports and imports, and other unnecessary competition. As for the 'work-shy,' a real democracy would not tolerate his existence. The idea of a man slacking, or refusing to do honest work, and being free to live by begging, is opposed to the very principles of civilization, which denies an individual the right to do what he likes if it be detrimental to his fellows, and the wealth-producers will not permit the average conditions of living of the community to be lowered for the benefit of wastrels. Bees kill the drones, and man may well emulate their example, even if only by making life insufferable for their human imitators. Obviously better education and conditions of living will diminish the number of such pests, but there will always be those who will not work unless forced to do so, and any pandering to them is subversive to human progress.

Improvements in the conditions of living realizable through *increased* production can be further intensified by *decreased* consumption. It is true that one cannot enjoy commodities unless one consumes them, but there is an efficiency in consumption just as in production. So long as men and women need the things they eat or drink or wear they undoubtedly benefit in making use of them, but the moment they begin to waste profit ceases; indeed, a further consumption may actually be to their detriment. Waste certainly injures others and the whole nation by necessitating the expenditure of additional labour to reproduce the goods consumed, and the toleration of such waste, again, is due to ignorance of the principles of life and Economics, and the habit, to which we have so often referred, of thinking in terms of money,

We are here advocating an economy in goods, not in money, and the two are entirely distinct, for a waste of money affects only the individual, whereas waste of goods reacts upon the whole community. Real extravagance does not mean spending a lot of money, but waste, and the man who dines moderately off expensive luxuries is a truer economist than one who eats more necessaries than he really needs.

In our worship of liberty of the individual and ignorance of Economics, we have overlooked the fact that drunkenness and gluttony are not only harmful to the individual, but a crime against the State, and children should be taught that only animals eat as much as they can.

This lack of economic knowledge has its most serious effect upon women ; they are the housekeepers of the world, and economy in food and avoidance of waste are commonly considered mean by them, and fiercely resented by domestics. Nevertheless one cannot blame them for their present ignorance, for they have not been taught to see the toiling producer in the articles that they buy.

In fear and trembling we add one more indictment to the charge against misguided woman, on whose realization of the truth the future largely depends. The kaleidoscopic changes of fashions in female attire result in an appalling loss of material and waste of labour. Were the discarded garments, etc., handed on to the needy, the waste would not be serious. Not merely is this only done to a relatively small extent, however, but many articles of fashion have next to no practical utility, and are worn for a few hours only, although they may represent the toil of many days. Yet, after all, women are victims of the fable that they do good by providing employment, and, when they realize the resulting waste in lives and labour, they themselves will decree a less frequent change of fashion, and bar much flimsy rubbish.

The control of the profits of middlemen, whereby they could no longer amass fortunes at the expense of the producers, would result in all men preferring to be producers, and in the abolition of numerous unessential middlemen. The substitution of co-operation for competition would still further increase the number of producers and the nation's wealth-production, which latter would be greatly stimulated by the prevalence of industrial peace and, as shown in Chapter X, by the transfer of labour from less- to more-skilled industries, in which every suitable man would now find employment.

An increased production of wealth and a reduction in waste of labour and commodities are of the first importance, not merely in the future, but now. An army of men mutilated in the War must be supported for a generation at least, not to speak of the loss of providers for women left helpless with fatherless children, and notwithstanding all that may be done to provide work for partially incapacitated men, and generous pensions, a larger supply of *commodities* from each producer can alone increase the purchasing power of money and prevent the continued growth of poverty and its concomitant discontent.

We have considered the production and distribution of wealth under our new system of government, and it will also be realized that the economic principles involved in its *exchange* cannot be left to the tender mercies of chance or force.

Intrinsic value is the first essential consideration in an exchange of necessaries, and variation in the real cost of production, *i.e.*, the labour-hours expended upon the respective articles, the second. As a consequence, the prices of all necessaries of life will be permanently controlled upon these bases, such a guaranteed profit being allowed to the producer as will encourage him to increase his output and efficiency, and to maintain the wages of his workers at a proper standard.

The least fortunate members of every community are most vitally affected by the price of necessaries, and their interests must be safeguarded, although, as we have seen, cheap prices, if obtained at the expense of national output, must eventually react unfavourably upon the whole population. In the event of a deficient home production and consequent importation of necessaries, the price of those imported must be equally controlled, and any difference dealt with as indicated in Chapter XX. Alternatively, our Government would be justified in itself importing the necessaries of life for its people, the provision of these being the first care of a nation's rulers.

As regards foreign trade, while controlling the quality of exports, *i.e.*, forbidding that of the products of unskilled labour, or irreplaceable raw material, every Government must see that the rate of exchange corresponds to the real value of money, and is not left to the tender mercies of the money-handlers.

In our new system of government, therefore, the production, exchange, and distribution of wealth will be controlled by its producers, and it being possible to recognize the value of each individual to the community, his reward will be decided in accordance with his deserts and the standard of altruistic education of the community. Only thus are both wealth and contentment simultaneously attainable. In order to realize this ideal, the following measures, which fall into two categories, (*A*) immediately applicable, and compulsory, (*B*) gradually operative, and educational, must be adopted.

(*A*) Immediately Applicable, and Compulsory

1. The establishment of an Industrial Council, representing productive capital and productive labour, to control national wealth-production.

2. The institution of a Wages Board, attached to the Industrial Council, the executive of which, comprising the most skilled manual workers from every industry, will determine the relative skill of workers in various occupations, basing its awards upon the time and effort required to attain permanent proficiency. It will also determine the hours of labour in every industry, remembering the essential importance of maximum production.

