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STUDIES IN ECONOMICS

BY

WILLIAM SMART, M.A., LL.D.

LECTURER ON POLITICAL ECONOMY IN THE UNIVERSITY OF GLASGOW

Ausgangspunkt, wie Zielpunkt unserer Wissenschaft ist der Mensch.
Roscher.

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TO

MY FATHER

PREFACE

The present volume contains Studies in subjects which have particularly interested me in the course of my teaching. It is not given to every man to write a "system" or to take the whole of economic science for his province, but every economist has certain problems to which his tastes or his circumstances have led him to devote special thought, and may, without conceit, presume that he has something to say on these. My credentials for writing on Wages, Currency, and Consumption are that these are subjects which I may claim to have looked at from more than one side. My apprenticeship to industry as an employer of labour brought me in close contact with questions of wages and prices, and, during these years, I was fortunate enough to fall under the influence, personal and literary, of Mr. Ruskin, by whom my thoughts were turned to questions of wealth and its consumption, and to the gospel of work which he had learned from Carlyle. But my pleasant task of late years, in presenting to English readers the work of the Austrian School, has made me entirely a convert to its fundamental doctrine that the theory of Value is the beginning of economic science, and compelled me to revise all my conclusions in the searching light of that theory. Whether a practical experience is altogether helpful to clear thinking or not, may be doubtful, but it has at all events prevented me from looking for the exactly calculable movements of natural law in a many-motived society, where industrial pursuits are often ends as well as means. And whether the Austrian School, as a whole, is too deductive in its tendencies or not, no training can be too abstract for one who is, naturally and by education, too apt to lose himself in the fallacy of the particular instance.

I have to thank the Editors of the *Glasgow Herald*, the *Fortnightly Review*, the *Political Science Quarterly*, the *Annals of the American Academy*, and the *International Journal of Ethics*, for permission to use the first drafts of III., V., VIII., IX., and X. respectively. I have sufficient sympathy with the general reader to have made each of the Studies complete in itself, but the more careful student, if he makes use of the cross references, will, I think, find that they are closely connected and mutually illustrative.

WILLIAM SMART.

UNIVERSITY OF GLASGOW,
October 1895.

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I

THE STANDARD OF COMFORT

"*Pay to every man accurately what he has worked for, what he has earned and done and deserved,—to this man broad lands and honours, to that man high gibbets and treadmills: what more have I to ask; —God's will is done on Earth even as it is in Heaven.*"—*PAST AND PRESENT.*

Ricardo's subsistence theory.

THE theory that wages are determined by the wage earner's standard of comfort is an evolution from the subsistence theory of Ricardo. That great economist is often credited with the enunciation of the "iron law," which says that there are certain forces in economic life which keep pressing down wages to bare subsistence point. This is not quite fair to Ricardo's memory. What he really did was to draw a distinction between the "market price of labour" and what he called its "natural price." The former was the wage which would rule in the market for labour according to its supply and demand; the latter was the price to which this market wage "had a tendency to conform." But two things differentiated this from Lassalle's famous law.[1] One was that "natural wage,"

[1] The Iron Law is much older, however, than Lassalle's enunciation. In Turgot's *Réflexions sur la Formation et la Distribution*

according to Ricardo, represented a "subsistence" only in the very wide sense under which subsistence is a conventional term, applied to a standard of comfort and enjoyment "essentially depending on the habits and customs of the people." The other was that the cause which Ricardo gave for the pressure downwards was, not capitalist oppression but labour's improvidence[1] in populating down to the level of subsistence. And it is only just to Ricardo to remember that he could not be expected to foresee a time when capital in England would increase about twice as fast as population,[2] and

des Richesses, published 1766 (that is, ten years before Adam Smith's *Wealth of Nations*), proposition vi. runs as follows: "Le simple ouvrier, qui n'a que ses bras et son industrie, n'a rien qu'autant qu'il parvient à vendre à d'autres sa peine. Il la vend plus ou moins cher; mais ce prix plus ou moins haut ne dépend pas de lui seul: il résulte de l'accord qu'il fait avec celui qui paye son travail. Celui-ci le paye le moins cher qu'il peut; comme il a le choix entre un grand nombre d'ouvriers, il préfère celui qui travaille au meilleur marché. Les ouvriers sont donc obligés de baisser le prix à l'envi les uns des autres. En tout genre de travail il doit arriver et il arrive en effet que le salaire de l'ouvrier se borne à ce qui lui est nécessaire pour lui procurer sa subsistence." Here he is speaking of the artisan. But in proposition xvi. he extends it to the agricultural labourer: "Le propriétaire marchande avec ceux qui cultivent la terre pour leur abandonner la moindre part possible des produits, de la même manière qu'il dispute avec son cordonnier pour acheter ses souliers le moins cher qu'il est possible. En un mot le cultivateur et l'artisan n'ont tous deux que la rétribution de leur travail."

[1] "When by the encouragement which high wages give to the increase of population, the number of labourers is increased, wages again fall to their natural price, and, indeed, from a reaction sometimes fall below it."—*Principles*, chap. v.

[2] The utmost he could conceive of was—"It has been calculated that, under favourable circumstances, population may be doubled in twenty-five years; but under the same favourable circumstances the

when the bad effects of the law of diminishing returns from land would be suspended indefinitely, owing to the anchoring down, as it were, of the best lands of other countries alongside our own.

Its two developments.

Ignoring these limitations, some of Ricardo's followers, when it suited them, gave him as authority for the assertion that wages under a capitalist system could not rise above starvation point—thus reading the letter of Ricardo in the spirit of Lassalle. Others, again, have quoted him as authority for the doctrine that wages can be raised by the short and easy way of the wage earners demanding and consuming more. Said Mr. Keir Hardie before the Labour Commission, when naming £3 a week as the miner's proper "living wage"—"I believe wages to be determined by the standard of living. If you improve the condition of the men you make a higher wage necessary." Here we have a reading of Ricardo which errs as far in the other direction. Wages are undoubtedly an element in all calculations of cost. Let the human worker stand out for a better subsistence, and prices of the things into which labour enters as a cost must rise to cover it—"you make a higher wage necessary." The same faith finds expression in the miners' demand of last year that price of coal should follow wage.

In the following I propose to show what is the standard of comfort, or subsistence in Ricardo's sense, which the wage earners may claim as their own, and in what way and on what grounds this determines wage. But the subject of wages has been so much darkened by the persistent assertion of the "labour value" theory,

whole capital of a country might possibly be doubled in a shorter period."—*Principles*, chap. v.

that it seems necessary first to plant our feet upon a sound theory of value.

The theory of value.

Human desire — carefully distinguishing the word from desirability—is the only thing that can, in the last resort, confer value on any commodity. But, constituted as we are, most of our desires depend for their satisfaction on goods, and the value we get from the satisfaction of desire we transfer to the goods on which that satisfaction is dependent. Thus, although desire in itself weakens and disappears only as the goods are taken into our life, yet, in anticipation, goods lose their value when they come forward in such quantity as to promise this weakening or satiety. "Im Paradiese hätte nichts Werth als die Genüsse, kein Ding, kein Gut."[1] If desire has not awakened, or if it has been satiated, or if commodities are at our disposal in such quantity as to secure that every desire will be satisfied as it rises—and consequently no relation of dependence be established between satisfaction and commodity—there is no value. But, as there are few commodities of which the world has enough and to spare, the ordinary position is that we feel the satisfaction of our desires to be dependent on and bound up with the possession of certain goods.

The place of supply.

This consideration makes it obvious that value, as we know it,[2] always involves a reference to *supply*. Desire

[1] Wieser, *Der natürliche Werth*, p. 19.

[2] I must here emphasise the readily-forgotten truth, that the "value" of which we speak in economic science is the current human estimate of certain things and services as "valuable"—not a conception such as we might like to define and limit in accordance with certain scientific or ethical views. It is, to my mind, one of the virtues of the Austrian school that they have insisted on the

is no absolute thing. It is weak when wellnigh satisfied, but it is weak also when it has the prospect or certainty of being satisfied. Hence the old formula that value depends on the relation of supply and demand: it is a somewhat loose way of saying that value depends on demand but demand changes with supply. Or, to put it in terms of the now dominant theory, value is measured by marginal utility, meaning by this the particular utility or desirableness in the particular circumstances of provision or supply. Thus, while value must not be supposed to inhere in goods—for it is fundamentally a psychical phenomenon — we cannot help, in ordinary thought and language, attributing value to commodities.

Consumption goods.

Turning now to goods, we find them divided into two great categories: the goods which are desired for themselves, and the goods which are desired as instruments towards the goods desired for themselves. In economic science these two classes are familiarly distinguished as consumption or consumers' goods and production goods. The former term describes the goods that are made and destined to no other or further end than that of being consumed in direct ministration to the desires of man, whatever these desires be, and whether they arise from the physical, the intellectual, or the æsthetic life. Here one must guard against misunderstanding. The *differentia* of a consumption good is not that it is consumed—all goods are consumed—but that it is con-

appeal to experience, and laid the foundation of their value theory in careful analysis of everyday economic life. That we have to deal with ideas and words given us by the market and the street may be a misfortune, but it is inevitable.

sumed with no ulterior purpose but the maintenance or adornment of life. Houses, churches, cathedrals, are consumption goods just as much as loaves are. A building is, of course, consumed, physically, by the weather, but it is consumed, economically, in sheltering human beings. It must be added that, among consumption goods, are to be reckoned such services as also minister directly to the life of human beings.

Production goods.

Production goods, on the other hand, may be shortly described as all other goods and services;—all the forms of land, capital, and labour that go, proximately or remotely, to provide and produce the consumption goods and services.

It need scarcely be said that many goods are at once consumption and production goods. The potato may be taken back to the field and sown over again, or may be served up at dinner; the railway carries commercial travellers as well as passengers on pleasure bound. The distinction is sometimes difficult to draw—as when the same carriage conveys the merchant to his business and his wife to the shops—but the broad lines are as clear as need be.

When now we look at these two classes in relation to human desire, it is obvious that they do not both stand on the same footing. It scarcely requires proving that the only ultimate objects of desire are the consumption goods.

The source of value.

Human life is the centre to which we bring all things. All our efforts are directed to the obtaining of wealth simply because with it we fill the many mouths of our being which gape for satisfaction. From the primary wants of food and drink, down the long series which ends in the hunger and thirst after knowledge, we reach after the goods which minister to these, and interest ourselves in the instruments which produce these goods only as they are necessary to produce them. There is no conceivable reason why we should desire arable land except that it yields crops, and there is no conceivable reason why we should desire crops except that we desire food.

Value of production goods derivative

Once this is grasped it becomes clear that our desire for production goods is purely derivative; and, this being so, it also becomes clear that the value we attach, and that all men attach, to production goods is derivative. It is the value to our lives of heat from our fires that gives value to the coal; and it is the coal that gives value to the mine, to the coal trucks, to the railway lines on which they run—nay, to the very pit props that guard the collier at his work.

—even labour has no value in itself—

That this is recognised in ordinary life may be illustrated from a field where it is least welcome. The bitterest economic discovery a man ever makes is when it is practically demonstrated to him that labour does not produce value. In vain does he protest that he has worked hard and worked well, and that a fair day's work deserves a fair day's wage. Society answers inexorably: We have nothing to do with your work; let us see your product; if it pleases us, we shall pay you for it; if not ——! The man feels that he is ill used, but he cannot say why. The fact is that he has not realised the contract under which he works. Even in simple circumstances, when man digs his living out of the ground, he never produces value. He digs his living because it is valuable; he does not make it valuable by digging for it. But, being himself the consumer, and so the determinant of value, he knows where value is, and directs his labour to get it. Once, however, he has joined the great co-operation of workers, which is modern industry, he does not make for himself but for others. It is they that now determine the value of his work, for they are now the consumers and determinants of value; and, cruel as it sounds, he has no more claim for wage, if he produce that on which society puts no value, than the painter who leaves off digging potatoes to spoil canvas has a claim to get a wage from a society which does not appreciate bad art.

As it is with labour, the production service, so it is with all the various production goods. Land gets its value from the crop it grows; capital its value from the increased product its co-operation gives, and so on. Always and everywhere it is human desire that reflects value on to the consumption good; and it is the consumption good that throws back its realised value to the production good.

and limited.

From this comes another important inference. It is that the value which may attach to the factors of production as a whole cannot be greater than the value realised by the totality of the consumption goods into which they enter. Thus a limit is set to the play of supply and demand and its power to determine value. Once a consumption commodity has been put upon the market, its value may fly up indefinitely, whether it be that the supply of similar or replaceable goods is shut off while demand remains constant, or that demand becomes general or more intense while supply remains constant. But the value of a field can never normally rise above the value of its crops; the value of a machine can never rise above the value of the product expected from it; the collier cannot demand a wage higher than the price of coal will allow. The rise in value of all these instruments is made possible only by a rise in the value of their products.

The boundaries of supply and demand.

It is, then, within this limit that the relation of supply and demand has its usual effect. The value of productive instruments cannot be determined ultimately by the relation of the supply and the demand of these instruments to each other: in the last resort it is determined by the relation of the supply and demand of the consumption goods which these instruments turn out.

This theoretical conduction of value

If it be granted, then, that the value of production goods is derivative, and that it is limited by the value of the consumption goods which come from them, this is the same as to say,—in face of all we have been taught to believe,—that the conduction of value is *backward*, from produced to producer. Instead of cost of production determining value, it seems as if it were the value of product that determines cost.

But while, in pure theory, this seems irresistible, it must be admitted that, in practical life, this line of conduction is difficult to follow, and in many cases is beyond our economic perception. It is obvious enough that the value of a farm or mine is directly based on the return respectively of its crops or minerals; that the wage of an extra hand in any trade is determined by the extra product he can put forth; that the value of a cyanide process in gold extraction is measured by the gold (otherwise lost) which it can recover. The very expression, "labour-saving machinery,"

is, however, difficult to follow,

tells us that the introduction of such machinery depends on its power to replace a certain sum of wage. The wages of the replaced labourers make up the maximum "demand price" for such machinery. Unless the cost of construction come under this cost saved, there will be no machinery: in other words, the product of the machine sets the upper limit of its value.

But when we go beyond simple cases or broad facts, the direct and visible relation disappears, and certainly cannot be relied on to give any practical guidance to the figures of value which attach to any factor. The road between is too long and too roundabout. How, for instance, can we connect the wage of the negro who picks the cotton, or the price of his tools, with the price of the garment which clothes us in our sleep? How is the price of the toasting-fork reflected back and back till it feeds the miner who digs the iron ore? If, again, we consider that such a good as coal enters into the making of almost every consumption good, and that, on the theory just laid down, the value of coal is determined only as a totality of the parts of the values of all these goods, we shall certainly not look for any result which we can put in figures. Any such hope disappears if we remember that coal enters into the making, not only of every consumption good but of every production good as well, while, as we have just seen, production goods get their value only from the consumption goods which, after many days and roundabout processes, they co-operate in producing.

and practically escapes us.

The contradiction.

All the while we have the empirical fact that, in great classes of industry, cost of production does really measure value of goods. That is to say, we have before us, visibly and undeniably, a conduction of value in the opposite way—that is, *forwards* from producer to produced. If it were not that, even to common-sense observation, no stock can get a value except from its dividends, we should be tempted to believe in two causes and measures of value.

To find the reconciliation, the reader must submit to go a considerable distance round in economic theory; though, in this as in other things, we may find that the longest way round is the shortest way home.

At any one time the labour of a community, working with its capital on its natural resources, produces what Marshall has called the National Dividend. If we remember what is the relation of a dividend to a stock, we shall see that the word is specially significant. (1) A true dividend is new wealth, after providing for wear and tear and ultimate replacement of capital: that is to say, a dividend leaves the capital intact. (2) It is, however, only the value of the capital it leaves intact; the concrete embodiments of that capital are changing their shape constantly and indefinitely. (3) The whole of the dividend earned need not be paid; some part may be "put to reserve," and thus really added to capital value; or, being paid, it need not be consumed, but be thrown back by the shareholders into some other form of capital.

The National Dividend.

Similarly (1) every year the industry of the community produces an income in the shape of goods and services, which, when paid out to the various participants, leaves the community to begin the next year in the same financial position as it was. The world is a field

Significance of the conception.

whose workers are paid by the crops: those crops, when reaped, leave the field ready and able to grow another crop, at the same time as they are sufficient to sustain the workers while they replace the implements, etc., worn out. (2) The world does not keep its wealth in stores or stocks, but, partly in goods ready for consumption, principally in dynamic forms. These latter, equally with consumption goods, are in constant course of destruction and replacement; but, in all cases, what remains constant is the value of the wealth, not in the least the concrete embodiments of that value at any one period. And (3) in virtue of part of its annual income not being consumed when divided out, or not being divided out at all but thrown back into capital, the community constantly becomes richer both in durable consumption goods and in its power to produce more income.[1]

It measures the value of its factors.

It will be recognised that this national dividend is the aggregate of what we have spoken of as consumption goods. Remembering, then, the relation of consumption to production goods, it will be seen that it is the national dividend which gives value to the land, the capital, and the labour that produce it. It defines the value of the productive factors because it is directly their product. And it limits the value of these factors, inasmuch as that value cannot exceed the value of the dividend.

But the absolute is not the relative share.

From this follow two important conclusions. The one is that an increase in the national dividend increases the *absolute* value of the national land, capital, and labour. The other is, that, unless the dividend is

[1] For fuller consideration of these three points, see p. 226.

increased, the *relative* value of any factor can increase only at the expense of some other factor. Suppose we picture to ourselves the produce of the world's farm as one great loaf. It is this loaf which determines absolutely how much the workers on the farm—among whom we include for the moment the landowners and capitalists—as a body will be paid. They cannot be paid more, but they may be paid the whole of it. If, however, by work and care, they can increase the size of this loaf, they may all get more. But, unless in this latter case, if one party on the farm gets a larger share of the loaf, the others must get less. It is evident, too, that some party or parties may get a double share: that is, may get a larger comparative share while the share itself is absolutely greater.

To apply this to the problem with which we are now concerned: it is obvious that there is a limit to the rise of wages and profits which is none the less inflexible that it is unseen and unrealised. **The inflexible limit**

The popular conception of the relation of wages to prices, for instance, is that the public is the paymaster; that its pocket is practically bottomless; and that the only limit to its paying is its will to pay. Are there not thousands and tens of thousands who cannot spend their income? So, it is argued, the prices of commodities made by labour may rise, and with them the wages of labour, till such time as the public button up their pockets and refuse to gratify the producers further. This is so deeply rooted a conviction that a few words may not be ill spent in showing its futility. **not generally recognised.**

Suppose that an employer, who has the somewhat rare power of making his own price, is misled by the argu-

A general rise of wage consequent on rise of price is nugatory.

ment that he may raise his prices a little higher and so give his workers more wage without reducing his own profit; and suppose his example followed over the whole of this particular trade. All the workers are now getting more wage. Probably it escapes them that whoever buys the goods they produce has to pay more; and that they themselves, if they buy their own goods, have to pay more. But another trade follows suit, and its workers are made happy by an increase in their wage. Now, perhaps, the workers in both trades awake to the fact that they have to pay more than they did for two classes of the goods they buy. Possibly, however, this is concealed from them if they are engaged in making things which only the rich buy—and, of course, they never see that, with every rise in price, there is a falling off in demand even from the rich. Pass now over intermediate stages. Suppose there has come a good time when every trade is brisk. Every group of workers expects a rise of wage, and, rather than check the upward course of trade, the employers do not contest it. Then at length it is borne in upon the workers that, while they get more for all the goods they make, they are paying more for all the goods they buy. If the rise in wage and the rise in price are equal, what advantage have the workers got? Evidently, then, if any class of wages rise solely on account of a rise in price, it is a rearrangement—a redistribution—of the national dividend; there being no increase of the dividend, it is gained only as some one loses, or, universalised, cancels itself. Price reflects only the ratio of exchange between commodity and commodity, and no juggling with price will bring something out of nothing. This is what Mill meant by the proposition that wages can increase only at the expense of profits. He was speaking, of course, of the relative, not the absolute shares of the national income.

If, however, we leave the misleading trail of money and price, and keep fast by the truth indicated to us by the conception of the national dividend, it becomes clear that it is not will but ability that fails on the part of the purchasing public. All that it has to pay with is the dividend; its total demand is not more and cannot be more than its total supply; from which it becomes clear that, if it spend more of that dividend on one thing, it must spend less on another. I repeat that the limit to rise of wages and profits is no less inflexible that it is unseen.[1]

Thesis: that there is a "cost" which determines value.

This, then, introduces us to the conception of "Cost," the first formulation of which, if I am not mistaken, we owe to the Austrian school and, particularly, to the *Natural Value* of Wieser. The thesis I intend to put

[1] Compare Marshall, *Principles*, vi. 1 and 2. This truth might be very easily seen in a microcosm. Suppose society to be represented by a ring of persons, of whom some contribute their capital, some their labour, and others both. Every day this circle turns out a certain product, and sends it in to a central store to be sold. But it can be sold only—for itself. That is to say, the various goods produced are sold against each other. Every person's product is his contribution to the pool; his supply. It is also his demand for goods in the pool. The only way to increase the total demand is to increase the total supply. If any one adds to the total product, every one has a possibility of getting more. But, the product being constant, the only way for one to get more is for another to take less. A strike of any contributor, then, may result in his getting more from some other factor; but, as it contracts the pool, it contracts the total demand. And a general strike would be not only paralysis of supply but paralysis of demand.

forward is: that, on the principles laid down, at any given time, primitive or otherwise, the factors of production have a certain value. This value is given and measured by their total product, the national dividend. This value they may, in certain circumstances, transfer to particular products; it is the "cost price" of the factors of production. Thus, and thus alone, cost of production determines value. The real difficulty of the subject will, perhaps, justify the simplification of the argument.

A poor woman in Donegal is making a bare living from her potato patch and her pigs. Her supply and her demand are one; and her produce—the pork and the potatoes—determines and measures the value of her labour.

As the peasant

And now Mrs. Earnest Hart comes on the scene, and proposes to resuscitate the old cottage industry of lacemaking. Before availing herself of the new industry, the woman makes the calculation significantly called "counting the cost." What she will sacrifice or give up by devoting the whole of her time and energy to lacemaking, is the livelihood she has hitherto had—her own product. The least prospect, therefore, that will tempt her is that of getting as much by lacemaking as she has been making in her old way. This is her "cost price"—her surrender or sacrifice price. When, then, she starts lacemaking and puts a price upon her lace, it is quite competent to say that the value of the lace is determined by the cost to her, the lacemaker. And, in this case, it may be noted that what is here called "cost" happens to coincide with the current meaning of the word "cost," for it is her *subsistence;* it is what was necessary to keep her in life as a peasant, and is now necessary to keep her in life as a lacemaker: in a word, it is the cost of her production.

carries a product-value into lacemaking

Thus the peasant enters on the new industry with a predetermined value put upon her labour, apparently inhering in it and capable of being transferred to the lace. This value is what she was getting, and could continue to get, in less favourable circumstances, and it is the value which she has abandoned because she hopes, by the new produce, to obtain something *over* her cost. In the expenses of production of lace, then, this will be its labour cost. If no other factor enters but the raw material, the "cost price" of the lace will be the sum of money paid for the material, *plus* this former living.

and the lace-maker into factory work;

Suppose now that a factory starts in the neighbourhood of Mrs. Hart's lacemakers, and proposes to enlist its workers from among them. What wage will it require to offer? It also will require to pay them their cost. This cost, however, will probably be, by this time, not the old cost but a higher, inasmuch as the peasants entered the lacemaking with the view of bettering their former condition. They can now "make this cost" in their lacemaking, and will not take less in the factory. This, I repeat, is not to say that they or any other factor can produce value. They can but produce products. But the world of consumers has already given a certain value to the lace products. The new factory products, then, will have the same value given them by the same labour, not because it *is* labour, but because the labour has been associated with the making of things that find value waiting for them. This must be the cost of the new products, for, unless they can cover this cost, the world will have to do without them.[1]

so does agriculture carry a product-value into manufacture.

Let me now put this in a more general way. In a new country the primary industry is agriculture. The first settlers employ their little capital and their labour in raising products for their own consumption. This produce is the joint return to the two co-operating factors, and, although undivided, it obviously embraces and covers what we may roughly call wages and profits. So far there is no means of distinguishing the particular return due to the one from that due to the other. But by and by the capital accumulates in the shape of seed, implements, and the like. As it does so, the produce increases; and if the labour employed remain constant, in quantity or quality, there is now a rough-and-ready way of computing, or rather "imputing," a definite share to capital. That share, of course, is the surplus return. At the same time, over the field of the settlement, capital enters into co-operation with different quantities of labour, which, similarly, yield different results. By this method of unconscious equations it becomes recognised that, in the circumstances, the rate of wages in farming is so much and the rate of profits is so much.[2] So far it is undoubtedly the product which has determined the value, and has

[1] I have given an illustration of this, from personal experience, in my *Introduction to the Theory of Value*, p. 73.

[2] If, again, the capital did not increase while the hours or quality of the labour did, the surplus would be imputed to labour, and similar equations would determine the imputable return to each.

moreover measured the share, of product imputable to each factor.

And now a factory starts in the neighbourhood. At what rate will it pay its labourers? It must pay them at least the agricultural rate of wages; unless, indeed, it offers a more easy or convenient form of employment, and so balances a decrease in nominal wage by an increase in real wage. At what rate will it have to pay for the capital it borrows? It must pay the agricultural rate of interest. Here, then, is the emergence of the new phenomenon, the re-conduction of value. The wage of this labour and the remuneration of this capital enter into the new manufacture as a "cost." They are an "outlay" which must be faced; and the price of the manufacture must cover them, or neither capital nor labour will enter this manufacture, and no goods will be turned out. The phenomenon is seen every day in countries like the United States, which are passing from agriculture to mixed industry. Factory wages are determined by the agricultural wages which any worker can get by falling back on the primal employment. This agricultural wage appears as a "cost" which must be faced by the manufacturers; and the cost must be covered by the price realised from the goods if the goods are to be made at all.

Here is a cost which is not arbitrary.

Here cost of production does determine value, and in this "cost" there is nothing arbitrary. Whatever the desire and resources of the consumers, they cannot get goods below this figure of cost. If demand do not rise to this level and offer a price sufficient to cover this cost, no goods will be produced. When it does rise to this level the old produce just equals the new cost. To use Marshall's words: the demand price covers the supply price.[1]

The reconciliation.

Thus, then, we come to the reconciliation of the two theories which we started out to find. Cost gives its value to goods because it first gets this value from other goods and can continue getting it. It is quite true that here cost of production determines value. But it is not all or every cost. It is not an arbitrary cost. It is the cost that is itself first determined by its product.

If Standard of Comfort = this Cost, it does confer value, and is the worker's due.

And now we are ready to consider the doctrine that the standard of comfort determines wages. To the extent that the standard is not an arbitrary thing, but corresponds with and expresses what we have just analysed as the "cost price of labour," the doctrine is true. In other words, the minimum wage which the worker should get is determined by the labourer's standard of comfort, not because the labourer may demand a certain standard and by refusing to accept less may force it from an unwilling employer, but because this standard is what the unconscious working out of the distribution problem by competition puts to the credit of the worker, among the other factors, as his own product.

That this is not quite the common acceptation of the word "cost" must be admitted, but it is not the only case where a word has come into ordinary use that exactly

[1] To put it concretely. Suppose the product of labour per head to be x wheat and the product of capital per unit y wheat. Therefore $x+y$ is the value of the labour and capital together. If labour and capital, going into manufacture, demand $x+y$ as the price of their co-operation in making other goods, they will get it; it is their cost; they carry into the new product the value they brought from the old.

expresses the underlying reason of things, while credited with a mere surface meaning. The cost of labour is usually considered as pain cost or exertion cost. Now, if pain cost have any economic place, it is founded on the idea that pain is a thing which, in equity, must be compensated. Whether this consideration be admitted or not, it becomes of no importance once it is seen that there is no measure of such compensation but the economic result of the pain. If, however, that result be only expressible as product, why not make product directly the measure?

This is not Pain cost;

There is another meaning sometimes attributed to the word "cost," which is a little repulsive when nakedly stated.[1] It is that the cost of producing the labourer is the natural wage of his labour. Here the worker is looked on exactly as we look on a piece of machinery or a slave. It costs so much to breed, educate, train the labourer, and this must be repaid—not, strangely enough, to those who have paid these expenses, the father and mother, particularly the mother, but—to the man who is produced. This, again, comes to the same in the end. What measure have all the efforts and abstinences of the parents but the product of the living machine? If man is a mere machine, he must be valued as other machines are,—not primarily by what it took to make him, but by what he can do. But, apart from this, it has the fatal flaw of making the cost of labour arbitrary. It

nor cost of producing the labourer;

[1] "Welch ungeheuerliche Idee! Gibt es denn eine 'Production' von Arbeitern, in dem Sinne, wie es Productionen von Sachgütern gibt? Hat es jemals selbst in den dunkelsten Zeitaltern der Barbarei eine solche gegeben!—Man hätte zum mindesten einen andern Namen wählen sollen als diesen."—Wieser, *Der natürliche Werth*, p. 179.

does not point to any direct connection between cost and efficiency of labour. It rather supports the contention of Mr. Keir Hardie that, if we spend more in making a man a more expensive machine to feed and clothe, we "make a higher wage necessary," while, in all common sense, it is not that which goeth into a man but that which cometh forth from his hands that makes his wage.

but Product cost.

The conception of Cost I have tried to bring out is that the cost in question is not human cost but wealth cost or return cost. It is the product that is sacrificed or given up in withdrawing it from one line of work to engage it in another. At any one time labour and capital, thrown into the melting-pot of production, come out as a certain sum of value, of which so much goes to income without diminishing parent wealth. Cost price is just this income. The restless energy of man is continually trying labour and capital in new combinations, risking this cost in the hope that the growing wants of a growing community will give value to the new produce over and above what it has cost to produce the result, and, on the whole, raising the cost by increasing the product.

Supply and price

In Professor Marshall's *Principles* the wage of labour is considered, like the share falling to land and capital, from the two sides of supply and demand. There is a supply price of labour and there is a demand price for it. The supply price in the various grades is the wage which the worker demands in order to support himself at the level to which he and his fellows have risen. It is very much the standard of comfort; although Professor Marshall gives the expression new vitality by changing it into the "standard of life," indicating by this that it covers not only wants but also activities. Its demand price, again, is what employers will give for it; what can be got by them from the employment of labour in the different occupations.

come together in cost.

In "cost" these two come together. What employers will give for labour is not an arbitrary sum, and what workers may demand as wage is not an arbitrary sum. We are reminded of Marshall's words that the national dividend is "at once the aggregate net product of and the sole source of payment for all the agents of production within the country"; and this directly suggests that what the employer can give as wage to the worker is very much what the labourer can give to the employer as product.

The fair wage.

The fair wage, then, is not, in the last resort, to be looked on as the prize of victory,—the result of a constant struggle between hostile forces; although, the more perfect the competition on both sides, the more perfectly will the prize realise the fair wage. It is the share of product which the labourer produces; and what is withheld from him, if he do not get it, is withheld by superior force.[1]

It is a true minimum wage.

From all this two conclusions are to be drawn. The one is that "Cost" is a true irreducible minimum. If the labourer can find what his cost is,—and the world of

[1] If I am not mistaken, this "cost price of labour," or "standard of comfort," is what Professor J. B. Clark points to when he argues that wages depend on the value that the final unit of labour can create in the general system of affiliated industries.—*Publications of the American Economic Association*, vol. ix. Nos. 5-6, 1894.

competition is always tending to give him the information,—he has the best possible right to see to it that his labour is never employed at anything under the figures of price in which this cost is expressed. He does not get his wage from charity; he brings it with him. Nor is his work a speculation in which he engages *along with* his employer in the mere hope that the joint produce will find value awaiting it. If the worker has been engaged at his "cost," he takes that cost with him into the process, and the employer recovers it *for him* in the price of the finished goods. The price at which these goods will sell, in this case, is not arbitrary. It is controlled, as was said so long ago, by the "cost of production." To put it another way: it is not because the worker is paid 20s. that the employer sells the product for 21s., but that the product of labour over the field has realised the value of 20s. in commodities generally; and that this determines the lowest level which the wage-earner, economically, may demand for his work. To recur to our former illustrations: it is the Donegal peasant claiming a certain minimum wage in lacemaking because she was directly producing the equivalent of that wage in other circumstances. It is the American factory hand claiming a minimum wage from an employer because he could produce it by working on the free lands that surround the factory town.

Wages tend to rise absolutely and relatively;

The second relates to the natural progress of wages. I have to point out that the share which labour gets under modern circumstances is, rightly conceived, a double share. It is the larger share of a larger loaf, and that, not in virtue of strength, but in virtue of purely economic causes. Labour, working with capital, constantly tends to produce a larger and larger product. If the shares that fall to each factor were divided proportionally, labour would steadily get more and capital would get more. But as wealth, in most countries, now increases much more rapidly than population, the tendency is for capital to be running after labour rather than labour after capital; and, while interest or profit—whatever the share of capital be called—tends to fall, wages tend to rise. Not only is the national dividend larger but the worker gets a larger share of it. If it were the opposite way, as Ricardo and Malthus dreamt, labour would get a smaller share.

but always to rise.

But even if the share of capital did not tend to fall, wages would rise absolutely, inasmuch as labour, in this case, would get its unchanged share of a larger loaf. If wages, then, do not rise, it is a sign that capital is getting more than its due—a share it would not get if competition were perfect. The gradual rise of wages is thus a normal phenomenon at which capital need not be alarmed. From the side of pure theory, then, we come to the same conclusion which wise employers usually arrive at in their own experience,—that high wages are not high cost of production but the sign and remuneration of great productive power.

Trade unions.

Does all this give us any light on the vexed question of trade unions?

I imagine that it once and for all disposes of the idea that, by mere insistence, the workers can extort a higher wage. It does this by disposing of the general fallacy that lies in thinking of the cost of the worker as what he eats and drinks and spends on amusement and so on.[1] For cost, as we here conceive of it, is the very contrary of this; it is not what the worker consumes but what he produces. But, and just on that very account, the "standard of comfort" is a sure and certain thing which the worker is right to hold to, and that with all his might, because it is his own. It is not something which he has been strong enough, in virtue of his unions, to grasp and to hold, but his minimum share of the produce of that industry in which he is a partner.

The policy of restriction.

But it does more than this. It shows that any trade union regulation which takes the shape of putting restrictions on labour, and so decreasing product, is, in the long run, economically prejudicial to the working classes themselves. The economic salvation of us all is increase of product; for increase of product means increase of buying power as well as increase of selling power.

Its possible defence.

If, then, the restrictive policy of any unions is to be defended, it must be on grounds other than purely economic. Such grounds may be quite good. For instance, if it is the case that the enthusiasm for a large product and large wage tends to make people work long hours and under unsanitary conditions, although this may increase the loaf of product, it yet saps the life of those who are to live off the loaf, and so is a short-sighted policy. This is particularly the case as regards women

[1] There is indeed one modification of the erroneous conception which would at least make it harmless. It is to connect subsistence with efficiency of labour. So far as increase in the amount or quality of subsistence goes parallel with increase of product, it is not misleading to say that subsistence determines wage. But it is, of course, always the product that is the cause of the wage, not the wage of the product.

and children, who have in the past been too long and too often sacrificed on the altar of the large loaf. It is something to raise the family wage from 30s. to 40s. by setting the wife to work and taking the children from school to the factory at the earliest possible age. But if this means the break-up of the home life, the ruin of the wife's health, the premature development and ultimate stunting of the children, it is dearly bought. And, seeing that the employing classes benefit from the growing loaf while their wives and children are safe from the evils attending it, with all deference be it said that capitalist employers are not unprejudiced judges of trades unions.

But it cannot be too strongly urged on the working classes by their friends, that a policy of restriction is one that, economically, robs themselves as a whole class, and must be applied only where and because higher reasons of the "good life" interfere with the economic laws by which society becomes richer in material wealth. But pure economics condemns it.

II

A LIVING WAGE

ARGUMENT

It is a new catchword, but as ambiguous as the word "life" itself. Supposing it meant 24s. per week, it is at least possible as a wage for the lowest class labour, without levelling down every other class to poverty, or even to plain living, if it could be made a first charge on the national income. Considered as a demand from the miners alone, it would involve survival of the fittest. As things are, wages depend on price of coal; this price is governed by the demand of consumers, which demand, for the most part, depends on the ability of manufacturers to export their goods and to compete with imported goods. Manufacturing England, then, must have cheap coal, and a fixed wage could be given only to the most efficient miners. But, it is said, foreign competition is a "bogey"; it is not the consumers but the coalmasters, competing with each other, who bring down prices by offering long and low contracts. Whatever be the truth in this, as coal is the foundation of all manufactured goods, home and export, foreign competition cannot be ignored, unless for the reason that there is a sufficient difficulty about the living wage nearer home. The difficulty is that, although a minimum wage were established, a minimum is vastly different from a living wage, and need not be sufficient to live on, unless short time is barred; and this cannot be, so long as steady demand cannot be guaranteed. Even a minimum wage, however, has its difficulties, and it is questionable if it would be for the advantage of the workers.

II

A LIVING WAGE

"*Il faut bien vivre.*"
"*Mais je n'en vois pas la nécessité.*"

"'*A fair day's wage for a fair day's work.' It is the everlasting right of man. Indisputable as Gospels, as arithmetical multiplication tables: it must and will have itself fulfilled;—and yet, in these times of ours, with what enormous difficulty, next door to impossibility.*"—*PAST AND PRESENT.*

A new catchword.

THE last few weeks[1] have seen the birth of a new and attractive catchword. Before it has even been defined, it is already put forward as arguing a claim. It seems to follow the same lines as two old demands—namely, "The labourer is worthy of his hire," and "A fair day's wage for a fair day's work." But while these, if unquestionable, are quite harmless, the expression "living wage" seems to give a reason and basis for a certain amount of wage. It has, accordingly, found its way into everyday language, and we may expect soon to find that the conception which it expresses has taken its place among the convictions of many. It is, then, of the highest importance that, before it goes further, this

[1] This paper was written in November 1893.

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catchword should itself be caught, and put under the economic microscope.

Its ambiguity.

The first thing to be noted is its ambiguity. It is, perhaps, some centuries since the British working man lived at the physical level of subsistence. In the middle of last century,—that is to say, just before the industrial revolution which flooded England with the new wealth from manufacture,—he lived on wheaten bread; he had meat, perhaps, twice a week to his dinner and tea once a day; and, as the signboards of the day abundantly assured him, he could get "drunk for a penny, and dead drunk for twopence." These things are all in excess of the physical level of subsistence, and yet they represented a living wage in days when there was not a canal nor a spinning mill in England, when smelting with coal was the latest novelty, and when James Watt had not yet taken that memorable Sunday afternoon walk on Glasgow Green which was to date the birth of the steam engine.

Marshall's "necessaries."

The greatest living authority in English economics has laid down the following as "necessaries for efficiency" of an ordinary agricultural labourer, or of an unskilled town labourer, and his family. "A well-drained dwelling, with several rooms, warm clothing, with some changes of underclothing, pure water, a plentiful supply of cereal food, with a moderate allowance of meat and milk, and a little tea, etc., some education, and some recreation, and, lastly, sufficient freedom for his wife from other work to enable her to perform properly her maternal and her household duties. In addition, perhaps, some consumption of alcohol and tobacco, and some indulgence in fashionable dress, are, in many places, so habitual that they may be said to be 'conventionally necessary,' since, in order to obtain them, the average man or woman will sacrifice some things which are necessary for efficiency." And he translates this into figures by saying, "Perhaps, at present prices, the strict necessaries for an average agricultural family are covered by 15s. or 18s. a week, the conventional necessaries by about 5s. more; for the unskilled labourer in the town, a few shillings must be added to the strict necessaries."[1]

Say, 24s. per week.

This comes out approximately at the figure named by the London County Council for town labourers, of 24s. a week. If we take this as the living wage of the class in question, we have a conclusive proof of the ambiguous nature of the expression. The "living" for which this wage is "necessary" is not mere physical subsistence. The wage is a minimum wage based on the present high level of national wealth. It is what Ricardo called the "natural wage," and was careful to define as "essentially depending on the habits and customs of the people."

Its possibility,

Having so far defined the living wage, the next question is as to its possibility. The income of this country, in terms of money, was estimated in 1889 at £1,285,000,000 a year. Divided among our 38,000,000 of population, this would give, roughly, £33 of income per head or under 13s. per week.[2] Now 13s. per week is surely

[1] Marshall, *Principles*, ii. iii. § 4.

[2] In his *Growth of Capital*, Sir Robert Giffen estimates the national capital, on the valuation of 1885, at the round figure of 10,000

below the level of living of the average British workman. This, however, is rather a misleading way of reading the statistics in question. The average household in Great Britain consists of five persons, so that an equal division of income would allow to each household a collective annual wage of £165. Suppose the family to consist of the wage earner, his wife, and three young children, it is obvious that £33 per head, thus multiplied, gives very much above what we should naturally call a living wage per family.

Suppose, then, we take the more modest figure of 24s. as the family living wage, and see how the national income would divide out on the basis of allowing this wage to one-third of the working classes.

In 1889 the working-class families of Great Britain were estimated (Mulhall) at 4,774,000; trades classes at 1,220,000; middle classes at 604,000; and gentry at 220,000. Suppose we allow £100 a year for the remaining two-thirds of the working classes, and £150 a year for the trades classes, this gives us as follows:—

1,591,300 working families at 24s. per week	£99,297,120
3,182,700 working families at £100 per annum	318,270,000
1,220,000 trades families at £150 per annum	183,000,000
	£600,567,120

millions, which is $13\frac{1}{2}$ times the amount of the National Debt, and gives a sum of about £270 for every person in the United Kingdom, and an income of "probably not less than about £34 per head" (pp. 12, 75).

This would leave for distribution among the two remaining classes, £684,432,880.

The reason why I bring out these figures is simply to answer those who say that the country is too poor to allow of a living wage to *all* its workers. The figures show that it is not impossible that every working-class family in Great Britain might have at least this wage, supposing that, by some means or other, the living wage became a first charge on the national income. They further show that, to grant this amount of wage to the lowest class of wage earners, would not reduce the other classes by any means to "plain living." Two-thirds of the working classes might have about £2 a week; the trades classes, incomes averaging £150 a year,—the amount just on the line of liability to income tax;[1] the middle classes would have their present average of about £400; and the upper classes an average of £2000,—which, considering how many of them actually live under that figure, would still allow a good many to have incomes indefinitely over it.

if it could be made a first charge on the national income.

It will be noted that the figures do not in the least indicate what we might expect under any new organisation of society. The Socialists would assert that, if production were regulated and directed to the sole end of raising the general level of wealth and comfort, and if the making and, consequently, the consumption of foolish and wasteful forms of wealth were stopped, the increase of wealth per head would be so great that every family of five should have within its reach every luxury reasonable for health and culture. On the other hand,

A warning against misunderstanding.

[1] It has been raised to £160 by Sir William Harcourt's Budget of 1894.

the Individualists would assert that the introduction of a regulated, uncompetitive system would so take away the motive to hard work, so disorganise the fine web of industrial organisation, and so frighten away capital to other countries, that the level all over would be indefinitely below the wealth now represented by the incomes named.

What must be made clear is, that I am not presenting figures of what might happen under any other system than the present, but merely showing what are the theoretical possibilities of the *present* income allowing, at least, a living wage to all the working classes.

Two conditions of its possibility.

The possibility indicated, however, is subject to two conditions. One is that the present proportion between increase of population and increase of wealth continue. A few years ago Giffen said that wealth in Great Britain was increasing more than twice as fast as population. If the living wage, by encouraging early marriages and improvidence, were to raise the sluice gates of population, while it lowered the death-rate among children, the proportion between wealth and population might alter, although the probability is that the growth of wealth will yet proceed still more rapidly,—particularly as the last census shows that the rate of increase of population in Great Britain is slowing down. The other condition is that, over the field of the world, the law of diminishing returns of land produce do not rise into unwelcome prominence. At present the world is being drawn so close together by steam communication that only the most fertile lands, over the whole field of the civilised nations, need be cultivated, and the price of wheat is still falling. So long as this is the case, we may subsume food under the category of wealth generally, and neglect the consequences that will undoubtedly ensue later on, when the world becomes more crowded than it is.

The "living" will vary with the power of money,

One other consideration emerges here, and it is one which does not get the attention that it deserves. It is that the figures of national income just given are figures of purchasing power only. Whether the various money incomes will buy much or little depends on how the community has embodied its wealth and directed its energies.[1] If the limited land, labour, and capital of the country are invested in growing potatoes, potatoes will be cheap. If they are invested in growing flowers, flowers will be cheap. And according as more potatoes or more flowers are grown, will potatoes or flowers be cheap. But cheap potatoes and cheap flowers are not of the same importance to people on 24s. a week.[2] In other words, the wealth-giving power of the 24s. depends greatly on whether the advances in production have been in the sphere of necessaries or in the sphere of luxuries. Just now a large proportion of the working man's income *must* be spent on house rent and meat. But, while prices generally have fallen over 30 per cent in the last twenty years, house rent and meat are the two striking exceptions.[3] These two things, however, bear a much smaller proportion to the income of the rich than to the income of the poor. It is a common calculation

according as necessaries or luxuries are cheap.

[1] This, of course, has nothing to do with the "currency question," alluded to on p. 56, which affects the purchasing power of all money incomes.

[2] See p. 323.

[3] The recent great importations of frozen meat, however, have considerably changed this position.

in the West-End that rent should not be more than one-tenth of expenditure. But the rent of the cheapest house in the East-End is probably 2s. 6d. per week, which is a much larger proportion of, say, 18s. or 20s. of wage.[1]

Thus far of the theoretical possibility of a universal living wage in Great Britain. The statistics, indeed, do not prove very much, but it is surely something to find that the claim advanced by our catchword is not the cry of children for the moon, but one which we may seriously consider without fearing that it involves a levelling down of all incomes to a similarly low figure.

It is at least possible.

As a demand from the colliers alone.

To pass now to a much smaller subject and consider the problem in its present practical shape as a demand advanced by our 600,000 coal-miners alone. It is not, of course, a claim that any miner who applies shall be employed, and paid at least a minimum wage. It is merely a demand that, where a miner is employed, he shall not be paid less than a certain wage. It does not involve the "right to employment."

However brought about,

As regards sanction, this prohibition of paying the miner less than a certain wage might emanate from Parliament—although I do not think it has much chance of

[1] From a statistical investigation recently made in London, based on nearly 30,000 returns, rent was found to be 23½ per cent of wage (6s. 2d. rent to 26s. 2d. wage). See *Journal of the Statistical Society*, June 1893. In the houses of the Glasgow Workmen's Dwellings Co., Ltd.—where rents are claimed to be as low as the notorious "ticketed houses"—the rent per annum for two rooms is £6:8s., against an average wage of not more than 20s. a week, or 12.3 per cent. In the one-roomed houses, built by the Municipality for the same class of tenants, the rent is a little higher. Similar accommodation generally is much above these figures.

so emanating: if Parliament ever goes that length, it will be going much further—or it might become current as a "law of the trade." The trade unions alone probably could not enforce it, but, as there are now very strong organisations on either side, it might, if pressed by the unions, be accepted by the masters generally, and pass into an unwritten law so thoroughly that the exceptions to its operation would be trifling.[1] Or it might come about, as it has in the case of wages in some women's industries, where a strong public opinion that less than 10s. a week can scarcely keep single women in honourable and decent life, has very generally fixed that wage as a minimum which employers do not try to reduce.[2]

it would weed the pits,

But, however strong its sanction, one result would inevitably follow. Only those who were considered worth this minimum wage would be employed in the pits. Just now it may pay a master to employ a second-rate miner, and pay him a lower wage. But if the lower wage were forbidden, it stands to reason that the masters would immediately weed the pits of all who were not worth the wage. Every one knows that, even where work is paid by the piece, it is not a matter of indifference to the employer whether the miner produces his ton of coal in three hours or in four; the running expenses of fixed and auxiliary capital, as well as the management expenses, have to be considered.

[1] Since writing the above, the Midlands collieries have established a minimum wage under an arrangement binding till July 1896. No official intimation has been given as to how this works, and it would perhaps be premature to say anything on the subject till the experiment has had its fair two years' trial.

[2] See p. 127.

From this it will be seen that, from the masters' standpoint, the demand of a minimum wage is not so grave a matter as some people think. It is not over-paying bad work. It is only paying a minimum for good work. There is no greater fallacy than the idea that high wages spell high cost. We long ago came to the conclusion in economic science that "cheap" labour is generally dear labour. Indeed, it seems to me that the proposal we are now discussing—which is often condemned as Socialistic—is strongly the other way. So far as the miners are concerned, it means no less than the "survival of the fittest," for the unfit would be forbidden work and wages. And it transfers the problem from mining to the other industries which this unfit labour would invade.

and tend to survival of the fittest.

Wage and price.

So far there is nothing very startling about the proposal. My objection to it is that it does not meet the problem at all. But this we shall see better when we have considered the connection between wage of labour and price of product.

Labour a co-operation,

A common impression, based on some such sentiment as "A fair day's wage for a fair day's work," is that a person who works fairly with his hands *earns* at least his maintenance. But this is demonstrably incorrect if he labours at something which the world, either from absence of demand or presence of over-supply, does not desire.[1] The impression, however, has a rational root in the fact that, in a new country, the earth is generally bounteous enough to repay a year's cultivation with a year's maintenance. But what is the consequence of

[1] See p. 9.

the division of labour under which we live? It involves that a man gives up his independent individual action and becomes one of a group of co-operators; that every product is made by the continuous labour, both contemporary and successive, of several classes and groups of workers; and, finally, that the products are not divided out directly among the workers, but are first sold—that is to say, the workers are not paid by a portion of the produce, but by a portion of the value which their produce realises. In this way the product of labour as a whole becomes indefinitely greater. But with this comes the serious drawback, that no man can work alone; that no man can command a wage; and that no man is paid by what he directly makes. Even the crofter does not rear his stirks to eat, but to sell; and is paid, not in their flesh, but in their price.[1]

paid by value realised.

What the miner produces is coal. But he is not paid in this coal, nor would he wish to be. He is paid out of the price of the coal, or, strictly speaking, out of the anticipated price of the coal, advanced by the employer, and replaced at the sale. Now, what determines the price of coal? For answer, we look to the consumers. To the householder, coal, in the absence of wood, is a necessary of life. The household consumers of coal would, undoubtedly, give a price much above any ordinary level rather than do without; although they would indefinitely reduce their demand according as they could economise or find substitutes.

Being paid out of the price of coal,

But household consumption is less than one-fourth of the output. The large demand comes from the industries of the country as a "cost" in their production.

and that price depending on the value of coal as a "cost,"

[1] See p. 9.

What regulates the price which they can pay for coal? They cannot, on the whole, pay more than they can get back by the selling prices of the goods which they make, and out of this price must, of course, come profits.

This leads into a wide field, for England is, *par excellence*, the world's provider, and we are reminded that the price realised by our exports—namely, £309,000,000—is regulated by the competition of every nation which manufactures similar goods. Our manufactures are running a race with those of America, Europe generally, and the East, and, so far as that is the case, the price our industries can pay for coal is determined by English manufactures being able to meet the competition of these countries.

Thus, in the case of coal, more, perhaps, than in the case of any other commodity, the direct connection between wages and price is difficult to follow. But one thing seems to emerge with great clearness;—that, in these circumstances, the producer of coal can not dictate his prices for coal. His cost of production does not necessarily regulate the price which he gets. If the British manufacturing cost of production exceeds a certain figure, some of the British industries which are based on coal stop, and the coal production, to that extent, stops also.

the producer cannot dictate his prices.

This becomes even clearer if we look at our export of coal itself. Coal, of course, is not a product of England alone. It can be produced in Germany, it is said, at 6s. 9d. a ton, and in the United States at less than a dollar. The moment that the cost of production of foreign coal, delivered at a mutual market, comes below our cost of production, some of our mines have to shut.

Even an international agreement would not secure our miners.

It is advisable to point out here that, even suppose an international agreement were made with the whole world, whereby coal miners everywhere should be paid a living wage, it would not secure us. There is a negative side to the principle of a living wage. I have shown that the living wage demanded by our miners is not a sustenance wage, but a minimum determined by a customary level of comfort, and based on our national wealth. We cannot, however, by any international agreement, ask more of other nations than that they pay their workers a wage based on *their* customary level of comfort—that is to say, a wage which has regard to the wealth of each nation. But no one would, I imagine, maintain that the wealth of Russia, for example, could permit the payment to its colliers of 24s. a week. If this is so, how could even that impossible ideal of an international living wage prevent the coal of other countries from underselling us, if the other conditions of the industry were equally favourable?

Exporting England must have cheap coal.

This, then, is the argument most often used against any organisation which aims at keeping up mining wages. England must have cheap coal, if she is to remain what she is. Wage is the largest element in the cost of production of coal; consequently, there must be no artificial barrier in the way of making miners' wages as low as necessary to compete with the world which buys our coal and our manufactures.

It is not a pleasant argument. It sounds to me as if we proposed doing with the miners what a general is sometimes forced to do with a regiment;—when it is absolutely necessary to gain time, and he orders it out to hold a position where he knows it will be cut to pieces. But if we admit the premiss, "England must have cheap coal," we must face the conclusion fairly and squarely, and not shut our eyes to it.

But is it consumers only who keep down prices?

To all this there is, however, another side. I have said that it is, in the last resort, the consumers who determine the price. Whatever the cost of production be, the consumer will not pay *any* price that may be asked, but only such a price as he finds he can get due return for, either in support of life or price of product.

But there is, under modern conditions, another thing that has a great share in determining price. It is that, in many cases, the producers do not wait on demand to declare itself, but tempt demand;[1] they knowingly offer a lower price than the consumer would be willing to pay. This is said to be the present position in a very aggravated degree. It is freely stated that it is the reckless competition of coalmasters among themselves that has run down the price of coal,—indeed, that many contracts were made, before the last strike, in anticipation of the masters being able to force a reduction of wage on the men. We are reminded that not only has the consuming world opposing interests to the producing world, but that producers have opposing interests to each other. The gas companies and the railways make their contracts six to twelve months ahead, and it is these contracts that have been taken in this ruinous way. It is also pointed out that, by the

Is it not inter-competition of masters,

[1] See p. 266.

strike clause, inserted in almost every coal contract, the masters are set free of their liability to deliver at contract prices during a strike. So that, if they contract at unprofitable prices, and are not then able to reduce wages in conformity, it is their interest to force matters to a strike, or lock out the miners, in which case the cheap contract lapses.

It is in this belief, evidently, that we have the genesis of the demand for a living wage. Wherever the sliding scale is adopted, wages follow, at a certain interval of time, the price of coal. But while this admittedly gives a very fair division of a rising price between masters and men, it provides no safeguard against large producers taking very low contracts, and keeping down the wage.[1] It is, in fact, the knowledge that masters, by competing with each other, do determine the price of coal at a lower level than seems necessary, that has educated the men to this demand of a living wage. "If they can do so much with prices and wages, they can surely do a little more, and fix a minimum wage."

taking long cheap contracts?

Those, then, who dwell on this argument, urge that it is not foreign competition that is the enemy of wage. They contend that England possesses such advantages, both in coal measures and in transit, as to be out of reach of legitimate foreign competition; but, they say, if labour, like all other factors, is paid out of price, and price is determined, not by the competition of producers and consumers, but by producers fighting among themselves,

[1] This grievance has been provided for by the present sliding scale for South Wales, where contracts running for over a year are not taken into account beyond twelve months in determining the average net selling price on which wage is based. See p. 86.

the price which would otherwise pay both capital and labour will pay neither.

This seems betrayal of the workers.

There is no attempt in this argument, as is sometimes said, to deny that prices are fixed by the equation of supply and demand. But here, it is pointed out, is an operation which gets behind demand and bribes it. The natural protector of the worker is the employer: seeing that good prices mean good wages as well as good profits, it is his duty to get the best price he can. But, for the leaders of the industrial army to *tempt* demand, is to betray their men. Instead of fighting for the best price, they offer the lowest, and then try to save their own pockets by rolling the burden on to the men. It is certainly an evidence on this side, that it is the great gas companies at home, usually paying large dividends, which have got coal at the lowest contract price,—not the manufacturers who make goods for export, and compete with the world.

The truth of the assertion is doubtful.

It is not for an outsider to say how much or how little truth there is in this assertion of cynical purpose. It is strenuously affirmed and indignantly denied. Probably it would be difficult to distinguish between a contract made with the intention of pressing down wages and a contract taken in the anticipation of wages coming down. In all trades there are capitalists who may almost be counted on to cut prices on the—often remote—chance of recouping themselves by a larger turnover, and, perhaps, by securing a new clientèle. But the working of pits is not like spinning and weaving, where the industry is handed down in the family. The prudent coalmaster is not likely to forget that the tenure of his pits is a limited one, and that profit thrown away towards the middle or end of a lease will not be recouped even to his successors. He is thus more likely than most capitalists to "make his hay while the sun shines." And, again, coalmasters know better than most people that a strike never pays, and that the lapse of contracts during a strike is a poor set-off to expenses both of management and of keeping the mine clear, which run on whether coal is being raised or not. Rational considerations, then, are certainly against the miners' argument. But it is a pity that the very low prices of some contracts still running should give occasion to the suspicion.

I cannot, however, admit that the question of foreign competition *can* be dismissed, seeing that, of the total coal production of 181,000,000 tons, 55,000,000 go to manufacturing industries, and 29,000,000 are exported. Thanks to our natural advantages of coal, iron, and sea carriage, and to our early adoption of Free Trade, we long ago set ourselves the industrial mission of providing the world with manufactures. An immense quantity of the national capital is locked up in the great and expensive plant necessary for this purpose. We have supplied the world, not only with commodities, but with the means of making them. And we go on preaching Free Trade as an international gospel, forgetting, I think, that the triumph of Free Trade may not be the triumph of Great Britain. Foreign competition cannot be ignored

What is the principle of Free Trade? It is that each country should make the goods for which it is particularly well adapted, and supply itself and its neighbours with these goods. As a fact, the wrong-headed by a Free Trade country.

policy of our neighbours has allowed us to go on supplying the world with many things for the production of which we are not particularly well adapted, and the time is coming—I am afraid it now is—when other countries will supply themselves with many things which we have hitherto made for them. But, if we are still to compete with a whole world to sell our manufactures, we must meet the world's prices. If our superior skill, and machinery, and natural resources are not greater than theirs, our *labour cost* must not be greater.[1] If—I only say "if"—we are attempting to compete with other countries in things for which they have greater natural advantages than we have, we must take the consequences. It will then be the old story of the hand weavers competing with the power looms—a long process of encroaching poverty before extinction. If English capital builds mills in Bombay, fills them with English machinery, buys its cotton on the spot, and then is able—which it is not yet—to make the Hindoo as skilful and lasting a worker as the English spinner, how long will it be before Lancashire has to reduce its wages?

Can the living wage be made a fixed cost?

But we may leave the question of foreign competition on one side just now, for this reason, that there are sufficient difficulties about the living wage nearer home. If we do so, the question seems to narrow itself down to this—Is it possible to make the living wage a necessary part of the cost of coal?

A *minimum* wage can in some trades.

It is contended by some, both masters and men, that, if masters had to reckon with a certain minimum

[1] Perhaps I should repeat that cheap labour cost does not involve low wages.

cost of wage, they would be more careful with their quotations, and rather endeavour to secure a high price at once than trust to get their profit from a larger turnover after cutting out their neighbours. At any rate, if they did accept too low prices, their folly would affect only themselves.

This is fairly argued. In several trades, such as painting and building, and also, I understand, in some of the iron trades, by agreement between unions of men and unions of masters, wages are fixed ahead for periods of six months and a year. And, of course, professional fees and salaries are fixed for much longer periods.

But, assuming the most favourable circumstances,

But again, all this is not to the point. Let us assume a much more favourable case; namely, that, by some great confederation of masters and men, the price of coal is fixed and maintained at such a figure as will pay good wages, besides interest and reasonable profit. It does not seem to me impossible—with the reservation that we can get over the difficulty of foreign competition—to maintain such prices and wages, provided one condition be observed.

as in the thread trade,

What that condition is may be illustrated from a trade which is conducted on these principles—the cotton thread trade in Scotland. Here we find not a forced or legal but a natural monopoly, partly due to the prejudice of a prejudiced sex for an old-established brand, and partly to the immense capitals involved. In this trade the price of thread is maintained so long as the thread firms agree among themselves, no matter what be the fluctuation in the price of raw cotton, or in demand for finished goods. But what does this involve? It involves, first, a large amount of machinery in excess of the average employment, ready to be set going when wanted, and it involves periods of short time—sometimes of very short time.

Suppose, then, that the price of coal over Great Britain has been fixed at such a price as to afford the living wage, and pay such interest and profits that capital will not strike. So long as the fluctuations of demand are always on the upper side of the average supply, everything may go well. The spurts of demand can be supplied from the surplus plant which we may assume to be at the command of the united collieries.

if demand slackens

But now suppose that demand slackens off. The supposition is not absurd, although people interested in coal will scarcely believe it. It fell off about four million tons between 1891 and 1892, and it may fall off again from many causes. A few years ago America could scarcely have imagined that one-fourth of her rolling mills and steel works would be driven by natural gas, displacing coal to the extent of $9\frac{3}{4}$ millions of tons.[1] Our best engines, again, allow between 80 and 90 per cent of the energy generated in combustion to escape unused, and here, evidently, is a very large field for economies in coal. And we are only now experimenting with substitutes like electricity and oil, which do, indeed, require some use of coal, but at the same time supplant other uses. In many ways, then, a slackening-off of demand is possible. Where there is no fixed price, such a falling-off is met by a tempting of demand—a reduction of price; and the lowered price generally finds a wider circle of demand, which takes up all the supply at that price, and more.

[1] These figures are for 1887.—Wells, *Some Economic Changes.* The supply of the gas has fallen off considerably since 1888.

But if the price of coal is fixed, then coal accumulates on the pit bank, and, sooner or later, the collieries go on short time. With that the "living wage" disappears.

the living wage disappears.

A minimum wage is not a living wage.

This, then, is why I suggested that certain arguments, which were strong enough in support of one thing, were quite beside the mark as regards another thing, and that the subject we are now discussing. Is it not the case that the miners, as well as some other people, have been forgetting that a *minimum* wage per ton, or per day, is not necessarily a *living* wage—if we mean anything by the expression. Perhaps it will be thought that this is a quibble. As a fact, it goes to the very heart of the matter. Why are the miners asking a "living wage"? Because, as they say, they must live on their wage. What does this practically mean? Do they claim 4s. a day for six days, or 6s. a day for four days? It does not matter which. My point is, that, if 24s. a week is just enough to live on, 4s. a day will not give them a living wage if they get less than six days a week; and 6s. a day will not give them a living wage unless they get four days a week. And whether they can get the requisite number of days per week or not, seems to me to depend on a factor that is outside of and beyond the power of masters or men to control—namely, the quantity of coal demanded. It is the case that, in some districts, the miners are claiming 7s. a day as a living wage, which evidently assumes a normal week of three or four days. If they work more days a week, they get more than they ask,—which was simply a wage to live on; if they work less, they cannot live on the living wage which they ask!

For no private employer can guarantee full time.

For my part I cannot see that any power, except the State, can secure what I have endeavoured to define as a living wage—that is, let us say, a steady 24s. a week,—irrespective of work and demand. The State can always tax the whole of its citizens—or rather the citizens, if they like, can always tax themselves—for the support of certain classes, and can do this so long as the citizens are content to stay in the country and be taxed. But I understand that we are not now discussing Socialism *versus* the present State, but what can be done under the organisation of the State that we have. We are dealing with private employers of labour, and the utmost that we can think of as a possibility is a fixed price for coal, and a fixed price for one portion of the labour. There is no fixed price for capital, nor is there a fixed wage for the other classes of labour. Therefore, if demand will not take off the entire production, and if capitalists and upper labourers will not oblige the lowest class labour by sacrificing their profit and their wage, the whole production must go on short time; in which case, as I have said, the living wage disappears, although the minimum wage may remain.

Difficulties of a minimum wage,

The "minimum wage" is not strictly part of my subject, and what I have to say about it may be read elsewhere.[1] This much, however, may be added. As to its possibility, it has been suggested, by the analogy of the thread trade, on what principles and under what conditions it might be secured. The difficulties, of course, are very great. Instead of about

[1] See pp. 81, 98.

a dozen mills, there are some thousands of collieries; and instead of nine or ten kinds of thread, there are, for instance, seventy kinds of coal delivered in London alone. The making of a fixed price for all these, and the maintaining of it over the collieries, would mean an infinitely stronger organisation on the side of the masters than any we have yet seen. And it will be remembered that one inexorable condition of maintaining such an arrangement is limitation of output when demand slackens off.

Short of this great reorganisation of the coal industry, a minimum wage might be introduced as part of a sliding scale. It did actually form part of the first Durham scale of 1877.[1] The weak point here is that equity seems to demand that it should be balanced, if not by a maximum, at least by a slower progression on the part of wage when the price of coal goes above the "standard price." But actual experience points out a great difficulty in this. On the usual sliding scale the wages of one three-months' period are determined by the prices of the previous three months. If prices rise rapidly the miner gets impatient at his wage not following for several weeks; he forgets that, when prices fall, wages are correspondingly slow to follow, and he throws over the sliding scale. It may be imagined that, if the slowness of following an advance in price were accompanied by a check in the rate of advance of wage, it would not tend to the maintenance of what is now very generally accepted as the best scheme yet devised for regulating wages.[2]

even with a sliding scale.

[1] See p. 182.

[2] See the fuller study of the Sliding Scale, p. 63.

Foreign competition again.

Supposing that the difficulties of a minimum wage have been weighed and found not insuperable, we have then to face the question of foreign competition. It is only the policy of the ostrich to blink the grave seriousness of this question. On this I have already said enough, but I may add, on the other side, that, under the late Sir George Elliot's scheme, which received the approval of many of the great coalmasters, it was assumed that the economies in working would be such as to give this country another great advantage over other countries, and so secure us another lease of our office as world providers.

There is also a practical difficulty which is not inconsiderable. It is that a minimum wage would necessarily be expressed in terms of money. But money changes in value: for instance, to-day (Jan. 1895) it buys 66 per cent more of general commodities at wholesale prices than it did twenty years ago.[1] How would it be possible to persuade the working man that even a reduction of his minimum money wage is not incompatible with a real rise in his "living" over periods of time? If Mr. Keir Hardie did not mean to make his whole contention ridiculous, he must have been entirely unaware of this when he said that £3 per week was required for the miner to "live." On the other hand, if the value of money went the other way, would it be any more possible to persuade the interested parties that the minimum money wage should rise?

Is it worth fighting for a minimum wage?

The question which finally suggests itself to me is this—If the minimum wage is only possible under very high organisation (that is to say, under organisations of

[1] See p. 153.

men which would look after the interests of their members better than they have yet done), is it worth fighting for?

Let me point out that, if a real minimum wage be demanded,—I do not mean a sliding scale minimum, but a minimum wage which would not rise except when wages in other trades rose,—it is proposing that mining labour should take up a new position from what it has hitherto taken. Wages and profits alike being paid out of price of product, they both depend, absolutely speaking, for their greater or less, on the greater or less of price. The result of this, on the whole, is that in good times wages, with proper organisation, go very high; in bad times, correspondingly low, just as profits sometimes go very high and at other times disappear. But now it is wished to change all this, and make the fundamental wage independent of fluctuations of price. The demand is, then, practically that the coalmasters should buy out the miners for a fixed minimum wage.

—which would be a new departure,

There does not seem any impossibility about this. It will involve, as has been shown, the exclusion from the pits of all those who, in the opinion of the masters, are not up to a certain standard of efficiency. But this minimum wage, being fixed and secured as a first charge on gross returns, could not be a high wage; for every investor knows that he cannot make any payment a first charge on an undertaking without being content with a low rate. There is already a close parallel in the factory wages of women in Scotland. Their average wage is about 10s. a week; it does not vary to any extent with price. I have reason to believe that it is accepted by many employers as a fixed cost.[1] But then

and could not be a high wage.

[1] See p. 127.

it is a very low wage. I am by no means sure that the insistence on a minimum wage for men would not be throwing away the workers' birthright for a present mess of pottage, nor am I sure that it would allow the mining classes the full share in the growing wealth of the community which they should have. And, taking human nature as it is, I do not think the arrangement would last. Whenever prices of coal chanced to go up, the wage earners would be impatient of their fixed minimum level. This has been instanced once and again under the sliding scale. But if once they rebelled and demanded that the minimum should be raised for a passing rise in price, the whole principle would go; for evidently the masters would also exact, in all justice, that, on a passing depression of price, the minimum must fall.

A minimum wage, in fact, would be like a mortgage charge on a manufacturing company, which remains fixed and unchanged whatever the profits of the concern may be. But when the mortgage holders are human beings at the verge of a living, we must expect some human weakness from them.

One may doubt the minimum wage policy

It is for this reason that I demur to a common argument which I may give in the words of one of its exponents. "Economists," says a writer, "know better than any other class of men that, with the increasing labour-saving machinery that is being introduced, the industry that cannot afford its workers a moderate standard of comfort is one for the successful prosecution of which our conditions and circumstances are not adapted, and which must sooner or later decay." This is perfectly true; but the fact I have been trying to bring out is that it is not a question between a wage that will afford its workers a moderate standard of comfort and one that will not, but between a wage that rises and falls with price and a wage that is fixed. In either case the workers may have a moderate standard of comfort: in the one case the miner would require to lay by in good times against the coming bad ones; in the other, he would have, perhaps, no surplus to lay by. On the whole, I am by no means sure that the employing classes would not have the better of the bargain, in being residuary rather than preference shareholders.

in the interest of the worker.

As corollary to all this, must be brought forward another issue that is necessarily involved in the settlement of this one. If the principle of a minimum wage be granted as regards the miners, it is difficult to see how it can be limited to them, either on account of the severity and unpleasantness of their work, or on account of any pressure of competition on them that is more unfair than is the competition in other departments of industry. But, if extended to other trades, the principle will involve that only workers of a certain strength and ability are engaged, and that all under this standard are shut out from employment. If the problem of the unemployed is now severe, one scarcely likes to think what it would be under these circumstances.

A minimum wage principle could not be limited to miners.

The theoretical solution of the problem is, of course, to set the unemployed to work for each other. But if this could be done—and the difficulties are enormous,—it would divide the working classes into two great sections: those who could earn the minimum wage and upward, and those who had no minimum wage. That is to say, the burden would be lifted off one class of workers to rest on another. And this suggests the problem that is even now coming to the front as the most difficult of all—the relation of women's labour and wage to the labour and wage of men. There is already a well-marked tendency for women to extrude men from the trades in which men and women are working together. In the collieries this difficulty is not present, owing to the prohibition of women from underground employment, although it might be possible for boys and youths in the pits to undersell the minimum wage. But if the principle is extended to all trades, then, unless women also come under its operation, it will result in an immense extension of the field of women's labour. It is not too much to predict that, if men are forbidden to work unless they can earn 24s. a week, the wife will become the wage earner in many a household.

If universalised, it would bring in women's labour.

III

THE SLIDING SCALE

ARGUMENT

Method of drawing up a scale: the general advantages claimed. Its economic basis as connecting wage directly with price of coal. As consumption goods measure the value of production goods, the price of coal is the outside limit of payment to all concerned in its production, including wage earners. Wages, then, will be affected directly by rise or fall of coal, subject to this consideration, that the normal wage must be in equilibrium with other wages over the field. The wage that gives the miner equal net advantages with other wage earners whose conditions and circumstances are similar, will be the ideal "standard wage." From this, the rise or fall of price is shared according to an empirically determined system of graduation. What is the economic principle which should guide this distribution is not yet clear, but its settlement and assertion are desirable. Details of actual scales. When they have broken down, it is generally due to impatience—the forgetting that, if the rise is slow, so will be the fall. Comparing with this the rival proposal of a Living Wage minimum, which originated in the idea that long contracts depressed wage, and aims at controlling prices by high fixed labour cost, we find that the living wage claimed is our ideal standard wage. This seems suicidal enough, considering what a Free Trade country sets itself to attempt, but, after all, it is a logical application of the old cost of production theory, and may be defended on the trade union tradition—with results which the miner, perhaps, will not care for. Its best argument, however, is that it is thought worthy of a two years' trial in the Midlands collieries.

III

THE SLIDING SCALE

"*The Sliding Scale, when working at its best, arranges that those influences which short-period fluctuations in the price of a commodity are bound to exercise on the current wages (the Quasi-rents) of the labour by which they are made, shall work themselves out smoothly and easily.*"—MARSHALL.

The principle very widely approved.

IN reading the evidence on Mining, given under Group A before the late Labour Commission, nothing has struck me more than the almost unanimous approval, on the part of both masters and men, of that system of regulating wages known as the Sliding Scale. Where the system is in operation the warmest feelings of approval are expressed. Where it has been in operation and has broken down, the feeling still is that a basis could be found on which the scale would work satisfactorily for both parties. Even in the West of Scotland, where the friction between mining capitalists and labourers has often been very acute, we have testimony to the same belief.

I need quote only the evidence of two witnesses so widely different in their views as the member for West Ham and the associated coalmasters of Lanarkshire. Mr. Keir Hardie says: "I approve of the principle. It is one of the objects of our union, and we have on several occasions made such a suggestion to the employers." The Lanarkshire Coalmasters' Association says: "A sliding scale, mutually agreed on, based on the realised price of coal, by which wages would be adjusted monthly, and under which all the collieries of a district or county were working, would go a long way to prevent strikes of any magnitude."

But perhaps the best testimony to its efficacy is the fact that, during the period of depression since 1891, which resulted in the great strike of 1892 in Durham and the disastrous lock-out of 1893 in the Midlands, South Wales, regulated entirely by the sliding scale, passed through the crisis without more than two or three weeks' interruption of work.

If facts are so strong, and if opinions so favourable are held on both sides—and those quoted are faint expressions compared with many in the same blue-books—it is surely time that some effort was made to concentrate public attention on this solution of the wages question, and to bring out for discussion the few points of detail on which there seems to be need for compromise. The experience of 1893, culminating in the intervention of the Government, has forced us to recognise that the coal question is a national one. The issues to us all are so serious, that we have some right to ask both masters and men to show cause why they should not try the solution of which they both profess to approve.

Why not try it?

My own experience, however, having shown me that, outside of interested circles, very little is known about the matter, I have ventured to bring together, in short compass, the actual facts of, and the economic argument for, the sliding scale.

The scales of which I give particulars are for the most part taken from Professor Munro's exhaustive papers, read before the British Association in 1885 and the Manchester Statistical Society in 1889, entitled respectively "Sliding Scales in the Coal Industry," and "Sliding Scales in the Coal and Iron Industries from 1885 to 1889" (Heywood, Manchester). I have brought these up to date by careful examination of the evidence laid before the Labour Commission in 1891 and 1892. As regards both economic and practical arguments, I have profited by personal discussion with well-known authorities on either side.

A sliding scale is an arrangement by which wages move up and down from a certain standard with the price of coal. The ordinary method of drawing out such a scale is as follows. A period of time is chosen, usually from one to six months, and the price of coal ruling over that period is thereafter known as the "standard price." On the basis of this standard price the two parties fix what is mutually agreed on as a fair wage, and this becomes known thereafter as the "standard wage." When coal is being sold at the standard price the standard wage is payable. Next comes the graduation of the relationship between prices and wages. It is agreed that, when prices rise or fall by a certain amount from the standard price, wages shall rise or fall by a certain percentage from the standard wage. Periodical revision is agreed to, the usual term being three months. The books are put into the hands of two accountants, one

Methods of arranging a scale.

chosen by each side, under pledge of secrecy. At the end of the revision period these accountants find if the average price of coal—generally taken as the price realised for the entire output, large and small together—has risen or fallen, and, according to their finding, notice is issued that the wages for the coming period will be raised or reduced by the agreed percentage.

Illustration.

By way of illustration we may take the 1887 sliding scale in Lanarkshire. When the price of triping (large and small coal together) was between 4s. 4d. and 4s. 5½d. per ton at the pithead, the wages of miners were to be the same as those ruling in the various collieries in June 1887. These being the "standards," the sales of the associated collieries were made up every month, and, for every change of 1½d. per ton in the net value of triping, the wages for the coming month were advanced or reduced by 2½ per cent.

Not a cast-iron system.

To prevent misunderstanding, it should be made clear at the outset that the standard wage is a day's wage, and that the sliding scale is not a cast-iron system by which one unvarying tonnage rate is paid. Every one knows that rates vary, and must always vary, from colliery to colliery, and even, within the same colliery, from seam to seam, according to the ease or difficulty of working the coal. Thus there is necessarily considerable "give and take." All the same, the day's wage of a good hewer is quite definite enough to afford a standard. If the miner finds the seam too hard to "make the wage" at the rate per ton offered him, he claims a higher rate or lifts his "graith." If the manager thinks he is making the wage too easily, he reduces the rate, and so on. Practically there is no difficulty in adjusting tonnage rates, or the "darg," to the recognised day's wage over the district.

The advantages claimed for the sliding scale are these. It formulates the principle which is already recognised in the coal trade, though with much friction, that wages should follow price. It thus substitutes a clear principle for seemingly arbitrary or half-informed action. It tends to steady trade, not only by avoiding the disastrous dislocations of a strike or lock-out, but by giving coalowners a basis for calculating their labour-cost some little time ahead, and so protecting them from any irrational claim for advance of wages at times when falling prices are like to sweep away profits. It tends to steady wages, not only by securing uninterrupted work, but by preventing those sudden rises which experience shows are not always well used, and those sudden falls which make the collier lose grip of what it is most important he should hold, his standard of comfort. It tends to promote peace and good feeling between masters and men, not only by assembling them round a table and forcing them to look at things through each other's spectacles, but by giving large wages to the colliers at times when the masters can best afford to do so, and taking the strain off production in times when falling prices demand relief in cost. Thus a good sliding scale so unites the interests of both parties, as to make them realise that capital and labour make as good allies as they make bad enemies. Advantages.

The first question that suggests itself is—Is this way of determining wages economically sound?

Before entering on this it may be pointed out that

Miners' wages already follow price of coal.

the economic answer is after all a work of supererogation. The wage-earners have taken it into their own hands. When there is a rise in the price of coal, the miners have no hesitation in demanding that wages follow it. Nor do the masters deny the men's right to a share in the rise; the only question raised is whether prices, as distinguished from quotations, *have* risen. Rightly or wrongly, then, miners' wages are already regulated by a sliding scale, and it would be well to remember that the subject we are now discussing is, whether it shall be a regular and recognised scale or an arbitrary and disputed one. In view, however, of the new theory, now raising its head in many quarters, that prices should follow wages, it is right that we should ask for the economic credentials of a system which makes wage follow price.

Connection of wages and prices.

The theory of the connection between wages and price now generally accepted is the following. The "consumption good" or "consumer's good,"—that is, the commodity destined and fitted to wear out its life, quickly or slowly, selfishly or socially, in ministering directly to the satisfaction of human desires,—is the only source and origin of any value in the factors of its production. As the orchard gets its value from the apples it grows, so do trees and fields, tools and engines, muscles and brains, get their value from the products of their joint work. The demand for these factors of production is the joint demand for the consumption goods to the making of which they contribute.

The general limit of rent, wages, and profit.

This being so, the value that may attach to the factors of production as a whole cannot be greater than the value realised by the totality of the consumption goods into which the factors enter. If we figure to ourselves the end and object of all industry—the consumption goods of the world—as an apple; then it is this apple, and nothing beyond this apple, that rewards the owners of the land, labour, and capital, by the joint operations of which the apple grew. A larger apple will give a greater *absolute* share to all three; a smaller apple will give a less. But the size of the apple being determined, if one factor gets a larger proportion of it, the other factors must get a less.

Absolute and relative shares.

Thus the interests of capital and labour always present one side which is harmony, and another side which is antagonism. Hence the two distinct propositions so often confused;—that wages can increase only at the expense of profits, and that wages and profits may increase together. Wages may take a larger *relative* share only if profits take a relatively less. But wages and profits may rise together if the joint product of any labour and capital increase. The one view looks at getting a larger share of the same apple; the other at getting the same relative share of a larger apple. In other words, it is the interest of both that the product should increase, but, if it do not, the gain of the one is the loss of the other.

Price of coal the limit of wages, royalty, and profit.

Applying this to the relation between miners' wages and price of coal, it becomes clear that the value realised by coal is the source and measure of the value realisable by the factors of its production. To put it in terms of money: the total price realised for coal is the total sum that determines and is divided among the various wages, the royalty rent, and the coalmasters' profits. The price of coal remaining constant, if one of these gets more, the others must get less; but, if the price of coal rises, all three may rise with it.

Price determined by the consumers,

From this we may draw two conclusions. The one is that there is an absolute limit to the rise of wages and profits in the coal trade. That limit is the price which consumers will pay for coal. Here it must not be forgotten that the "consumers" of coal embrace two perfectly distinct classes. So far as coal is sold for domestic purposes,—that is, purely as a consumption good,—it is so much a necessary of life, the substitutes for it are so few, the demand is so little elastic, and the proportion it bears to the total of household expenditure so small, that, undoubtedly, a firm combination of coal-masters could extort a much higher price than generally rules.

who are mostly manufacturers

But coal, for the greater part of its use, is itself a "production good" or factor of production; and, as such, we seek for its value in the value realised by the various commodities into the making of which it enters. Now, to the great manufacturing country whose goods compete, both at home and abroad, with the whole industrial world, the application is very obvious. It is that the producers of coal have a very limited voice in determining the rise of its price. It is sometimes suggested that foreign competition is merely a "bogey," as six-sevenths of the coal produced in Great Britain are consumed in Great Britain. While this latter fact is true, it is quite beside the mark, for there are two considerations overlooked.

and exporters,

The first is that a very large proportion of this consumption goes in the making and carrying of goods that are sold abroad.

in a Free Trade country.

The second is that we, as a Free Trade country, already have difficulty in holding our own against goods ready to be imported from other countries into ours if we raise our cost above theirs.

A direct connection between wage and price.

The other conclusion is that there is a direct connection between price of coal and wage of miners' labour. If coal rises in price the added value is reflected back on the factors of its production, just as an increased dividend raises the value of a stock, and there seems no reason why the factor which contributes fully a half to its production, namely wages, should not share the rise.

A qualification.

But what has been said suggests the necessary qualification to this latter conclusion. It is, briefly, that, as labour enters into the making of all commodities, the value of labour must be determined by the price realised for the *mass* of commodities, and not by the rises or falls in price of any one commodity into which it immediately enters. In proportion as the market for labour becomes one market, does the price of labour become one for equal qualities of labour, whatever be the price that has been meanwhile realised by its immediate products. This argument, however, requires expansion.

Looking away from any individual trade, we see that wages generally, like the remuneration of all the other factors of production, are paid out of the value realised for the products of industry generally. Of that total value, the share that falls to labour, as compared with the share that falls to capital, is determined by the innumerable equations into which labour enters along with capital; and, of that total labour share, the proportion that falls to each class of labour is determined by the innumerable equations into which that class of labour enters along with other classes.

By the incessant movement of competition, acting

Labour's total share being distributed by competition,

through migration of labour into trades which for the moment pay better, and out of trades which for the moment pay worse, the wages of various classes of workers become adjusted to certain levels that approximately represent the same net advantages in each trade. If competition were perfect, and labour as easy of migration as some people suppose it to be, then, given equal training and skill, half-a-dozen workmen, scattered over half-a-dozen different trades, would have, not the same wages, but the same amount of comfort and well-being from their wages, taking into account the drawbacks and the advantages in each. Thus the miner would get so much more money wage to make up for the discomfort of his calling, while the ploughman would get so much less to balance the comparative pleasantness of his work. The house-painter, whose work comes in seasons, would have so much more per week, the joiner so much less, and so on. Into this calculation would come also the influence of numbers;—the consideration that, owing to circumstances, some trades are liable to have more entrants than can be employed at what would otherwise be the normal level of wage.

To illustrate. Suppose we say that the wage for which bare necessaries can be obtained by the unskilled town labourer is 18s. per week, the *standard* wage of unskilled labour will be very much above this. The growing wealth of the country has enabled the unskilled classes gradually to add and demand such "conventional necessaries" as tea and tobacco, in addition to the "necessaries for efficiency." Suppose, for convenience sake, we put this standard at the figure approved by the London County Council, viz. 24s. a week. Then the *standard* wage of the miners will be above this, according as mining can be considered and ranked as a skilled trade, and according to the peculiar advantages or disadvantages of the miners' work. We compare it with the occupations of plasterers, masons, bricklayers, mechanics, with all the shipbuilding and transit trades, etc.; and taking the average of education, apprenticeship, and skill in these trades, we determine the grade of labour to which the miner belongs, and find his level roughly in this way. The conclusion arrived at will be qualified, on the one hand, by the disagreeableness and danger of his calling, and, on the other, by the ease with which agricultural labour is drafted into the pits. Putting all these considerations together, we may conclude that, if 24s. is the normal standard of unskilled labour, then some such wage as 30s. per week will keep mining labour in a position of comparative equilibrium with other kinds of labour. On this view, 30s.—the figure, of course, is purely hypothetical—will be the wage at which the miner shares, equally with his fellows, the progress and diffusion of wealth among the working classes. It is, on these assumptions, the wage which any one employing him in normal times should be able to pay, and the wage which he himself should do his utmost to conserve.

taking into account skill, numbers, etc.,

mining wage must keep the equilibrium with other trades.

Of course, the action of competition is very far from being perfect, and it cannot be said *prima facie* that the general level of wage we find ruling in any one trade has actually been determined by a fair balancing of such considerations. But there is always at work a force tending to bring wages into such an equilibrium. If the difference of net advantage between the various trades was very great we should actually *see* the migration into one trade, and out of another. It is scarcely likely, for instance, that bricklayers and masons should be earning wages very greatly different from each other, without the children of the lower-paid trade being trained for and drafted into the higher-paid trade.

The view, then, that wages should be ruled by price is subject to the qualification that, while, as regards the temporary fluctuations of wage, there seems no better guide than the rise or fall of the commodity produced by the individual trade,—at any rate where the commodity is a homogeneous and calculable one like coal,—the wages of any particular industry cannot permanently be above the wages of other industries which offer similar net advantages.

What the standard wage should represent.

If this be accepted, we must say that the "standard wage" on a sliding scale should represent the wage to which colliers are normally entitled, as their share of the apple of product out of the total share which falls to the working classes.[1] Indeed, we find an unconscious aiming at this in the history of almost every sliding scale that has been in operation. Without much thought of the issues involved, or, perhaps, in despair of finding any more scientific basis, the wage and the price ruling at the time have been taken as the "standards." Then, as prices changed, the colliers have become dissatisfied with this basis, and pressed for its revision; the reason invariably being that they found, or thought they found, that their average wage under the sliding scale did

[1] It will be noticed that this ideal standard wage corresponds with what has already been formulated as the standard of comfort wage, or cost price of labour. See p. 22.

not give them the same net advantages as were being earned by other trades with which their labour could be put in comparison. In other cases the masters have revised the standards for exactly the opposite reason.