3. The awards by the Wages Board of the living wage payable to every unskilled worker, for himself and each dependent, the dirty money payable to those in unpleasant occupations, and the wealth-wage of all, both skilled and unskilled, to be related to the value of money in the preceding year, or years. From the annual expansion in the national wealth-production the purchasing power, if not the amount, of the wealth-wage paid in every industry and occupation will grow continuously.

4. The computation from a census of production at stated intervals of the value produced per head in, or the 'quality' of, the principal industries.

5. The treatment of agriculture as an industry of high

quality, primarily on the grounds of national health and security. The farmers, while compelled to pay good wages rising with their profits, to be encouraged, by the guarantee of a market for their produce, to increase their output to the utmost limit. As a result, the value of money will rise, *i.e.*, the number of hours' labour exchangeable for a man's necessaries of life will fall, and the permanently prosperous farmers and their labourers each contributing his proper quota to the country's revenue, the community will benefit from a thriving husbandry.

6. The application of identical conditions to all the nation's most skilled and highest-quality, or wealth-producing, industries.

7. The immediate adoption in all such industries, where the divisible amount is considerable, of profit-sharing, or bonus, schemes.

8. The prices of all necessaries of life to be permanently controlled.

9. The imposition of a differential income tax, depending on the source of wealth, whereby the producers, on whom the prosperity of the whole population depends, will pay the least, and will therefore be encouraged to produce more, while the calling of a middleman will fall into disfavour.

10. A large scheme of reafforestation, which will employ many men under healthy conditions, to be financed by the State.

11. The development of skilled industries, to be stimulated by grants of money for both national and private research work.

12. The Industrial Council to regulate foreign trade, by prohibiting the import, except the home demand exceeds the maximum output, of any products which compete with the nation's most skilled industries, or by instituting a sliding scale of protective duties, depending on the 'quality' of the industries.

13. The export of the products of skilled labour will be assisted, where necessary, even by bounties, whereas that of the products of unskilled labour, or of raw material, such as coal, save for exceptional reasons connected with international political relations, will be discouraged Since all will have the right to follow such a policy, its institution by any nation cannot be a cause of international ill-feeling.

14. The establishment of an International Commission of wealth-producers, not financiers, to fix and control the rate of exchange between each country, according to the real value of money in the respective countries.

(*B*) Gradually Operative, and Educational

1. A radical improvement in the status of all teachers.

2. The universal promulgation of the truth that value is measurable and independent of demand, whence, it being recognized that wealth is due to the skill and brains of producers, it will be natural to choose them as the nation's representatives to govern the country.

3. The education of wealth-producers that they may sincerely accept the postulate that if a man *creates* wealth it is his duty to allow the less fortunate to share in the result of his efforts.

4. All middlemen to be licensed and their number limited and gradually reduced, for, the price of all necessaries of life (through which, also, the cost of producing luxuries is decided) being controlled, much wasteful competition can be avoided.

5. Lectures on real thrift, *i.e.*, the avoidance of waste in goods or labour, to be delivered throughout the country, whereby co-operation will not cease, as at present, with production, but will extend to the distribution of all commodities, a start being made with the necessaries of life.

6. Nationalization of the *profits* from mining coal, after compensating the present proprietors, efficient control being ensured by leaving the working of the mines in private hands, and by making the reward of capital, management, and labour dependent upon the output per man.

From the adoption of these measures will follow a reduction in the number of non-producers, such as miners, transport workers, exporters, importers, merchants, shopkeepers, and many other unnecessary middlemen, etc., which will liberate a mass of labour for the *production* of wealth, and, the most skilled, newest, and best-paid industries, for the products of which there is an insatiable demand, being presently protected, brains, capital and labour can, and will, all be attracted to them.

Recognition of the importance of the industries in which the wealth-production per worker is highest, and the consequent reservation to each nation of its market for their output, will alone make possible proper pensions for crippled fighters and the dependents of the dead, provide for adequate remuneration of all teachers, whereby the best brains in the country can be attracted to this trying profession, and at the same time ensure the continuous growth of the industries themselves.

An equitable distribution of wealth, based on the value of each man to the community, the estimation of which we have shown to be possible, together with a constant advance in altruistic education, will, by inciting all to do their best, ensure not only the wealth, but, what is far more important, the contentment of every nation.

The fundamental truth of Economics lies in the essential distinction between ' necessary ' and ' luxury ' value, whereby alone wealth becomes measurable, and its real source in the skill and brains of producers is made apparent.

The War has not altered the laws of Economics, but merely exposed the fallacies of certain postulates, which are still, nevertheless, as generally accepted to-day as the theories of Copernicus were rejected only some three hundred years ago.

Just as a teacher's most important function is to instil right principles into his pupils, that of a Government should be to obtain undeviating observance of economic laws, for any paltering with these foredooms to failure all schemes of national betterment or reconstruction.

The reader will have realized ere now that the real wealth of any nation depends neither upon its size, natural wealth, nor man-wealth, but solely upon the *quality* of its inhabitants, as indicated by the rate of its production of material wealth, and by the use which it makes of its leisure.

This book was written at the suggestion of some who, discerning in the arguments of the author certain incontrovertible principles, look forward with him to a new world and the evolution of order from the existing economic chaos. It was not undertaken to vindicate any class, nor to prove any system wrong, but originated in an attempt to discover the real effects of exports and imports upon the *national* well-being. Should it succeed in awakening the interest of those in whose hands lie the destinies of the human race, the author's efforts will not have been in vain.

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The numbers in parentheses refer to the Axioms

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