Standard not a minimum wage.

It may be well, before passing from this, to point out that "standard" wage must not be confounded with "minimum" wage. The standard wage should be one which both parties agree that the miners may expect in times when the mines are paying normal profits [1] to the masters. It should be recognised as the "fair day's wage" for miners; the wage at which the highest efficiency is most likely to be brought out; and the wage which will make and keep the workers contented, because it maintains them at that standard of comfort to which similarly skilled trades have attained. But it should, at the same time, be clearly recognised that as, after all, demand comes from the consumers, there will be times when this standard cannot be maintained, or can be maintained only at the cost of ultimate loss to everybody. If the miner is a wise man he will conform his expenditure and his savings to the standard wage, and regard what he sometimes gets above that standard as an insurance fund against times when his actual wage will fall below it.

[1] I use the expression with full consciousness of its utter inadequacy. Labour and capital working together produce a national dividend which is divided out among those giving services and no capital, those giving capital and no service, and those giving both. That there is a level of interest on capital, empirically determined, is obvious. But, so long as we are uncertain about the very definition of "profit," and confuse the dividends of limited companies with the "earnings of management" of private undertakings, the conception of "normal profits" must be of the vaguest.

Graduating wages from the standard.

We go on now to consider the rise or fall of wages from the standard.

It may be stated at the outset that, to adjust miners' wages temporarily by price of coal is, undoubtedly, to admit the wage-earner to a share in risk, and therefore in profits. In the distribution of product, the idea usually attached to "wages" is that the employer buys out his working-men partners for a fixed sum, and that, in consideration of taking this and all the other risks of the business, he is entitled to all the profits. If miners' wages did not rise and fall with price of coal, but followed the general course of wages over the country, the normal wage of the miner would be the standard wage, and there would be no need for a sliding scale. But if the wage of labour is to a certain extent regulated by, and fluctuates with, the current price of the commodity into which it directly enters, then, to that extent, wage departs from the conception just named. It is no longer a fixed share. In normal times, indeed, the worker will get the standard wage; in other times, as he gets the benefit one way, he must share the loss the other way. Now as, for special reasons—partly rational, partly traditional—miners' wages do follow the price of coal, the sliding scale proposes to fix a level from which progression upwards and downwards is determined. This level is the price which is assumed to allow normal profits, at the same time as it secures to the miner the normal wage of labour over the field under similar conditions. Either rise or fall in the price of coal is regarded as accidental, and tending to rectify itself. As, then, the miner claims to share in any advance of coal above the standard, and as between

Exact position of the standard.

physical subsistence wage and standard wage, there is, in this country, a very considerable margin, it cannot be regarded as harsh that he should be asked to share with capital the disadvantages of a temporary fall in price. Where wages are determined by a sliding scale, the interests of masters and men are bound together in a way that they are not bound together under simple competition, and accordingly both parties must divide the burden.

An economic principle difficult to find,

We go on, then, to ask if it is possible to lay down any economic principle which, in the case of a change in price, may determine the share of gain or loss to which capital and labour are respectively entitled. A glance at actual scales shows a diversity in methods of sharing which is not encouraging. The last Durham scale moved 7½, the South Wales scale 8¾, and the Lanarkshire scale 20 per cent for every shilling of change in the price of coal. But this diversity serves, at any rate, to emphasise the need for an economic principle, if for nothing else than to criticise the empirical one. The usual way of determining the rate of rise or fall from the standards has been to take wages and prices over a period of time, and find what regulating principle would have given the wages which actually ruled over that period. There is no great difficulty in this, assuming that the period in question has been normal. Indeed, a Glasgow coalmaster, Mr. James S. Dixon, in 1879, drew out a sliding scale based on previous experience, which, he assures me, would have given practically the same wages as have ruled ever since, with the exception of a few months of 1890 and 1891. A method of determination like this, of course,

but necessary,

to justify the empirical graduation.

gives the sanction of experience to the graduation of a scale; but, in these days, it will not altogether justify the ways of capital to labour, or prove that the period on which the calculation was based was normal. Rightly or wrongly it will be found, at an arbitration board, that appeals are made to equity, and that equity appeals to economic science.

A fixed graduation, *e.g.* may not work out well;

Say, for example, it has been agreed that, for every sixpence of change in price, wages will alter by 10 per cent, it does not require much consideration to see that a progression like this—especially if the standards have had no more justification than that of being the standards of the day on which the scale was adopted—will some time or other press unequally on the two sides. Probably no fault will be found with it so long as coal remains about the standard price or above it. But, if coal falls heavily below the standard price, it may be found that, under this fixed percentage, wages are reduced under physical subsistence—that is, touch the vanishing point of labour—before profits are reduced to nothing—that is, before the vanishing point of capital begins. Even if we assume that the difference between normal profits and no profits corresponds with the difference between normal wage and physical subsistence,—which, I should say, is more than doubtful[1]—there is no guarantee that a simple progression like the above will equally affect capital and labour at any point between the two. This difficulty is found

[1] For the reason that, below subsistence point, man goes out of existence at once: at no-profit point, capital only begins to go out of existence, and may be "called down" to a lower valuation.

in the case of rising prices—see, for instance, the device called "double jumps"; but it is of most importance when price falls below the standard. In the last Cumberland scale the advance was $1\frac{1}{4}$ per cent for every $1\frac{1}{2}$d. above the standard, but $1\frac{1}{4}$ per cent for every 2d. below the standard. Economic science, indeed, would have no difficulty in defending this; it would point out that the marginal utility of money rises in proportion to the smallness of the income. That is to say, to a man living at a small wage, sixpence of reduction "means more" relatively than sixpence of advance; the real loss involved in sixpence taken off the necessaries of life much outweighing the gain of sixpence added to its comforts. But it is difficult to see how this empirical change of the rate could be defended —on other than sentimental grounds—without appeal to economic principles.

especially when prices go much below the standard.

But while pointing out the desirability of an economic principle which should guide the empirical determination, I do not feel called on to say what that principle should be, and this for the sufficient reason that, in a matter of such practical moment, the individual economist dare not go beyond his science. What I mean may be most easily seen by an illustration. Suppose some one were to advance the very plausible contention that labour and capital should share equally in the surplus or defect of price. For this view it might be argued that an advance of price is not generally due to added efficiency of labour and capital; that it is the expression of hardship to the rest of the community, poor no less than rich; and that, accordingly, neither side has a right to a larger share than the other. In the case of a re-

Its difficulty illustrated.

duction of price, again, the causes are equally beyond and outside of either party, and neither capital nor labour accordingly should suffer more than the other. In confirmation of this it might be contended, with some reasonableness, that, divergent as the scales are, they show, when all the circumstances are taken into account, something like a rough equality of division of gain or loss between the two. Take, for instance, a case which seems at first sight to contradict any such notion.

In the Lanarkshire scale wages advanced $2\frac{1}{2}$ per cent for every $1\frac{1}{2}$d. in price. Suppose the standard wage per day were 5s., the standard price 5s., and the usual "darg" three tons. Then a rise in price of 6d. per ton would give the masters an extra 1s. 6d. per day per man, against which they would be paying 10 per cent extra wage, or 6d. per day. Here the masters' gross gain would be 1s. per man, against the men's net gain of 6d., and, although a great deal would come off the 1s., owing to the simultaneous rise in wages of all the oncost men, and the enhanced cost of coal consumed in the colliery, the masters would clearly gain a greater share of the advance than the men. But when we look at the case of a fall in price of 6d. per ton from the standard we see exactly the converse of this. The masters would lose 6d. on every ton, or 1s. 6d. per man per day, while each man lost only 6d. per day. Making similar deductions for reduced oncost, etc., the masters would bear the greater share of the reduction. This, then, might be taken as at least an attempt at balancing gain and loss over a period.

What makes us hesitate about saying yea or nay to such an argument is, that it raises the whole question of the relation of labour to capital in the sharing of the national dividend, while this question is precisely the meeting-place of innumerable economic investigations and the battle-ground of innumerable economic partisans. For consider what it is, after all, we are here called to do. In most trades, as I said, wages rise, not with price of one commodity, or even with any price, but with general prosperity of trade. But, in the sliding scale, we tie a certain wage to a certain price, and with this comes the necessity of distributing out accidental rises or falls from that price. In fact, we are asking what is a *fair* distribution between labour and capital of what Marshall calls a "quasi-rent." Now, as we have hitherto left the entire distribution to the forces of competition, this is a question to which we are yet strange. Probably for some time yet economic science will not attempt to do more than show the bearings of the empirically-determined graduation, and criticise some of its consequences.[1]

What our economic principle would have to do.

One question naturally suggests itself here; whether, in view of his standard wage not being after all such as to allow of any great saving, it is not advisable for the worker to sell out, to a certain extent, his share in the

Is a minimum wage advisable?

[1] Discussions like the above may be thought too abstract for any practical application. But, in times when arbitration is being invoked against mere force, it is just such discussions as must be entertained. See, for instance, the U.S. Congress Commission on the Chicago Strike, which, rightly or wrongly, reported that the allocation of loss on certain contracts made by the Pullman Company should more properly have been in the proportion of three-fourths to capital and one-fourth to wages, instead of one-half to each; basing this conclusion on the nearness of the cut wages to subsistence point, while the capital and surplus suffered only one per cent diminution. Cf. similar discussions in Professor Marshall's *Preface* to Mr. L. L. Price's admirable *Industrial Peace*.

possible profits, against the consideration of a minimum wage. If this minimum wage is purchased by a corresponding consideration granted in the opposite direction, either in the shape of a maximum wage or of a smaller share in the extra price over the standard, there does not seem to me anything against it. It is a matter of bargain, and it is perhaps a wise thing for the worker to secure it if he can. There does not seem to be anything economically indefensible in a minimum wage, any more than there is in the conception of wage generally as the fixed sum for which the capitalist buys out the labourer.

We pass now from the economic argument to consider details of actual sliding scales.

The Durham Scale.

The first scale in the Durham coalfields was adopted in 1877, for two years, as between the Durham Coalowners' Association and the Durham Miners' Association. The standard price of coal was 5s. 8d. up to 6s. 4d. per ton; "price" being defined as the "average net price realised for all coal raised at the pit-mouth" during the four months preceding. When prices rose to 6s. 4d. but under 7s., wage for the next four months rose 5 per cent for underground men and 4 per cent for surfacemen, and so on, rising 5 per cent and 4 per cent for every 8d. When prices fell below 5s. 8d. but not below 5s. 4d., wage was reduced 5 per cent and 4 per cent respectively. But if prices fell below 5s. 4d., wages fell below the standard in all only 7½ per cent and 7 per cent. This scale had a minimum wage of 4s. 8d. It was terminated by the masters. Trade was bad, many of the pits were stopped, great numbers of miners were on the union funds, and "the scale worked too well for the men," to quote the miners' representative. In the next scale, accordingly, we see the influence of the "market price of labour" on the determination of the standard wage.

The second sliding scale was entered on in 1879. The standard price was now reduced, on the award of Lord Derby, to 4s. 2d.—4s. 6d. per ton, and moved up or down $2\frac{1}{2}$ per cent for every 4d. A notable innovation was the "double jumps." When price touched 5s. 6d., wages rose 5 per cent for every 4d. of advance in price, resuming the former progression from 6s. 2d. upward. In the case of surfacemen, other than engineers, mechanics, and cokemen, 2 per cent was to be substituted for $2\frac{1}{2}$ per cent all through, and 4 per cent for 5 per cent in the "double jumps." This agreement was signed for two years, terminable then at six months' notice.

The third sliding scale dates from 1882. The wages now alter for every 2d. per ton of price. The standard price is still further reduced to 3s. 10d.—4s. Each 2d. makes a change in wage of $1\frac{1}{4}$ per cent, except in the case where price touches 5s. 10d.—6s. and 6s.—6s. 2d., when the advance is $2\frac{1}{2}$ per cent for each 2d. For surfacemen, as before, 1 per cent is substituted for $1\frac{1}{4}$ per cent, and 2 per cent for $2\frac{1}{2}$ per cent. The revision period is four months, and the agreement is from 29th April 1882 till 30th June 1883, and terminable on notice six months thereafter. There is the following addition: "That the quantity of all coals disposed of otherwise than for colliery purposes be ascertained and priced at the average selling price of coal of a similar description, and that the sum thus arrived at be added to the sales."

The fourth sliding scale is dated June 1884. At that time the price of coal at the pit-mouth seems to have been 3s. 10d., and the average wage 4s. It is the same as the third scale, and was fixed for two years, but actually lasted till 1889. At that date it was terminated by the men. "They considered that the standard wage, as compared with the standard price, had been fixed too low."

It has left cordial relations behind it.

There is now no sliding scale in Durham. Wages are arranged by negotiation, and local questions are settled by a joint-committee of six masters and six men, under the chairmanship of the County Court judge, who has a casting vote. Here, as in almost all cases, the experience gained under the sliding scale has left cordial relations between the two parties. The miners' secretary, Mr. W. H. Patterson, when asked by the Commission, "Can you suggest any means of avoiding or arranging strikes, and promoting cordial relations between capital and labour?" answered, "The best means that has come under my experience is the sliding scale. I have always believed, long before it was introduced, that it was the safest and most beneficial to all parties concerned, that is, providing you can get an equal and fair basis." And again, "I have not the slightest doubt in my mind but what an equitable sliding scale could be arranged, that would give equal justice to the manager, and owners, and men."

South Wales Scale.

The South Wales and Monmouthshire sliding scale was primarily the result of the great strike of 1875. The first scale dates from May of that year. Its revision period was six months. Here also we have a minimum wage, fixed for each colliery at 5 per cent above the several hewing prices paid at the same colliery in the year 1869. The standard price of "screened large coal" corresponding to this standard of wage was fixed at 12s. per ton for steam coal, and 11s. per ton for bituminous coal f.o.b. at Cardiff, Newport, and Swansea. For every extra 1s. per ton the wage for the next six months was advanced by 7½ per cent till prices reached a maximum of 21s. and 20s. respectively. It is significant that in 1878 the workers consented to a reduction of 5 per cent below the minimum, which, however, was made up to them by a special bonus for one year under the succeeding scale. In the second scale, accordingly, dated January 1880, both minimum and maximum disappeared. It was a two years' agreement, with a revision period of four months. The standard wage was made up from the rates actually paid at the several collieries in December 1879. The standard price was 8s. 6d. per ton for collieries in group 1, and 8s. for collieries in group 2, the coal, as before, being large colliery screened coal f.o.b. at Cardiff, Newport, and Swansea. Wages were to advance by graduations of 2½ per cent for every 4d. per ton of advance or reduction in the net average selling price in each group. There now appeared a provision that, when the selling price in groups 1 and 2 reached 13s. 2d. and 12s. 8d. respectively, there should be an extra advance of 2½ per cent on the standard wage for every 1s. 4d. of advance in price, similar reductions being made as prices fell to these figures.

The third sliding scale came into operation in June 1882. It was substantially the same as the second, except that the two groups were merged in one, that the standard wage was now made the equivalent of a standard price falling between 7s. 8d. and 8s., and that the "double jumps" at 13s. 2d. and 12s. 8d. were abolished. There have been several changes in the scale since, but it may be sufficient to give the present sliding scale, which came into force in April of the present year. It repeats the previous conditions with the following changes: The revision period is two months. The standard price is between 7s. 10¼d. and 8s. Wages move up or down at the rate of 8¾d. per cent for every 1s.

A notable addition.

One very notable addition was made in the 1892 scale, and is retained in the present one. A constant source of irritation had been that, when prices ran very low, contracts were sometimes made for very long periods at such figures as to materially reduce the average price and wage, and prevent the miners getting the full advantage of a market rise. This was now met by the clause that "any contract for the sale of coal for a period of more than twelve months shall not be taken into account for more than six successive audits of two months each."

Thus the largest and richest coalfields of Great Britain—for South Wales contains some 32,000,000,000 tons, or over a third of all the coal still available—may be accepted as best showing the operation of the sliding scale. All the collieries come under it. The Employers' Association, indeed, embraces only 21 collieries out of a total of 63, but the decisions of the scale are followed by them all. The committee consists of 22 members, 11 from each side. There is no voting; "both parties must agree in all cases." The committee is, in fact, a board of conciliation for discussing and adjusting local disputes.

The Cumberland mines have been under the sliding scale since 1879. In that year the selling prices of July, August, and September—viz. 4s. 6.19d.—and the wages ruling in October of that year, were taken as the standards. The revision period was four months. For every advance of 4d. in coal, wages were to advance 2½ per cent, with "double jumps" at the third and sixth fourpences. Cumberl nd Scale.

In the second scale, of 1882, the standard price remained the same, but the standard wage was increased 2½ per cent. For every advance of 2d. wages were to rise 1¼ per cent, with "double jumps" at the third, sixth, ninth, and twelfth twopences.

The third scale, of 1884, was unchanged, except that the rate of advance became 1¼ per cent for every 1½d. above the standard, till the price went above 6s. 6.19d. per ton, when the 1¼ per cent was given only for every 2d. For every fall below the standard, on the other hand, wages went down 1¼ per cent for every 2d.

The fourth scale, of 1887, repeats the same provisions, except that the standard price is raised from 4s. 6.19d. to 4s. 6.50d.

The sliding scale was introduced into South Staffordshire in 1888. The standard price was taken as 4s. 9d., at which price the standard wage was 3s. 4d. per day for thick coal and 2s. 8d. for thin coal. For every 2d. per ton, wage at the thick coal altered 1d. per day, at the thin coal 1½d. per day, the revision period being South Stafford Scale.

three months. The chairman of the Coalmasters' Association reported to the Commission in January 1892 that the scale was working well. "The fact is, really no important matter has come before the whole Board, the sliding scale has worked so satisfactorily."

Northumberland,

Other scales in England need be mentioned only as they present peculiar features. There were two scales in Northumberland, dated 1879 and 1883; the former giving $2\frac{1}{2}$ per cent change in wage for every 4d. in price, the latter giving $1\frac{1}{4}$ per cent for every 2d., with "double jumps" at 6s., 6s. 4d., 7s. 2d., 7s. 8d., 8s. 6d., 9s. The masters terminated the scale in 1887, when prices went down to 4s. $6\frac{3}{4}$d., asserting that they must shut the mines unless they got some relief in wage. They consider the re-establishment of a scale "highly desirable," but at present the men fight shy of it. Since the great strike of that year, however, there has been scarcely any suspension of work, even at single collieries. Matters are regulated by mutual agreement between the two associations, meeting once every two months, and the working of the joint committee is said to be most satisfactory.

and other scales.

In Cannock Chase Collieries there were several sliding scale arrangements up till 1883, showing graduations of 3d. wage for every 1s. of price. The Masters' Association still approves of the scale.

In the Ocean Collieries scale, the standard price being 10s. to 10s. 9d., there was a minimum wage when price fell to 8s. 6d.

In the Bedworth Collieries scale of 1879 (now abandoned) the revision took place every month; wage rose 1d. per day for every 3d. per ton, and there was a minimum wage of 3s. 4d. per day when price was 5s. 6d.

On the Somerset scale of 1876 (also abandoned), the standard price being 10s. and the graduation at the rate of $7\frac{1}{2}$ per cent for every 1s., there was a minimum wage at the price of 9s. 4d. per ton. Accompanying this was a provision for a maximum wage when price touched 18s. 4d.

There is no sliding scale in North and West Lancashire, in Leicestershire, in Derbyshire, or in Yorkshire, although the masters generally express themselves favourable to its introduction.

In Scotland the first sliding scale was one proposed to the miners in 1873 by the coal and iron masters of Ayrshire. The principle was that, when coal was selling at 6s. per ton, the wages should be 4s. 6d. per day, rising 6d. per day for every 1s. of advance in price. The scale held for only a year, when it came to grief over a dispute whether the price of coal justified a reduction of wage or not. Ayrshire Scale.

The Lanarkshire Coalmasters' scale of 1887 is one of peculiar interest. So long before as 1879, Mr. James S. Dixon had circulated a proposal for a sliding scale, by which the "nominal daily wage was to be the average net price per ton at the pithead got for the coal, dross, and triping despatched from the enrolled collieries." This proposal had the great merit of simplicity, and even yet, as I said, commands attention by the fact that the wages realised since closely approximate to those which such a sliding scale would have given. In 1886 and 1887 came disputes and restrictions of work, Lanarkshire Scale.

as consequence of which the Lanarkshire Coalmasters' Association came into existence, with a membership of 49 firms and 64 collieries. In March 1887 a two days' conference between 16 miners and 16 masters was held. A sliding scale was proposed, but, as the miners made it a prior condition that an advance of wage should be given unconditionally, no arrangement was come to. The masters, however, seem to have been impressed, during the conference, with the idea of the sliding scale, and on 27th June adopted it on their own account, the Larkhall masters at this time, with one exception, falling away from the Association.

The standards were taken from the month in which the scale was adopted, the standard wage being payable when coal was any price between 4s. 4d. and 4s 5½d. Wages were to advance 2½ per cent for every change of 1½d. per ton in the net value of triping—that is, large and small coal together—at the pithead. The revision was monthly. Unfortunately the men would not be parties to the scale, and left themselves free to accept or reject its ruling. The practical result was, that the scale decided the wages which the Association from time to time intimated; the unassociated masters followed the scale; and for over two years it worked well. In their report for the year 1888 the Association declared their satisfaction with the scale and their confidence in its principle. "This rational mode of regulating wages must," they said, "commend itself to all concerned."

But in September 1889 coal rose fast. As might be expected the men grew restive at the slower operation of the scale. This, however, might have been got over, but some of the unassociated masters gave an independent advance, and the Association was forced to abandon the scale and follow suit.

It may be noted that this scale, in case of a rise, was much more liberal than the English scales. It gave an advance of 10 per cent for every 6d., while most of the others give 10 per cent for every 1s. On the other side, however, it involved a correspondingly severe reduction when prices went down and below the standard. It did not last long enough, however, to pass through the ordeal of many reductions; while its advance, even at this liberal rate, was not rapid enough to satisfy the men. **Its liberal provisions.**

Our data would scarcely be complete without mention of the fact that the manufactured iron and steel industries of Great Britain are subject to Boards of Arbitration or Joint-Committees, most of them working on sliding scales. The same is true to a lesser extent of ironstone mining and iron working. Special reference to the experience of Cleveland may not be out of place. In 1879 the sliding scale was introduced for miners and blast-furnacemen. The standard price which was taken as basis for both was No. 3 Cleveland pig iron at the then ruling price of 34s. The attempt to ascertain a fair standard wage, which should correspond to this price, is thus narrated by Mr. Hugh Bell, one of the principal masters. "In 1879 we had come through a very troubled time in the iron trade. We had had the high prices in the earlier part of the seventies, and then the rapid fall which ensued. The troubles with our men made us disposed to look for some other way of settling wages; and a sliding scale **Iron and steel sliding scales.** **Cleveland experience.**

which was already in vogue in other industries suggested itself. We then endeavoured to ascertain, those of us who had access to the price of pig iron, what rate of wages had in fact been coincident with what price of pig iron for a period of over ten years. Having ascertained this, we began to negotiate with the men upon that basis. As a result of that negotiation a scale was settled which practically gave effect to what had in reality taken place in the past. As a matter of fact the men got an advantage. We gave them a scale which, had it been in operation in the preceding ten years, would have produced a somewhat higher rate of wages than those settled by negotiation, arbitration and strikes."

The graduation of this scale was 0.96d. per ton for miners and 2.40d. per ton for blast-furnacemen, at which figures respectively the wages of the handmen changed by 0.01d., of the machinemen by 0.0075d., and of the blast-furnacemen by $\frac{1}{4}$ per cent. In the Cleveland scale there was a minimum wage of 3s. per day to spare blast-furnacemen.

The scale continues to rule as regards the blast-furnacemen, but was terminated as regards the miners in June 1889. The three reasons given for this action of the men are:—That the base rate was thought too low; that the scale did not operate fast enough at an advance of price; and that it hurt the Union. As the president of the Miners' Association naïvely said, "The men as a rule do not care to pay for a thing if they can get it for nothing, and the scale being signed for two years there seemed no call for them to pay any more into the Union."

Since 1889 all disputes have been settled by a joint-committee—the same committee as sat under the sliding scale—with a chairman elected at each meeting. The relations between the two parties are very good, but many express an earnest desire to recur to the scale. "Our unhesitating vote," said Mr. Bell, "is in favour of the sliding scale." Present position in Cleveland.

On reviewing the history of these various scales, it becomes evident that the difficulty of maintaining them is due, not to imperfection in their principle, but to a weakness of human nature. There is some colour of truth in the miner's complaint that "the d——d thing always slides the wrong way," and it is not difficult to find out its cause. When the market quotations for coal rise rapidly, the men do not realise that quotations are not sales, and that, as masters as a rule contract for more than half their output, the so-called "current price"—when it is a real price, which is not always the case—is obtained only for less than half the production. But even when prices rise, wages do not follow them till the expiry of the revision period. Forgetting that they are privileged, as compared with many other trades, in participating in the rise at all, the colliers become impatient at not getting it as soon as the masters. At the same time, their attention is attracted by additional men being drafted into the pits in order that the masters may secure the rise in price over a larger output. They thus become aware that, if not bound by the sliding scale, this would have been a favourable opportunity to press for an advance of wages, and they perhaps throw off the scale. They Where the system has broken down.

forget that there is always reaction from high prices; and that, when prices fall again, they get every penny of advantage to which they were entitled under the bargain, inasmuch as, while profits fall immediately that price turns, wages do not come down till the end of the revision period. For this action the sliding scale does not need apology, but only explanation; and it is the duty of every one who has any influence with the miners to impress upon them that, if the rise is slower, the fall is correspondingly slower. It would be well if both parties would take a lesson from the words of Mr. Edward Trow, operative secretary of the Board of Conciliation and Arbitration for the Manufactured Iron and Steel Trade of the North of England, and general secretary of the Associated Iron and Steel Workers, in answer to the Duke of Devonshire:—

Mr. Trow's explanation.

"But the sliding scales have frequently been given up by both parties. Can you explain this at all?"

"We had not had sufficient experience, and had not covered sufficient ground in coming to conclusions. But in adopting the last scale we went over a lengthened period. We had various meetings with the men, and pointed out how the scale would have affected them over 18 or 20 years if it had been in operation. We showed them that it is to their advantage to be a little patient when the market is rising, because it is to their benefit when the market is falling. I think the employers, like ourselves, needed a little education, and the result of the education is, as I believe, that we now have a very fair scale, which has some prospect of permanency."

This "little patience"—so sadly wanting at most conferences between the two parties—is, I am convinced, the only thing needed to secure a sliding scale which should be as just as the nature of things allows.

The advantage of unions on both sides.

Before passing from this, I should like to mention one other thing that is brought out, as regards mining, by the experience of sliding scales, and is testified to, I think unanimously, by witnesses of all shades before the Commission. It is that strong unions on either side are the best security of good relations. Whatever be the case as regards other trades, the principle of trade unionism has a vindication within the volumes of the Labour Commission which puts it beyond question as regards the miners. The only guarding clause ever suggested by the masters is, that miners' representatives should be duly elected by regularly-constituted bodies, so that their decisions may be binding on the men.

The "living wage" as minimum.

What fitly remains now is to consider, in the light of experience thus gained, the new demand which puts forward the so-called "Living Wage" as the minimum wage for miners. Conceivably this living wage might be taken as the "standard wage" of a sliding scale, but, practically, it is a rival scheme.

As a matter of history, this proposal, although now disguising itself in a dress of economic theory, has arisen out of the contract system which obtains in the selling of coals. It is somewhat difficult to convince miners of the necessity, and sometimes even of the existence, of contracts. When market prices of coal rise, and the miner, expecting an advance of wage, is told that half or more of the output of the colliery has been sold for months ahead at the previous low price, it is very

Contracts;

natural that he should either disbelieve the figures, or ask by what right his labour has been thus disposed of. The master's answer is, that competition with other countries makes long contracts necessary. Continental railways, for instance, require tenders for a year; gas coal, as the agent for Lord Durham stated before the Commission, is sometimes sold three years ahead, and even longer contracts have been known. And contracts of a certain duration are quite necessary to secure steadiness of working. A colliery which gets its orders from hand to mouth cannot be an economically managed colliery.

their necessity.

Do contracts depress price?

This is all true, and will probably be admitted by every one who knows how economy makes all the difference between a profit and a loss. Let us look, however, at the contention, very generally advanced, that long contracts tend to depress price.

The case for the affirmative.

It is argued that, when a trade gets into a habit of long contracts, it is very difficult to get prices up. The experience of many trades outside of coal is, that the first question at any conference on the subject of raising prices is, "What are the contracts?" And if the contracts have still long to run, there is little chance of a rise being agreed to,—the natural suspicion being that, while people are willing enough to take a profit from what they can sell in other people's markets, they generally take care to secure their own preserves from interference. Besides, contract leads to contract. That A has got a low contract from B, is an excellent argument for him getting the same from C, and is generally an unanswerable reason why B should give the same to D. Any one who has had experience of competitive business will distrust the assertion—"We are as anxious to get good prices as anybody." The spirit may be willing, but the flesh is weak against the temptation of a long contract with its economies of working, or against the hint that a rival will be more accommodating. People who know the past history of a trade which has its headquarters in Paisley, will remember how, on the eve of an advance of price, scores of travellers were scouring the country booking orders at the low price as far ahead as people would give them. In the case of coal the unfortunate result is, that, when a rise of price does take place, it is found that the Continental railway, or the gas company already paying monopoly dividends is getting its coal at the old rate, while the rise is to a very large extent borne by household consumers or manufacturers in this country. This aggravation of the burden of raised price naturally draws attention to the divergence of interests between miners and consumers, alienates the sympathy of the public, lends weight to the argument that cheapening of prices is the only way to benefit the community as a whole, and so brings into disfavour those who consider, and rightly consider, that it is more important that wages should remain steady than that prices should fall.

The case for the negative.

On the other hand, there are very good arguments against this contention. The masters point to the short term of their leases, to the necessity of getting out the whole of the coal in their area during the lease, and to the consequent impossibility of recouping themselves for present loss by ultimate gain. They maintain that colliery owners, burdened by enormous preliminary fixation of capital, heavy oncost expenses, and fixed royalties, would be peculiarly "squeezable" as regards price if they had no contracts. They suggest that the miners perhaps lay at the door of long contracts the advantage in price which all large buyers have over small ones, whether they contract or buy from week to week. They object to the assumption that all contracts are at low prices, reminding us that the majority of annual contracts are made in the spring, and must be calculated from the prices ruling at that date. In presence of all this, they maintain that it would be as reasonable to say that contracts tend to keep prices up to the contract level.

I do not pretend to draw a balance between the opposing arguments. I may say, however, that I have never met a coalowner who would admit that long contracts tended to depress price.

The new method of sustaining price.

Casting about, then, for some means of sustaining price against this inter-competition of the masters, the miners' advocates saw nothing better than the old expedient of a fixed labour cost, in the shape of a high minimum wage. If this did not prevent the accepting of unduly low prices, the loss, they argued, would, at any rate, not fall on the men.

Here minimum = standard wage,

I have already shown what is to be said for an irreducible wage, as a matter of bargain. But all that was then urged applied to what might properly be called, and generally understood as, a *minimum* wage—that is, a wage very much below the standard, and a wage that could and should be regarded as accidental, to be struggled against, and as tending to rectify itself. But the minimum wage now advocated is, indeed, very much what I have indicated as the ideal *standard* wage. It is the daily wage which, multiplied by the average number of days worked per week, would give the miner the same net advantages as his fellows, in equally skilled trades, obtain for a week's work.

At first sight this demand looks altogether irrational, and even suicidal. Is it not simply a measure of protection for one class of labour, with the additional danger that this labour would then be the only protected article in a Free Trade country,—that is, a country which gives free admission to imports while it stakes a large part of its industrial existence on being able to undersell other countries with its exports? Would this protection not form a precedent, and a precedent which could not be followed generally without making the problem of the unemployed one that would dwarf all others into insignificance? The arguments against this protection are so obvious that it will be more profitable to see what is advanced in its favour.[1]

and seems an absurd demand.

The policy has already, as I said, put on the dress of economic theory. It is sometimes said that it is a new heresy; that, in the manner of metaphysical theories, one truth carried too far has called forth its opposite. In the swing back from prices regulating wages, we have wages regulating prices! But, as a fact, it is merely the logical development, and application to human labour, of the theory, long familiar to English economists, that cost of production is the ultimate determinant of value. If cost of production determine value, then, as wage undoubtedly forms part of the cost of producing everything, the workers have only to stand together

Its economic origin

[1] See pp. 49, 59.

and increase their "cost," and prices must rise to cover it!

in a misreading of the standard of comfort theory.

It will be with some malicious satisfaction that the Jevonian and Austrian schools see this new development of the theory of value they have so long fought against. The truth is that value, "resting," as Marshall puts it, "like the keystone of an arch balanced in equilibrium between the contending pressures of its two opposing sides, the forces of demand on the one side and the forces of supply on the other," is determined by cost of production only proximately, and even then under such conditions as prevail only in some of the highly-organised trades. The one way in which cost of production can be conceived of as increasing wages is that, when the joint exertions of labour and capital have produced an extra divisible result, the wage-earner, raising his standard of comfort as wages rise, strengthens himself against that increase being taken from him by any other factor. The "supply price" of labour rises because the "demand price" has already risen. The "standard of comfort" is not primarily the cause but the consequence of high wage, although afterwards it becomes its safeguard.[1] But without going deeper into economic theory, it may be enough for most people to remember that, whatever be the case in a protectionist country, British cost of production must adapt itself to the prices at which commodities similar to ours are offered by other countries.

The most plausible argument for it.

The most plausible argument for this fixed labour cost is a curious compromise between trade selfishness

[1] For fuller discussion of this theory, see *The Standard of Comfort*, p. 3.

and economic truth. It is obvious that the mining labour market is peculiarly exposed to over-supply—especially in the depressed state of agriculture. It is contended that this tendency can be prevented only by compelling masters to pay a wage so high as to secure the monopoly of the pits to those who are able to "make" it, and that this is as much in the interests of the masters as of the professional miners. It is only carrying out the trade union tradition,—that a union insists on a minimum wage being paid its members, because only those "worth the wage" can be members of the union. It is, so far, a policy of securing highly efficient work by high wage. It is in harmony with the ascertained fact that high wages very often mean cheap labour cost. The economist, therefore, should not quarrel with the argument. But one wonders if the men generally realise what such a policy involves:—namely, that all but the best workers will be excluded from the pits; that a high premium will be put on the introduction of labour-saving machinery; that the masters must exercise stern restriction of output when demand slackens; and that numbers of pits over the country may have to be closed. With regard to this last, it is to be remembered that the miner is paid by a tonnage rate, which varies with the character of the seam, being low for an easy seam and high for a difficult one. A rise of wage, accordingly, may be of little importance to masters whose pits allow of four tons being turned out for the day's wage; but it may be quite enough to ruin those whose output, from thin or difficult seams, is no more than two tons per day. In the latter case the added cost falls on the two tons; in the former,

Consequences to the miners.

it is divided among four. It would not be the first time that trade unionism had played into the hands of the larger capitalists.

Its best defence; the experiment in the Midlands.

But perhaps the best thing that can be said for this proposal is, that it has so far recommended itself to both sides as to command a practical trial. The minimum wage is part of the two years' agreement made between masters and men in the Midland collieries after the great strike of last year. Its full lessons cannot be gathered till the expiry of that agreement in July 1896. It would be rash to say that such an experiment, in one trade and on a small scale, is foredoomed to failure. If masters and men work together under a strong board of arbitration, they may do much, not, indeed, to make price conform to wage, but to sustain price and make high wage possible. And public sympathy has gone with the experiment. The public conscience has awakened to the possibilities for evil that lie in unrestrained competition, and the heart of the nation, during the great strike, was touched by the spectacle of thousands of miners—not surely without natural affection—involving their wives and children in one common starvation, to support the principle of a "living wage." With that principle, rightly understood, no economist will be likely to disagree. Its orthodox economic rendering is:—That efficiency of labour requires a good wage; that the national wealth is sufficient to allow of a wage being paid to the present population which represents a comparatively high standard of comfort;[1] that every effort should be put forth to make this high standard the "supply price" of labour—the

The living wage principle true,

[1] See the calculation on p. 36.

price, that is, below which the workers will not consent to rear and educate the necessary supply of efficient labourers; and that there is something wrong in the organisation of industry if the distribution of wealth does not give a living wage very much above subsistence even to the unskilled classes. That, however, is quite a different thing from pronouncing that the miners' living wage should be an irreducible minimum of 25s. to 35s. for five days' work; and it is quite a different thing also from saying that, whatever the circumstances, every particular trade has a right to expect this high living wage. It is scarcely conceivable, for instance, that the hand-weavers, who fought the long battle with the power-looms, could, if they had survived till now, look for a wage corresponding to their skill. The only thing a nation can do as regards such a trade, is to make the transfer of its members to other trades as easy as possible. It is not, of course, suggested that mining is a "dying trade,"—although it may become so as the coal measures give out,—but it has two special features which make it more serious to guarantee a living wage, such as is now asked, to mining than to any other industry. The one is that one-seventh of the output enters into direct competition with foreign coal; the other is that coal is a universal "cost" in the manufacture of those goods in regard to which Great Britain keeps up a sometimes unequal struggle with protected countries. One could have wished that the experiment of an irreducible cost had been tried with any other commodity rather than with that which lies at the foundation of our industrial national life.

but not universally applicable.

Summary. Comparing with this heroic remedy the entirely moderate and common-sense solution of the sliding scale, it only remains to remind the reader that this system has the economic sanction of making wages follow price; that it merely formulates what is already done, and gains by peace what otherwise is decided by war; and that hitherto all parties have declared that it can and does work. The details given above show that we are past the experimental period in sliding scales. Almost every modification that economic and practical considerations could suggest has been tried. We have seen minimum and maximum wages, slower progressions below the standard wage, "double jumps" above the standard, various revision periods, various data for determining the standards, and we have, clearly defined, the causes from which the system has in some cases broken down. Those, then, who are convinced that the principle is good, can study all the practical modifications in records that are easily accessible. I repeat that, in view of the gigantic interests involved—interests in which every one of us shares—we have some right to ask both masters and men at least to show cause why they should not now try the solution of which they both profess to approve.

IV

WOMEN'S WAGES

ARGUMENT

Limitation of the subject to the irregular distribution of the reward of labour between the sexes. The fact that women are paid about half the wages of men is indubitable. The five popular explanations: (1) *it is all supply and demand—which states but does not explain the phenomenon;* (2) *it is an auxiliary wage—as if the wage-earning unit were the family;* (3) *their standard of comfort is less—but why should it be so?* (4) *their work is not so good—which does not explain lower piece-work rates;* (5) *they make "cheap goods"—the fact makes it very difficult to raise wages, but gives no explanation why the prices of such goods came down to such a level. But this last suggests what seems the true answer: that women are in exclusive possession of some trades in which cheap goods are made—occupy a non-competing group; that the exclusiveness, not the cheapness, accounts for the low wages. Where women extrude men, or machinery replaces them and women mind the machines, the pay is the "customary wage" for women. Proof of customary wage. But in what did the custom originate? It is a survival of poorer times from which women have not had men's opportunities of escape. Women's wages, in fact, are sustenance wages. Can they be raised? All attempts must reckon with the danger of diminishing men's wage; but, even so, it is legitimate to try. Enlightenment of the public conscience, however, may do more than combination, particularly in the direction of showing that cheap goods neither necessitate nor compensate for low wages.*

IV

WOMEN'S WAGES

"*Ah wasteful woman!—She who may*
On her sweet self set her own price."
PATMORE.

"*Give her the wages of going on and not to die.*"
TENNYSON.

The subject is part of the general wage question.

THERE is a peculiar difficulty in discussing the subject of women's wages which is apt to be overlooked. It is that, however different may be the principles which regulate the wages of women from those which regulate the wages of men, women's wages are after all part and parcel of the one share, in the distribution of income, which falls to labour. In other words, women are only one section of the class called "wage-earners"; they do not constitute a separate factor like capital; the questions connected with them form part of the general problem of wages.

Hence a full discussion of this subject would fall into two quite distinct heads: (1) The principles on which women's wages are determined and measured as compared with those of men; (2) How measures taken to improve the former would affect the latter. It may be comparatively easy to explain why a woman gets ten shillings a week against a man's twenty. But it is impossible to suggest how the woman's wage may be raised without facing the question of whether any remedial measures can secure the two together more than the thirty shillings. In what follows I shall, for the most part, content myself with the first of these problems, the causes of the irregular distribution of the wages of labour between the two sexes.

For the undoubtedly low wage

It is scarcely necessary to prove that women's wages are, as a rule, much under those of men. While twenty shillings per week is a low average for a workman possessing any degree of skill whatever, in the textile trades of Great Britain, where labour is somewhat highly skilled, the average of women's wages is probably—in Scotland it is certainly—about ten shillings per week.[1]

[1] In the *Economic Journal* for December 1891 Mr. Sidney Webb gives some valuable statistics on the subject. Women workers he divides into four classes—manual labourers, routine mental workers, artistic workers, and intellectual workers. In the two latter classes sex has little to do in determining wage. But in the third class women's earnings are invariably less than men's. In the Post Office and Telegraph Departments, in the Savings Banks, and in the Government offices generally, where women do precisely similar work with men, and are sometimes, as in ledger work, acknowledged to do it better, they invariably earn much less. The largest experiment yet made in this direction is that of the Prudential Life Assurance Office, which began in 1872 to substitute women clerks for the lower grades of men clerks. There are now 243 women employed in routine clerical work, which they are said to do more efficiently than men. The salaries run thus:—£32 for the first year, £42 for the second, £52 for the third, and £60 on promotion —probably half of what men might be expected to accept. (In Glasgow women typists and shorthand writers are offering their services from 9.30 till 5, with one hour for dinner, for £25.) In the

If we put the question in general terms, Why is a woman's wage less than that of a man? there are some answers that spring to the lips of every one. These may be put into five categories: (1) That it is a mere question of supply and demand; (2) That women are not usually the sole bread-winners in the family to which they belong; (3) That their standard of living is lower than that of men; (4) That their work is not so good; (5) That the commodities made by women have, generally, a less value in the market. There is truth in all these, but I propose to show that each of them is at best a half truth, raising as many questions as it answers.

five reasons are given.

(1) The first statement is that women's wages are low because of the equation of supply and demand. Only

Supply and demand

teaching profession women almost invariably receive lower remuneration than men. The Education Department Report of 1888-90 gives the average wage of teachers throughout England and Wales as £119 for men and £75 for women. Similarly low salaries are found under the London School Board, in the Secondary Schools, and in girls' schools generally as compared with boys' schools. The exception noted by Mr. Webb is interesting. In the United States, where women teachers often alternate with men in the same school, the salaries of women are habitally lower. But in the State of Wyoming, where women have a vote, the salaries are equal.

As regards the fourth class, that of manual workers, Mr. Webb takes the statistics furnished by the Massachusetts Bureau of Statistics of Labour in 1884. These give the average of 17,430 employés in 110 establishments in Great Britain, and 35,902 employés in 210 establishments in Massachusetts, representing in both cases 24 different manufacturing industries. The women's wages show a proportion of one-third to two-thirds the amount earned by men, the nearest approach to equality being in textiles—cotton goods, hosiery, and carpetings in Great Britain, woollen and worsted goods in Massachusetts. These figures have not been disputed.

certain branches of industry are open to women. In these there is a great number of women competing for employment with each other, but free to refuse work as well as to take it. Over the industrial community there are enough women willing to take the low wage which employers find they can offer. Thus free competition determines the level. If two women run after one employer, wages will fall; if two employers run after one woman, wages will rise. If, on the average, wages are not above ten shillings a week, it is because the demand is met, and the supply forthcoming at that figure.

—which was Mill's answer—

Those who think this answer an easy and satisfactory one must know little of the unsettling of many problems since Mill's day. Mill had no less than three laws of value—that of the Equation of Supply and Demand, that of Cost of Production, and that of Differential Cost of Production. The former law, he said, applied to goods of which the quantity was, naturally or artificially or temporarily, limited, and it was, besides, the sole determinant of the value of labour. But then Mill was assuming a definite Wage Fund—a fixed portion of the circulating capital of the country predestined for the payment of wages. This definite sum, and no more, must employ all the workers, however many they might be. If, then, wages fell, the reason was obvious—there were too many workers. Wherever Mill touches on low wages we have a sermon on the evils of over-population, and his favourite explanation did not fail him here. "Where employers take full advantage of competition, the low wages of women are a proof that the employments are overstocked." But this is a proof only if "overstocking" is the sole possible cause of low wages —which might be doubted even under a Wage Fund theory. But the Wage Fund has gone, and with it this short and easy solution. Since Jevons we have looked for the measure of value in marginal utility; for the value of "production goods" in their marginal utility as instruments of production; and, with these, for the value of labour in the value of its marginal product, and not in any predetermined fund divided out among a variable number of workers. And where invention is constantly widening and strengthening our power over natural resources, and is increasing the productiveness of labour, the presumption is against the idea that over-population is even a strong factor in determining the wages of civilised peoples.

is rather a statement than an explanation,

The formula of "supply and demand," indeed, is getting a little discredited among economists—particularly from its being considered to explain where it does no more than state. The work of the Austrian school especially, in rooting exchange value in subjective value, and so bringing all value to a centre in human desire and its satisfaction, has led to the recognition that, as demand is desire expressed in purchasing power and comes from human beings who may be influenced in a thousand ways, and as supply depends very greatly on the guidance of this demand, the "equation of supply and demand" tells us very little of the ultimate causes of any price or level of price. We require to know what is behind both supply and demand, and how those two factors stand related to each other.[1] The price of railway stock to-day is de-

[1] "When people talk about supply and demand, they sometimes

termined by supply and demand; the price of a man's labour, whether unattached or working under restriction of the trade union, is determined by supply and demand; the earnings of the poor soul who sells her body on the streets are determined by supply and demand. What does this formula tell us unless we know the complex phenomena which determine the supply of railways and the demand for transit, the supply of labourers and the demand for work, the supply of hapless women and the demand for these human commodities? To say, then, that women's wages are low because there are enough women who take the low wage, is little more than to say that wages are low because women are paid low wages. We have still to ask: What are the factors, or influences, or motives, that induce, or tempt, or compel women to take a wage below that of men, and what are the factors that guide employers to offer the low wage?

and misses the point of the question.

The full inadequacy of the answer comes out if we remember that the question before us is not as to the share of the national dividend which falls to labour as against capital, but as to the share which falls to one class of labourers as against another class. If we are inquiring why it is that Lascars are paid lower wages than English sailors, we do not consider the question closed if we are told that there are enough of Lascars offering to take the lower wage. We want to know the difference between Lascars and Englishmen, or between

forget that these are themselves phenomena depending upon human will, and that among the changes which may lead to modifications in supply or demand are changes in moral conditions."—Keynes, *Scope and Method of Political Economy*, p. 43.

Lascar labour and English labour, that accounts for the Lascars offering themselves and being accepted at the lower wage. So in the present case.

An auxiliary wage.

(2) The second statement is that, as women are not, as a rule, the sole bread-winners of the family, their wage is auxiliary to that of its head; the woman's wage is, as it were, "found" money in the household purse. Underlying this statement is an assumption which is at least questionable. It is that the economic or wage-earning unit is the *family*. This is an old-time idea which, however beautiful and desirable, is a little out of place in the conditions to which the factory system has brought us. Once-a-day it was recognised that children had a far greater claim on the persons who brought them into the world than we now allow. It was thought that the one wage should be earned by the head of the house, and should be large enough to maintain the wife and daughters without outside work, and to educate and apprentice the sons till they were able to hive off for themselves. Any money earned by the younger members of the family was, in this view, supplementary, and determined by a different law. Perhaps in time we may come back to this view. Mr. Frederic Harrison is sanguine that we shall. But meantime the factory system has changed all this, and it is scarcely worth while looking for laws of wage in a condition of family life which does not now obtain. Not to mention the objection that many unmarried women are not members of a family, and that many married women and widows are the sole bread-winners of their families, it is perhaps sufficient to point out that this answer would not be taken as explaining or justifying a low wage among what

But not all women are members of families.

Not applicable to higher ranks of work.

we call the "better classes." It would not be counted an excuse or reason for a publisher asking a lady novelist to accept a lower price for her books, or for a patient offering a lower fee to a woman doctor. If the sex of the author, artist, musician, doctor, intellectual or artistic worker generally, has nothing to do with her remuneration, why should sex determine the wage of the factory girl?

Her standard of comfort is less.

(3) More clearly does this objection emerge when we consider the third answer. It is said that the inferiority of women's wage is owing to their standard of living being less than that of men. What may be exactly the value of that theory which connects wage with the worker's standard of comfort is still under dispute.[1] It is clear that the view which frankly takes subsistence as the "cost of production" of labour, is quite a different thing from a subtle theory like that of Marshall, which connects the standard of living with the efficiency of work. But evidently, in the answer under discussion, the former of these two is meant, and we must discuss it as such. Now it is true that a woman, as a rule, eats less, drinks less, and does not smoke. Tea is, unfortunately, her meat and drink, and it would be counted extravagance in a working woman if she took to eating twopence worth of sweets a day as balancing the man's half-ounce of tobacco. But one may suspect that a woman's standard of life differs from a man's rather in its items than in its cost. I have yet to learn that her standard of dress is less than ours: it is certain that she takes more medicines, and spends more on doctors' bills. It seems that, as in the former case, we change our view accord-

[1] See *The Standard of Comfort*, p. 3.

ing as we look at different classes. Among the richer classes, the woman's standard of life is very much higher than that of the man. It is only because the poor seamstress, when put to it, will live on a shilling a day, while a man will rather become a tramp or go to the workhouse, that we say the woman requires less. There does not appear to be any truth in the assumption that the physical and mental needs of woman are less than the physical and mental needs of man. What is evident enough is that many women, for some reason or other, can be got to accept a wage that will barely keep them alive, while men demand and receive a wage that covers not only the physical but also a number of conventional necessaries. In all this evidently there is no answer.

But why, unless that her wage is less?

It is to be noted, however, as very significant of the popular confusion of ideas about wage, that the second and third answers just given account for the standard of women's wages by the wants of the worker. A woman's wage is low because she does not *require* a high wage, whether it be because her father partly supports her, or because her maintenance does not cost so much. But it is quite against modern ideas to represent wage as regulated by wants. Under a socialistic régime, indeed, the wages of all might be thrown into a common purse, and divided out according to the wants and necessities of each. But under an individualist régime, like the present, what the worker *is* is nothing: what the worker *does* is everything. To assess the value of goods by the cost to the human life which makes them, is to take ground on which the world is not prepared to follow the economist, whatever it may say to the moralist. It is not the cost in killed and wounded that decides the

These answers judge of wage by wants.

battle. To the purchaser, it is indifferent whether the cloth he buys wore out the fingers and heart of a woman, or only took a little tear and wear out of a machine. The one question he asks is: How will it wear? *Caveat venditor.* If a man-worker, then, is supposed to get a high wage when he produces much, a low wage when he produces little, why should a woman's wage be determined by another principle? We cannot hunt with the individualist hounds and run with the socialist hare.

Her work is not so good.

(4) The next two reasons, accordingly, put the low wages of women on a quite different and more scientific ground; namely, that of the work they produce. Of these the fourth answer says that women's work is not so good as men's. As a statement of fact this is probably true. It is no disparagement to the sex to acknowledge that, if women are necessarily off work several days in the year because of little ailments common to them, if they are insufficiently nourished relatively to their needs, if they are naturally more delicate than men, their wage at the week's end will be less than that paid to the average man who scarcely knows what a headache means. Again, if the woman is compelled by law to leave the factory at six, while the man can stay and work overtime; or, if she is driven to the street for an hour at meal-time, while the man can gulp his tea within the walls and get back to his work half an hour earlier, we can see that the wage of the man will be higher by the time and the overtime he works. Similarly, if it requires not only skill but strength to work a heavy loom; or, if a man can do two jobs, the one alternative to the other; or, if he can "set" and "point" his

tools as well as work his machine, while a woman has to go to the mechanic's shop for these things; in cases like these—and there are, of course, very many such—we require no answer to our question. It is simply a case of better wages for better work—better in quantity, or in quality, or, at least, in advantage to the employer. That is to say, if men and women are working side by side at the same trades, and under similar conditions, it requires little explanation to find how women may be dear at half the wage.[1]

A fair argument

If this were all, the inferiority of women's wage would not be primarily a question of sex at all: it would be very much a question of unskilled labour as compared with skilled labour. Women would get lower wages than men for the same reason as the dock labourer gets lower wages than the artisan, and the artisan than the physician. The world might suffer nothing in pocket by adopting the principle of "equal wages for equal work," whatever the sex of the worker. And here we have to thank Mr. Sidney Webb for accenting a fact which we all indeed knew, but of which few saw the bearing. It is that men and women do not, as a rule, produce similar work alongside of each other, and that any argument which compares the wages of both sexes, without taking account of this fact, quite misses the mark.

if men and women worked together.

It seems to be impossible, says Mr. Webb, to discover any but a few instances in which men and women do

But women absorb certain industries and jobs.

[1] I think it must be confessed too that, in the lower grades of work, women show a certain want of thoroughness, even of conscientiousness, which indeed probably comes of many generations of lower education, as well as of the inevitable looking on factory life as a mere stage on the way to marriage, but is none the less an economic weakness.

precisely similar work in the same place and at the same epoch. In the tailoring trade, for instance, men do one class of garment, women another. In the cigar trade women make the lower-priced goods. So in all the Birmingham trades. In paper mills men do the heavier, women the lighter work. In cotton spinning, the mule tenders, called, *par excellence*, "spinners," are men, while women take all the preparatory processes. But there is one exceptional trade where this does not hold. "Weaving," says Mr. Webb, "appears to be nearly always paid at equal rates to men and women, whatever the material or locality." This seems to be the case as regards the weaving industry generally, from the hand-loom weavers of Ireland to the carpet weavers of our own country; and it extends also to other countries, as, for instance, to the cotton and silk weaving in France. That is to say, as I understand, that the piece-work rate is the same, although in special cases strength may give the man an advantage in handling heavy looms. But what is most remarkable is that, over the great weaving district of Lancashire, not only are the rates of piece-work the same, but men and women do exactly the same work side by side in the same sheds, practically under the same Factory Act restrictions, and earn equal wages, namely, an average from 17s. 11d. in Carlisle to 21s. 4d. in Burnley. This, however, is distinctly and notably an exception. Women compositors, for instance, in London, receive uniformly lower piece-work rates for exactly similar work; for the same job the union man gets 8½d., the non-union man 7½d., and the woman only 5½d. As an exception, however, we shall have reason to recur to the Lancashire weavers later on.

The Lancashire exception.

(5) We thus come naturally to the fifth answer given to our question. It points to the fact that the commodities made by women, or made in women's trades, have, generally, a less value in the market: they are "cheap goods." As a mere statement of fact this proposition is very loose. What are cheap goods? In the absence of any absolute standard of value, goods can be called cheap only as comparing present prices with prices of similar goods in the past, or in consideration of their cost of production as compared with other goods. If the former meaning be taken, most modern manufactured goods are cheap, and this would not explain the lower wage of one sex: if the latter, it is prejudging the whole question.

Women make cheap goods.

There is, however, so much that is true in this that it will be advisable to consider the concrete experience on which the argument is founded. Let us take an industry —say a branch of the textile trade—where labour constitutes a great part of the cost of production. Suppose that for many years low prices have ruled for the particular class of goods made. Any attempt to raise wages here meets with an obvious criticism. It seems most plausible to say: It is the wants of the people which have established this demand: the present price is all the consumers can or will pay: the low wage is all that these prices can afford.

This is probably quite true. Once the prices are down, it is difficult to see how wages can be higher. But what brought down the prices? Is it ever the case that the world of consumers, practically, go to the workers, and ask them to accept low wages on the ground that they can only afford low prices? Experience does

True, once prices are down,

not bear this out. So far as I know, the initiative of reducing prices, in most cases, comes from the producers, not from the public.[1] The prices of commodities of large use generally follow a course somewhat like this. They are at first dear, and only a small circle of consumers can afford them. As the production becomes organised, and capital brings more and more appliances to bear on the manufacture, the goods become cheaper, and a wider circle of demand is found. But below each circle of actual demand, there are endless and widening circles of potential demand, ready to take any particular commodity if it can be had more cheaply. Thus as, up to a certain point, large production is cheap production, there is always an inducement to the manufacturer and merchant to produce more cheaply. If they can reduce prices, and get down to a lower circle of consumers, there is generally enough elasticity in the demand to make the increase of trade which follows out of all pro-

they meet a "necessary" demand.

portion to the reduction of price. But when this movement has gone on for some time, and goods have become very cheap, the demand has a way of appearing imperative, especially if these goods have entered into the standard of comfort of great classes. The goods become "necessaries"; the low prices meet a "natural" demand; and these prices are just enough to yield an average profit to the employer—for profit must have its average, or capital, as we are often warned, will fly the country. And the most troublesome complication of all is that, in nearly every department, a low-priced article becomes one of the elements in new circles of production, and capital and labour are embarked in enterprises

[1] See pp. 203, 267.

which are dependent on the continuance of the cheap goods.

But in all this there is nothing to suggest that the low prices are the cause of low wages. There are two possibilities here: (1) All the reduction of cost may have been effected by perfecting machinery, organising production, and bringing producer and consumer together—that is to say, all the cheapening may have come from the side of capital. In this case there is no room for laying low wages at the door of cheapened prices. Or (2) as wages constitute one of the chief costs in all production,—in the United States, for instance, they make up on an average a quarter of the manufacturing cost,—they may have been reduced along with the capital expenses, and the low prices be partly due to these low wages.

But that wages are reduced to make cheap goods

What this latter proves is, of course, that it was the reduction of wages, among other things, that made the reduction of prices possible. But what it was proposed to prove was the converse proposition, that the low prices made the low wages! To put it, then, in the plausible way, that the reduced prices "do not allow" of higher wages, is simply a very pretty specimen of the argument known to the vulgar as "putting the cart before the horse." What, however, we may very well learn, from the wide acceptance of this view, is that it is a very difficult thing to raise wages once they are down; and it may suggest that employers have some responsibility in reducing them, as well as the public some responsibility in giving excuse for the reduction.

does not prove that cheap goods brought down wages.

Thus we seem to be still without an adequate answer to the question: Why is a woman's wage less than that of a man? But the last answer, unsatisfactory as it is in itself, seems to me to have a value in something that it suggests. It seems to emphasise the notable fact already suggested, and to point the way to a new formulation of the whole question. The fact is this: that women are in almost exclusive possession of certain branches of trade, and that, in these branches, the commodities made are recognised by public opinion as being "cheap." Common observation must confirm Mr. Webb's conclusion, that there are certain trades where men do not compete with women; indeed, that there is a well-marked relegation of women-workers towards certain ill-paid trades; while, at the same time, there is as well-marked a movement of men towards the better-paid trades. If this is so, the difference of wages between men and women takes a new and definite aspect. It is not a difference of wage between workers of various degrees of efficiency. It is rather a question of difference of wage between two non-competing groups, and moreover, of groups whose level of wage is determined by a different law. The question is not: Why are men and women employed in equal work at unequal wages? but, Why are men and women employed in different groups of employment? and, comparing these two groups, Why is the wage *level* of skilled female labour lower even than that of unskilled male labour?

A new formulation of the subject.

The reasons may be found in observing a course of events constantly under our eyes. There are always certain trades where women are still competing more or less directly with men. In these, women are under certain disabilities of sex which make their work less

Why women fall into certain trades,

remunerative or less profitable to their employers. They are, as I said, physically weaker; subject to little ailments which make them less regular in attendance; more liable to distraction of purpose; perhaps worse educated; and, probably, more slipshod in their methods. They get less wages because, either in quantity or quality or both, their work is not so good. But this competition of the women tends to drag down wages for both sexes; and, as a consequence, men hive off to trades where there is more opportunity, or retain certain better-paid branches within trades, while certain trades or branches of trades are left to women. Whenever this is the case the women lose the advantage of association with workers who will not accept wages under a certain level. Their disabilities, thus become cumulative, are taken advantage of by unthinking or unscrupulous employers, and all other employers are forced to follow. If tailors and tailoresses are working side by side making coats and vests indifferently, it is not difficult to understand why the men may earn 20s. to the women's 15s. But if, in time, the men get all the coats, and the women all the vests, we have a good reason why the women's wage goes down to 10s., while the men's remains at 20s.

Equally common is another course of events. A certain industry, we shall suppose, has been worked exclusively by men. By and by machinery is introduced which can be tended perfectly well by women. For a little time the dead weight of custom will probably retain men to tend these machines, and the wage will certainly not fall below the average wage of men generally. But, either gradually or as result perhaps of a dispute or strike on the part of the men, women are

particularly when machinery is introduced.

introduced to tend the machines. Does their pay bear any proportion to that of the men they replace? It is quite certain that the women's remuneration will not be determined by the 20s. wage which they displace, but will be fixed at something like 10s. If we ask why, the only answer given is that 10s. is the "customary wage" for women.

The customary wage. Economists who have no practical experience may have a difficulty in crediting the possibility of a "customary" wage. It is imagined that the steady replacing of hand labour by machinery, and of old machines by improved machines, breaks up the continuity of wages, and weakens the element of custom. **An actual case in point.** Here is a case from a trade I know very well. In the cotton thread trade, spooling—that is, winding the thread on the small reel or bobbin familiar to every work-basket—was for many years done by women at single machines, not unlike sewing machines, which filled one spool at a time. The work required no little skill, as the "guide," which led the thread on to the spool as it revolved on a spindle, was under the control of the hand, and not only the smoothness of the layers but the accuracy of the length depended on fineness of finger. The customary wage was 6d. per gross of 200-yard spools; a good worker could spool at least four gross per day, and thus make 12s. a week. As in all industries, machinery was gradually introduced by which mechanism did the greater part of the work; instead of winding one spool at a time the girl now watched the machine winding six, or nine, or twelve spools, and the work entirely changed its character. When these machines were introduced, how were the wages determined? For a few weeks the girls were put on day wages: when the machines were in good working order, and the average production per machine had been ascertained, the piece-work rate was fixed so as to allow of the girl making the same average wage as she did before.[1] That is to say, if the new machine in the same time turned out six gross for every one gross turned out by the hand machine, the price of labour per gross was reduced from 6d. to 1d., and the wage continued at the customary level. So far as sacrifice or skill goes, there was no reason why the worker should get more, as, on the whole, it required less skill and attention to turn out the six gross than it did to turn out the one. Thus it is, I believe, over all the textile manufactures, with the exception, perhaps, of weaving. The introduction of new processes displaces much of the labour, but the labour left does not get higher wages.

This, then, is the first conclusion I would come to: that, in more cases that we would believe, the wage of women-workers is a "customary wage."

[1] It may not be generally known that this is the usual way of determining piece-work rates. Here, for instance, is an extract, which comes to hand while I write, from the statement of the second Vice-President of the Pullman Co., before the U.S. Strike Commission:—"In establishing the rate of wages for piece-work, the principle adopted is that the day's wage is to be a reasonable wage for ten hours at that particular work for a competent workman, not an expert; and by experience it is ascertained what a faithful, competent workman can do on a given kind of work as to quantity in a given time; the piece-work is therefore based upon that performance. . . . If, by experience in operation, it is discovered that at the piece-price fixed the known less competent and less industrious workmen are regularly making an unreasonable day's wage, it becomes apparent that the piece-price allotted is too large."—*Report of the Chicago Strike of June-July*, 1894.

A negative proof.

The conclusion is, I think, strengthened by the case which, at first sight, would seem to refute it. The great outstanding exception to low wages in women's industries is, as before noted, in the Lancashire weaving. Not only are the rates of piece-work the same, but men and women do exactly the same work side by side, practically under the same Factory Act restrictions, and earn equal wages, namely, an average of from 17s. 11d. in Carlisle to 21s. 4d. in Burnley.

But there is an exceptional circumstance in their case. It is that the women are in the same strong Trade Union with the men, and under the same obligations to the Union, and that any attempt to reduce the wages of the one sex would be resisted with the whole strength of both. What if this Union were to break down?

It is, I think, quite certain that, in a few weeks, or even days, it would be possible for the employers to reduce the wages of the women-workers; that, rather than lose their work, women would consent to the reduction; that, as they accepted lower wages, men would drop off to other industries, and would cease to compete for the same work; and that, in a comparatively short time, power-loom weaving would be left, like its sister cotton-spinning, to women-workers exclusively, and wages fall to the general level of women's wage.

Origin of the custom.

But to say that a certain level of wage is "customary" is only half way to an answer. We must go on to ask: What was the origin of this custom? In looking about for an answer, one circumstance seems to me suggestive.

If the customary wage for women by any chance happened to be, say, 15s. a week, we might be sure that in those days of keen competition, with unorganised women offering themselves at the mill gates, the employers would manage to break down this "custom." But the tradition of 10s. is so strong that, in many industries I know, no attempt is ever made to reduce either this time wage or the piece wage adjusted to it.[1] And in looking over the field of factory industries, in order to arrive at an average of women's wages, another thing seems suggestive;—that the variations from this average are comparatively small. The average is not one made up from widely different wage-bills, and from widely varying individual wages, but from pay sheets that show only small amounts of variation on one side or other.

The closeness of all wages to the average

Now this definiteness of average wage seems to me most explicable on the supposition that women's wages are very near the only quite definite level that political economy has ever pointed out, the level of bare subsistence. If this be so, the reason why wages do not go lower is—because they cannot.

There are two ways, known to theory, of determining wage. In a progressive society, where wealth is rapidly increasing, the tendency will be towards payment by *results;* that is to say, by value of product. Product being in this case the result of the co-operation of land, labour, and capital, the problem is to find the share in

[1] I once casually asked the largest employer of women's labour in Scotland if it would be possible to reduce his wages from 10s. to 5s. After thinking a moment he answered, "Yes, if X," naming his largest competitor, "did the same. There would be an outcry of course; but—we *could* do it. But surely 10s. is low enough!" he added.

that product which is economically due to labour—that is to say, the share "imputable" to the efficacy of labour. In a poor or backward society, again, where labour and capital are struggling with an unfriendly environment, and the return to industry is still uncertain, the risk and the chances of speculation in the return are left to the only class who can take risks, the capitalists, and the working classes are perforce content with subsistence.

points to the "subsistence" of a poorer age

England long ago passed from the latter to the former description of society, and of her increased wealth the men-workers have obtained, we may suppose, something like a share corresponding to the increased value of the joint product. But from whatever cause, it seems yet possible to pay women by the other standard,—namely, according to their *wants*,—and to keep them at the same level of wage as they were content to take half-a-century ago.

as determining women's wages now.

It seems to me, in fact, that while men's wages, unless in the case of unskilled workers, are determined ultimately by the value of product which is economically "imputable" to their work, women's wages are determined by the older and harsher law. "The wages, at least of single women," said Mill, "must be equal to their support, but need not be more than equal to it; the minimum in their case is the pittance absolutely required for the sustenance of one human being. . . . The *ne plus ultra* of low wages, therefore (except during some transitory crisis, or in some decaying employment), can hardly occur in any occupation which the person employed has to live by, except the occupations of women."

But, indeed, it is a lower depth to which women's wages have fallen than the "sustenance of one human being." There may be persons who think 10s. a week sufficient to keep a grown-up factory girl, living by herself, in healthy and decent life. It certainly is true that in many cases it has to serve till she accepts the release of marriage; but surely the marriage of the English girl, factory or otherwise, is a matter too serious to be thought of as the sole escape from a miserable wage. It is sufficiently obvious that this level of wage was never determined by sustenance, but by the competition of the "single woman" with married women and widows who will take any wage rather than see their children starve, with girls sent into the factory to add their few pence per week to the earnings of the head of the house, and with children.[1]

But is 10s. subsistence nowadays,

If this is so, the "customary wage," I am afraid, is determined, not by the generous "subsistence" of to-day, but by the "sustenance" of a former age when the world was poorer and capital was more powerful. The wages of men have risen from that level by their finding, either in combination or in the mobility of their persons, the means to claim their full share in the increasing national income. The wages of women, from their disability to combine and from their natural want of mobility, have not. In other words, women's wages are determined, not by Ricardo's "natural" subsistence, but by Lassalle's Iron Law.

or is it a wage defined by the Iron Law?

[1] There is one ghastly investigation still waiting on the economist. It is the aid to wages which is got from "the oldest trade in the world." That this is an economic element in the wage question is beyond a doubt. All of us know it: none of us has yet had the courage to measure it. Not till we do so will the world know the true cost of "cheap labour."

The remedies.

This brings us to what, at the outset, I said was a distinct question: how measures taken to improve women's wages would affect those of men. For all wage investigations sooner or later come to the question of how wages may rise—and that not on philanthropic but on purely economic grounds. We may assume[1] that, in the vast increase of wealth over population, which is a striking characteristic of modern times, wages, whether in substance or in form as well, should rise.

Combination.

Comparing the lot of the working classes in the early part of the century with their great advance in the later, economists long since came to the conclusion that it is by means of organisation that men have been strong enough to secure their share of an increasing national income. And if women's wages are now found under a decent subsistence level, it is a proof that women have not, at least directly, got their share; and the economist's first thought would be to recommend to them the same measures as have proved successful in the case of their co-workers.

But if labour is getting a full share now,

But here a doubt arises. Just as we might assume that labour, as a whole, has probably got its fair share as against capital, although we should find the unskilled labourer at subsistence level, so it may be that labour, as a whole, has got its fair share although women's wages remain as they were years ago. That is to say: as all the increase may, in the one case, possibly have gone to the higher ranks of labour, so, in the other, it may have gone exclusively to men. If this should be the case, there is reason for hesitation before suggesting a remedy.

[1] I have tried to prove the reasonableness of this assumption on p. 26.

For, if labour, as a whole, is already getting its full share of the annual product, any rise in women's wages will involve a relative diminution in those of men. To put it concretely: if the husband is earning 20s. and the wife 10s., and if 30s. is all that the national dividend can allow to the two,[1] a remedy which would raise the latter to 15s. would reduce the former to 15s.

combination may merely redivide the total share.

Even in these circumstances, however, it seems to me that we must, in justice, recognise the right of the women to an increasing *absolute*[2] share in the increasing product of industry. If it be the case that only in combination are men strong enough to compete equally with capital, it is *à fortiori* the interest of the weaker class of wage earners to take similar measures. Granted that, economically considered, combination is a poor substitute for perfectly free competition, there is this to be said that the mobility which such competition demands is not possible in the case of labour. For, physically, labour is not mobile; historically, it has never been mobile; and, ethically, it should not be mobile. A man's labour is—and should be—his life, not the mere instrument towards providing a living; and, therefore, in the question of wages it is impossible to ignore the ethical consideration which forbids the

Even so, it may be advocated,

[1] I have tried to show, on p. 14, that there is a limit to the rise of wage which is no less inflexible that it is unseen.

[2] The difference between absolute and relative share is important and not always appreciated. If, through the rising productiveness of industry, the national dividend increase, both classes of labour, and capital as well, may get an absolutely larger share without prejudice to the other participants: they then get the same share as before of a larger loaf. But any factor can get a relatively larger share only as some other gets a relatively smaller one: if one gets three-quarters of the loaf the others cannot get more than one quarter. See p. 14.

subordination of family and social life to purely economic motives. If this is true of men, it holds with infinitely greater force as regards women, who, in the interest of common morality, must remain members of their parents' households much longer than men do. Civilised society could not hold together if the workman and workwoman could get their fair share of the world's wealth only by changing their trade, their residence, or their country, as a higher wage offered itself. That they may, by combination, only make a different division between the two sexes of that share of the national loaf which falls to labour as a whole, is true; but so long as the interests of men and women are not identical, and so long as women also have a body as well as a soul to "save," there seems no reason why their share should remain at one absolute level while men's share has risen both absolutely and relatively.

their labour being so much more immobile.

In fact, it may be said that women workers have three classes to fear: themselves, the men workers, and the employers. I am sanguine enough to believe that most employers are anxious to pay their workers as high a wage as they can. But the best employers are helpless to remedy the evils of a class of workers who are hopelessly at war among themselves, and ready to take each a lower wage than the other. Where a girl, coming out of a comfortable home, is willing to take 10s. a week because to her it is "pocket money"; where the mother of five will take 8s. because her husband is out of work and she is the sole breadwinner; where the mother of ten will accept 6s. because she has so many mouths to feed; where the girl just in her teens will take 4s. because she is a little girl—where all these different women, with different motives, are competing against each other for equal work, there seems no remedy but the severe one of *preventing* these poor souls from dragging down the wage of each other. But it must be confessed that combination among women is not likely to be very successful unless some common ground is found in the one union for men and women. Otherwise it may turn out that the two divisions of the army of labour have organised themselves against each other, instead of presenting a common front to the rival factor of capital. "A man's foes shall be they of his own household."[1]

But separate combination is doubtful.

More immediately effectual, perhaps, than combination would be some economic enlightenment of the public conscience. It should not be difficult to convince educated people that women workers should share in the general increase of wealth, and their wage rise from

A more immediate remedy in economic enlightenment,

[1] The rise in the wages of domestic servants is often brought up as an argument against combination. That it should be, seems to me to argue a misapprehension of the grounds on which combination is approved. A class of workers whose first step is necessarily to cut themselves away from home ties, and who enter an industry where everything—tools as well as living—is "found," at once obtain all the advantages which mobility of labour gives. If to this be added the scarcity of competitors which comes from the sentimental objection to "service"—witness the word "slavey"—it becomes evident enough why in this case combination is unnecessary. This class of labour is almost as free to flow where superior advantage shows itself as capital itself is. But it proves nothing as to the other occupations which are not so favoured. Personally I have known a difference in wages of 25 per cent in the same work between two ends of a small town, and of 50 per cent between two sides of Scotland—so immobile is women's labour. That a few physicians can command any fee they like to charge proves nothing against the need for faculty regulations.

the bare sustenance level. But a point on which enlightenment does seem very much needed is that of the supposed necessity for low wages.

I do not know how there could be any such necessity unless it were the case that labour and capital, like the land of some countries, had entered on the stage of diminishing returns, and had, moreover, gone so far on that down grade that the additional returns grew more slowly than population—and no one has even suggested such an idea. I have already tried to point out the fallacy that low prices explain low wages. It is, however, perhaps advisable to note that they do not compensate for them.

particularly in recognising that low prices do not justify low wages.

Probably we are all familiar with an argument like the following. "Consider the great fact that calico is 2d. a yard. Every woman in England may now be clad in cotton fabrics which, a century ago, were beyond the purchasing power of a queen. Beware how women are encouraged to ask and to stand for higher wages, or calico will again be put beyond the reach of any but queens."

I confess I never hear this caution without remembering Carlyle's indignant reply: "We cannot have prosperous cotton trades at the expense of keeping the Devil a partner in them." The weakness of the argument becomes obvious if we carry it a little further and show that, if we can succeed in reducing women's wages to 5s. per week, we shall have another considerable reduction in calico, and bring it within the reach of still poorer people. The idea that mere cheapness of goods makes up for everything in the workers' circumstances is, perhaps, the most deplorable of current beliefs. It is no less than that of mistaking the whole end and aim of industry. The goal of economic effort is the maintenance of human beings in a full, free, developing existence —not "goods," as Aristotle told us long ago, but the "good life." True economical progress lies in society getting control of natural powers *outside* of man—not cheap labour, but powerful and adaptable motors, machinery, and transit. This is a kind of cheapening —cheapening of nature, not of man—which can go on indefinitely. From the dawn of civilisation man has been turning a hostile or indifferent environment into a rich and friendly one. For ages, indeed, constant war hindered this conquest of nature. It is only in this century that comparative peace among nations has allowed the majority of men to give all their time and thought to the economical life, and even yet the locusts of standing armies eat up great part of our harvest field. But the changes which have been made on the soil, the natural resources of matter and force now under our control, the complex and sensitive organisation which knits the world together, all point to possibilities of wealth beyond the wildest dreams of last century. There is some fatal leak in our industrial system if every child in Great Britain this year is not the heir of a richer heritage, or at least of richer possibilities, than the child of last year.

True cheapness.

Now there are two lines which the economical progress of the workers may take—that of advancing wages or that of falling prices.[1] Which of these

Rising wages or cheapening goods.

[1] Not that *all* prices can fall unless under a currency contraction. But, from normal causes fully discussed in a subsequent study (p. 161), prices of the commodities which are most important for

is preferable? Two simple considerations may show that there is no comparison between them.

The comparison.

First, the ideal condition of average human life is a condition of well-paid wage earning; of steady assured labour, which does not strain nor stress, and is crowned visibly by the fruit of its own exertion. There is nothing more depressing to the economist,—who, better than any one else, realises the possibilities of material wealth,—than the waste, positive and negative, which comes of disorganised labour; where the working man and his wage are the sport of speculation, and the period of high wages and overtime is succeeded by periods when the worker is thrown on the streets to learn the bad lesson of spare time without culture, and of leisure without rest. It is of small comfort to the working man that the manufacturer and merchant share the bad time with him, and that stocks are thrown on the market at "ruinous sacrifices." In vain is the cheap sale advertised in sight of the penniless buyer.

Second, while from one point of view it is all the same whether a worker's wage is raised from 20s. to 40s. a week, or whether everything he buys is reduced by 50 per cent, the balance of advantage is not so simple as this. If the wages are raised the worker alone gets the benefit. If commodities are reduced in price those who consume them—namely, the whole community—get the benefit. If, by reducing Tom's wages, you reduce the price of commodities which Tom, Dick, and Harry buy, Tom divides the economic advantage, such

the wage earners' efficiency and comfort—*e.g.* necessaries the demand for which is not elastic—may fall and be depressed for long periods.

as it is, with Dick and Harry. Thus reduction of wages is never fully compensated by reduction of prices. The seigniorage of cheap commodities is too often borne, not by the community, but by the workers.

Goods may be too cheap.

Thus, I repeat that, while the fact that wider circles of population get the advantage of cheap goods is some mitigation of the evil, it is no adequate compensation for it. There is no reason for congratulation that products reach wider and wider circles, unless the cheap products are a gain to the wider circles. And if this gain tends to be outweighed by the evils of reduced wages, calico at 2d. a yard may be too cheap.

V

A MERE COMMODITY

ARGUMENT

The infinite division and co-operation of industry over space and time are made possible only by innumerable interposed payments in a commodity universally acceptable and universally saleable. To be perfect, such a commodity should be stable in value. Gold and silver come as near having this qualification as is possible in any commodity, but are far from attaining it. An ideal repayment of debt would put the lender back into the same relative position towards the world of commodities — the Tabular Standard, for instance, comes nearest this—whereas repayment in gold usually puts him in a very much better one. The present monetary position. The increasing solidarity of the trading world demands one money: this may be gold, or it may be gold and silver bound together by international agreement. The ignorance or indifference of statesmen in regard to this foundation of all industry will be severely judged by history.

V

A MERE COMMODITY

"*Existe-t-il une autre marchandise demandée par le monde entier et dont on n'ait jamais trop? Existe-t-il une autre marchandise que nous nous procurions, non pour l'usage, mais pour garder et pour transmettre sans l'user? Existe-t-il une autre marchandise qui ait son marché sur le monde entier, qui puisse être vendue n'importe où et à toute époque? Existe-t-il une autre marchandise que vous puissiez porter à une Administration de l'État et qu'on vous rende pesée, essayée, garantie, transformée d'une façon commode, sans frais? Existe-t-il une autre marchandise qui agisse, non sur la récolte annuelle ou sur celle de plusieurs années, mais sur un stock accumulé depuis l'ère des Pharaons? Existe-t-il une autre marchandise sur laquelle vous puissiez étager une accumulation d'économies et de substituts tels que la fondation première n'est plus aperçue? En résumé: Existe-t-il une autre marchandise que les Gouvernements acceptent en paiement des droits, douanes, taxes, et—pour couronner le tout—qu'aucun créancier ne peut refuser en paiement de sa dette? Certes, la monnaie—la monnaie métallique—est une marchandise, mais c'est une marchandise sui generis.*"

"Half of a truth."

THAT money, in the form of gold and silver, is, after all, a "mere commodity," is an assertion often made by people who have done a little thinking on the matter, and have reached one of these early points of vantage from which the subject begins to be intelligible. It suggests that there is a simple way of conceiving of money which strips its problems of their difficulty. Like many another simplifying conception, this one has just enough truth in it to be very false, unless its limitations are carefully observed. I propose to show, first, the shortcomings of the conception, and, second, its duly limited truth. It should be understood, however, that, so far as the assertion implicates the theory that the value of money, like the value of coal or iron, is determined by its cost of production, I have nothing to say about it meanwhile. I am concerned only with the conception which sees in money a mere metal, and judges it by other metals.

Metals of alternative uses.

It is, of course, undeniable that gold and silver are metals obtained from certain portions of the earth's crust by capital and labour. "Commodity," however, is an economic category: we do not judge of a commodity by its chemical constitution, but by the uses to which it is put in an economic world. The uses of the precious metals, then, are, roughly speaking, two—for jewellery and for money. Of the former this only may be noted; that it is one of the peculiar complications of the subject that metallic money has this alternative use. In each use the metals have a different demand and a different market, and, in each, their values come under different influences. It is, indeed, nothing less than a misfortune that two metals universally prized for purposes of luxury should be the metals universally necessary for everyday industry. Thus, at the very outset, the statement that they are "mere commodities," by a curious irony, suggests one of the great difficulties of the subject, while assuming to simplify it! Let us see, however, what is the position of gold and silver money in the industrial world.

The marked characteristic of modern business life is the division of labour through the broadening and lengthening of the production process: that is, the allocation of different tasks to men and nations, districts and countries, and the multiplication of the links in the chain of trades which stretches between the raw material and the finished article. Men do not work in isolation, but in combination with each other, and in partnership—if one may use the expression—with capital. Every single labourer and every concrete piece of capital contributes but an insignificant fraction to a product which is the result of innumerable co-operations. Each product, again, takes its place in what is but a stage in the long process of the individual manufacture, to remain in suspended animation till the succeeding processes fit it to take its place in the shop window. Thus before the goods are capable of being "of use," there is always a period of time, and sometimes a very long period. Even when finished they are not taken into consumption immediately, but are put upon the market and exchanged against each other, before they become distributed out among those who are to give them that use which alone justifies their existence.

The warp and weft of industry.

Thus industry is a co-operation of efforts over space and during time—breadthwise and lengthwise, as one may say. And from this circumstance two very striking phenomena emerge. One is that the services, both of men and capital, are paid in anticipation of a value realised only after many days. The other is that men are paid, not by what they personally produce, but by a share in the total result of the world's work which somehow is put to their credit.

Two consequences:—

every thread is paid immediately in anticipation,

The extent of this co-operation may be realised if we take, as a concrete instance, the life-history of a ship. The function of a ship is to carry cargo. But before it can carry cargo it must be built, and here we have innumerable purchases of materials and machinery,—which must themselves have been produced by innumerable co-operations,—and innumerable wages paid to workers direct and indirect. It is not till all these purchases of materials and services have been made and combined into the unity of a great product, that the ship makes its first voyage, and it is not till its first voyage that it begins to repay and replace all these purchases. But, after all, the ship is no more than one thread in the industrial web, inasmuch as carrying is one of the last stages of producing; in point of economic theory, none of those who contribute to the making of any of the products which form the cargo can be paid, except in anticipation and on speculation, till the products have reached the human beings who alone give them their value. Thus the ship itself, which, in one point of view, is the end of innumerable co-operations, in another is merely the means of one of the co-operations.

How can all these various workers and factors wait on the result of their labour; first, on the combining of their efforts into the unity of products, and, second, on the realisation of the value out of which they are all paid—that is to say, on the building of the ship, and on its life-work afterwards? The answer is, that it is made possible by one thing—Money. The primitive labourer is paid by earth returning to him the produce due to its fertility and his work. But here are thousands of labourers, over space and during time, co-operating towards a total result, and not paid in any produce by which a man may live, but in a yellow or white metal. It is very wonderful if we consider it. If they were asked to accept payment in any other commodity, even the most useful, they would refuse. But they do take, as just return for their labour, time, and risk, a commodity of which they could make nothing if to them it was "mere metal"; and, as result, they are assured of getting, not what they individually produce, but a corresponding share of the total result of the world's industry: for at the nearest shop the worker can exchange the twenty silver discs of his "mere commodity" for forms of wealth produced in every country under heaven.

but ultimately by a share of the world's product.

Recognising this general ignorance of the nature of money, if we ask what is the unconscious reason that guides men in taking these metals as "payment"—a word which seems to contain the idea of "equivalent"—we shall find it in the confidence people have that, when they wish to part with these metals, they will be as readily taken in payment by others.[1] Money is the universal commodity; it is the one thing which everybody wants, and of which no one ever has enough; for, in promise and potency, it *is* almost everything else. Like all tools, it is not desired for itself, but for what it can do. The name which best conveys this is that of "third com-

Money is thus a third commodity.

[1] Menger has expressed this perfectly in saying that the characteristic virtue of the precious metals as the current medium of exchange is their saleableness. I do not know of anything in modern economic literature more suggestive than the article on "The Origin of Money" in the *Economic Journal* of June 1892, where he elaborates this conception.

modity," meaning by this the commodity interposed between the commodities or services which are the real objects of exchange; interposed, for instance, between the goods we make in order to sell and the goods we desire in order to consume. If we consider, then, that this metal is not desired to use as we use other metals; that the "spending" of money is not the consumption of it, but merely the transfer of its possession from one pocket to another; that it might even be disputed if it expresses the essential idea of payment at all, seeing that it is a thing none of us would or could use for our living, but is simply a third body interposed for the time in place of other bodies; it becomes clear enough that nothing could well be more inadequate than to dismiss this singular tool of exchange as a "mere commodity" or a "mere metal." In this function it is a metal of one use, and that a unique use; it is, in fact, nothing less than the fundamental and indispensable requisite of exchange, the very presupposition of all our division and combination of labour. For every single effort and abstinence, before it is paid for in its real equivalent—that for the sake of which the effort was undertaken or the abstinence undergone—is paid for in this intermediate or interposed shape of money.

Qualifications of gold and silver for this work.

We have now to ask why, in all civilised communities, two metals have been taken from their natural use as metals and set aside to play the part of "third commodity." Certain qualifications they have which at once suggest themselves. A good money must be portable, indestructible, homogeneous, divisible, cognisable, coinable; and gold and silver admirably meet these requirements. Beyond these it must possess considerable value in small bulk; and, however we may account for it, gold and silver possess also this qualification in a high degree. Speaking generally, their great value arises from the largeness of the joint demand for money and for jewellery, etc., as related to the comparative smallness of the supply. But it is not enough that money should have considerable value. As the interposed commodity, it is held or lent over days and months and years, and as it is not held or lent for use as metal but only in suspense, with the ultimate view of being parted with in exchange, it is clearly necessary that this commodity should be stable in value.

But a perfect money would be stable in value.

Here, however, we come to the immense difficulty of the subject. It is that to expect stability of value in any mere commodity is to expect the impossible. It is a reminiscence of a theory of value which does not now need serious refutation;—that value is conferred by labour and measured by labour time. If goods normally exchanged with each other in this ratio, then the gold or silver that cost a day's labour in the mining-field would always exchange for a day's labour however embodied in other commodities. It is a pity that the value of money, or of anything else, cannot be settled in this charmingly simple way, but the experience of ordinary men and the whole weight of economic science are both against it. It is merely a loose expression when money or anything else is said to "hold" or "contain" value, for value cannot be held. It is only a little more true to say that value "attaches" to things. The fact is that all such expressions are but attempts to

Stability, however, in a commodity is impossible.

catch and fix one or other of the shifting lights from the many sides of value.

The nature of value makes it so.

What is Value? It is, primarily, a relation of dependence, for satisfaction of want, between persons and things, which, in an organic society, develops into an objective relation between things and things, so that one thing exchanges for another without direct regard to the wants and desires of the persons who buy and sell them. As every one knows, this objective value, or price, is affected equally by things so dissimilar in themselves as demand and supply. To use Marshall's words, "The nominal value of everything, whether it be a particular kind of labour or capital or anything else, rests, like the keystone of an arch, balanced in equilibrium between the contending pressures of its two opposing sides. The forces of demand press on the one side, those of supply on the other." Thus value is never an inherent quality in anything; it attaches apparently for the moment to this or that; but it changes from moment to moment as either side, the demand or the supply, changes. To expect, then, of money stability of value, is to expect what we cannot get.

Among commodities, indeed, gold and silver come nearest to having it, from steadiness of demand and supply.

Why, then, do we take silver and gold for our money? Simply because they are the commodities which come nearest to having the *conditions* of stability. These conditions I imagine to be constancy of supply relative to constancy of demand. If gold and silver were like crops, annually produced and annually consumed, they would be quite incapable of acting as "third commodities." But being very durable metals, and being, for obvious reasons, economised and preserved in all sorts of ways, it happens that all the gold

—and, to a less degree, all the silver—which comes to the upper air, with few exceptions, remains in it, and goes to form a huge stock distributable and distributed over the world. The legal life of a sovereign, for instance, is said to be eighteen years. But this means only that the sovereign which, when it comes from the Mint, weighs 123.274 grains, will, in the course of eighteen years on the average, have lost 0.774 of a grain, and will be what is technically called "light." Now the money work is done with this great indestructible stock, and consequently the tool of exchange is not liable to one at least of the dangers which affect stability of value, viz., sudden changes in the total supply. Nor is it exposed very much to changes in local supply. The total stock is held, as it were, in many warehouses. It is like a body of water distributed in irrigating channels; the annual production, like a spring, only sufficing to keep up the general level. The slightest change in its value is enough to attract or carry off whatever is wanted, for bullion merchants make their profit by fractions of a percentage, and the first train or steamer can carry large amounts from country to country for a trifling sum. On the other hand, it is not liable to violent changes in demand. The demand comes from the work it has to do in exchanging commodities and services, and, over the field of the civilised nations, this work is fairly constant. True, one nation every now and then makes sudden demands on another for gold, but this is a demand only for the temporary possession of it. It is not a demand for consumption like the demand for grain, and when the stringency is over the gold flows away again.

The supply and cost of production.

It is the fact just mentioned—that the money work is done by the stock and not by the annual supply—that makes the determination of the value of the precious metals by cost of production impossible. Confessedly the law of cost is a secondary law of value, which obtains only as regards articles produced under conditions such as prevail in the textile industries, and only so long as conditions of reproduction are at hand. Where these conditions are absent we have to fall back upon the ultimate law of value, which determines it by the relation of supply and demand, or, more correctly, by marginal utility. For instance, the price of textiles is determined by their cost of production, not because they have been produced at certain costs, but because the mills, machinery, and labour are in existence, which will reproduce the goods at the same cost. But shut down all the mills, and prices of stocks will be determined simply by the relation of the demand to the existing supply. Now, the annual production of gold and silver is, in comparison with the stock in existence and work, so small—as a fact, nearly two-thirds of it, it is said, are taken up by new demand for the arts and for hoarding—that it is very much as if the mines were shut; and thus the influence of cost of production on their value is quite insignificant. All this is amply illustrated by the present production and price of silver. I said at the outset that I did not mean to speak of the phrase, "mere commodity," so far as it implicated the theory that the value of gold and silver was like the value of other commodities in being determined by cost of production. It is evident, however, that, also in this connection, the phrase is quite misleading.

With all these conditions of stability of value, however, it must be confessed that gold and silver are very far from attaining it. How much they fall short may be seen if we look at them more closely in regard to their time functions. The "third commodity," as we saw, is a commodity taken in lieu of other commodities, and held or lent over long or short periods, not with a view to use as metal, but simply, if I may say so, as holding general value suspended. From this point of view money is the commodity in which debt is recorded. It is a kind of metallic I O U negotiable at the first shop,—a promise to pay everything in general secured in one particular thing of equal value. Its value as money, in this aspect of it, depends on the faithfulness of its recording.

Money as the record of debt.

To clear our ideas on this point, let us ask what would be an ideal repayment of debt.

An ideal repayment.

Would it be the giving back at due time of a concrete object exactly similar to that borrowed? Let us see. Suppose that, in a beleaguered town, one man borrowed a sack of flour from another, and repaid him a similar sack when the siege was over. Or, suppose that, in the beleaguered town, a creditor were to demand from his debtor repayment of a sack of corn lent before the siege. No one, I imagine, would call these satisfactory repayments. Nor would the judgment be dictated merely by a sentiment of fairness. Owing to the changed conditions of supply and demand, what is called repayment would in this case represent the payment of a very valuable article lent by a comparatively valueless article returned, and *vice versâ*. The two cases are, perhaps, enough to show that, in borrowing and lending—unless where special provisions are made—it is *value* that is borrowed and lent. This is of such vital importance, and so little understood, that I must make my meaning perfectly clear.

If value or purchasing power is borrowed, repayment of similar commodity is not adequate repayment.

When A borrows and B lends any article, B parts with a commodity which has not only a personal or use value both to A and B, but has besides a definite exchange value as regards all other commodities, quite independently of A and B. When, then, A pays his debt, it is not enough that he give back an article which has the same personal value to himself or even to B; he should give back an article which has the same relative position of objective value towards the world of commodities. Suppose that I had lent a friend my "boneshaker," in the early days when this was the only known shape of the bicycle, would it be considered anything less than fraud if he tried to repay me to-day with a similar "boneshaker"? To put it briefly: a borrower of valuable goods must return goods of the same value. Now a little consideration will prove that this applies, and applies *à fortiori*, to the "third commodity." A repayment of the same amount of gold and silver as was borrowed is not necessarily a fair repayment, any more than was the sack of flour under the changed conditions. It would not be a fair repayment even if money were a "mere commodity"; much less can it be so when money has no personal value but only an exchange value; when, in short, it is the unique universal commodity, whose very office it is to hold the same relative position among commodities at one time as it does at another. The only proper repayment of money is a repayment such as will put the creditor back into the same relative position to all other commodities as when he lent the money.

The Tabular Standard

Granted, however, that the ideal repayment is one difficult to formulate, and probably impossible to realise, it has been suggested that it would be no bad approximation if a currency could be devised which would purchase, now and at any future time, the same amounts and qualities of a large number of different articles. This is, fundamentally, the idea of the Tabular or Multiple Standard, first suggested by Scrope, and approved, among others, by Jevons and Marshall; only that the Tabular Standard would fulfil its ends, not by a new money, but by determining officially from time to time what amount of our present money would be required to buy certain fixed amounts and qualities of "things in general." Thus a debt of £100, contracted at a time when £100 would buy so many tons of this, and so many quarts of that, and so many yards of another thing, would be repaid, not by £100, but by whatever sum would, at the time of repayment, buy the same number of tons, quarts, and yards of the same articles.

shows the defects of the gold standard.

If, however, this Tabular Standard be accepted as coming nearer to an ideal record of debt, or standard for deferred payments, than any other we are likely to get, it casts a strong light on the deficiencies of our present money. For a sovereign to-day will exchange for 66 per cent more of things in general than it did some twenty years ago.[1] What this involves to all those

[1] Sauerbeck's index number shows that, as compared with general wholesale prices on the average of 1853-1877, prices in this

unhappy people who owe money—and the majority of those engaged in industry are in that category—is obvious. The annual produce of a farm which, in 1867-1877, fetched £1000 now sells for £600. But the man who borrowed £1000 to cultivate it is still bound to repay—not the annual produce of his farm but £1000! That is to say; in repaying gold, the debtor does not put the lender back into the same relative position towards the world of commodities, but into a 66 per cent better position. He borrowed the sack of corn when the harvest was plenty; he repays it in the beleaguered city.

Modifications.

Of course there are modifications in this apparently intolerable increase of burden. If the level of prices has fallen 40 per cent, it is certain that a good many of the materials and instruments of production have fallen to this extent. It seems at first as if the matter were as broad as it is long,—that productive power has increased by 66 per cent, or that cost has fallen 40 per cent, and that it is as cheap to produce 166 items of any article as it was to produce 100 of the same items formerly. If, for instance, rent, implements, seed, manure, wages, and interest of money have all fallen 40 per cent, is not the farmer as well off as ever he was? To this two answers must be given. The first is that there is no such harmonious readjustment of costs to price. In most industries a great proportion of the cost consists of fixed charges: that is to say, capital has been sunk in faith of prices of product remaining such as would

country, in January of the present year, had fallen 40 per cent. Now a fall of 40 per cent in the price of goods is the same thing as a rise of 66 per cent in the purchasing power of money.

yield a return; it cannot be recovered; it can only be "called down." And of course wages have not fallen in anything like the same proportion as commodities.[1] The second is that the ability of the farmer to repay the £1000 is seriously reduced. If, originally, the annual expenses of the farm were £800, there was a balance of £200 from which to lay aside a sinking fund. But when the crop now realises £600, the expenses fall only to £480, which leaves no more than £120 for sinking fund.

The present monetary position.

What has been said may give us some basis by which to judge of the monetary position at the present time. A good money, practically, would be one that preserved over periods of time the same general purchasing power, or power to exchange for what we have called "things in general." While confessedly imperfect, gold and silver have more qualifications for doing this than any other "mere commodities." Over the field of the world they have between them, for over twenty centuries, filled the position of "third commodity," and prices over the world have been based on the total quantity of the two *plus* all the vast fabric of credit based again on them. But what is now happening? Certain nations, by inaction even more than by action, are forcing the others to throw silver overboard. Now, as we have seen, the crowning qualification of money, namely, stability of value, depends on comparative steadiness of supply and demand. But by this action the supply of the world's money threatens to be,

[1] On the position of the manufacturer (in which category the farmer may be included) under this appreciation of money, see p. 210.

roughly speaking, halved, and the whole demand thrown on one metal. This can have only one effect. The value of gold, relative to all commodities, must go on rising till a new level of price is reached: that is to say, till prices generally are about half of what they were while gold and silver together did the money work. If the reader has grasped what was said a few lines ago, it will be seen how serious is the prospect for those who organise and "employ" labour —those whose capital is fixed in great factories and plant—and, with them, for the working classes whose livelihood depends on their being employed. The apotheosis of that crude notion, which makes the ideal payment of debt a repayment of the concrete commodity lent, promises to be attended by startling developments.

The creditor country argument.

The position of England as the "creditor country," is, in this case, *pace* Mr. Gladstone, one of which we should be heartily ashamed.[1]

All the same, this throwing of the money work

[1] The peculiar *gaucherie* of the "creditor country" argument is that our colonies have borrowed almost everything from us, and so our own sons and daughters are among the debtors. The whole argument is a curious remnant of the mercantile theory of last century, which found its logical outcome in Fox's sentiment that France and England were enemies by nature, and ought to be kept enemies by legislation. It assumes that the nation whose market is the world can be benefited by that which hurts her customers! If it is legitimate to congratulate ourselves that the English nation is gaining at the expense of other nations, can it be illegitimate to congratulate ourselves that the rich Englishman is benefiting at the expense of the poor Englishman? One would have thought this kind of parochialism impossible at the end of the century. Truly political economy has been relegated to Saturn—with strange consequences.

on one money is a natural, and, I think, necessary development of civilisation. There have been times when it was possible for one country to have one metal as its "third commodity," and another country to have another. But every day the world, economically speaking, grows smaller: the exchange relations between countries are getting more like the relations between parts of one country. It is therefore becoming of the most pressing importance that the "third commodity" of all communicating countries should be assimilated, and become, in fact, the Universal Commodity. Universal trade requires a universal money:

There are two ways of doing this. The one is that for which we are certainly making, if things are allowed to go on as they are doing,—and particularly if England continues to think that the currency matters of the nations with which she trades are of no importance to her. After some years more of steadily falling prices, of depreciating property and falling rents, of gigantic strikes against the inevitable reduction of money wages, of redistribution of the debtor and creditor classes,—in a word, of terrible suffering to those actively engaged in industry,—gold will become the universal "third commodity." Whether it then does its work well or ill will depend on the possibilities of its increase. With a growing work to do, the "third commodity" should be one that grows with it, or the fall in prices and the rise in gold will go on indefinitely. either gold alone

The other is the way of international agreement: that the trading nations, recognising that the stability in value of that which transports their products as surely as the post transports their letters, is a matter in which the economic interests of them all are identical, or gold and silver bound together.

and, awakening to the seriousness of halving the money of the world, should resolve to continue the use of silver at a fixed ratio with gold, thus joining the two metals in the unity of one money.

But inaction is action.

To take no action, however, is to adopt the former plan, and that the untried one. That in the year of grace 1893, with financial embarrassments and want of confidence at home and abroad, and with serious difficulties and general gloom throughout the working world, the managers of our national housekeeping were with difficulty persuaded to give one afternoon to the consideration of this, the most momentous question at present affecting the national industrial life, and that, on this occasion, one side of the House, by a special whip, was ordered to disregard its convictions, and vote as party expediency dictated, will not be the lightest charge brought by the historian against the Government of that year.

VI

MUST PRICES FALL?

ARGUMENT

The phenomenon supposed to be reflected inevitably in falling prices is the familiar readjustment, in favour of humanity, between the struggle of man and the return of nature. But the "more" of the national product would naturally be represented in the "more" of the universal commodity, money, but for the scarcity of that commodity. The level of prices, then—of goods for production and goods for consumption alike—must fall simply as reflecting the currency. Still, is it not the case that prices would fall, independently of this, from improvements in production? The argument is that less labour, and so a less sum of wages, successively produces productive instruments of the same power as before, and that this reduced cost is transferred to the goods made. The thesis here defended is that individual prices will tend to fall from such improvements, but tend to rise again as similar improvements extend over the field,—the neglected element being that demand is stimulated from two sides; from decrease of price and from increase of purchasing power. The five limitations to the general obtaining of this tendency. Thus two generalisations require revision: that the present great fall in prices is sufficiently accounted for by reduction of cost, and that falling prices necessarily spell prosperity.

VI

MUST PRICES FALL?

"*There cannot be a general rise or fall in exchange values.*"
MILL.

"*Increased supply is increased demand.*"

Statement of the problem.

THAT, under the stress of competition, the prices of manufactured goods fall, is generally accepted not only as an empirical fact of the last twenty years, but as a normal economic tendency. Do not the Index Numbers witness that the "forty-five selected wholesale commodities" have fallen in price from a level represented by 100 in 1853-77 to a level represented by 63 in 1894? If it ever occurs to practical people that there is anything requiring explanation in this fall, the ready answer is, How can it be otherwise when everywhere the materials and instruments of production are being procured and produced more cheaply? This, however, only shifts the problem one stage back, and the question reappears in this form:—Why are those materials and instruments, which, after all, are themselves for the most part manufactured goods, being produced more cheaply? Unless, then, we are content with an eternal regress, we must go deeper and seek the initial cause or causes of falling price. This I propose in what follows to attempt.

The decreasing cost to man

The familiar phenomenon which the practical man somehow interprets as represented by and reflected in falling prices is this. The progress of science and invention, working with the tools which accumulated capital puts at their disposal, causes the balance between human exertion and nature's return of product to that exertion to be continually readjusted in favour of humanity, so that, on the whole, the same amount of exertion produces more return. The reason, of course, is that knowledge puts the giant and sometime unfriendly forces of nature under human control, and makes them work on lines laid down for them by human desires. Of the two partners in all production, labour and nature, nature is made to work harder, which is the same thing as saying that man does not need to work so hard. Thus, if we adopted the hedonistic nomenclature favoured by some economists, and granted that labour spells pain—as it certainly does when uncongenial or overstrained—and that the return to labour spells pleasure, we might say that the "cost to man" decreases as the "return to man" increases. With fuller knowledge of natural laws the primitive antagonism between nature and man tends to disappear. Earth, cursed for man's sake, is found to be after all the *alma parens rerum*. Life, to the majority of us, becomes less of a struggle for existence and more of the endeavour of men who already have much to obtain more.

may take various forms.

This beneficent readjustment, however, may take more forms than one. Renouncing the full possible increase of material wealth, it may shorten the hours of labour, or reduce the toilsomeness of labour, or improve the conditions under which labour is carried on, till the word "pain," as applied to the healthy exertion of muscles and brains, becomes ridiculous. Or it may prefer to increase material wealth, continuing the long hours, the toil, and the undesirable conditions of labour, and finding compensation after labour in the use and enjoyment of the increased products. In either case the essential feature of what we call "economic progress" is a readjustment of the economic balance in favour of man.

But why falling prices?

But what has all this to do with falling prices? Why do we so readily take it for granted that this escape from the bondage of anxiety about a living—this progress of humanity towards a general leisured life—is the accompaniment of, and, in fact, reflected in falling prices of commodities?

—unless cost to man = manufacturing cost.

The reason, I imagine, is that we are in the habit of using the word "cost" in two entirely different senses. The one is that just explained: what I have called the "cost to man." The other is the common commercial use of the word in which it means the capitalist outlay in the process of production. Because the cost to man decreases, we assume that the money cost to the capitalist decreases, and find the cause of low prices in this assumed diminution of the capitalist cost of production.

That these two costs have no necessary relation to each other may be suspected if we remember what Cairnes impressed upon us; that capitalist cost consists mostly in wages, and that wages increase all the time that the burden of labour—the cost to man—decreases.

Confusion re
& money wa

That an hour's average labour in a field, thanks to our knowledge of nature's working, now returns twenty per cent more potatoes than formerly, is an excellent reason that we all—including the digger of the potatoes—should have more to eat. It is not so clear that potatoes should fall in price. And, suppose they do fall, it is not at all clear that decreased cost has anything to do with it. Evidently we shall have to look more closely into this matter.

The problem is so unfamiliar among practical men that I may be justified in putting it yet another way. The one thing which is absolutely certain is that, in the course of economic progress, goods increase in quantity or quality, and generally in both. But many, perhaps most people, consider it as certain that, in the course of economic progress, goods fall in price, and, as a rule, they consider the two phenomena correlative—the expression of the same thing. Plenty is considered synonymous with cheapness. This, I repeat, is too readily taken for granted; and it is the connection—the kind and measure of the connection—that we have to discuss.

Increasing commodities represented in constant money

Under modern conditions, and as consequence of the readjustment between the work of nature and that of man just spoken of, the commodities turned out by the industry of any community per average working-day—taking this as including the energy of labour and the energy of capital—tend to increase in number. Unless, then, capital absorbs all the increase, a day's labour tends to earn more. But were it not that the phenomenon is so common that we never notice it, we should not have expected that this "more" would be realised only when the worker goes to the shops of a Saturday night to buy his supplies. We should, I imagine, have looked for the "more" of product in the worker's pockets, in the shape of additional shillings. Instead of this, what we find is that the number of shillings remains constant or increases slowly, all the time that the shillings are steadily acquiring increased purchasing power.

is not what we might have expected.

Now a great deal of the prevailing haziness on this matter is due to our not understanding that this manifestation and expression of the increased return to labour is not the natural one. Wages, in point of theory, are the product of the wage-earner; they represent what he has contributed to the crop produced by the joint agency of labour and capital. This joint product takes the form primarily of an increased amount of commodities, and it is in this shape that it comes into the hand of the capitalist employer. And if this joint product were bartered directly for other commodities, both employer and labourer would be paid by taking home at the week end a greater number of commodities. What, however, they do take home is the exchange form of these commodities, in the shape of a sum of money which does not increase quantitatively in number of coins, but qualitatively in the greater power of each coin. If money were a "mere commodity," like the mass of commodities, the end of the week would find both classes with more coins in their pockets, the purchasing power of the coins remaining unchanged.

The more of product

What we might have expected may be seen more clearly by a very simple but very useful illustration.

Suppose the industrial world to be represented by might have been reflected in the more of money,

seven workers, who each turn out seven items of one commodity, put the forty-nine items into a pool, and draw from the pool, as wage or return, one-seventh of the entire goods produced. In this case each grows richer if *any* produce more, for then each man gets more out of the pool. It is always a seventh, but it is the seventh of an increasing whole. And the royal road to wealth for this community is that every one should produce more—a truth often forgotten among others by trade unions. Suppose now that one of the seven has for his function, in the division of employments, the mining of gold (which we shall take as the typical money), and that gold, along with the other six commodities, increase in equal proportion; then each worker gets more money as he gets more commodities.

without fall of prices,

And if the money of the world were thus to increase in the same way as other commodities do, the proportion between labour-pain and labour-reward would go on being readjusted in favour of humanity although prices did not go down but remained constant. A shilling would purchase to-morrow what a shilling purchases to-day. The readjustment would be expressed in the fact that labour would have more shillings in its pocket.

without waste,

In case any one should think that the old paradox, which says that, if we all had more money, nobody would be any the richer, is relevant to this matter, let him consider this. If a shilling would continue to buy a golf-ball, and we are at present restricting our consumption of golf-balls because of the scarcity of our shillings, surely the addition of shillings in our pockets would mean that we could have more golf-balls. The paradox depends on the assumed premiss that money alone increases. Increase of money alone is not necessarily increase of wealth any more than would be the increase of coffins. But if the increase from production in general *includes* money, then the increase of everything else is reflected in the increase of money. The extra shillings represent extra "things in general." The increase of the labourer's output is represented, not only by increased goods in the shops, but by increased goods in the pocket.

and without increase of cost.

But at this point possibly a suspicion awakens. "More shillings in the labourer's pocket"—this must mean higher wages, and higher wages are increase of cost, and increase of cost is increase of price. But increase of price would take from the worker his increased wage, and the balance would not be readjusted at all.

This, however, is quite fallacious. It comes of confusing money wage with efficiency wage. Suppose that gold were like general commodities—that is, a metal of which the supply increased as the labour of getting it diminished. Then the position of the gold-miner would be that he, at least, got more money for less exertion. But what is true of the gold-miner would, in these circumstances, be true of all other workers. With less exertion they would produce more commodities; exchanging these increased commodities for the increased gold they would find more shillings in their pockets, just as the employer, under the wage contract, finds more commodities in his warehouse. Increase of money wages *per se* has nothing to do with increase of cost. It is as cheap to pay forty shillings for forty articles as twenty shillings for twenty articles. Increase of wage is increase of cost only if there be no increase, in quantity or quality, of the commodities produced in return for the wage.[1]

True, the world can have too much money,

What usually hangs somewhere in the background of our minds, when considering this question, is the idea that the world does not need increase of gold as it needs increase of other commodities, inasmuch as the money uses of gold are limited. If gold, then, were to increase freely as many mining products do, it would merely multiply a form of wealth of which there already is sufficient.

just as it can have too much of anything;

This proposition, however, requires careful limitation. The case of gold is not so different from that of other commodities. All human consumption has its limits; it is not true of any good, even wheat, that additional supply is a proportional addition of wealth. Economies of any commodity will, other things being equal, tend to give the world too much of it. The worth of any good in fact being the use humanity gets from it, if it can be replaced by another that gives the same use, the worth of the former falls to the worth of the latter. Replace even wheat by cheaper products, say, chemical ones, and the wheat-field will disappear from the landscape. Gold has, however, two peculiarities among commodities. One is its physical scarcity. Its annual production, since 1858 down till the late discoveries, has not much exceeded twenty millions sterling. The other is that one

[1] The cognate fact is usually lost sight of: that, under falling prices of commodities in general, increase of wages, unaccompanied by corresponding increase of output, means, not that the worker is getting his seventh of the pool only, but that he is getting, say, a sixth of an increasing pool.

of its functions is partially superseded in the course of economic progress. Owing to the use of token coinage, to bank cancellation, and to credit generally, we have, in this country, cut down the need for gold money as our medium of exchange very considerably. Probably it is for this latter reason that we have got firmly into our minds the belief that increase of gold is not so necessary as is the increase of other useful metals and of commodities generally. This, at least, is the idea we should all have expressed twenty years ago. But hard experience has gradually been teaching us that there is a limit to economies even of gold, and that we cannot go on adding indefinitely to its work without a peculiar result which may have very far-reaching consequences.

but, in spite of economies,

we seem to have too little,

What this result is, I shall leave our most reliable statistician to state. In his *Case against Bimetallism*, p. 74, occur these words:—

and, *teste* Sir Robert Giffen,

"A fall of prices from period to period is substantially due to the necessary difficulty of increasing the precious metals so as to keep pace with the multiplication of commodities and the multiplication of the numbers of the people. The tendency as a rule among communities advancing so rapidly in numbers and wealth as European communities do, including among them people of European descent, like the United States and Australia, must be for prices to fall steadily."

And, using it as an argument against bimetallism that even the two metals together would be insufficient to counteract this tendency, he says further on:—

must look for a steady fall in the level of prices.

"In future there must be a similar fall in prices, so far as one can judge, which will in no way be arrested by the use of the two metals together on any ratio that can be established. The significant fact that silver prices have not risen during the last fifteen years in silver-using countries ought not to be lost sight of."[1]

This apart from reduction of cost.

So far as we have gone it seems proved that the readjustment, by which the exertion of labour decreases while wealth increases, might have been expressed without falling prices; that falling prices, in fact, are the accident of a precious metal currency by which the "more" of commodities is represented in the "less" of money. The conclusion seems to be that, owing to the scarcity of the precious metals in relation to the increase of the money use caused by increase of population and commodities, prices have fallen and will tend to fall *quite apart from any decrease in cost* of commodities. Or, to put it another way, the reduction in money "costs" may be merely the reflex of low prices generally due to the peculiarity of the money supply, and affecting all goods, whether goods for consumption or goods for production. The cause of low prices, then, will be not real decrease of cost, but merely *renaming* of cost. In present conditions it appears certain that the prices of finished goods will fall, and the prices of the instruments of production will fall, but the one will not be the cause of the other. In both cases there will be the expression of the same phenomenon, the scarcity of money relative to the need for it. The low prices of to-day in this case would have nothing to do with "cheapness" in any real sense of that term, any more than a Centigrade scale with the mercury at zero indicates a lower temperature than a Fahrenheit at 32 degrees above zero.

[1] Cf. p. 208.

But does reduced cost not also bring down price?

The further question, however, suggested at the outset awaits us. Is it not the case that as, in the course of economic progress, less labour on the whole produces the same or a greater return, the capitalist outlay of manufacture decreases; in other words, that "manufacturing cost" decreases as the "cost to man" decreases, and would bring down prices of finished goods independently of any currency accident?

Less labour, less wages, less cost, less price.

The argument for this is based on a common experience. In almost every trade machinery is, from time to time, invented which, it is said, "costs less" to make. This does not mean that the workers employed in making it are paid less wages individually, but that less labour on the whole, and therefore a less sum of wages, is necessary to turn out machinery which is as powerful towards the production of commodities as was the former machinery.[1] Perhaps instead of the labour of ten men being embodied in the machinery, its construction requires only the labour of five. There is no obvious occasion in this that the wages of these five should be raised, and so the "wages cost" of the machine is reduced by one half. Does it not follow that this decreased cost of machinery will in time be transferred to the goods made by it, and that, under the pressure of competition, the prices of those goods will fall in due proportion? The decreased cost to man will thus be reflected in lower cost of manufacture, and issue in lower prices.

[1] The other and more usual course of improvement in machinery is that the same amount of labour, represented in the same sum of wages, is embodied in machinery that turns out more or better products in the same time. This comes to the same thing, and the above better illustrates the argument.

It is by no means inevitable,

Unanswerable as this seems, the conclusion is by no means inevitable. What I shall try to show is, that prices in any trade thus affected will tend to fall, but will tend to rise again as a similar reduction of cost extends over the whole field. The key to the understanding of this will be found in two old, but often neglected economic propositions: (1) that, as value is the ratio of exchange between two or more commodities, there cannot be a general rise or fall in values,[1] and (2) that, inasmuch as supply of goods generally constitutes the demand for goods generally, supply and demand are two sides of the same thing.[2] This will require a somewhat detailed demonstration. If, in the course of it, I use round figures, and paint generally with a large brush, it will be understood that I do so for purposes of clearness.

if increased supply meet increased supply,

Suppose that, in a particular industry using large numbers of a small hand machine, the price of this machine is reduced by one half, and that the manufacturers concerned now buy twice the number of machines they did before. Their total outlay or cost for machinery is not reduced. But an extra supply of commodities from this increased power is thrown on the market, and it seems inevitable that the increased supply will bring down prices. There is one possibility, however, which might prevent the fall; that is, if the demand for the particular commodity furnished by this trade

[1] It will be seen as we go on that the whole argument is an amplification of this one simple proposition.

[2] This, of course, is the meaning of Marshall's pregnant proposition: "The net aggregrate of all the commodities produced is itself the true source from which flow the demand prices for all these commodities."

were correspondingly increased. Now we are so accustomed to see demand for any article increase in response to reduction of its price, that we forget that increased demand may come in another way; namely, from increased purchasing power in the hands of consumers. And this increased purchasing power for the particular commodity will be forthcoming if the supplies of all other commodities be similarly increased.

If, to take a strong case, every consumer were to discover a few gold pieces in an old drawer, this additional gold would constitute a new demand for commodities. But it would come essentially to the same thing if every industry were to turn out, for the same labour and capital, as many more commodities as would be equal to the supposed find of gold. Assume that formerly a total product of four A's exchanged, according to their respective costs, for a total of four B's. If, then, the total product of A rise to eight, in the natural course of things half an A will exchange for one B. But if, following the same line of improvement, the total of B's now rise to eight, the exchange value of one A will come back to its former position and be worth one B. This is how exchange values would adjust themselves under a barter system. If they act differently under a money economy, it is that there is something wrong with the money. Money should be the mirror of exchange values; it should not alter these values. If there were no money, but merely an adequate barter system, one A would be worth one B however many A's were produced, provided always that the B's increased in the same proportion—assuming of course equal elasticity of demand. If the intervention of

—*e.g.* a discovery of gold pieces.

money brings it about that the fairness of barter is not maintained by the money economy, there is no more pressing concern of a nation than that of restoring the mirror to its mirroring function.

For, if all articles were to increase simultaneously, exchange values need not change,

To put the matter in terms of our original illustration. If each of our seven workers produce seven of one kind of commodity, the pool consists of forty-nine articles, and, if the standard of exchange be labour, at the end of the day each worker draws out of the pool one of every commodity produced by the seven. If now one of the workers invent machinery which doubles his output, and still continues to work the same number of hours as before, he has fourteen articles to put in the pool, and the pool now consists of fifty-six articles. Each of his goods has fallen to one half, and two of them exchange for one of all the others. But if each worker in turn invents similar machinery and doubles his output, the value of the first commodity rises at each increase of the pool till, in the end, one item of it is again worth one item of every other commodity. The pool has now increased to ninety-eight articles. And if one of these articles is gold, the prices of all articles will have come back to the original figures. Here each will get his seventh, but it will be the seventh of a larger dividend. Every A will fetch its B, but the amount of A's and B's will be doubled. In short, prices will be as they were, but the real income of each will have doubled.

Put in general terms, this amounts to saying that, if a particular trade were to take full advantage of the reduction of machinery by laying down proportionally more plant, and extending production, the total cost would not diminish although the cost per item would. In such circumstances, however, this trade could maintain the former exchange value of its commodities per item only if demand increased *pari passu* with the increase of supply. And demand would increase—assuming equal elasticity—if the production of all other goods increased in the same ratio. In this case we should have the indefinite multiplication of goods, which is the real end of industrial action, without reduction of exchange value of any commodity. And if the production of the precious metals were subject to the same conditions as other industries—that is, if we had not to lay our account with the inevitable fall in prices which comes of scarcity of the common denominator of values—we could substitute for the word "exchange values" the word "prices," and say that the indefinite multiplication of commodities would not be accompanied by reduction of prices.

and prices need not fall.

What does all this prove? The economist who realises the gravity of the issues involved may well think twice before he answers. One of the most anxious questions before the nation at the present moment is the power of its money to hinder or further its industrial development. One party lays most, if not all, of the late fall in prices at the door of a defective currency; another asserts that it is mostly, if not altogether, the natural and healthy result of improvements in production. The decision between them seems to hang on the answer to a previous question: What is the normal tendency of prices; is it upwards, or downwards, or constant? And evidently the argument advanced in

The conclusion:—

the preceding pages has a very direct bearing on this question. Realising the responsibility, I think I am well within the truth in saying that the foregoing proves that, while it is a necessary consequence of our present monetary system that prices should fall, it is not a necessary consequence of improvements in manufacturing processes or methods.

that reduction of cost does not necessarily lower prices.

But, having said this, it may be granted that, in individual instances, disturbing elements check and tend to counteract the tendency here proved deductively, and that these particular instances are numerous enough to make the confirmation of the tendency by inductive evidence very difficult. Indeed, when we look at the historical course of prices, and find that many goods now cost only as many pence as they once did shillings, and shillings as they once did pounds, it seems hard to believe that such goods could ever again rise to their former figures, and it must be granted that these counteracting elements are not inconsiderable. The chief of them may be noted.

Counteracting elements.

No simultaneous improvements in production.

(1) In real life there is no simultaneous movement of reduced cost from trade to trade. It may very well be the case that, in one industry, or in a few related industries, manufacturers take advantage of a reduction in the price of machinery to increase their plant, or rather are forced to do so to keep up with new competitors; but, obviously, the improvements in other trades, from which the counteraction is to come, will not be anything like simultaneous. The actual course of events will be that, as effect of reduced cost and increased supply, prices of one set of articles will fall—not indeed in the full possible proportion of the reduced

cost, but to the level where the increased demand, due to the reduction of price, meets and comes into equilibrium with the increased supply. At that level they will remain till the second demand—that due to increase of other commodities—takes effect. Thus instead of the steady prices which would rule under simultaneous reduction of cost all over the field, we have prices falling in each branch as improvements are introduced, and rising again as similar improvements extend to other industries.

No harmonious progress in improvements.

(2) In some trades improvement may follow improvement in rapid succession, steadily depressing cost and price, while, in others, there may be no progress for a decade or so. In the case of some commodities, a small reduction of price or increase of demand may bring them within reach of new circles and classes, and increase the consumption so much that the industry which provides them is enabled to obtain all the economies that attend large production. For instance, so long as golf was little known, clubs were made entirely by hand. But the extension of the game made club-making a regular industry, and the rise of price which would, inevitably, have come from increase of demand was counteracted by the possibility of turning out club heads by the gross. It may, then, be a long time before such prices are affected by the new demand that comes from increase of other goods.

Differences of elasticity.

(3) It does not follow that any particular article, even if all the conditions are present, will ever regain the whole of its lost price: the demand for it may not be sufficiently elastic. In the case of many, perhaps of most necessaries, the demand may almost be counted

on to increase out of all proportion to reduction of cost and nearly in proportion to increased purchasing power generally; but this is not the case with all goods. It has been observed, for instance, that the consumption of sewing cotton seems to have reached its limit, even large reductions of price not materially affecting the quantity purchased.[1] This will be more marked where the consumption depends on richer and more capricious classes. In such cases the demand will reach a certain height and will then transfer itself to other goods, raising their price.

Over-capitalisation.

(4) The normal rebound from low prices is, in these latter days of extreme competition, often prevented by the over-capitalisation of great industries. There is always, in civilised countries, a reserve of capital, kept loose in easily realisable securities, and ready to seize the chance of better employment. When any trade is reputed to be prosperous, capital is poured into it, and fixed in it, in such quantities as to depress the entire industry, and prevent the natural rise, till such time as the trade is weeded of its weaker members. When this does happen, however, the prices may run up very rapidly, and recover in a few months all they had lost in as many years.

A falling level.

(5) If, from any of the causes mentioned above, the rise of price is long delayed, the commodities in question will not, normally, rise again to the old level, for the reason with which we are familiar;—that the level of price determined by currency tends to fall.

All these points may be illustrated by reference to a course of demand which may be foreseen with sufficient

[1] The same seems to be true of wheaten bread. See p. 190.

certainty: the illustration will serve at once to bring out the general principle and its limitations.

An illustration.

If, owing to some great invention in the treatment of gutta-percha, golf-balls fell from a shilling to sixpence, old golfers would grow more careless about lost balls, more fastidious as to playing with old balls or "re-mades," more liberal in giving their children the coveted "new ball," and, as result, would almost certainly use at least twice as many balls as before. That is to say, the 50 per cent fall in price would be faced by 100 per cent increase in the old demand, thus leaving the total value of the output of balls as before. At the same time, the sixpenny ball would bring the game within reach of new circles of players, such as working men, who, happily, are even now taking to the healthful sport. The final result would be that the total demand for golf-balls would be much more than doubled. What has to be noted in this case is that, where the increased demand comes only from a reduction in price, a great deal of it is merely diverted from the consumption of other goods, and rather tends to reduce their price. While the old player may spend a shilling, as before, in buying balls, getting two where he formerly got one, the beginner diverts his sixpence from something else. When, however, this demand had time to take effect, it would probably send up the price of balls again, say, to eightpence, and check so much of the demand.

First increase of demand.

Second increase of demand.

If, later on, as consequence of rising profits and wages (the translated form of increased commodities), the enlarged circle of golfers were to find themselves with more money in their pockets, they might become still more lavish in their expenditure, and, as before, new circles of people would become purchasers of balls. In this second demand appears a difference which is worth noting; it is, that it is not diverted but additional. The working man who finds an extra eightpence in his pocket might invest it in a Silvertown without stinting his tobacco or his Saturday night's supplies. A new demand of this kind is thus likely to be more extensive than the other, as it does not involve the giving up of any other consumption. In this case, then, prices would again tend to rise, and to rise more freely. If the increased purchasing power were sufficient, and if no new conditions supervened, there is nothing to prevent the price of balls coming back to a shilling.[1]

First check to rise of price.

But at this point two new phenomena may emerge. First, it is possible that the limit of desire for golf-balls on the part of a great many may be reached. If

[1] What, I believe, is at the bottom of the real difficulty people have in believing that prices fall only to rise again, is that they cannot get quit of the idea that the conditions of production, in well-developed industries, are such as to secure that any amount of demand can be met without increase of cost. They mistake for normal the present congested conditions, with which we are all too familiar, where factories and fixed capital are standing half employed for want of demand, and where an increase of demand that would put them on full time would be actually a *reduction* of cost. In short, they unconsciously assume that, because so much capital is at present unemployed, capital can normally be had for nothing, and that new demand will not send up both its price and the price of labour. Thus they forget that at a time of rising wages and profits, such as we assume, cost rises also. If cotton spinning is prosperous it seems no reason that the price of spinning machinery should rise, nor is it. But if several industries employing machinery are prosperous, it is inevitable that the price of labour should rise; that with it the coal, iron, and steel, in which labour is the chief cost, should rise; and that the wages of those who work up the iron and steel into machinery—cotton-spinning machinery included—should rise.

so, the new purchasing power will take other directions. Say that it is spent in more liberal employment of caddies, it will be recognised—in this case, more than in most—that increased demand raises prices, as these necessary parasites of the hard-working or the stout golfer usually manage to establish a very thorough trade union and system of terrorism among themselves. Here the money that might have gone to raise golf-balls to the old figure of a shilling will be diverted to raise the price of caddies above their old level.

Second check.

Second, the largely-increased demand will have had some effect on production. It may have led to a scarcity of gutta-percha, and a great rise in its price, such as, from similar causes, we see in india-rubber and ivory. Or it may have stimulated its planting and growth, and brought down its price. In any case, it will tend to further economies in the making of the balls. Again, it may stimulate the invention of substitutes, so that the consumption of the gutta-percha ball may fall away indefinitely. Lastly, it may be the case that so much capital has been sunk in buildings, plant, and provision generally for the making of balls, that the struggle to keep it employed holds down price to the level at which it can pay only the last and best-appointed newcomer, and price cannot rise till some of the weaker firms go to the wall and clear the encumbered ground.[1] In these latter cases the tendency of the ball to rise to its old price of a shilling will be checked, and, possibly, completely counteracted. Here, however, as in the former case, increase of general purchasing power will throw demand on to other goods and tend to raise their price.

[1] Cf. p. 203.

The neglected element.

It thus becomes clear that the central point, and the usually neglected one, in this whole matter is that every reduction of cost has its counterpart in the increase of commodities, and that these increased commodities are increased demand for something or other. This increase, as we have just seen, would not of itself depress prices permanently. As things are, indeed, increase of commodities is inevitably reflected in the fall of price. But, with an adequate supply of money to do the increasing money work, the increase of commodities would be expressed in prices that fall and tend to rise again to the old level. At this point, however, the currency scarcity hides the rise. We have the empirical knowledge that, once prices are down, it is very difficult to get them up again. It escapes us that they cannot, normally, rise to the old level if, in the meantime, the purchasing power of money has risen, for, in this case, there has already been a real rise unnoted—that is, a rise in the exchange value of the commodities in question. A rise in money price to the old figures then would be a rise to over the old level. The currency question thus underlies the whole complex of phenomena.

The level always falls.

Any adequate answer, then, to the question which heads this paper must distinguish between two things, the level of prices and individual prices. The *level* of prices tends to fall, owing to the scarcity of the precious metals in which prices are named and to the absence of further economies in their use, in face of growing population and increasing commodities. This tendency affects all goods, both finished goods ready for consumption and the goods which go to their production; that is, "cost" as well as the "reward of cost." Independently of this, there is a tendency of *individual* prices to fall as consequence of particular reductions of cost due to the progress of science and invention. But this, in normal cases, is a temporary tendency; it is checked and counteracted as the reduction of cost extends over the field of industry,—although, in particular instances where there is little elasticity, the possible demand will be transferred to other goods, and raise their prices. Thus the history of prices over periods of time will register falls and rises, representing fluctuations in the value of goods as estimated in terms of each other, and these falls and rises will, on the whole, balance each other; but the complex of falls and rises will be mirrored in a general fall of prices, representing the steady fall in the value of all commodities as estimated in terms of money.

Individual prices fall and rise again.

It thus becomes evident that two common generalisations require revision. One is that alluded to at the outset; that the present fall in prices generally, as witnessed by the Index Numbers, is accounted for by reduction in cost. The argument I have put forward at length may be very well brought out by considering the effect on prices of a reduction in cost, not of machinery, but of transit: that due to the opening of the Suez Canal. Granted that the saving of time and freight was reflected in the lowered price of goods brought through the canal, such a fall in price could not take place without inducing an extra demand for these goods, and, as consequence, their price could not fall in anything like the proportion that the freights

Thus the present general fall is not due to reduced cost. An illustration.

fell. If this particular saving of cost due to the canal had remained the only saving of the present generation, it may be granted that prices of all goods influenced by this saving of freight would remain down in comparison with goods not brought through the canal or directly affected by such. But in the economic world all things are interconnected. An immediate effect of the opening of the canal was to supersede the sailing by the steam-ship. The attention thus directed to the construction of iron steam-ships led to the remedying of the chief defect in such ships, namely, the amount of space taken up by coal. Thus came the introduction of the triple and quadruple expansion engine. Now in this universal improvement and cheapening of carriage came a very considerable counterpoise and compensation to the particular reduction of cost due to the saving of time by the canal. For now all goods sea borne were reduced in cost: all such goods, as consequence, increased in supply: this increase of supply was increase of demand for the goods formerly reduced in price by the canal, and could only result, in the absence of other elements, in the real rise of price of these goods—always remembering, however, that this real rise might be concealed by the steady fall in the level owing to the failure of gold to cover the increased money work.

Nor are falling prices synonymous with prosperity.

The other generalisation is that falling prices are the evidence of economic progress and prosperity. From what has been said it should be clear that that fall of prices which is due to scarcity of the precious metals has nothing to do with "cheapness," any more than the pricing a shilling article in halfpence would make the article any dearer. On the other hand, the reduction of cost which is a real characteristic of prosperity will find expression sometimes in falling price and again in rising price; the falling price being due to increased supply of the particular article, the rising price being expression of the increased supply of other articles. From this latter point of view, in fact, falling prices are always the result of a compound dislocation; the irregular increase of some commodities relative to others and the displacement of capital and labour. If all commodities increased simultaneously and harmoniously in amount, the demand would increase simultaneously and harmoniously with the supply—supply and demand being merely the same commodities looked at from different sides. But, in addition to the dislocation which comes of irregular increase, most improvements which reduce cost throw capital and labour for the moment out of employment, and stop supply and demand alike at the source. There is some time lost, some capital consumed, and some labour wasted before the displaced factors get to work again, and begin producing a supply of new commodities; that is, a new demand for the old.

Thus the popular idea that our present "cheapness" is the expression of a normal tendency under which all manufactured goods, or goods so far as they are manufactured, are coming nearer and nearer to the condition of "free gifts of nature," is not warranted. The general fall of the last twenty years, as distinguished from temporary falls and rises and from falls in some things balanced by rises in others, is due to the fundamental characteristic of our currency. These falling prices, as a whole, must be balanced in something, and they have been balanced in rising gold. The low prices represent "cheapness" only to those who have been able to prevent their money remuneration from falling, or are due debts measured in gold. The two classes who have reason to congratulate themselves on low prices are (1) the working classes whose money wage is not reduced, and (2) the creditor classes; for these two find themselves in possession of the one commodity which every year "buys more." But if low prices are coincident with irregular employment, and if the gain of the creditor endangers the solvency of the debtor, even these two classes may find that the balance swings against them.

The classes who benefit.

VII

OVERPRODUCTION

ARGUMENT

A word of two meanings: absolute overproduction and overproduction at a price. The one gets its colour of truth from the conceivable possibility of growing more of a single grain than the people can eat. The other, when analysed, is seen to be a statement of general inability to sell at profitable prices. Finding an à priori *explanation of this inability in anything that will press down price after cost is incurred, we discover two such tendencies. The one is normal; arises in the length of the modern production process; and makes the manufacturer's position always a difficult one. The other is abnormal; is due to the scarcity of the precious metals renaming all valuations at a lower figure; and takes the heart out of enterprise. Hence general contraction or want of expansion presents the same phenomena as partial overproduction, and is mistaken for general overproduction.*

VII

OVERPRODUCTION

"*Too many shirts! Well, that is a novelty in this intemperate Earth, with its nine-hundred millions of bare backs!*"

PAST AND PRESENT.

"THE world is growing more wheat than the world can eat, and that wheat is carried from country to country for next to nothing because there are too many ships sailing on the sea." This is the text of a speech recently made by a representative merchant in my own city before a representative assembly of merchants; it will be recognised as fairly typical of the opinion long held by all sorts and conditions of practical men that the great industrial malady of our times is "overproduction."

A typical opinion.

The words quoted are particularly interesting because they seem, to me at least, to measure the truth and to suggest the fallacy of the current commercial doctrine. The proposition has some colour of truth as regards a staple food of the western nations; the fallacy lies in the implication that wheat is not only the typical food but the typical commodity.

Gregory King's law, formulated at a time when this country grew and consumed its own grain, was that a deficit in the wheat crop of one, two, three, four, and five tenths would cause a rise in price, respectively, of two, eight, sixteen, twenty-eight, and forty-five tenths. The reason of this is not far to seek. Food of some sort is a necessary of life, and, in days when food was not multiform and varied as it now is, the minimum consumption of wheat necessary to keep the nation in life was fairly calculable. Any decrease in supply was sharply felt in terms of hardship. But, under the same conditions and for the same reasons, its maximum consumption was almost as strictly limited. Within the memory of the present generation oatmeal formed the larger part of the daily fare of the Scots peasantry;[1] any one who remembers the "ploughmen's parritch," kept warm on the kitchen hob till the rough yellow crust grew a quarter inch thick, will be ready to credit the proposition that the maximum of such fare was sternly set by the powers of the human digestion. Like oats, wheat is a commodity whose minimum and maximum consumption in simpler times were both fairly well defined. And what might be argued is that, even allowing for the immense changes in our habits of eating and in the variety of things we eat, it is possible that any vast increase in the wheat crop might be a real and literal overproduction in the sense that it exceeded the normal possibilities of the national food consumption.[2] It needs after all to be remembered that the term "wealth" involves, somewhere in its wide circuit, the conception

A maximum consumption of food is conceivable;

[1] "Oats. A grain which in England is generally given to horses, but in Scotland supports the people."—Johnson's *Dictionary*.

[2] A fall in the loaf, *e.g.* from sixpence to fourpence, scarcely increases its sale.

of "well-being," and that that which finds no desire waiting on it for satisfaction is not wealth but waste. Thus the world might conceivably grow more wheat than the world could eat, with the result that no man would be the richer in purse or person for the abundance. How far this argument is valid we shall see presently.

But when the assertion is made that it is overproduction of commodities generally that is keeping our wheels silent and our arms idle, something quite different is meant by the word. What the manufacturer means is not that every one has as much of, perhaps, any commodity as he could or would care to use, but that more has been produced of the particular goods he makes, or of goods in general, than can be sold—and so taken for consumption—*at a certain price*. He knows very well that, if the demand for any commodity is of even moderate elasticity, a slight reduction in price, or, at worst, a "cheap sale," will take it off his hands. Goods that were unsaleable at five shillings have been known to melt away when repriced at four and elevenpence-halfpenny. Outside the circle of demand at one price, there is in fact, in the case of most goods, a wider circle of demand that can be reached by a reduction, and, as a rule, the increase of demand in such cases is more than proportional to the decrease of price.

but not of commodities generally.

I submit that the manufacturer uses the word "overproduction" in a perfectly definite and intelligible way wherever he finds that it costs a certain amount of wealth, material and personal, to create a commodity, at the same time that the public, for whatever reason, will not pay the price sufficient to cover this cost. It is,

Technical meaning of the word.

however, quite clear that this is an entirely different use of the word from the former one. There "overproduction" meant increase of commodities over and above human capacity or desire to consume them in any reasonable way. Here it means increase of commodities over and above a certain level of demand for them,—for the recognised economic meaning of "demand" is desire as expressed in the ability and the wish to purchase *at a price.*

It is, I imagine, through a confusing of these two meanings that we have a long-standing quarrel between the business community and the economists. It must be in our recollection how Carlyle—for once on the side of his "dismal science"—used to fulminate against the word. Here, he said, are the spun shirts hanging by the million unsaleable. There are millions of bare backs that can get no hold of them. And you speak of overproduction! Still the maker of spun shirts is just as certain as ever he was that, in *his* particular business, there is overproduction; and, hearing a similar statement from his brother manufacturers regarding their products, cannot understand how it is contended that there is no such thing. It is not metaphysicians alone who cry "Check," only to find that their supposed adversaries are playing billiards!

Thus overproduction has two distinct meanings

If it be granted that there are two entirely different phenomena ordinarily spoken of as "overproduction," and that they must be discussed separately, we may go on to examine if there is any valid ground, in either of the cases, for the assertion that we cannot get to producing more because we have already produced too much.

which must be discussed separately.

We need not, I think, spend much time in regard to the former. Possibly there may be one or two things which can be overproduced in excess of the capacity and desire to use them. A carpenter whose chief business it is to make coffins for the neighbouring workhouse will now and then — say in genial summer weather—find himself with too much stock on his hands, and no reduction of his prices will induce the demand to come into equilibrium with the supply. But I am not sure that there is any other commodity which stands in precisely the same category.[1] Wheat, as we saw, comes very near to it, but only so long as we consider it purely as a human food-product. With fuller knowledge we put it to baser uses. Its properties for cattle feeding, malting, starch, warp-dressing, etc., only emerge when a low price is reached, and there is little reason to doubt that, if the price fell lower, still further uses would be found to take up any amount of supply.

One possible case.

But, even if it were allowed that overproduction of wheat is conceivable, this does not go very far to prove overproduction of the other common necessaries, to say nothing of commodities generally. Possibly it may be the case that of wheaten bread even the poorest in this country get enough. Paupers in a workhouse certainly do, and the fact that the majority of beggars will not accept a dole of bread unless tempted by the addition of butter or jam, makes one suspect that dry bread is below the lowest standard of comfort. But it is impossible to say the same as regards that other necessary of

[1] Turgot's peasants in the Limousin, it is said, lived one-half the year on chestnuts: of such a "food" there might very well be overproduction in good years.

life, warmth. A small rise in coal causes frightful misery among the very poor—a kind of misery of which the well-to-do know absolutely nothing. With all its cheapness sufficient clothing, upper and under, seems yet beyond the reach of the masses. Every economist, in fact, knows that the rise in the level of general wealth has imported into the conception of "necessaries" an element of convention that makes the word very difficult to deal with in economic science. Men and women no longer consider themselves "clothed" when they have enough to cover them and to keep in the heat. Even common cleanliness, which is itself somewhat of a convention, demands much more than one change of raiment per person,—to say nothing of the legitimate claims of appearances. To class the two sets of necessaries, the physical and the conventional, under one category, and assume that there is an overproduction of clothes in the same sense as there might conceivably, under the limitations mentioned, be an overproduction of a special food, is quite misleading. This again makes us reconsider what was conceded from another side as to food. The humblest people might economise very much if they would eat only for nourishment's sake. But if even Scots children now refuse to breakfast on the oatmeal porridge of their ancestors, how could we expect the working classes generally to admit that they are "fed" when they get as much wheaten bread as they can, or care to eat?

But no other.

If this is the case as regards the simpler necessaries of life, the application of the argument to its comforts and luxuries is obvious. There cannot be overproduction of things in general for two reasons: first, that, while in comparison with other nations we are rich, we are, absolutely, exceedingly poor[1]; and second, that as new wants lead to new activities, and new activities awaken new wants, there is an infinite field for extending the production of almost everything that satisfies any considerable human desire. If wants and desires were alone the motives to industry, there is not a wheel in the country but would be kept running, and not a labourer but would be worth a wage.

If, then, "overproduction" is the reason of the spun shirts hanging unsold, it must be overproduction in the second sense—that is, overproduction at a profitable price. Up to a certain point no one will deny the possibility of such a phenomenon. If, for instance, as prices of cotton goods sink lower, Lancashire, feverishly anxious to secure an economy of general expenses by spreading them over a wider area of products, increases its output, at the same time as mills are being run up in India and Japan to flood the same markets, it is very likely indeed that there is more supply of such goods than can be sold at the average Lancashire cost. Overproduction like this in certain industries is notorious, and is serious enough. But the very admission of this "partial overproduction" excludes the possibility of general overproduction. In proportion as prices of any commodity fall, does the cheapness stimulate some other branches of production, or at least "saves money" to the purchaser. If sugar falls, the jam and biscuit industries flourish, while the consumers, spending so much

Partial overproduction is notorious.

[1] I refer to the £36 which is all that the national income, divided equally among the population, shows per head.

less on sugar, have so much more to spend on other things. General overproduction is seen to be a contradiction in terms. The passing of partial into general overproduction cancels the overproduction.

What are its limits?

All the same, if we look honestly at the facts under our eyes, we begin to ask how many kinds of goods must be overproduced before we dare speak of a general overproduction. Everywhere landlords and farmers are losing heart, and land is going out of cultivation. Factories are running short time or are shut down. The rate of interest falls almost to vanishing point, because capital cannot find investments. The unemployed we have always with us. There is no trade into which any of us could put our sons without facing the doubt if there are not already too many in that trade. Nor is the phenomenon limited to the trades; the professions are as overstocked. As a well-known professor, addressing medical students on their graduation, exclaimed, on realising the number of persons before him, "God knows where you are all to get practice!"

A wonderful phenomenon.

Whether this deserves the name of a general overproduction or not, it is certain, at all events, that, for some reason or other, in most trades more is being produced, or is capable of being produced, than can be sold at remunerative prices. If in all this there was nothing more than an increase of supply while consumption remained unexpanded, the phenomenon would be remarkable enough. But what makes it beyond measure wonderful is, that, all the while, the population of civilised countries is increasing at the usual rate; that the spread of education is awakening their masses to needs they scarcely knew before; and that whole continents of hitherto savage peoples are forming new markets for western products. It is, indeed, the central phenomenon of the economic world to-day. On the one hand an increasing, seemingly infinite demand for goods and services of all sorts; on the other, ample means and machinery, materially speaking, for meeting this demand. In the centre, partial paralysis of industry. "And about the eleventh hour he went out and found others standing idle and said unto them, Why stand ye here all the day idle? They say unto him, Because no man hath hired us." But no man says unto our nineteenth-century labourers, "Go ye also into the vineyard." The owner has withdrawn his vineyard from cultivation owing to—want of demand! Simpler times never saw anything like this. At last the economists have a chance of showing that their science did not end with Adam Smith, for here is a question which could not have been put in his day.

So much for the phenomenon. The facts of it are so striking as to tempt one to think that the explanation cannot be beyond economic reach. But before making the attempt, there are two popular explanations which must be moved out of the way. Both of them look on the problem as essentially taking this form: here are the spun shirts which have cost and are priced at half-a-crown, and there are the consumers who have only two shillings to buy them with. And the answer of the one is, Reduce the cost to two shillings; of the other, Increase the wages of the masses to half-a-crown.

Two popular remedies:—

The first explanation is, practically, that the land and instruments of production are in the hands of the few, and these few, the capitalist-employers, withhold their to reduce profits;

capital from industry because they will not consent to reduce their "profits." Now it is quite true that employers, however much they may love their work, will not work for love. Nor, unless they were guaranteed a living from some other quarter, could they be expected to sink their capital in mills and machinery, with all the risk of never getting it out again, unless they could get rather more return than by lodging their money in a bank. And it seems incontrovertible that, in the great staple trades, general economies have been carried to the uttermost; labour-saving machinery introduced to the limit of invention; profit, when obtainable at all, cut down to "bank interest." To say, then, that profits must go lower is, practically, to say that one large and most important class of workers, the organisers and leaders, is to work without wages. It ought to be evident to everybody that, to put the employing classes on a fixed wage, as Socialism presumably would do, instead of allowing them to take their chance of getting a surplus under the name of "profit," would, in all probability, be a raising rather than a reduction of cost, and would not at any rate substantially change the present situation.

to raise wages.

The second explanation is that, owing to want of trade organisation, wages are too low. Raise wages, it is said, and the working classes, from whom comes the greater portion of the demand, will soon clear the warehouses of their superfluous stock, and leave the ground clear for capital and labour to work together again in earnest. It is the half truth that the "standard of comfort" determines wage, rashly elevated into a policy.[1]

[1] See p. 27.

The first and obvious answer to this is, that, while this increased purchasing power would certainly clear the existing stocks, it would as certainly involve an increase of cost for the future which would again put the new goods out of the reach of the wage earner. Labour cannot escape from the category of productive instruments. But it would be a curious proposal of remedy to increase the crop by raising the price of ploughs! The second answer is, that a rise of wages, not accompanied by and represented in additional product, must come out of somebody's pocket. The "somebody" in this case is presumably the employer, as the increased cost could not be shifted on to the public by increase of prices without aggravating the problem. This, however, is just the first explanation put in another way, and admits of the same answer. Reduction of prices with unchanged labour cost, and maintenance of prices with increased labour cost, are both proposals to deprive the *organising* worker of his wage.

These misread the problem.

As a fact, these answers are both wrong, because the problem has been misconceived. If the shirts have cost half-a-crown, it means that half-a-crown has been expended in the making of them. If the manufacturer, then, has the shirts, the consuming producer who made them has the half-crown, and, presumably, could afford to spend it on the shirts. This is neither a problem of the employing classes being discontented with small profits, nor of the working classes not having a large enough wage. The characteristic features of it are that the employers cannot sell their goods to any profit, and that the working classes are put on short time or thrown out of employment because of this.

The essence of the phenomenon is a hitch between cost and sale.

If this analysis is correct, the essence of the phenomenon is a hitch between the making of goods and the selling of them, and the seat of the disease seems to rest somewhere in the matter of price. If we can find any tendency that makes for the reduction of prices after the cost of manufacture—including wages—has been incurred, and before the goods are sold, we seem to have laid our finger on the spot, and given at least a plausible explanation of what is usually called "overproduction."

Is there, then, anything, normal or abnormal, that is affecting prices in this way? The thesis I propose to maintain in what follows is, that there are two such influences. One is normal to the present state of our capitalist competitive organisation, and corrects itself in time; the other is abnormal, and has no such corrective. The one arises inside production; the other is a matter of the currency.

As things are, production does not follow consumption,

(1) Let me call attention to the fact that all theoretical reasoning which assumes that the normal course of industry is that production follows consumption,—that demand comes first and supply comes after,—is quite misleading. We are long past that simple stage of industrial history. The factors are no longer nature on the one hand and man on the other. Between the two stands accumulated wealth, in its two forms of consumption goods and capital. This wealth has three characteristic features. First, it is a human creation. It is matter and force put into what one may call non-natural forms,—that is, into forms which nature is always trying to break up and put together in other shapes. Thus

it can be kept in existence only by the continuous labour of man. But, second, it is kept in existence, not as we keep sovereigns in a safe, but as we keep grain in the ground, by continuous remaking. It is a sum of value, embodied in concrete products that preserve and transmit this value by continuously passing out of old into new shapes. Its type is the tool which wears out with use, but during its lifetime makes other tools, and perpetuates its value in the new tools.[1] And, third, it goes on increasing, in the progressive nations, about twice as fast as population. Thus the work of humanity is not exactly like labour spent in cultivating indestructible fields. Man works for the most part on a great accumulated but perishable treasure, handed down to him by the past, re-creating it, and adding to it, while and by passing it through the life of the labouring man; its soul of value incarnated in continually-changing shapes. Here, then, we have a supply which, on the whole, tends to be constantly in front of demand.[2] The goods are made and in the shop windows, with the prices attached, before the consumers realise what they desire, or calculate what they might pay. The success of those who organise the workers depends on their ability not only to forecast human desire but to tempt and create it.[3]

but anticipates it.

This being so, the plans of such organisers have to be laid down long ahead, and, so far, on speculation of

Hence cost extends over long periods;

[1] Cf. p. 231. [2] Cf. p. 266.

[3] It is for this reason that the theory of value becomes so difficult. We do not range our desires on a scale and say to ourselves, We shall spend so much on this and so much on that. We do not in fact form our scale till we see the prices, and our subjective estimates of what we would give for goods are moulded and modified by the prices at which we find that we can get them.

demand. A factory is not built to last a year but a generation at least. In building it the manufacturer has to calculate, in some sort of way, the amount of product which can be made within its walls before they crumble into ruin, and the prices the product will fetch over the generation. But the cost of his factory thirty years hence will be to him the cost of his factory to-day. In his machinery, again, lies potential the exertion of natural forces on particular lines and methods for many years. The price he pays for it is the price of these exertions over the period during which the machinery will last, and, again, the value of these exertions depends on the prices realised by product over that period. It is the same, though in lesser degree, with many other of his expenses. He buys cotton perhaps once a year on the calculation that this cotton will enter as foundation into all his manufactures made over the year. He has contracts ahead for coals, for clerking expenses, for insurance, and so on, which, in the same way, run over months and years. And, most serious of all, perhaps, is the fact that the working classes are now practically bound together to demand a certain level of wage which, it might almost be said, the conscience of the nation, regardless of economic law, has said shall not be reduced.

and much of it is fixed.

But he has no such contract as to his own prices, for prices of finished commodities do not go by contract, but are the result of the constant balancing of supply and demand. Thus at all times, and as a natural condition of progress, the position of the manufacturer is a difficult one. Great part of his cost is always in the past. It is a "fixed charge" which does not come and go. And if prices, for any reason whatever, go down, the difference between cost and price, which was his reward and his inducement to be a manufacturer, diminishes and tends to disappear.

The question then arises: What is the normal course of prices of manufactured goods under these modern conditions? To discover this let us follow the course of phenomena in any well-developed industry.

A modern instance.

There is a time, let us say, in the history of every trade when the prices realised are such as to cover material, wages, and profits. For some reason or other the demand runs a little ahead of the supply. Tempted by this margin of demand some capitalist puts up another huge mill. The margin of demand disappears and turns into a margin of supply. If the price of the product remains unchanged, this alteration in the relation of supply to demand involves that all the makers in this trade have to go on short time. But, instead of doing so, we shall suppose that they all reduce their prices a fraction; make a shade less profit; and sell all their output. But now another capitalist, desirous of reducing his costs by increasing his output, builds still another mill. The same process repeats itself. The continual effort of capital to find employment keeps it pouring into the staple trades. In the end profits cannot be cut down further, and the industry settles down into chronic depression. That this is the actual history of our great trades any one who knows practical life will recognise. It is only in text-books of political economy that capital at once leaves the old channels as their waters sink below the "average profits," and cuts out new ones.

Now let us be quite clear what this means. It does not mean that all the manufacturers concerned are working at a loss. The best equipped are earning a profit, and they set the pace and the price for the rest. The majority, unable to withdraw their fixed capital, or to "accommodate"—blessed word of those who know nothing of manufacturing!—their mills and machinery to other industries, are perforce content to earn bare interest. Many, again, are worse off: they are glad if they can keep their capital in existence, in hope of some turn of fortune which may give them a return upon it. A few use the privileges of the Limited Liability Act; lay aside no depreciation fund; and finance more or less skilfully till their credit gives out, and they have to "reorganise" or stop.

Not over-production but the menace of it.

This is the condition of a trade in which "over-production" is said to exist. It is not the case that there are large stocks of goods hanging in the warehouses unsold, but that there is too much possibility of producing. Mills and machinery in great part are standing ready to start, or go on full time, whenever a profit can be shown. But the moment that a profit emerges every one rushes to snatch it, and it disappears in a wave of over-supply. From the manufacturer's point of view, the most providential thing would be—as is often said—a "few good fires"; these would for the time remove the menace of over-supply, and allow prices to be raised just enough to let the remaining factories pay. Now this desire of the manufacturer for a "few fires" is neither so irrational nor so shocking as the economists have too rudely said. A mill that is standing is only a possibility of wealth: it is not wealth itself. Meantime it is matter in the wrong place. The only way of turning it into wealth is to reduce the estimate of its value, and sell it to a company at perhaps half its cost. But if the effect of this "realisation" is to bring a new competitor into an already depressed trade and undersell the others, the realisation of wealth on the part of one is balanced by the additional depression which spreads over the whole trade, as consequence of having to compete with a mill whose capital cost is under the normal amount. It is not uncommon for the other manufacturers, in such a case, to buy up the old mill and prevent what they consider a calamity. Thus when Bastiat closed the discussion, as he thought, by showing the "unseen effects" of breaking people's windows, he only raised other questions. Wealth may cumber the ground of production just as too much manure does the fields.

Rapid superannuation of fixed capital

The point I wish to bring out will be seen most clearly if we consider the phenomenon which does for the trade in question slowly what the fires would do quickly. The new mills, presumably, work at the lowest cost, and they survive. In the older mills a time comes when the partners become tired of earning bank interest. If they are not fortunate enough to get a clever valuator and turn the failing concern into a limited company, they close; sell the stock at current prices, the machinery at breaking up price; and the mill walls enter on a new career, say, as a store. Thus great amounts of fixed capital are continually being written down in value. And this is not a matter of figures only: it is a real loss. The factory was a good one; built, perhaps, to contain so many rows of cards and mules, and arranged in such a way that a certain product was turned out with a minimum of waste. It is now used to store barrels; it performs, that is, a service which could be as well rendered by any mere shed; and it falls, in real utility, to a mere shed. If the prices of its old product could have been raised even a little, the factory would have fulfilled its old economic purpose—the purpose for which it was presumably well adapted, although not so well adapted as the newer factories. Thus if the consumers would or could have paid a fraction more of price—or if the lower prices had not been forced upon their acceptance—they would have helped to the full utilisation of forms of capital which otherwise are not utilised except for very inferior purposes. By paying the smaller price for the finished goods, they do the same for the factory as if they had burned down part of it. In other words, the capitalist embodied a certain amount of wealth in the dynamic form of a mill: this amount of wealth could be retained in existence, as embodied in the mill, only if there was enough demand to call forth the full dynamic power: failing this, the mill becomes mere static wealth; it is again matter in the wrong place.[1]

gives the impression that prices normally tend downward.

These are the everyday phenomena of most well-developed trades; and they confirm, I think, my proposition that the normal position of the manufacturer under the present conditions is not an easy one. The course of manufacturing progress is strewn with wrecks of fixed capital; it presents a history of wealth produced, turned into capital, embodied and embedded in mills and machinery, and then superannuated and superseded—

[1] Compare the note on p. 296.

that is, to a considerable extent lost. It is from everyday experience of such phenomena that so many practical people get into their minds that the normal course of prices is always downward.

But the normal fall merely marks inharmonious development.

But this is to go considerably beyond the truth. It is quite true that there are tendencies making for lower prices, but they are not normal tendencies inside the production process. If all industries increased their output harmoniously, then, assuming equal elasticity of demand, extra product in one industry would be met with extra product in another: increase of supply of one commodity would be faced with increase of supply of all the others. This increase of supply of all commodities would be increase of demand for all commodities. Instead of an increased supply of any commodity finding reflection in diminished prices, it would find reflection in increased demand and constant price. One A would still exchange for one B, however many A's were produced, provided only that as many B's were produced. But, of course, labour-saving processes are not invented or introduced harmoniously in all trades, and accordingly demand does not increase harmoniously. The most we could expect is that, in each trade, prices fall temporarily as supply increases and rise again as the supply of other commodities increases, till the circle of increased output is complete. But, as things are, each new invention throws labour out of employment for the time, superannuates fixed capital, and interrupts the flow of wages and profits. Again, through miscalculation, new capital does not always seek out those channels which are waiting on improvement and reduced cost, but flows on in the old grooves, till it dams up the channel of progress with capital in the wrong place, and prices are again pressed down to the level that pays the last comer only. Thus progress marks its course as a series of jerks. Prices fall for years and rise for months, or are kept above cost in the newer industries while they are depressed below cost in the older. The normal condition of manufacturing, under present circumstances, is that it is impossible to adjust cost to these jerks. While, then, it is not the case that, within the sphere of production, the tendency of prices, on the whole and over periods of time, is downwards, there are yet long periods during which prices are low and tend to fall.[1]

One thing, however, does steadily depress prices;

(2) The next question is whether, outside of this fluctuation of individual manufacturing prices, there is not some influence which tends steadily to depress the *level* of price. There undoubtedly is in the very nature of our money supply. It is not true, as is often said, that the precious metals are unlike every other form of wealth in being commodities of which only a certain quantity can be used. What is true is that, as the industrial world gets drawn together, men become so closely and organically related as debtors and creditors that most of the exchange work is effected by cancellation (of which the "contra account" gives the best type), and money proper[2] plays a much smaller part, relative to the work it has to do, than in less-developed times. To this it may be added, that the scarcity of the precious metals has so emphasised the need and the advantage

[1] Compare pp. 172, 182, where the statement is argued in detail.

[2] Like most economists, I accept Walker's definition, which includes notes but excludes cheques, bills, and deposits.

of economy in their use that law and commercial practice have managed to replace much of their work by paper. Thus it may be granted that, for some considerable period, the increase in the need for money, which arose with increase of population, of commodities, and of retail transactions, was probably met by the many substitutes and economies based on the precious metals. But all authorities are agreed that, in this country at any rate, it is now some time since the maximum of saving yet conceived of was reached, and the most devout adherent of the present currency system is rejoicing that Coolgardie promises to fill up the depleted reserves. Sir Robert Giffen himself, who is the very type of monetary conservatism, has warned us that the world must lay its account with a scarcity of gold relative to the increasing needs for it, and has said that "the tendency must be for prices to fall steadily." The "more" of commodities, then, will be reflected, and quite faithfully reflected, in the "less" of price. This lower range or level of price will rename goods for consumption and goods for production alike.[1]

teste Giffen.

But it will not rename or revalue those costs that are "fixed" for long periods. If prices of cotton cloth have gone down, from a general level indicated by the index number of 100, to a level indicated by the number 63, it is no doubt somewhat of a compensation to the weaver that his raw cotton and oils and small furnishings have gone down likewise to 63. But what he realises most keenly is that his factory, and machinery, and, perhaps, ground have cost, and been paid for, at the price level of 100, and that the wages he has to pay,

But all costs do not share the fall;

[1] Cf. pp. 169, 170.

under present circumstances, are still at 100. In short, this currency change — which is often spoken of as a mere matter of bookkeeping—means, to manufacturers generally, just what the introduction of improved processes by richer men means to the manufacturer whose capital is sunk in old buildings and machinery, with this weighty difference, that the reduction of price is permanent and is not to be balanced by subsequent rises.

and the discouragement of the manufacturer accounts for the *malaise*.

This, then, is the second and the much more serious handicap of the present-day manufacturer. Suppose that population goes on increasing; that the need for money goes on increasing; that for years there are no further economies of money. Suppose that, at the same time, nation after nation discards one of the old moneys of the world, and begins competing with other countries to get the one money remaining. Will there not, in such a case, be a perpetual pressing down of price which will make the already difficult position of the manufacturer a quite intolerable one—unless where he can protect himself by combinations to keep prices up artificially? Do we not find in this a sufficient cause of the phenomenon which we inadequately call "overproduction": namely, the abundance of productive power and absence of effective demand; the deep depression and stagnation of enterprise; the accumulation of "cheap money" and the apathy of capitalists to take advantage of it?

Manufacturers cannot secure themselves against a falling market.

The crux of the matter seems to me to lie in a fact to which economists do not appear to have given sufficient attention. It is that no calculation whatever will enable the manufacturer, *qua* manufacturer, to anticipate and provide for a steadily-falling market. The methods of the stock exchange are here quite inapplicable, and I cannot help thinking that the blindness of such a community as London, for instance, to the gravity of the situation, is due to the fact that London is not a manufacturing place, and is dominated in its ideas by the experience of the merchant and the financier. To an "operator," or in a less degree to a merchant, the possibilities of profiting by a rising *or* by a falling market are both open. It is often as easy to sell a stock ahead as to buy a stock ahead, namely, to sell for a fall and buy later on to cover. Now there are certain things which the manufacturer can buy ahead, but there is at least one thing, fundamental to his business, which he cannot buy ahead, and that is labour. And he can seldom sell ahead.[1] As a fact, buying much ahead and selling much ahead are both recognised as outside the legitimate business of the manufacturer.

Can we have industrial prosperity if the leaders are hopelessly handicapped?

Now who are the manufacturers? Are they a few rich persons whose success or failure is of little importance to anybody but themselves? Has it been forgotten that it is the manufacturers on whom the vast majority of the people, namely, the working classes, depend for their very living? They are *the* "employers." Carlyle's name for them exactly indicates their function: they are the captains of the sometimes ragged regiments of industry. If there is any philosophical "idea of the manufacturer," it is that he is a head worker, an organiser and leader of working men; entitled as such to a due wage for honest work honestly done, but not dependent

[1] He may, of course, have contracted to sell his production a month or two ahead, but who will give him such contracts whenever it is suspected that wholesale and retail prices of the finished goods will move steadily downwards?

for his living on gambling profits. To subject him to the necessity or the temptation of looking for his wage outside his legitimate business, is as foolish as it would be to make the living of the physician dependent on the rise or fall of the price of drugs. But this is what is being done to the manufacturer by the perpetual discouragement of falling prices. If it does not drive him into speculation, it certainly gives him every motive to enter into combinations where the making of national wealth by honest economies of cost and improvement of process is lost sight of in the easier making of money by raising of prices.

Summary. To sum up my argument. It rests on an analysis of the phenomena to which business men refer when they speak of "overproduction." The overproduction from which we suffer is not literally production of goods beyond the desire and capability of human use. Nor is it at all adequately described, either as production in excess of demand, or as excess of supply keeping down prices below the point of profitable industry. It is a word loosely used by business men to describe and account for the general state of industry when, for some cause or other, the prices obtainable over a trade, or over trades generally, do not show a profit, and production is curtailed rather than sell at a loss. Such a state emerges when, in the interval between making and selling, prices fall. This contingency, indeed, is always more or less present. Owing to the length of time over which the production process extends, and the impossibility of adjusting fixed costs to a falling price, the manufacturers have at all times a difficult place to fill. They are the class who have to bear the brunt of industrial progress, in so far as that progress rapidly superannuates all fixed capital. But this normal difficulty is abnormally increased when a currency scarcity changes the chance of a fall into a certainty—to say nothing of the fact that the rapidity or slowness of such a fall is entirely beyond the most skilled calculation. With this discouragement goes the temptation to "combine" and keep up prices artificially, or, failing this, to contract production in order to prevent increase of supply still further depressing price. With curtailed production goes diminution of wages, salaries, profits; that is, diminution of the pool from which demand flows. At the same time this fall in price handicaps the debtor classes in favour of the creditor classes, the producing people of any country being generally in the ranks of the former.

In this aggravated discouragement of the manufacturer it seems to me that we have a quite adequate explanation of the present *malaise.* It is not a general overproduction. But it is easily mistaken for it, inasmuch as it generalises the features of particular overproductions. The producers in all trades find that they cannot cover their costs, and come to the conclusion that it is over-supply that is bringing down prices. But whereas any real overproduction begins at once to rectify itself (seeing that extra supply is extra demand), and cancels itself as it extends from trade to trade, the phenomenon we have been considering does not, for the reason that the low prices are not the indications of extra supply but of lower valuation.

A wrong diagnosis.

VIII

NEW WEALTH AND OLD

ARGUMENT

The preliminary to a study of consumption is, to distinguish between what may be consumed and what must remain, or be replaced, if the sources of wealth are not to be impoverished. Inadequacy of the definition which makes wealth a "sum of exchange values"; for much wealth is not exchangeable, and what is is expressed in terms of a contracting or expanding money—not to say that value does not go pari passu *with abundance. The same difficulties attend the attempt to estimate increase of wealth. If wealth, constantly changing its concrete shapes and being destroyed, is to remain at the same level, the industrial world must at least replace its consumption. Easy to see how agriculture does this: the fields remain after the crop is reaped. But capital must remake its fields. The enormous productivity of machinery secures this replacement. The three forms which new wealth takes. The national income consists of the last of these—consumption goods coming into human disposal. But the consumable is not the consumed. Thus incomes are normally paid out of new wealth and impose no burden on the old. But the case of the service is peculiar; too many cooks may eat up the broth. Corollary: that, in consumption, there are additional possibilities of wealth or waste.*

VIII

NEW WEALTH AND OLD

"*The total valuation of the nation's property at the present time is* £10,037,000,000."—GIFFEN.

"*The greater part, in value, of the wealth now existing in England has been produced by human hands within the last twelve months.*"

MILL.

Necessity of the discussion

THE word Income, while not the most definite or exact of economic terms, seems to have one clear meaning attached to it: that the amount of wealth which it represents comes in annually to the recipient without encroaching on his capital. The income of any individual, then, is conceived of as being new wealth in this sense, that it leaves his parent or old wealth untouched. Extending this from the case of the individual to that of the community, we should be prepared to find that the various incomes called rent, interest, profits, wages, are paid out of new wealth, and that they leave the former wealth of the community as it was. On the face of it this seems a truism. As a matter of fact there is, even in economic literature, the greatest vagueness as to what is meant by old wealth, and, therefore, as to what is meant by the new wealth of which income consists. It seems to me that the difficulty of the distinction has not been appreciated, and consequently the relation between the two not been clearly formulated. But, without clearer ideas on this point than we usually have, it is difficult to see how the effects and responsibilities of consumption can be even understood.

illustrated.

To give only one instance of this vagueness. In discussing the theory of wages, economists of late years have dismissed the old wage-fund theory, on the ground that it represented wages as paid out of wealth accumulated in the past, while it is obvious that, however wages may be advanced from previously-existing wealth, they are replaced from the value of the product; that is, from wealth just coming into existence. To say, however, that wages are paid out of new product, encounters the equally obvious criticism, that many industries have, strictly speaking, no product—those industries, namely, which consist in personal services. These produce, that is to say, nothing independent and outside of the servant. It is quite definite and intelligible to say that the collier is paid from the coal he raises; it is another thing, and raises a new set of questions, to say that the singer is paid out of his songs. The point I wish to bring out is that both these theories of wage assume that we can make a clear distinction between old wealth and new—between capital accumulated in the past and new product; and certainly the assumption requires more examination than it generally receives.

Purpose of the paper.

This paper, then, has three main purposes: to try to formulate the distinction between old wealth and new; to examine what is involved in the maintenance of old wealth; and to inquire if the consumption of income always leaves that old wealth untouched. In the course of the examination, I think we shall find that our ordinary statistics of wealth give us little idea either of the method or the rate of its increase. I think we shall find that, while income is normally paid out of new wealth, there are incomes which may encroach on old wealth. And I think we shall find, also, that the possibilities of social wellbeing depend not only on the increase of the parent wealth but on the spending of the new.

The subject naturally divides itself into three: the conception of wealth generally; the distinction and relation between old wealth and new; and the relation of both to income.

Wealth inadequately described as a sum of exchange values.

The first preliminary to an adequate conception of wealth is to clear away a common but very inadequate one. The doctrine is not yet extinct that wealth consists exclusively of things having exchange value; or, as is sometimes said, that wealth is the sum of exchange values.[1] It should not be difficult to disprove this.

A man starting life in a new country finds himself in possession of one or two desirable things in superfluity, within reach of many things on condition of labouring for them, and in presence of an infinity of things whose uses to him are not known. There is thus a curious difference between him and all other animals. By nature he is so little suited to his environment that he starves where the mere animal lives, and lives its full life. But, once

[1] In political economy a word is certainly needed to express the sum of things having exchange value. But it is exceedingly unfortunate, for a science which rests on an analysis of industrial life and cannot afford to neglect the common meaning of common words, that the older economists should have used the word "wealth" for this purpose.

armed with knowledge and a few tools, man does what the animals cannot do. Not only does he make the earth produce at his bidding and according to his directions, but he begins to remake his world; to put the matter and force he finds adapted to certain inferior races and organisms into new arrangements adapted to himself. In doing so, common sense says—what economics has sometimes denied—that man becomes wealthy. To the shipwrecked Crusoe his island seems at first a poor enough place to live in. As a fact, it is poor only to him, the last new animal who trespasses on it: it is rich enough to the living creatures whose home it originally was. But after a few years the island becomes rich to Crusoe also. What do we mean by this, except that Crusoe has rearranged his natural conditions? The trees, which otherwise blocked his path, he has trained into an impenetrable hedge around his cave. The earth, which grew briers and weeds, now grows corn. The goats, which fled in terror from his approach, are feeding quietly in his paddock. His canoe carries him safely over the element which formerly all but drowned him. By all these rearrangements of condition Crusoe becomes wealthy. But none of them has exchange value.

Many new conditions of social wealth

This, then, should prepare us to find that exchange value is not an essential characteristic of human wealth. We shall reach the same conclusion by looking at the normal evolution of a civilised community. The first social task essayed by civilisation is, I imagine, the making of roads. There is no doubt that this adds to the wellbeing of any community, whether it be regarded as ministering directly to people's convenience and happiness, or as a means to the attainment of these ends. But when we inquire how the road appears on the capital account of the community, we find no figure attached to it. The road is a rearrangement of environment. It is a new condition which the pioneers have added to their common life. It goes into the same category as air and water and light; namely, a thing which we use but do not value.[1] But roads are only an example of a kind of wealth which every community is constantly adding without adding to its valued assets. Every citizen who does any reclamation or improvement of a permanent character, and hands the new property over to the enjoyment of the general community, adds wealth of this sort. Indeed, the task of a municipality is very much that of rearranging the environment of its citizens, and surrounding them with healthy and pleasant conditions within which they may grow and develop in freedom. It is able to do this cheaply in virtue of the large numbers with which it deals. It is true that there are few, if any, things which even the best municipalities can give their citizens quite gratuitously. They cannot provide "free gifts" like light and air. But they do enable us to get for a small sum a great many things that otherwise would cost us dear, and some things that we could not get at all.

are not valued assets:

Now I submit that our ordinary estimate of human wealth overlooks these new conditions and changed conditions—just as few people perceive how much wealthier we are, as compared with our ancestors or our

are not even appreciated.

[1] If this should possibly be questioned, on the ground that roads and other permanent improvements sometimes appear in the calculations of the municipal economist, the answer is that, at any rate, they are not an available "asset."

neighbours in other countries, that we have our streets swept and lighted, or get gas led into our houses, as in Glasgow, for 2s. 4d. per one thousand feet, and police protection for 1s. 3¾d. per pound rental. Who, for instance, ever thinks of valuing at its true figure the freedom to walk a city street after dark without danger to property, comfort, virtue, or life? Thus I would suggest that more wealth than we quite realise surrounds us in the unpriced form of rearrangements—new conditions—without which we should most certainly now feel poor. Civilisation strikes the rock and the water flows forth, but we value the water no more than we did the rock.

Nor can wealth be adequately mirrored in money,

But there is a still more serious objection to looking for the conception of wealth in the "sum of exchange values." It is that such values are necessarily expressed in terms of money. Now money is, as everybody knows, a most deceitful measure, by reason of its liability to increase or decrease. If the quantity of money increase, other things being equal, the price of everything rises; that is, the value of everything seems to have increased, while the only thing that has really increased is the amount of one kind of wealth—and that, at the best, an insignificant kind. But the general state of things is, that there is too little of it to do the money work as it should be done. In proof of this it is enough to quote our most valued statistician:—

> If in future commodities are to progress as they have done in the past, then, unless money changes dynamically, prices must continue to fall.[1]

[1] Giffen, *The Growth of Capital*, p. 61. Compare also *The Case against Bimetallism*, p. 74, quoted above, p. 169.

If exchange value, then, be accepted as the essential characteristic of wealth, the fact that money changes in value makes it necessary, after all our statistics of price have been obtained, to enter on another and a more difficult calculation, namely, as to how these prices have been affected by changes in the currency. The above quotation shows that the steadily-increasing quantity of goods is expressed in figures which do not, at any rate, increase in anything like the same ratio. To look for an adequate account of our national wealth in terms of a precious metal currency is to believe in the witness of a thermometer whose scale contracts as the mercury expands.

But turning now from exchange value to value generally, we find a very serious constitutional defect in value as a measure of wealth. Surely the most obvious and recognised element in the common conception of wealth is that of abundance or plenty. But it is everywhere agreed that scarcity is an integral element in value. The result is that, in all measurements by value, abundance and scarcity may play similar parts. Take Gregory King's familiar calculation for England two centuries ago; that, if the crop harvested was short by one-half, the price increased nearly five-fold. Here the value of grain rises to a maximum; but what raises it is the increase, not of the people's wealth, but of the people's want. This is enough to show that value and plenty do not increase simultaneously.[1] But, indeed, the constant effort of every industry to produce cheaply is

or, indeed, in terms of value at all.

[1] See the interesting "paradox of value" in Wieser's *Natural Value*, p. 27, and Preface, p. viii., or in my *Introduction to the Theory of Value*, p. 85.

an effort to reduce the value of the single commodity by increasing the supply of the mass. We hear so much of the blessedness of cheapness that I need not dwell on this. I may only point out that, if it is our constant aim to reduce the price of everything, this object would be completely attained if we could get everything without money and without price. It is seldom, indeed, that we can eliminate value altogether; we can only reduce it towards a minimum. Therefore it escapes our notice that, in many departments, we have increased our wealth by really changing our environment, in the important sense of bringing a great many things *very near* to the category of free gifts, and to that extent taking them out of the category of valued things.

An attempt at quantitative measurement.

I venture to conclude, then, that the "sum of exchange values" cannot be an adequate conception of wealth, inasmuch as we often find the same figures for scarcity as for plenty, and inasmuch as a great deal of what we all recognise as wealth finds no reflection or expression in value at all.[1] In what follows I shall try to show what is involved in the maintenance and increase of wealth, without, so far as possible, having

[1] Of course it is obvious enough why economists have so easily assented to the common view. If there is to be any science, there must be measurement of the quantities with which it deals, and value *is* the measure in economics. This, however, is quite a different thing from the belief to which this actual and necessary measurement seems to have led some people;—that all is said as to the amount of the world's wealth when it is put into terms of value. On the whole subject, see Wieser's *Natural Value*, and the work of the Austrian School generally, where value is defined more exactly as, not a positive but a residual phenomenon. For simplicity's sake I have adhered, in the above, to the terminology of the old schools.

recourse to the measurement of value. Where a purely quantitative measurement is not possible I shall indicate the fact; even where this is the case something is gained by coming to clear conceptions of the indispensable place which value occupies in the economic world.

If the difficulty of adequately defining the conception of wealth is recognised, it may be expected that there is still more difficulty in dividing wealth into old and new. After what has been said, we are not likely to think that the new wealth, any more than the old, can be adequately represented by exchange value or in terms of value at all; and when we are told that of late years the national income of Great Britain has mounted from £1,200,000,000 to £1,400,000,000 or so, we shall not accept that as telling us the real increment of wealth during that period. But whenever we try to get outside this money measurement we meet with the fundamental difficulty that very little concrete wealth is old. Outside the contents of our museums what is there that counts its years by the century, except a few churches and bridges, the substance of our gold coins, and our land? Yet every day undoubtedly finds us the owners of a greater capital and a larger income.

"Old wealth" does not refer to concrete forms,

Thus we come to the recognition of wealth as a "flow, not a fund." Professor Marshall speaks of the "annual net aggregate of commodities," which he happily calls the "national dividend," as a "continuous stream always flowing." But the figure of a stream, like all metaphors, emphasises one feature at the expense of others. It does not indicate that what makes the stream continuous—if I may be pardoned the mixture of metaphors—is its constant death and resurrection. The peculiar difficulty of conceiving of the increase is that we cannot at once throw off the idea of wealth as money. Thus it escapes us that wealth is not a constant possession; a thing which we get into our custody once for all and go on adding to. Wealth—the concrete, desirable things of which money is only the temporary mirror—is made for no other end than to be consumed. The moment it is produced it is already on its way to dissolution; and, if we do not consume it, nature, with her moth and rust, will. We keep wealth at a constant level, not by storing, but by continual consumption and continual reproduction of it.

but to a category of account.

Thus it becomes clear that the distinction between old wealth and new must be a matter of bookkeeping. The national capital stands unchanged, or is added to out of undivided profits, all the time that the concrete capital is constantly being written down and the depreciation fund being written up. Recognising this, then, we come to a proposition which is cardinal to my argument. It is that, if man is to live on what we rightly conceive of as "income," he must every year, not only produce this income, but replace his former wealth. And before we can say anything about new wealth, we must be quite clear as to the meaning and method of this replacement of the old.

Replacement of old wealth.

Chains of production processes

Let me state the problem. Taking land as the great *alma mater*, and the life of man as the end of economic action, we find, stretching between them, chains of production processes, consisting sometimes of many links, sometimes of few. Take for instance the most prominent product of land, grain. This grain is directly raw material. It is rapidly manufactured into the finished good, food; and food, of course, passes away in supporting man's life. A longer chain is found in the case of processes beginning with green crops and roots. Grass mainly builds up the structure of those most useful animals, the sheep and the cow. On one side, the flesh of these animals is in the same line with grain: it is a raw material which passes almost in a single process into food. But other parts of the animal, as the fleece and the hide, are raw materials which have to pass through many and long processes before they come into the same finished category as food. Longer still, perhaps, are the processes which start with plants like cotton and flax. Through many stages these raw materials pass into various clothing fabrics, and wear away their life in keeping in the animal heat necessary for the maintenance of man's life. The industrial course of mining products is not substantially different. Such things as the metals, coal, stone, and so on, are raw materials which pass by manufacture into innumerable goods, and finally subserve many sides of human life.

lead to the consumption goods for which they exist.

From these chains of production process,—which will be understood, of course, as only typical and illustrative, —it becomes clear that "all living comes out of the ground," and is, immediately or at short removes, raw material; that it passes by manufacture into the shape of "consumption goods," and finally perishes, quickly or slowly, in sustaining and filling the life of man. By consumption goods, or consumers' goods, in economic science, we mean all forms of wealth that wear out and pass away directly and without ulterior intention in sustaining and beautifying human life. And by "life" we mean not simply the physical life, but life on all its sides—intellectual, æsthetic, moral. Thus, consumption goods range from the necessaries of life to the purest luxuries; from the firework to the public building; from the picture to the park.

Consumption-goods-in-the-making.

However largely, then, land and capital bulk in our eyes, our real concern is with these consumption goods. They alone, in the last resort, are our wealth. For them and toward them all other forms exist. In fact all such forms, from the land downward, are in many respects best conceived of as consumption-goods-in-the-making. But, just because of this, it is of the utmost importance that we maintain unimpaired all those forms of wealth from which the consumption goods finally come.

The problem: how land and capital are maintained in efficiency.

Now, on the productive powers of land and of what—to give a clearer conception of the important part played by capital in national economy—may be called "machinery," depends primarily the amount of goods which we get to consume. And these two must go together. It is not sufficient that the earth should be capable of yielding more raw material, if the machinery which is to work it up does not keep pace. As, then, the increase of the one is limited by the increase of the other, there must be a balancing of the production of the materials against the production of instruments. This, however, is automatic, and arranges itself by the reciprocal forces of supply and demand. The problem of replacement, then, is to consider how these two are maintained in their dynamic efficiency; that is to say, how these two kinds of old wealth remain undiminished by the new wealth which comes from them.

Land maintains itself.

With regard to agricultural produce there is not much difficulty. Here is a field where the crop harvested last year serves as food to the workers on the farm while they produce this year's crop. Each spring so much seed is buried in the ground. Each autumn it reappears in manifold. Normally this harvest replaces the wages paid and the concrete capital worn out, leaving the farmer to begin the next season's operations in as good a financial position as he was. This production *is* a "stream." The earth is a perennial source of wealth.[1] The crop comes from its depths as water flows from a spring. There is here no remaking to keep up the level, for earth remakes itself.[2] Thus, I repeat, the maintenance of old wealth in this case is simple. With a permanent soil and a reproducible crop, it may be reckoned purely in terms of quantity.

But land is *sui generis.*

But what we do not sufficiently realise is that agriculture is not a type of all production. Earth is *sui generis.* It is the one and only instrument of production which never wears out, and is always capable of giving back in manifold the seed sown. Compare agriculture with any other production process. Say that we put one hundred pounds of raw cotton on the table of the "scutcher," and pass it through all the processes of cotton

[1] I refer to it here chiefly as source of agricultural produce. It will not escape notice that many of earth's harvests are exploitations; the using is the using up. But, practically, science and trade organisation put endless stores of minerals and metals at our disposal.

[2] Of course man does remake much of it, but, left alone, it would remake itself; and, besides, repair is not replacement.

spinning till it comes out from the mule as the spinner's finished article, yarn. It will always weigh less than one hundred pounds, never more. So it is in all manufacturing. By no possibility can we multiply the raw material or make it grow in the process. And, moreover, in doing its work the machine wears out, and no amount of lying fallow will give back the life to that machine. But, if wealth is to remain at the old level, the machine must be replaced *before* there is any addition to wealth. If the machine dies in giving birth to merely the same amount of wealth as was embodied in it, there is no increase whatever.

Capital must be altogether remade.

If land were in the same position as machinery, it would wear out in yielding its crops, and the crops would require, not only to feed the workers, and sow the fields, but to remake the ground. The demands, then, on old wealth are not so great in land production as in mechanical production: to explain how machinery increases, we shall have to find an explanation of the enormous productivity which replaces it as well as makes it yield its proper harvest,—for the cloth is the harvest of the loom as truly as the grain is the harvest of the land, and the machine's proper work is only begun after it has produced enough to reproduce itself.

How this is possible.

The explanation is that, in mechanical operations, man gets control of natural forces which produce greater results *for him* than do the forces of which he has control in simple land production. It is a wonderful thing to see a seed reproducing itself a hundredfold. But it is still more wonderful to see a force of a thousand horse power generated by the resistance of boiler plate to the expansion of steam, and to see that power conducted along belts and wheels and shafts to change a common insignificant plant into clothing. If agriculture amounts to the multiplication of seed by the hundred, what shall we say of manufacture that multiplies man's strength by the thousand? We overlook the peculiarity of this phenomenon from the fact that we do not often see machinery directly multiplying itself, while we do see the seed reproducing itself. It is not, indeed, impossible to see machinery reproducing itself. It is true that a locomotive does not directly produce baby locomotives, but it may contribute to the making of hundreds of locomotives. And we may actually find a machine shop reproducing its tools over and over again before the parent tools are worn out. But the reproduction we see in industry generally is the reproduction of *value*, not of similar substance. The body of the machine dies, not in giving birth to another machine, but in creating another kind of body which has no likeness whatever to the parent, except its soul of value. The £100 that the machine costs passes into £100 *worth* of commodities.

The replacement may be quantitatively conceived,

Here it is, then, as I hinted at the outset, that, in distinguishing between old wealth and new, we must make use of the value measurement, and this is what makes it so difficult to understand the particular replacement of wealth of which we are speaking. Outside of agricultural wealth, indeed, with its permanent crop-producing soil, we have no constant stock which we can take as basis and from which we can measure: we have a soil which is carried away in its crop.

but generally the value measurement is here indispensable.

The difficulty of adequately conceiving of replacement is still further complicated by the fact that, even in what I call remaking the soil—replacing the national machinery and plant—we do not reproduce similar concrete forms. To say nothing of the constant changes in individual tools and machines, we often replace whole processes by others, sometimes cutting out links, more often adding them, but always increasing the productive power. But if, in all this change of shape, we are in doubt whether, on the whole, our dynamic machinery of production—our old wealth—increases or not, it is enough to remember that our complaint of the value measurement is that it is too small—that it does not take in all the items—and that it expresses deficiency as well as abundance. If, then, over the field of industry there is such a thing as profit, we may be sure that the products which replace the machinery—if they could be put in quantitative balance—would be found as full a replacement as the crop which re-sows the fields.

The shapes which new wealth takes.

Now that we know what replacement means in the case of the dynamic forms of wealth, we go on to ask what shapes new wealth takes. The argument will be more easily grasped if we think of the community as owning an estate made up of agricultural land, mines, quarries, etc., working up the raw products into finished goods, and having arrangements for distributing them among the various classes who live on and from the estate.

A simplifying conception.

Earth becomes fuller of wealth for man.

The first of these is the increasing productivity of the earth in things suitable to human use. I refer not only to improvements and discoveries in agriculture, but to such applications of science as tap natural oil and gas, extract metals hitherto sealed in refractory ores, find substitutes for scarce raw materials, as concrete for stone, wood pulp for metals, and the like. Thus the fountain and source of wealth may flow more abundantly. As a fact, we are only beginning to understand how adaptable the earth is to man. We have mastered the uses of only a few things, but any one who has the prophetic vision of science knows that the horizon of production is every day widening. Civilisation is steadily reclaiming the waste, at the same time that cheap and rapid transit is drawing the consuming world closer to its supply. On the whole, we are justified in saying that we have yet little idea how deep and full the spring of wealth is, and how great its dynamic resources are.

Concrete capital controls more powerful natural forces.

The second form which new wealth assumes is its investment in larger, more powerful, and more durable forms of machinery and concrete capital generally, because of the extension of manufacturing processes. The present tendency of production is to invest labour in processes that take longer and longer time. By this means not only is fuller advantage taken of the division of labour, but more powerful forms of natural force are got under control. As the time which elapses between the first processes and the finishing of the goods stretches further and further, the capital to carry on these processes goes on increasing. But in the end the output of goods is enormously increased. The longest way round is the shortest way home.

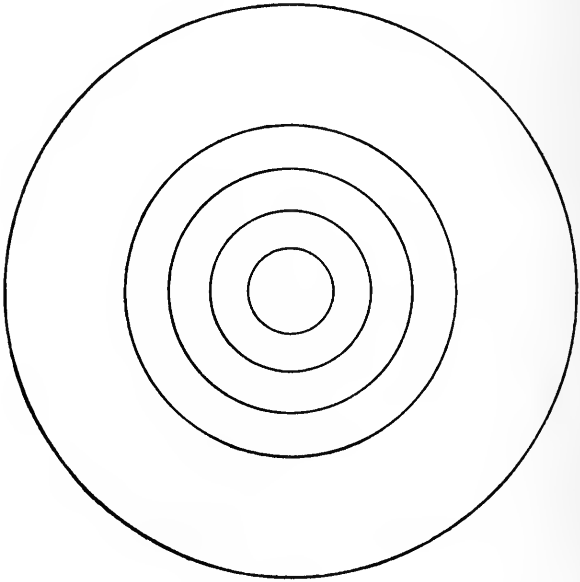
There are more and better consumption goods.

The third form is, of course, that of consumption goods; the goods that have no ulterior end than that of sustaining the human working life[1] on all its sides. The two former classes are, in the last resort, only means

[1] For the reason why I say "working life," see pp. 275, 293.

toward this latter. They are "wealth" only in the sense and for the reason that they are consumption-goods-in-the-making.

The progress of a community's wealth, then, may be shown by this diagram:[1]



Explanation. The innermost circle represents the productivity of the earth. The widening set of concentric circles represents the production processes and machinery. The outermost circle represents consumption—actual

[1] The idea of the above diagram is borrowed from Böhm-Bawerk, *Positive Theory of Capital*, p. 107, where it is used chiefly to illustrate the gradual "ripening" of products during the long production process.

destruction of the wealth made. In the increase of wealth as described above, the innermost ring is enlarged by finding and opening up new springs, at the same time as the rings which represent production and its lengthening processes become more numerous. The result is that every day a fuller stream of new wealth falls over into the circle of human consumption.

The national income consists of its consumption goods.

If, then, we extend the conception of income, with which we started, from the individual to the nation, and define the national income as that amount of wealth which a nation may draw for consumption without encroaching on its old wealth, the national income is this increasing overflow of consumption goods. It is to be noted that it is *not* the goods which the nation actually consumes every year. It is simply the amount of consumable wealth which comes into its disposal or command every year. It is in a confusion of these two things, the consumed and the consumable, that we find the origin of the common notion, that what one man gains in income another loses. This is true—with a reservation, of which later—only of that part of income which a man *consumes*. But, evidently, when this power comes into a man's hands, he may deal with it in many other ways—may postpone doing anything with it, may transfer it, may invest it.

Investment hides this from us.

It is this investing that makes us hesitate at the statement that the national income consists of its consumption goods. In the case of the individual, income is drawn primarily in money—that is, in claims on goods generally,—and much of this income is not at once exchanged into consumption goods, but is thrown back into capital. If we generalise this, we are apt to think that the collective income consists partly of goods, partly of claims on concrete capital. But what is the meaning and intention of this investing? Is it that the income receivers do not wish consumption goods? By no means. They invest with the deliberate purpose of having, or of giving their descendants, some day more goods to consume. They voluntarily postpone taking their share of finished goods; or rather, they take them and give them in exchange for productive instruments, or hand them over to other persons for a consideration. For just as the grain is kept alive by being buried in the earth, so are finished goods generally kept alive by investing them in the bodies of labourers. Thus those who postpone their consumption take claims on the future instead. But it is on the future finished goods that they take claims. The difficulty lies in our being under the necessity of estimating individual income by the year.

The national harvest is not annual,

This will be made more clear if we eliminate money. Let us figure society as a circle of half a dozen workers, each producing something that the others want. They exchange their products each with the others, and at the end of the day each has his share of what all have made. It is in order to get these finished goods from each other that they work and produce. They would never think of producing at all unless it were in order to get things to consume. They would never add to their tools unless it were to make their labour more fruitful. They would never do anything to their fields and mines if it were not to get from them, some time or other, more consumption goods. Now, as these men grow in knowledge and skill, their labour becomes more productive; they *may* produce more consumption goods. But they may desire instead to increase their dynamic wealth; and in this case they will content themselves with turning out very few finished goods,—just enough, say, to live on. Thus they may so arrange that three of their number will produce the bare necessaries of life for the six. The other three workers will invest their labour in processes that take, we shall suppose, two years. From these processes they will get no finished goods for two years. But are they, then, to have no income during that time? The course of events will be that the first three workers lend to the second three half of the necessaries they produce, and take claims on half the future produce of the long process. Thus, at the end of the first year, the first workers get the consumable part of their income in their own finished goods. The other part of their income for this year consists of a claim to half the produce of the two years' process. The second workers, again, get their consumable income, also, in the finished goods of the first workers, for which they have pledged half their two years' produce, and they hold in their hands the half-finished products of their own long process. At the end of the second year, the first workers get their income, half in their own finished goods and half in the now realised share of the produce of the long process. At the same time, the second workers get their income, half from the finished goods of the first workers and half from the result of their own two years' process which remains unencumbered.

Here we have a one year's production process and a two years' one. The produce consists partly of goods but continuous.

turned out annually, and partly of goods turned out biennially; that is, the total harvest is not realised till the end of the second year. It is a microcosm of the social arrangement by which some are set to produce the goods for which man cannot wait, while others are fed by those goods on condition of investing their labour in processes that are more prolific but that take time. In the world as it is both classes of producers draw their income annually in money. The one money income is the exchange form of consumption goods; the other is the exchange form of a claim on the future. But the money form hides all this: *non olet.* Thus we are misled by the calendar. Instead of looking at labour as producing an annual harvest, and making all our calculations by the twelve months, we should think of it as producing a continuous harvest,—some crops ripening this year, some next, some next again—the income emerging all the time.

Individual income, then, is taken in claims, not in finished goods, in two cases: first, where people do not wish to consume, but to invest; and, second, where the labour which produces the income is invested in processes that take time before there are any finished goods. But the national income consists of finished goods, although some people *may* delay taking their finished goods for years, and others *must* delay owing to the lateness of their harvest.

The conception made use of hitherto

In the foregoing discussion it will have been noticed that I make much use of a simplifying conception. In speaking of the national income as the overflow of consumption goods, the figure employed is that of a farm producing a grain crop, the consumption of which maintains all the workers, while it leaves the farm as a productive instrument substantially as it was. Manufacturing industry has been worked into this conception by considering it as producing a crop of value great enough not only to re-sow the fields, but to remake them. And, of course, all the distributing trades may be considered as parts of the production process, which ends only when the goods are in the hands of those who are to consume them. The conclusion suggested is that the various incomes normally exhaust this crop, and nothing but this crop, and that the normal income, accordingly, is no burden on the old wealth of the community.

But while, as I believe, there can be no clear thinking on the subject which does not begin with this conception, it becomes evident that we cannot end with it in this simple form; for the crop which society grows is not grain, but wealth. The national product, that is to say, contains many things that do not go to the subsistence of the worker *qua* worker. The conception is too narrow in that it looks on the industrial life as providing only the means of continuing the industrial life. It regards living as the accident of labour. It keeps too close to what the older economists spoke of as "productive" labour. But, in actual circumstances, the "fruit by which a man may live" is more than the subsistence by which he works. What is to be said of the income drawn by those who produce such indigestible crops as, say, books and pictures—taking these simply as instances of the innumerable products which do not directly or obviously "support" man at the fundamental economic task of re-sowing his fields?

is too narrow,

for many valuable crops do not support labour.

Even here our fundamental conception is still fruitful. What happens when the owners of a landed estate, growing richer, demand not only grain but flowers, and not only services of ploughmen and mechanics, but of "men singers and women singers, and that of all sorts"? These services are, no doubt, valuable goods, but they are not the goods by which the farm labourer is kept in life. The answer is, that to obtain such goods, or to support such servants, the grain crop must be increased or the others must go on short commons. In any case those who produce grain have to share with those who do not. Here, then, is a class of workers who, indeed, earn their income, but do not bring it with them; and these may, conceivably, be a burden not only on income, but on old wealth. The facts and effects of this may become clearer if we look more particularly at the type of such production in the service pure and simple.

The manufacture of the servant.

What is the "service"? I am afraid it is not always appreciated that, in the making of the servant, we really sink labour and capital in the making of a special kind of commodity. One man makes a piano: another plays on it. The two are necessary for the joint product, music. When the piano is made, every one can see that labour has added a tangible wealth to the world. But when the player is made—supposing that exactly similar sums of wealth are sunk in his subsistence and training—we do not consider him personally as so much wealth. But why not? He has added so much to what the world desires that, while people will give no more than a guinea a month for the hire of a piano, they will give a guinea a night for a pianist. The economic consequences of this may be seen by comparing the singer with the artisan. Here is a person in whom wealth has been sunk and has perished, just as in feeding and training the artisan. But when the "sink of money," as we appropriately call it, is past, what is the difference between the two? The artisan disgorges, as it were, all the wealth sunk in his apprenticeship; gives it back gradually to the world—not without interest—in the shape of goods from his hammer and chisel. The singer appears on a platform; exerts his vocal chords; we pay five shillings; and the world does not put itself down as any richer.

The human commodity.

Thus, year after year, wealth is sunk in making what we may call "human commodities." We recognise the value of these commodities, but all the same they do not appear in any balance sheet to our credit. Indeed, they appear on the other side of the account—as a charge against us. A common way of calculating wealth is to take the sum of commodities, divide it by the number of persons consuming them, and thus get the wealth per head. The more commodities, the more wealth; the more participants, the less wealth. And here are painters, players, musicians, teachers, clergymen, domestics—our "human commodities" generally—appearing on the balance sheet, not as wealth, but as those for whom wealth exists and among whom it is divided!

A commodity which consumes.

The peculiar difficulty in estimating the economic position of the servant is that he does not usually stand alone, as the typical singer does. The service generally goes with some commodity served. The majority of workers perhaps are engaged in serving humanity by making tangible goods. But goods once made require to be served and ministered to the consumer. The joint is naught without the cook, and the dinner naught without the waiter. Some commodities require a great deal of service to a small amount of goods; others require just the contrary; and some goods are so impalpable that the wealth seems to be all service and no goods. What we pay for is the song, but the singer catches our attention, and we can no more dissociate the two than we can the musical box and its tunes, or the machine and the mechanical forces bound up in it. Here, then, is perhaps the greatest difficulty in estimating the sum of wealth; that we are converting the raw material of the world, not only into commodities which we consume, but into commodities which consume!

Services tend to increase.

It seems to me, moreover, to be a tendency of civilisation to put more of its added wealth into service: as we grow richer we engage servants rather than buy commodities. One thing which seems to go far in confirming this is, that society now supports—and gladly—a great many people who add nothing material. Once a day if a man had hinted that he should like to be a poet, a player, a singer, or even a journalist, he would have been looked on with curiosity and even suspicion, and for an intelligible reason. When bread and butter were scarce and were got by hard labour, it did look curious that a man should expect other people to share their bread and butter with one who did not produce, in return, something as tangible and nourishing as bread and butter. But, with the growth of wealth, all these occupations have become legitimate and honourable callings, wherein it is recognised that men give value for value, and there is a par of exchange between the products of the hand and those of the brain. Indeed, one would be inclined to say that the trend of matters is towards a future where service will be recognised as the true contribution of man, the making of commodities being relegated to machines and to those persons most like machines. But in this case society has to pay the inevitable cost. The various services are no doubt value received. We are happier; it is to be hoped healthier and better for them. But the economic question is: Can we afford them? He is a rich man who can allow his horses to "eat their own heads off." It is a rich community which can allow many of its members to perform that feat. If a man cease to produce, and spend each year more than people will pay him for the hire of his wealth, we say he is "living on his capital." Is it not possible for the world to do the same if it turn its sons and daughters too soon into servants?[1]

But can we afford them?

There is a corollary which seems to follow from what has preceded. Looking at the concentric rings of the diagram, we see that the inner rings represent the capital of the world and the outer ring the return to that capital. The increasing wealth of the world may be looked for in the increasing capital, or it may be looked for in the fuller overflow from that capital into the consumption circle. That is, in calculating wealth we may capitalise income or we may discount capital. But we must not add the one to the other, any more than we should calculate a man's wealth by adding his capital to his interest. Now hitherto we have looked exclusively at the increase in the dynamic

An unconsidered possibility of wealth

[1] It will be observed that this case seems to vindicate the old wage-fund theory as regards certain industries. For further discussion of the place of the service, see p. 284.

wealth, and, having done so, it might be thought that we cannot look for any increased wealth in the circle of consumption. But this is not quite the case. If we escape from the calculations of value into calculations of utility, I think we find a possibility of wealth of no small importance. The subject is treated of at length in the succeeding study, but one aspect of it must be mentioned here to complete our present subject.

It is true that all finished goods are made to be consumed, and that all do in time pass out of the category of wealth back to the primitive elements. But there is consumption and consumption. The finished good may be such that it can be consumed only by one person; that it can be consumed by that person only selfishly; and that it can be consumed only at once. On the other hand, there are goods which can be consumed only by groups and by multitudes; there are goods whose consumption is really the harvesting of fresh powers of production; there are goods whose consumption may be spread over years and may enrich successive generations of men and women. It is not difficult, then, to see that on the constitution of these consumption goods depends a distinct possibility of gain or loss, of added wealth or added waste, which is quite apart from anything we have looked at. And the serious thing, to my mind, is, that we do not seem aware of the gigantic possibilities here, both positive and negative. It is sober truth that we may be producing every year a greater sum in terms of money, and so a greater amount of what we ordinarily call "wealth," without being aware that we are cutting away the foundations of real wellbeing. What avails it, for instance, as

in the constitution of consumption goods.

regards humanity at large, how much we add to the dynamic wealth of land and machinery, if these forces are set, say, to manufacture fireworks, or build pyramids, or maintain standing armies? On the other hand, wise individuals, and, still more, wise municipalities may be rebuilding their portion of the house of life without being conscious of any more virtue or sacrifice than lies in a common-sense conscientious laying out of money.

What I wish to point out is, that the resources of the world, natural and historical, may be applied to maintain society generally in beautiful and healthful and good life, *or* to provide passing gratification—if not worse—to the desires of a few. In either case the consumption circle will be filled with the same amount of value, but the real wealth in the two cases will be widely different. This might be represented on the diagram by dividing the consumption circle into two: the inner one to represent the consumption goods that remain in existence over periods of years, and also those whose consumption is social and not selfish; the outer one to represent the consumption goods that are consumed and disappear within the year. While, then, the entire circle of consumption would grow absolutely,—that is, more goods of all sorts would fall over into the life of man,—the inner circle of consumption would increase relatively: the sea of quick and selfish consumption, as it were, slowly retreating, and leaving underfoot the firm ground of social wealth and new conditions.

IX

THE SOCIALISING OF CONSUMPTION

ARGUMENT

(1) *Why distribution is the favourite subject with modern economists.* (2) *The difficulties of distribution according to product created.* (3) *Remedy of evils, however, need not wait on the economic pronouncement as to distribution: in consumption is a neglected element of social wealth. For the shape assumed by the goods we must consume, it is the merchant classes, rather than the consumers, who are to blame: in this lies a neglected responsibility.* (4) *Note, however, that expenditure is not consumption: consumption is destruction. Happily no man can consume much.* (5) *The place of consumption in the economic life; to maintain and hand on wealth while supporting the worker.* (6) *The categories of consumption and the waste in each.* (7) *The peculiar economic position of the "human commodity," the servant, as consumed and yet consuming. The non-producer.* (8) *The limits of consumption. One at least fairly definite;—that it do not trench on the national income. But of this there is little danger.* (9) *If so, can we condemn any luxurious consumption? Analysis of what is generally meant by "culpable luxury." The economic condemnation is of amount consumed, and that only because we cannot afford it. "Plain living and high thinking" is an ideal of sacrifice.* (10) *The conclusion: that in socialised consumption—full utilisation of consumers' wealth and by wider circles—there are new possibilities of wellbeing.*

IX

THE SOCIALISING OF CONSUMPTION

"*There is that scattereth and yet increaseth.*"

"*He is the rich man in whom the people are rich.*"—EMERSON.

1. *The Connection between Product and Income*

Economic teaching generally hurries over the possibilities of production,

ONE of the first things the student of economics learns is, that the end of economic action is the creation of "Utilities." Under this clumsy expression is concealed the conception that looks upon the earth as one great raw material which man works up for his own purposes, the economic aim of all sorts and conditions of workers being to rearrange the matter, and guide or balance the forces which constitute the world, according to a distinctively human plan, and with the conscious end of satisfying the desires of human beings. A wise teaching of political economy would linger over this: it would dwell on the immense changes which civilisation is making on the physical environment, and on the reflex changes which this altered environment is making on society, till the student was thoroughly possessed with the idea of the almost infinite adaptability of the universe to man, and of the steady acceleration in the rate of its actual adaptation. But, unfortunately for the student, he is, as a rule, no sooner introduced to this lofty conception, than he is hurried past it by the necessity of *measuring* the results of economic action. Without much warning the wide word "utility" is put aside in favour of the word "value." Then he is told that there are two kinds of value, but that economic science has only to do with one of these,—value in exchange. And generally, before he has adequately grasped the conception of value in exchange, where all forms of wealth are put in the balance against each other, this expression in turn is translated, for convenience sake, into the narrower and more manageable word "price," where all forms of wealth are put in the balance against one selected form and expressed in terms of it. Thus, in all probability, he has scarcely shaken himself clear of the vulgar opinion that money measures wealth before he is brought back to it,—although now in a limited and scientific form,—and seldom has occasion to return, through the still limited conception of "exchange value," to any closer study of the lofty conception with which he started. All the while the last word in political economy is not value, but Utility; and the constant striving of economic progress is towards taking commodities out of the category of values, and making them pure utilities like the rain and the sunshine.

to measure wealth by value and money,

This tendency, to lose sight of the true end of economic striving, is accelerated once the student plunges into the sphere of distribution of wealth, where incomes are necessarily considered relatively to each other. In face of the arithmetical fact that Income is a huge loaf, of which, if one class gets more than half, another class must get less, people are apt to forget that less than

and loses sight of the share in the sharing.

half a loaf may be a very good meal,—provided the loaf is large enough,—and many never grasp the truth, which General Walker puts so well when he says that there are gains where no one loses and losses where no one gains. It is not, then, quite to be wondered at, that those dangerous people who know a little economics never quite get beyond the idea that there is a constant and universal collision of interests between the various classes of income receivers, and see something inevitable, if not providential, in the unequal lots of those who work and those who wait. And thus it is, I think, that that order of teaching, which begins with value before the conceptions of utility and wealth have been adequately grasped, is to blame for the kind of contentment with which some persons look upon the inequalities of remuneration.

Discontent with competitive distribution

On the other hand, those whose studies have led them to dwell greatly on production,—those, for instance, who read much German economics,—and who, consequently, think most about the nature and increase of wealth, are the most dissatisfied with the present manner of its distribution. While quite aware that the conditions of all classes have very greatly improved during the last century, they are not satisfied that the condition of the masses has improved in anything like the same ratio as the condition of the richer classes. They are so much impressed with the huge gains that competitive striving has won for society that they get impatient at the slow rising of the general level of well-being. And looking at these strange births of extreme competition, such as the American "trust," they are not satisfied that the present methods of distribution can last. Like Mill, they suspect that "the industrial economy which divides society absolutely into two portions, the payers of wages and the receivers of them, the first counted by thousands and the last by millions, is neither fit for nor capable of indefinite duration." Thus it comes that almost every economist is just now engaged on the subject of distribution; restating the problem, or criticising and amending old theories, or applying old laws to new fields.

leads to more careful analysis,

While some economists—notably in Germany—seem almost ready to throw over distribution by competition, finding the only remedy in a socialistic distribution according to wants or to sacrifices, I think I am not wrong in saying that most modern thought on the subject is devoting itself to a more careful analysis of the present distribution.[1] Till that is done, it seems to them rash either to condemn or to approve. More cautious than some in their use of and appeal to the word "justice," they see that, with a democracy rising to power more rapidly than it can rise to knowledge, it is hopeless to expect that any system can continue that does not base itself on some higher principle than a mere tug of war between various classes. It may be that competition results in a distribution which coincides with the outcome of a rational principle. Or the investigation may show that there is a rational principle by which to judge both the present and any proposed method.

and search for a higher principle.

A tendency.

It is, of course, difficult to translate a tendency, but,

[1] As examples, take the new literature on the economic source of interest; on the inclusion of profit in, or its exclusion from wages; the extension of the rent conception; the theories which replace the wage-fund, etc. etc.

so far as I can read the work of my colleagues, this activity seems to tend toward the recognition of some connection between income and product.

The reasonableness of distribution by product.

Distribution of income according to product created certainly seems, on the face of it, a distribution according to reason. In the case of Labour, it would seem as if the claim of the wage-earner to receive the wealth he produced, if not ideal from all points of view,—seeing that the members of the human family are so variously endowed with capacities,—is at least a fair claim. No one doubts that the labourer, in normal circumstances, is worthy of his hire, and, as we say, "earns" his wages: that is, he produces something for which his income, his wage, is held equivalent. It would seem, too, as if the other forms of income were based on a similar claim. In the case of Land, the acknowledged theory is that rent, the income of the landowner, is paid him because his land has certain productive powers superior to at least part of the land in cultivation. And as regards the third factor, Capital, if machinery be taken as its type, the fact that machinery steadily tends to replace labour seems to prove—what the ordinary man scarcely thinks requires proof—that capital is productive; that it has, at least, the productive power of the labour it replaces; and that the income of the capitalist is the equivalent of the wealth produced by capital.

It is in fact so reasonable a claim that many have spoken as if this were actually the ruling principle of distribution; as if the various incomes of Wages, Rent, Profit, come from and correspond with productive powers in labour, land, and capital.

The Socialist denial that this principle obtains,

It is against this assumed correspondence between income and wealth produced that Socialism has directed its fiercest attack; and it is to this attack principally that we owe our recognition of the truth that, under modern conditions, production of wealth is not necessarily a source of income; and that, conversely, the fact of income being drawn is no evidence of its being earned. The Socialist proof, however, is not one with which many of us will agree. Taking its stand on one part of the Ricardian theory of value, and ignoring the other, it works out its economic system from the fundamental proposition that Labour is the sole source of value. From this it passes to the second proposition that labour is the sole measure of value. If these two propositions are accepted, it scarcely requires proving that rent and profit are produced by labour, but pass, under the social and legal arrangements of our times, to the owners of land and capital. If labour is the sole source of wealth and value, all incomes except wages are gained at its expense.

while wrongly based,

The indefensible point of this is, of course, its account of value. In the analysis with which political economy begins, the economist has to follow the lines laid down in the world of economic persons. The "value" of economic science must be what men think, and call, and will recognise as value, and not what it would suit the economist to call value. The "labour-value" of Socialism does not meet this requirement, and at least one great economist, Professor Wieser, does not think it would meet the requirements even of a communist society.[1] Value is not the easy thing it is in Socialist

[1] See his *Natural Value*, Macmillan and Co., 1893.

theory. Its origin and measure are not decided by the consideration that labour, rightly applied, can produce valuable things. Labour expended is merely the symptom that value is expected—not its cause. What we can say is, that labour is economically employed when making valuable things. What we must deny is, that any amount or kind of human labour will give value to what the world, as we know it, does not wish and will not have.

All the same, the conclusion to which Socialist theory has given prominence remains. Of the argument that the factors of production and the sources of income are not identical, we are fain to say, with Charles Lamb, "We admit your conclusion, but you must allow us to find you the premisses." In the light of the current theory of value,—the foundations of which were laid by our own Jevons,—the pre-eminent place of the human factor, indeed, is modified. The old opinion, too, that income, as a whole, is due to land, labour, and capital, is confirmed to this extent; that, as all these do co-operate in the making of product, the product is economically "imputable" to these three factors—so far as they are not to be had in superfluous amount.[1] And, in opposition to Socialism, it is held that the three classes of personal income have their source in production; that capital and land accordingly are economic, and not simply legal, sources of income. But, granting

is, in the main, correct.

For although we deny that everything is due to labour,

[1] The importance of this latter clause is that there are a great many factors which could not be done without, while yet no part of the return is *economically* attributable to them; such as light, air, heat in the growing of crops, physical forces working through machinery, and so on—the reason being that we do not "economise" the superfluous.

we admit that income received is no proof of income produced.

these modifications, all that is established is;—that the contribution of land, the contribution of capital, the contribution of labour, are economic titles to a portion of the joint produce. We are free to agree with the chief contention of Socialism, that modern conditions do not assign to each factor the amount of wealth which it produces. The question arises: Is it possible to do so?

2. *The Difficulties of Payment by Product*

Here I must content myself with pointing out the difficulties in this kind of "payment by results." The problem arises principally from the obvious failure of the masses to participate directly and adequately in the increased wealth of society, and its interest chiefly centres in the subject of wages. In violent reaction against the classical school, supposed to be too sympathetic with capitalists and landowners, Socialism, as we saw, claims everything for labour. It had, it must be confessed, some reason for this in the weakness and ambiguity of those who tried to explain the exact function of capital in production. Since the great work of Böhm-Bawerk and of those who follow Von Thünen, however, this justification no longer exists. But allowing the claim of capital to *some* share in the produce which it co-operates towards, the great question which now meets us is, How is the contribution which each factor makes to product to be measured? We have granted that it is a fair claim that the labourer obtain all that he himself produces. The problem is to find what it is he does produce. For labour cannot produce *in vacuo*, and when it works in co-operation it

The first problem: what each factor does produce.

works with economic factors that are valuable, and have owners who will not give the co-operation of their goods for nothing.

Our old economic friend and guide, Robinson Crusoe, gives us no assistance here: thanks to the insistence of the Austrian school, we cannot now forget, as I am afraid we used to forget, that, while land, labour, and capital co-operate to produce a product, what is divided out into shares is not product, but the seamless garment of the *value* of that product. This is the statement of a problem whose difficulties can scarcely be over-estimated. Of many attempts at solution, I may refer specially to the latest works of Professor J. B. Clark and of Professor Wieser as particularly suggestive.

But the solution of this problem would not exhaust the difficulties of distribution according to product. The problem we have just stated has to do with the *share* which each factor shall have in the total realised value of particular products. There is another problem which concerns the total value itself. If, for instance, the object of distribution be represented as a loaf, the amount of enjoyment to be had by the participants from the loaf depends on two things: not only on the shares into which the loaf is divided, but on the value realised by the loaf.

The second that value does not go *pari passu* with product.

Here it is that the closer study of value peculiar to our times has brought us in sight of special difficulties. The one which I would first emphasise is, that value does not go *pari passu* with quantity or quality of product; does not even always go in the same direction; but takes paths of its own.

Production of commodities is not like production of

First special difficulty as regards labour:

potatoes, which the peasant can eat if he cannot sell. Under modern conditions, it is, so far, a speculation. It does not bring a predetermined value with it.[1] It produces in anticipation of value. What every one would desire is that well-directed labour should always have value,—that is, should always find a value for the useful products it creates,—and that labour expended should not be balked of its reward, although fashion change and turn its back on the indication which it gave to production. But we must not let the wish be father to the thought that value, as we know it, is guided and regulated by consideration for the labourer. When, for instance, the death of a royal prince plunges London society into mourning, the bitter cry of Regent Street tells us of the widespread loss of value caused by a mere court decree; a sudden shrinking of value that comes first on the retailers, but passes, through merchants and manufacturers, down to the working classes. For nothing can alter the fact that the consuming world holds value in its hand, and practically refuses to recognise or reward the work where it does not wish the product. If land, labour, and capital co-operate to make a product, and the value of that product, when brought to market, is declared, by the indifference of the public, to be nothing, the share of labour is nothing; and if labour were paid by product, wages would be a share—if I may say so—in the loss.

that wages are not always covered by price,

It comes to this, that labour, land, and capital all put something into the product; they create a utility. What they draw out again, however, is something that does not depend on what is put in. Production is like a solution

[1] For the modification of this in the case of "cost," see p. 17.

whose action is not fully known; so that the chemist puts in his ingredients expecting that they will precipitate into crystals, but not absolutely sure that they may not disappear in forms he cannot control. What misleads a good many economists, I think, is that it is not easy to divest ourselves of the idea, obtained from a partial survey of ordinary markets, that a producer always makes to sell at a fixed price list; the fact being that, over the field of industry, he makes for a price which is determined by the changing wants of human consumers and the changing supply of human producers. Even in the case of articles "freely produced," where value most closely corresponds with cost of production, the fixed price list is not one which can be worked towards for long periods. The competition and the combination of capitalists,—the latter of which is as much a normal condition of modern industry as the former,—make market values so unsteady that, except in some few industries where monopoly has a large place, wages could scarcely be changed in correspondence with changing value. For instance, during the last twenty years the retail price of cotton thread has varied from a penny to twopence per spool of 200 yards—that is, 100 per cent—following, more or less closely, the variations of manufacturers' prices. All this time the wages of women workers, who constitute the great majority of operatives in the thread mills, have scarcely varied. What is true of these workers is probably true as regards the whole field of women's labour; in spite of the enormous changes in the price of fabrics made by women, their wage has neither sensibly risen nor fallen.[1] This, first of all, shows how little

and that prices fluctuate.

[1] See p. 124.

attempt has been made, in one very large field of industry, to adjust wage to product. But it also suggests that, in times of rapid change of prices, it would not be possible for the manufacturer to alter the scale of his wages to suit the varying value; nor would it be advantageous for the workers that he should do so—even if combinations of workers should allow it.

This, then, is one special difficulty in paying according to product. It is the common difficulty of remuneration; the difficulty of the employer as well as that of the workman. So long as the capitalist takes this risk of fluctuating value,—"buys out his partners," to use Professor Clark's happy phrase,—he must pay his employés a stipulated wage well within the limits of safety; and, so long as wages are any way near the subsistence level, it is perhaps desirable that the wage earners should not take any part of this risk, even if they do not adequately reap the advantages of fortunate speculation.

Second special difficulty:

A second difficulty is one so keenly felt by practical men that I am somewhat surprised it has received so little consideration from economic science. It arises from the constant progress of invention and organisation as affecting fixed capital,—fixed capital, be it remembered, being the greater part of manufacturing capital, and manufacturers being the employers *par excellence*.[1] Briefly it comes to this, that the last capitalist "sets the pace" for his competitors. It is most marked, perhaps, in shipping, where improvements seem to put older boats out of the running, sometimes in a year or two; but it extends, more or less, over the whole field

[1] See also p. 210.

of manufacturing. It is the commonest of experiences that, however well organised any branch of employment is, the newest comer, if he be backed by large capital, can undersell the others, make a profit, and, probably, pay the highest wage. And here, too, the Trade Union plays into the hand of the enemy. Unionism is always ready to profit by the teaching of its opponents, and condemn to extinction the employer who cannot meet competition. "It is expedient that one man should die and that the whole nation perish not," and the demand of the Trade Union is that the rate of wages shall be that paid by those best able to pay it.

that the latest capitalist determines the rate of wages,

This seems to me to add the most hopeless element to the question. Many of us have been looking forward to an extension of co-operation or profit sharing as likely to solve the worst problems of wages. But these experiments are not likely to be made either by millionaires or by limited companies. The class from which we might expect them is that of the private employers whose traditional relation with their workers has been one of good feeling. Now, the position of the majority of such employers, I am afraid, is that they are engaged in a life or death struggle with competitors of larger capital and less humanity. Co-operation or profit sharing will not help us here. If value of product is to determine the workers' wages it must also determine the employers'. In this case the value of the product has diminished, and there is less to divide between the employer and his men. Making the worker a partner will not increase the value of the product, and the worker suffers either as a wage earner or as a

and profit sharing will not help this.

capitalist. It will be a bad introduction of profit sharing if it goes with a reduction of wage; it will be a hopeless outlook if it goes with a reduction of profit.

These, then, are two special difficulties, suggested to me by some knowledge of the practical world, in the way of paying labour a wage proportionate to value of product. If we pin our faith to this as the only equitable criterion of wages, we may have to face conclusions which we are not, I think, quite prepared for. Political economy has been sufficiently condemned for the countenance it seemed to give to the theory, that the level towards which competition tends to drive wages is the level of subsistence. This seemed at worst to guarantee that a living was secured to any honest worker, and subsistence constituted a minimum above which wages might rise indefinitely. But, according to the new theory, a just wage would be the share of value which the worker produces. Now, in certain circumstances not very remote, the share of value attributable to some of the labourers might be indefinitely below subsistence. On the whole I am afraid that, under modern conditions, the human worker tends to sink into comparative insignificance beside the work of machinery,—which, we must not forget, is no less than the work of natural forces on lines we trace for them,—and that not even the divine spark in the human worker is enough to balance the material forces which man has called in to aid him. If we could get a machine to lay eggs, it is certain that no consideration for the hens would prevent the public giving as much for machine-made as for country-laid; and if machinery can do man's

Thus payment by product might give less to labour.

work, its work will get value just in proportion as it meets human want and is not to be had in superfluity.

3. *The Guidance of Industry*

If, in what precedes, I seem to have written at inordinate length on a subject not immediately under my title, it is for a definite purpose. I have tried to show the very great difficulties which attend even the preliminary step of ascribing the national income to the various factors which produce it,—to say nothing of the further difficulties of getting it into the hands of those to whom it might be rightly ascribed,—in order to emphasise that there is, lying at our hand, a comparatively simple and almost universally neglected remedy for much of the evils we all deplore. Those who take Socialism as their method of rectifying these evils have not, to my mind, faced these difficulties. But a great many people may be driven, as Mill was, to look with favour on doubtful experiments in the redistribution of wealth, if they are allowed to believe that there is nothing else between that and folding their hands in helplessness. There is an investigation waiting on the economist —and long recognised as waiting—which, by making clear what certain uses of wealth involve, may point an immediately practicable way in which the conscientious person may proceed to clear his own little corner of creation; content to leave to the economist and the statesman the larger problem, so long as he can do something which is not notoriously inept and harmful like almsgiving. For, although we should fail to find a rational basis such as we have been seeking, the last

Short of Socialism

there is one practicable re-distribution.

word on distribution has not been said. The problem does not end when we have followed the national income into the hands of the various participants. Whether that income be well or ill distributed into shares, there remains the question of what is done with each share after it passes into individual disposal. After the distribution of the income comes the distribution of the share. To stop short of this, is to consider that the comfort or misery of the working man and his family is determined when he draws his pay of a Saturday. If I am not mistaken, there are possibilities here of additional wellbeing to all classes which have not been adequately recognised.

But, first, of the forms of wealth which we consume.

Here, then, we have before us a threefold investigation. We have to inquire what is consumption of wealth: to find what are the effects of ordinary consumption on accumulation and distribution; and to suggest what might be done for society by wise consumption. But first we must ask how the wealth which we consume comes to have the consumable forms in which we find it, and what class is responsible for these forms.

All economic action has for its *ultimate* aim the ministry of "goods" in the satisfaction of human want. Of such consumption goods, as they are called, there are two great classes, Commodities and Services. Putting aside the consumption service meantime,—to return to it in its due place,—the material end of economic action is the finished commodity; the material good which is created for, and wears its life away in, the direct service of man. Following the indication given by the various kinds and degrees of want, the raw material of the world assumes different shapes at the hands of producers. Some goods are meant for the stomach, others for the back; some minister to the senses, others to the intellect; some are adapted for individual enjoyment, others are general conditions of social wellbeing; some are perishable, others are long-lived. Thus the loaf, the coat, the picture, the book, the carriage, the car, the firework, the house, may be taken as types of this consumption good.[1] But, whatever the shape it takes, it has its end and purpose in this consumption. From the moment when the labourer breaks the ground down to the time—it may be years after—when the finished article finds its place in the shop window, the whole process of industry is guided by the consideration that the final product is meant to wear away its life and perish, as a commodity, in the direct service of man. The producing man is, essentially, the servant of the consuming man, and the final direction of industry lies with the consumers.

Consumption is the end of production.

But now the striking fact meets us that, under modern conditions, the immediate direction of industry is elsewhere. Sometimes it is in our power, as a community of consumers, to guide labour and capital into certain channels, with the view of turning out certain consumption goods to our order; and we occasionally exercise this power. But, more common than we realise, is the state of things where production can only follow lines already laid down for it, or lose the wealth sunk in laying down these lines. A good though extreme

But production is to a great extent the guide of consumption;

[1] To prevent misunderstanding, it may be noted (1) that such things as parks and buildings are (permanent) consumption goods as truly as loaves and coats are (perishable) consumption goods; and (2) that many, if not most, consumption goods are also production goods.

type of this is the Panama Canal, where the wealth that might have turned many a wilderness in France into a garden has been sunk in the attempt to pierce a continent and bridle a climate, and the only thing to be done is to spend more or lose all that has been spent. And, in a great many cases, the labour and capital of years, or perhaps of generations, have been put into final shapes that admit of only one use, and that, it may be, an ill-timed or foolish use,—an extreme type of this being a collection of fireworks.

If we compare the amount of wealth that exists, at any moment, in the shape of finished consumption goods, with the immensely greater amount which takes the dynamic shape of wealth already devoted to and sunk in processes of production extending back and forward over years, we may easily understand how modern circumstances have taken the immediate direction of industry out of the consumers' hands. Of these producing classes, the merchant is the guide and regulator. The working man has only to do what he is set to do, and his employer works to orders given him; but the merchant comes in close contact with demand. His function is threefold: to follow the expressed wish of consumers as given in orders; to interpret and anticipate the wish of consumers by ordering and holding stocks; and to tempt the wish of consumers. The important feature in this connection is that the two latter have come to be the prominent function of the merchant; so that the great majority of goods are put in the shop windows and priced before the wish for them is awakened and the demand called out. For this result two circumstances are to blame: the huge

for the merchant guides the producer

to anticipate and tempt demand;

increase of wealth, and the want of economic guidance, —the two working into one another. We are long past the time when the great current of industry was directed to supplying the bare necessaries of life. A very small portion of the productive power of any advanced community could now flood that community with such necessaries. The industrial world to-day is producing to supply a level of wants that is steadily rising with civilisation and culture. To this end the labour and capital of generations are sunk in buildings, machinery, skill, means of transit, permanent changes of physical environment. This "producers' wealth" once sunk and immovable, the energy of its owners and borrowers is taxed to the utmost to keep it in employment. It is not the case that, as one want is fairly met, capital and labour are transferred freely to meet another want. The mobility of abstract has its counterpart in the immobility of concrete capital. When a manufactured good has for the time satisfied one circle of demand, the constant effort of capital is to awaken wider circles of demand by reducing its price. Thus it is that the producing classes not only interpret and anticipate the wants of consumers, but end by exciting wants, and so directly guiding consumption. So much is made and waiting for us that we are seldom called on to order goods. We put money in our pocket and look at the shop windows before we become conscious of what we want. Forgetting that the industrial world is our servant, and, like any good servant, is only forestalling our wishes, we get into the habit of thinking that we have no responsibility for what we buy. Thus the responsibility, which the consumer could not have escaped if he had kept the direct

while the huge amount of producers' wealth requiring to be employed

tends in the same direction.

Thus the consumer loses sight of his responsibilities;

guidance of industry in his hands, is avoided by leaving it in the hands of the producer. For our domestic servants we can scarcely avoid responsibility; we are impelled to see to their hours of work, the quality of their food, their sleeping accommodation, the conditions of their labour generally. But when goods are offered us, we forget the claim of the unseen servant, and buy the goods without thought of the fingers which made them.

Now, in this matter of the buying of goods, there are two distinct responsibilities which must not be confused: one is responsibility for the conditions under which goods are made; the other is responsibility for their being made at all. A slight awakening of the public conscience has induced some to ask, if it is not possible to demand some guarantee that the goods we buy are made by workers paid decent wages, and working under healthy conditions. Not to mention the formal expression of this in the Consumers' League, we find a growing tendency to demand that government and municipal contracts shall be closely supervised. But these efforts cannot go very far. They seldom get beyond regulation of the warehouse where the goods are finally "made up"; they can scarcely penetrate to the factories, fields, and mines where the immensely greater previous processes are carried through. Even if they did, and if we could have accurate knowledge as to how goods are made and wages paid, there remains the second responsibility; that of buying certain goods, and so encouraging their making. In other words, it is not enough for members of the Consumers' League to see that workers are paid decent wages, if the commodities they insist on buying are—say, fireworks.

first, for conditions of making;

second, for certain goods being made at all.

And in this I must, I think, take shame to my order. One cannot blame the maker or merchant that the demand he interprets or tempts is a demand without knowledge, nor can one blame the consumer that he takes what is offered him, so long as the economist gives so little definite teaching as to the consequences of his demand to social wellbeing. Even if we have clear ideas on the subject ourselves, we are, I think, getting too much afraid of being considered "popular lecturers."

As the goods, so the consumption.

The serious fact is, that the shape in which a community allows or directs its wealth to be embodied, makes the greatest possible difference to the wellbeing of that community. As a good is, so must it be used. While it is wheat, the grain may be seed or it may be food. But, once it takes the shape of the loaf, it has lost for ever the potency of the seed, and, moreover, if not used quickly, does not even remain food. The content of this little parable will become clearer as we proceed. Suggesting, then, that the consumers, as the people most concerned in the end, have a responsibility for the shapes in which wealth becomes sunk and, so far, fixed, and that society does not consult its ultimate wellbeing in allowing the merchant to interpret the "desirable" by the "desired," we go on to inquire what consumption means and involves.

4. *Expenditure and Consumption*

To spend income is not to consume wealth.

There is no commoner or more serious confusion in ordinary thought than that between expenditure and consumption. Society, for instance, involves in the same condemnation the man who spends his income in gambling or speculation and the man who wastes it in foolish eating and drinking, although the world, as a whole, loses nothing by the former and loses everything by the latter. Probably this is only part of the general ignorance regarding the nature of money and the essential difference between it and wealth.

Expenditure has to do with money or the exchange commodity alone. Our incomes are paid us in money; not in the things which we wish or intend to consume. When this money comes into our hands a title or order is given us on the great magazine of the world's wealth. This order puts so much wealth *at our command* to do with as we think fit. Hence spending of money is merely a preliminary, and it is not always a preliminary to consumption. There are three methods of expenditure.

Transfer.

(1) We may elect to transfer our title. Apart from gift and bequest, the most conspicuous instance of this is gambling, where wealth simply passes from hand to hand; but, with more or less friction of consumption, the same is true of many forms of expenditure which partake of the nature of gift or gambling.

Change of form.

(2) We may use our power—"spend" our money—not to destroy, but to maintain and increase, by exchanging our title for producers' wealth. As we have seen, the purpose for which wealth is created by man is that it may be used, used-up, and so come to an end as wealth. But this need not be its immediate fate. We may cast our bread upon the waters, to find it again after many days—not without interest—by using it productively or investing it. Somewhat unfortunately, perhaps, this is called "productive con

sumption." It is really mere change of shape of wealth; the throwing of wealth into solution in order to reproduce it in new combinations. It is a consumption that does not consume. In it the value of wealth is carried forward through all its changes, and, normally, is increased as it clothes itself in more desired forms. Its type is agriculture, where the crop secured one harvest is buried again in the earth and in the sinews of labour, to be reproduced next harvest.

(3) Or, finally, we may exchange our title to wealth for certain concrete forms of wealth, and put that wealth to its ultimate purpose. Wealth, we must remember, is not mere matter and force; it is matter and force put in shapes to meet human wants. It is a human category. Man creates it, and, according to the image in which he creates it, does he destroy it quickly, gradually, or slowly. The economic history of a display of fireworks, for instance, is that the earth and man have produced sustenance for a certain number of labourers; that these labourers have changed this sustenance into muscular and mental effort, and embodied these again in innumerable tools; that these tools, and the further labour which worked with and directed them, have been worn out in making a certain form of wealth indicated as valuable by being limited and satisfying human desire; that, finally, some one sets a match to this embodied labour and wealth, and in a moment it has gone clean out of existence, and mankind has got nothing for it all but the memory of a rather vulgar momentary sensation. The economic history of a public building, on the other hand, is that labour and capital have similarly been embodied, but this time in a form of wealth which fulfils

Pure consumption.

its purpose best by sheltering successive generations of citizens. Between these two extreme types all consumption lies.

Now, all these three forms of disposal of wealth are forms of *expenditure*, but only the last of them is properly consumption. If it were not that we usually attach some idea of blame to the word, we might get a better hold of the distinction by thinking of it as *destruction* of wealth. It is this consumption alone with which we have here to deal.

Difficulty of consuming.

The curious thing is that it is very difficult for an individual to consume much material wealth. Bonfires and fireworks apart, the most reckless have a difficulty in doing very much more than transferring their titles to others, who, in turn, have a similar difficulty in consuming. Mr. Astor said of his income that he "could do nothing with it but buy more land, build more houses, and lend money on mortgage." The man who "runs through two fortunes," for instance, in backing horses, gives us an example of how quickly money may be got rid of, but his spendthrift course after all means only that his wealth passes rapidly, and without much destruction, from a very foolish man to a number of people who, presumably, could not do much worse with it. What he really consumes and takes out of the world is little more than the food he eats, the wines he drinks, the clothes he partly wears, the coals he burns, perhaps the horses he kills. It may give some people comfort to know that, while a Vanderbilt may spend his income, it is beyond anything but an immense conflagration to consume it. The worst he can do is to give foolish, wasteful, or hurtful direction as to the shapes in which wealth will be embodied; to encourage the entrance of men and women into occupations which are as short-lived as his own control over the means of subsidising them; and, beyond that, to hand over concrete wealth to his friends or parasites to consume. But a perfectly wise millionaire would be as great a blessing to society as a perfectly wise father to his family—just because direction of production and consumption is the one power he has in his hand. It is this consideration principally that makes me emphasise the possibilities of increased national wealth and well-being through instructed expenditure and consumption. We can make so much: we can consume so little.

Little economic guidance in pure consumption.

Here, again, it seems to me that economists have not spoken with clear enough voice. They have said a great deal in praise of saving and of "productive consumption"; very little as to what is praiseworthy or blameworthy in spending and in "unproductive consumption." The consequence of such teaching has been that the rich man is considered to have done enough if he lives within his income,—that is, spends less than he might,—and puts the surplus into investments; some economists even telling him that he makes a "sacrifice" in doing so. He has scarcely ever been told that wealth may be better spent in wise consumption than in indiscriminate investment. Again, attention has constantly been called to the gain of economy in production; particularly to that form of it which consists in making every productive instrument work up to its full power. Why is it that the consumer has scarcely ever been shown the economies in consumption? Is there not, perhaps, as much to be gained by the full

T

utilisation of consumers' wealth as by that of producers' wealth?[1]

5. *The Place of Consumption in the Economic Life*

Consumption and production a circle.

At this point I may interpolate a consideration which, perhaps, somewhat breaks the direct line of the argument, but seems, to me at least, of the deepest importance. It is too hastily assumed that consumption is the end of industry,—"all labour of man is for the mouth,"—and that economic study ends with it. In one sense this is true. But it is just as true that consumption is the beginning. The fact is that production and consumption are merely points in a circle, or stages on a continuous journey. The matter and force of the material earth are, of course, constant: they pass by production into certain forms: these forms pass by consumption into other forms. But to the permanent conditions of the kingdom of man it makes the greatest possible difference what forms they take. If we conceive matter and force as raw material, which can be put into shapes suitable for the life of one set of organisms or of another, the issue of human economic history is that man continually reclaims ground from the waste of nature, as it were, for future generations of men. The solid earth below our feet does not, indeed, increase in extent, but it does in all the qualities that make life richer. Thus it is no mere metaphor to say that each generation falls heir to a richer heritage than the last.

The point I wish to bring out is that man is wrongly con-

[1] On the whole subject, see Prof. Patten's most suggestive *Consumption of Wealth*.

Man lives between wealth and wealth, consuming while reproducing.

ceived of as a terminal point of wealth, and that wealth is uneconomically used if it is merely used-up by man. As he is the passing tenant of a house of life which is not his own, so is he the passing holder of a purse which ought to get fuller as he spends. Standing at the conflux of two eternities, he is at once the child of the past, the parent of the future, and the liver of his own life. Although consumption is destruction of wealth,—the breaking up of commodities into their natural elements,—yet, to the extent that the consuming is also the producing man, the result of consumption is generation of human force which has the power of recombining the scattered elements into wealth again. Thus the true conception of the ordinary consuming man is that he is a worker who stands between wealth and wealth; taking it into his being; living as he works; and passing it through his muscles and brains into other concrete shapes of equal if not greater value. We are like worms whose life activity consists in filling their skins with the rich earth from below, to cast it on the surface and renew the soil. *Sic vos non vobis nidificatis aves.* Man does not make wealth in order to live and consume it after his work: he lives the only life worth living *while* he works: he is the unmuzzled ox treading out the corn.

The curse of labour.

This conception, indeed, has been hidden from us by a tradition which looks on labour as the primal curse.[1] Earlier times gave some countenance to the idea, for, in these days, man was in bondage to nature, not having found the Open Sesame of science; and,

[1] A curse, indeed, that could be shifted on to the lower orders. The only primal "curse of labour" that I know was entailed on one sex. But see p. 328.

even when he discovered how to make nature work for him, the wealth which might have sustained whole peoples in abundant and leisured life was taken as the due of courts and privileged classes. But it has no place in times when the majority have to eat bread in the sweat of their brow only because, and to the extent that, the minority claim to consume too much.

Laborare est orare.

In another place[1] I have sufficiently pointed out what I conceive to be the true place of labour in the social organism. What may be added here is that there is nothing sordid in the conception which makes work the eternal lot of man. It does not subordinate the intellectual, and it points out the very foundation of the moral life. It only affirms, what every professional man is supposed to recognise, that the house of man is his workshop. Perhaps it is a new conception to some that the factory and the farm are the analogue of the study and the garden, and should be as pleasant places to live and work in; but not till that conception is grasped can we have any true idea of the work which makes men at the same time as it makes goods. If it compels men to justify their existence by producing what an enlightened world will recognise as at least equivalent to what they consume—showing themselves what we call "worth their meat"—it is no more than any honest person takes on himself without compulsion.

6. *The Categories of Consumption*

We come now to the consideration of the various categories of private consumption. From a set of

[1] See pp. 325, 329.

books extending over some twenty years of my life, and detailing my private expenditure almost as accurately as the accounts of a business, it may be believed that the categories I submit, and their contents, are not based on haphazard observation. The categories under which most forms of private consumption may be grouped are, I think, the following: 1. Food and drink. 2. Dress, including ornament. 3. Shelter, including furnishings and equipment of the house. 4. Transport, including travel and communication generally. 5. Education, including literature and art. 6. Recreation. We shall run over these, noting, as we go, the consequences of the particular form of consumption on wealth and wellbeing generally.

(1) The most fundamental form of consumption is, of course, that on Food and Drink. These supply a want the satisfaction of which is necessary to life. In this consumption a man must be selfish. He must eat his cake, and, having eaten it, no one else can have it. And the wealth embodied in food and drink is as clean taken out of the world by consumption as the firework when the match is set to it. Fortunately, the want is a limited one. Nature has clearly enough indicated that, for complete health and joy of labour, man wants but little food and drink,—how little, people will never realise till they learn to weigh the misery caused by over-eating and over-drinking against the momentary sacrifice involved in "putting a knife to one's throat,"—and nature has provided that little in abundance. From the nature of the case, then, all consumption on food and drink that goes beyond the sustaining of a healthy, full, pleasurable life is waste of wealth, where it is not worse.

Eating and drinking

are selfish,

but, quantitatively, are limited.

We need not, indeed, go the length of saying that all consumption of this sort, beyond that which makes the good worker, is waste. Let it be granted that happiness is its own justification, and that eating and drinking are pleasurable in themselves and are conditions of social brightness and inspiration. What we have to fix our attention on is, that all food and drink consumption involves entire and irrevocable and selfish destruction of wealth.

Qualitatively, however, they are not limited,

What, however, seems very often forgotten is that the "little" required for healthy and pleasurable life may cost very dear. There is gluttony in quality as well as in quantity. The effect of consuming small amounts of rare and costly foods and drinks is the same, objectively, as that of consuming large amounts of cheaper foods and drinks; it is excessive consumption of embodied capital and labour, and excessive deduction from the wealth of society. Once this is seen it will, I think, be acknowledged that the community as a whole pays dearly for the well-to-do Englishman's dinner. One bottle of champagne costs, roughly, as much as thirty bottles of beer. Both champagne and beer are terminal points of consumption. Granted that there is a peculiarly gratifying exhilaration afforded by the bottle of champagne, what has to be put against it is that labour and capital, transformed into beer, will give nourishment and exhilaration to thirty people, while the same amount of labour and capital, in the form of champagne, finds its end in exhilarating one person.

and the possibility of waste is very great.

The vast field of possible waste under this head will be better appreciated if we remember how many trades the category involves. It employs the labour of butcher, baker, fishmonger, poulterer, grocer, greengrocer, milk-man, publican and wine merchant, tobacconist, restaurateur; and these trades in turn represent the innumerable industries that supply them, stretching away back to the agriculture and mining which gave them their raw materials. The fact deserves to be put plainly, that there is scarcely any form of consumption where excess is so plainly a robbery of a poor society as that of food and drink. And it does not seem too much to say that the great part of this consumption is of the order of the firework, and leaves nothing behind but indigestion.

(2) Next comes the consumption of wealth in the shape of Dress. Here entirely selfish consumption is not so easy as in the first case. A man may spend as much on clothes as on dinners, but he does not, by his personal wear, turn wealth immediately into ashes. When the first gloss of fashion is gone, clothes pass, by gift or sale, to others on whose backs they wear away another part of their lives; still appearing, years after, at the "jumble sale" or rag market; to perish at last in grotesquely apparelling the very poor — perhaps even after that to be reborn as shoddy, and pass through a similar though shorter life over again. Thus, on the face of it, this consumption is less of the firework order. And from another point of view there is more defence of excess under this category than in the case of foods and drinks. Dress has an æsthetic mission as well as a utilitarian. The consumption of clothes has one side to the wearer but another to the spectator. Its object is not merely to keep out the cold. And, as regards one of the sexes, if it would be malicious to say that their object in dressing is to be seen of men, it is obviously their opinion that a beautiful picture deserves

In dress consumption

excess is more defensible,

a good frame. If feminine dress were not meant to show as much as to hide, there would be no sale for silk stockings.

With all allowance, however, for the just demands of beautiful dress, and for the factor we should be foolish to ignore, namely, fashion, it must be said that much of the dress made for the mistress is *designed* to be fragile, in order that it may not offend by reappearing on the back of the maid, or travesty Hyde Park by clothing Petticoat Lane. Where this is the case we have the champagne consumption again. Labour and capital, which might have permanently enriched the world, are sunk in the making of goods that have a life almost as short—if not as useless—as the firework.

but great waste is possible.

The field of consumption here covers the following retail trades, and determines the manufacture of their supply;—tailor and dressmaker, draper, bootmaker, milliner and hatter, hosier, smallware merchant. Under dress we may include ornament, as presenting the same features in its consumption, and we shall, in that case, add to the above the trades of the jeweller and the like.

Housing consumption is still more defensible.

(3) In the third great category of necessaries, Shelter, consumption is least of the firework order, and least allows of purely selfish use. Houses are built for the abode of successive generations. And in his house, as a rule, no man liveth to himself. It is the casket in which he lodges his dearest treasures, and it serves its purpose best the more it is hallowed by old associations, and made the centre of a man's social life. Here if anywhere luxurious expenditure is justified; for, by the necessities of the case, the use of the luxury is spread over a period and a circle. Here, too, the field of con-

sumption is wide. It covers the productions of the architect, mason, carpenter, cabinet-maker, iron-worker, bricklayer, plasterer, plumber, slater, bell-hanger, upholsterer, decorator, ironmonger, glass and earthenware merchant, and some others.

But in this case also the possible abuse and waste is obvious. If the house is badly built, or built in a foolish situation, wealth is based on a foundation of sand; and, if the palace becomes the refuge of the recluse, wealth wears away in ministering to one life when it might have ministered with better effect to numbers. When a wealthy man buys an estate, spends great sums on a country house, hides it behind high walls, and then leaves it year after year to a few servants, what he does is to take a vast amount of concrete wealth, pass it through the bodies and hands of labour, and literally petrify it. The best that can be said for it is that it is petrifaction; for one day this wealth may again assume a living form, and give back some at least of the value expended on it, in beautifying the life of generations. Compare with this the consumption of a similar amount of wealth in building a cathedral or municipal gallery.

(4) and (5) We may pass over the fourth category, that of Transport (under which I include public and private conveyance, the equipment and plant of travel, and also what may be called the immaterial transport of post, telegraph, and telephone communication); and also the fifth category, that of Education (including expenses for literature and art), because the considerations of waste or economic use need no further elucidation. The possible field of waste in maintaining private and exclusive instruments of transport; the

Transport.

Education.

increase of wealth that would follow increased consumption on education;—considerations such as these will suggest themselves to any one who wishes to apply the canons given for the three former categories.

Recreation, a wide category,

(6) The last category, that of Recreation, is a very extensive one. It embraces the services and equipment—the environment generally—necessary for music-rooms, theatres, circuses, shows, balls, and the like; and the many departments which may be grouped under the name of Sport, as golf, cricket, football, tennis, garden games, athletic games, boating, skating, cycling, fishing, billiards, shooting, hunting, riding, driving, archery, polo, racing, yachting, and some others. Of the necessary and legitimate place of sport in rational life there is no question. What we have to note is that its various forms involve very various amounts of consumption. The horse goes with the groom and the stable: the moor requires the keepers: the race-course involves the racing establishment. Here evidently there is room for any amount of socially unremunerative consumption. What one wants for the recreation of muscle and brain force is the open air, exercise, and, probably, some degree of emulation. Those who live to work and unbend to recreate will find these, in company with other men, in chasing a ball over a waste piece of land by the seashore, or with the simple equipment of a walking stick or a fishing rod. One who has been brought up to the idea that the day is to be "got through" somehow, will cut out hard work for himself in a sport requiring, perhaps, a few hundred acres of moor or forest which must be separated off from other men's use—some actually putting forward the monstrous

and one that may cost the community dear.

proposition that the mountains of Scotland are to be inaccessible save to those who rent the moors which guard their foot. Here is the old case of the champagne and the beer—with the aggravated feature that so many sports are necessarily associated with the destruction of beautiful life, and so with deterioration of æsthetic and moral fibre in those who follow them.

Some considerations,

From the survey of these six categories of consumption, I think we get some very suggestive considerations. We see

(1) That similar amounts of capital and labour may be embodied in forms of wealth that admit only of rapid consumption, or in forms whose consumption extends over months and years.

(2) That, whether embodied in perishable or in permanent forms, the consumption of these goods may be selfish, or may spread its advantages over groups of consumers.

(3) That, in some forms of consumption, man must be alone, his consumption excluding that of others, while, in other forms, he consumes best by calling in others to enjoy with him.

(4) That, alike in unselfish and in selfish consumption, the individual may take out of existence more wealth than yields any adequate return to society in life, happiness, or labour.

and a moral.

And the general conclusion seems already to emerge, that, if consumers were guided by considerations of how best to consume for the interest of society as a whole, immense sums of wealth might be kept in the world that are now, thoughtlessly and without adequate return, taken out of it, and other immense sums might give life and happiness to circles and crowds instead of to individuals and families.

7. *The Service*

It will probably have been observed that, while the first three categories brought before us chiefly the consumption of material wealth and its consequences, the latter have brought to the front a form of consumption which we have not yet discussed, viz. our expenditure on personal services. It remains now to inquire what is the exact difference between the commodity and the service, and whether the word "consumption" applies to the use of the latter as well as to that of the former.

There is, indeed, some difficulty in keeping the two separate in economic consideration. They have by some been reduced to one, the service, distinction being made merely between the material service and the immaterial. The service is an economic "good" just as the commodity is; it gets its value from human desire and from limitation of supply. In paying for a dinner one pays for the food and one pays for the waiting on the same principle of value. The service has its necessary place in our industrial and social organisation. In the division of labour, while the great majority are set to make commodities, some are set to serve—either in the way of waiting on and ministering to persons, or in the way of personally "serving up" material goods. And, like the commodity, the service is a product: the servant is made to our order. Part of the labour and capital of a community is constantly being transmuted into personal accomplishments and powers. Schools, colleges, technical

Likeness between the service and the commodity.

institutions, for instance, represent wealth and labour passing every day into the personal equipment of the student or the artist. A hundred pounds may make a piano, or it may make a player; may erect organ pipes, or perfect the vocal chords. A wise distribution of social wealth will sink so much in material commodities, so much in the skill of its servants. Taking his cue from the signs of the times, a man will bring up his son to be a baker or to be a waiter; in either case the son will purvey the "good" which society wants. The end of economic action, I repeat, is the production of commodities *and* services.

Differences. There are, however, two distinguishing features in the latter. One is that the service inheres in the human being who serves. Servant and service are one. Thus every consideration of the servant has the dual task of considering man as a "mean" and man as an "end in himself;"—that is to say, the ethical consideration here is never absent from the economic. The other is that the wealth spent in preparing the servant is taken out of the visible and tangible and taxable forms of wealth: like coal and oil in the engine-room it is transmuted into power. Thus a rich society is conceivable which should consist of human beings capable of rendering very valuable services to each other, yet poor in material commodities. In a rich city we may have the Lyceum scenery and we may have the Lyceum acting; in a poorer one, we should not be badly off if we had only the Lyceum acting.

A wide category. The service is a category of much wider extent than we are apt, at first thought, to imagine. It embraces not only private servants, but their public analogues. The coachman and yachtsman do for one family or group what the railway, tramway, and steamer service do for the masses,—note, for instance, the significant word "railway servant,"—and the carriage and the yacht are the equivalent of the railway, tramway, and steamship plant. The gardener, laundress, tablemaid, sewing-maid have their counterparts in the park-keeper, public laundry girl, waiter, and warehouse girl. A recent novelist tells us that some of the Austro-Hungarian nobility still keep their private physician; and this reminds us that there is no reason why we should not, as in old times, have singing men and singing women attached to our households, except that we get our music better in the opera and concert room.

Now, if we look over our six categories we shall find that a great many services are inseparable from commodities. Consumption of food—what we might call "feeding"—is a joint consumption of material commodity and of services inhering in the cook and waiter who minister it. So it is with domestic servants generally; the consumption of "shelter," for instance, is a consumption not only of stone walls and furnishings, but of the staff who maintain the house; the services of coachmen, equally with those of railway servants, are inseparable, in the consideration of "transport," from their corresponding plant.

In buying the pure service, what do we consume?

But when we come to the pure services of the latter categories, especially the sixth,—that is, services which leave no material product and are merely exertions of the human being,—we are apt to be confused. At first sight the wages we pay these servants seem a mere transfer of wealth; an expenditure not involving a consumption. When we spend a guinea on a hat we get the hat away with us; when we spend a guinea on a stall at the opera we come away with nothing in our hand. Is this a mere transfer from one pocket to another? The answer is that it is not. We come away from the theatre with nothing because in the theatre we have consumed what we paid for. Our sovereign bought, not a commodity but a service, and, that service given, the "good" is consumed.

At the risk of being tedious this must be made quite clear, as it involves serious issues. I have in my possession, say, a sovereign. Rightly considered, this sovereign, as we know, is a title to any wealth in the community up to a certain value. If I exchange the sovereign for a dinner, I have in front of me a certain amount of perishable wealth, while the restaurateur now has the title which was mine. For the moment there is no change in the total sum of wealth; only an exchange of equal values. But when the whole economic transaction — that for which the purchase was made — is completed, and I have eaten the dinner, I have consumed a sovereign's worth of wealth, and the world is poorer by that amount. But suppose I exchange my sovereign for a stall at the opera. For the moment I have before me, not a meal, but a feast for the gods. At the end of the transaction the sovereign, with its command over wealth, is in other hands, and the world is poorer by the wear and tear, bodily and mental, of a number of singers.

"It is not linen you're wearing out, but ——."

It is unusual, I grant, to think of the services of human beings in this way. It seems to conceive of the singer as a kind of musical box which wears out with use. But, from the economic point of view, this is quite correct. If the singer were a slave, he, and not his service, would be the commodity. Being a freeman, it is his service that is the "good." It is all the same whether a man paints and parts with a picture, or, as in acting, puts the picture before us in himself; in both cases we purchase goods that perish with the using. If it seems strange to speak of an exertion of the vocal chords as wealth consumed, we have only to consider that man is not the only machine which improves with use up to a certain age. Live-stock, for instance, is a case in point;[1] but even machinery improves as it "settles down to its work." But whether there is wear and tear of substance or not, the working life of a human being consists of a series of services, which finished, the man is worn out; we pay for his work whether it sets the blood bounding through his veins or brings the enfeebled heart a fraction nearer its break-down. It is not, then, by a metaphor that we speak of the artist's services as "goods." The conclusion seems inevitable that, whether service be associated with commodities and consumed with them, or whether it be simply the wearing out of a human life in ministering to us, the service is, like the commodity, a consumption good.[2]

The service, then, is a consumption good,

But as regards the consumption of the pure service,

[1] In a recent case it was contended that no depreciation fund need be set aside for certain tramway horses, on the ground that, being recently bought, they had not "depreciated." Yet it is clear that any tramway company whose horses are calculated to live seven years must lay aside or write off every year a seventh of their value, to replace the horses when past work. This exactly illustrates the above contention.

[2] For a fuller consideration of the "human commodity," see p. 240.

there is this very special consideration. As we saw in the early part of this study the normal labourer is assumed to produce his own wages—to earn them by creating them. He is not a burden on the community. Even those who said that wages were paid out of capital never denied that the labourer replaced them. But, while this is true of the labourers as a class, it need not be true of the labourer we are now considering. This servant is a terminal economic point. He is in the same rank as the consumption commodity. His purpose is, not to produce, but to be consumed. Hence the servant unemployed, or uselessly employed, is like the horse in the stable: he eats his head off. Like any commodity which costs to keep up, he is at all times expensive; but when he resembles "dead stock"—that is, when nobody wants his services,—he is a very costly commodity indeed. This servant *is* a burden to society: not only that society has sunk so much wealth, in his sustenance and training, which remains unfruitful, but that the man, as a member of the human family, must not be allowed to perish. He is worse than a good of the firework order: he cannot be got rid of by putting a match to him. This is perhaps enough to point the moral that, when society allows or calls into existence a multitude of mere servants, it invests money in a stock on which there is a large amount of uncalled capital.

and sometimes an expensive one.

The Non-producer.

What has been said of the servant brings up the question of a class whose position requires more careful examination than it usually gets; what are loosely called the Non-Producers. Society is a co-operation of consumers and producers, set in and working on an environment capable of infinite adaptation to their wants. This environment is best represented, perhaps, as a huge field, some of it naturally fertile, but most of it requiring to be reclaimed from the waste. This reclamation is constantly going on, and the measure in which the environment is reclaimed is the measure of man's—of humanity's—wealth. Now, society has for its economic object to raise food from the field to feed its citizens, and also, by renewal of substance, to keep the field at the level of productiveness once won; that is, to preserve wealth intact, and to create an annual surplus with it.[1] To perform this double task there must be a sufficient number of producers. If consumption exceed the amount of the annual crop (surplus), the world is living on its capital; gets poorer; and in time cannot maintain its children—who, by the way, are always increasing. Hence it is a primary duty, from a national point of view, for the citizens as a body to produce what they consume, and to consume no more than they produce.

But while all men consume and must consume, all need not produce, for the field is very fertile, and the labour of a few can feed many. But most men do produce, either directly or by deputy. I mean that, when wealth accumulates, it is put into the form of instruments; these instruments enable labour to invest its strength in roundabout processes which are indefinitely more productive, and thus create wealth as truly as human labour does. Thus those who provide these instruments are part producers, though they never

[1] Here the figure of a field is not quite adequate, as land does not require much "upkeep," while wealth generally is perishable, and involves great expense of replacement. See p. 229.

see a spade.[1] Here society gets beyond being a mere economic organism, which it would be if the field were just fertile enough to yield a bare living. The surplus becomes more than enough to feed the citizens. Society wakes to other ends than those of mere reclamation of waste and maintenance of fertility; it demands the services of those who can open to it the many gates of living; and it finds the means of getting these services in its extra surplus. It releases great numbers from the necessity of field work, and feeds them, on condition of their performing what are sometimes called the "higher services." Now it happens that the inclination of many worthy people is very greatly towards these higher services. Field work is hard, and not always congenial. It is pleasanter to preach, and paint, and sing, and there is a peculiar satisfaction in wearing a uniform. But, obviously, the number of persons who can be allowed to consume, and are not compelled to justify their existence by producing things to eat and drink and wear is necessarily limited; otherwise a serious breach may be made in the wealth already reclaimed, or other people compelled to work double tides to support the ornamental servants. Thus, society becomes divided into those who are recognised as producers and those classed together—rather unjustly[2]—as non-producers.

His legitimate *raison d'être.*

[1] I am afraid the expression "producing by deputy" will offend those who do not temper the zeal for humanity by respect for economic truth. The notion that capital "lives on" labour is difficult to eradicate, possibly because the idea that labour lives on capital has been too strongly urged. But if labour is working twelve hours a day for its living, and, by getting machinery to assist it, can make a better living in nine hours, it is hypercriticism to deny that machinery works as well as the hand that works it.

[2] "Unjustly," because many of them bring that into the world

But there are two kinds of non-producers.

But there is a division among the non-producers. All non-producers consume, and so must be fed by the labour of others. But there are those whom society will at all times gladly feed,—recognising that they are paid to pipe to the reaper's dance,—and there are those whom it would not feed if it knew them to be parasites, and if it could help feeding them. Consequently—although we must take care of our ground, and not judge a person to be purely ornamental because he wears a uniform—we are warranted in asking every citizen of the world: What do you do for your living? and in concluding, unless he can show that he is giving recognised value for what he consumes, that he is a mere sponge on society.

It might be put in this way. The world of men is working, either personally or by deputy, to produce a national crop. This crop consists not only of food, fabrics, material produce and material services generally, but also of music, art, literature, religious observance, immaterial produce generally. This is the sum total that is distributable, as national income, to the producers. Among these, it is to be noted, are a great many auxiliary factors whose service is shown only in the increased product of those they help; such as teachers, soldiers, police, legislators and administrators, lawyers and doctors, etc. All these have undoubtedly an economic share in the total crop because they have contributed to its making. What has to be noticed

which is as truly wealth as corn and wine, although it is not material and tangible. The fact is that any line drawn between "productive" and "unproductive" workers must be more or less an ethical one. If wealth is everything which satisfies human desire, the non-producers are an exceedingly limited class.

very carefully, however, is that not all the forms of produce mentioned can sustain men in life. It is only of poetic license that any person with a stomach can be "paid with a voice flying by." Hence, while, if all were agricultural labourers, there would be far too much to feed all, if all were poets there would be nothing for anybody to feed on. Hence, too, without the slightest disparagement to the higher services, it must be said that society could exist without them while it cannot exist without the others, and that the lives of the many may be stinted if the few insist on investing the nation's capital too soon or too plentifully in these higher services.[1] In all this, I confess, I find no place—and make no apologies for finding no place—for the idler. As Carlyle said: "In the Heavens, in the Earth, in the Waters under the Earth, is none like to thee. Thou art an original figure in the Creation. . . . One monster there is in the world: the idle man."

The idler.

To the four considerations, then, which we drew as to material commodities, we may add another as to services:

(5) That, in demanding services, society—not to speak of shaping the lives of human creatures—invests wealth in a form whose use may be selfish or may be unselfish, transitory or permanent, but, in any case, a form which not only is consumed, but consumes, and so is apt to be a burden to society.

8. *The Limits of Consumption*

The main argument thus far has been that, in our

[1] See also p. 242.

present ways of consumption, there is a great leakage and an actual destruction of wealth which might be avoided. This suggests the question how far such consumption is blameworthy. Has economics anything to say as to the outer limit of consumption? I think it has.

The contention that there are no assignable limits.

There is not, of course, much use in arguing with people who bar all discussion *in limine* by taking it as an axiom that men have a right to do what they like with their own. Perhaps they have, if they can find what is their own. But, to say nothing of the difficulty of defining the "own" of the individual in view of the legal limitations put upon him both by the claims of the family and the claims of the state, there is an economic difficulty. If we say, with Mill, that private property is based on the "right of producers to what they themselves have produced," we are face to face with the whole distribution problem; namely, to find any one factor's share in the product of a complex co-operation,—a co-operation which embraces not only the producers but the consumers who give them the market. The only persons, perhaps, who have anything like a clear right to the credit of individual production are the inventor and the scientist, and these people, as a rule, are the very last who would raise the claim to consume what they produce. Like the thinkers everywhere they throw their treasure royally to the world, and ask no more than the wages of "going on and still to be." The class who generally claim the right of destruction are those who contribute nothing to production; the people who "make their money"—most significant of phrases—by speculation: that is, by transfer of the contents of many pockets to one.

There is one limit at least which is fairly definite. It is that the total annual consumption must not exceed the total annual production or income. Without going deep into political philosophy, it may be sufficient to point out that the national capital really passes to the individual citizens of any one period as an entailed estate, under the implicit obligation that its value must not be impaired. On the security of this national capital the state has entered into various contracts. That the capital is held, for the most part, in severalty, does not affect the question; for, outside of the totality of the individual capitals, there is no security for the fulfilment of these contracts. It is to be hoped, at least, that no one imagines that the national debt is secured on the Crown Lands! If it is argued that debts are contracted on security of future taxation, the answer is that taxation is levied on revenue, and that unimpaired taxable revenue assumes unimpaired taxable resources. The power to tax will not do much if the ability to pay taxation is wanting. The stewardship of wealth is not ethical only: it is political.

The obvious limit of national income.

Now it may be granted that the right of the state to override the individual in this matter is an unfamiliar doctrine. Probably the whole truth about the relation of the individual to the state is as unfamiliar as the truths of political science usually are. Sir William Harcourt seemed to astonish a section even of the House when he introduced his new Death Duties in 1894, with the words: "Nature gives a man no power over his earthly goods beyond the term of his life: what power he possesses to prolong his will beyond his life—the right of the dead hand to dispose of property—

Why this limit is unnoticed.

is a pure creation of the law, and the State has the right to prescribe the conditions and the limitations under which that power shall be exercised." There is, however, a very good reason why this particular right of the State to guard against destruction of its capital should be unfamiliar. It is that, instead of there being any danger of consuming more than the total annual income, the tendency, in civilised countries and in modern times, is quite the other way; namely, to throw back income, that might be consumed, into capital, in such quantities that the employing classes are at times unequal to finding employment for it. Thus of the £1,400,000,000 or £1,500,000,000 of our national income we save, according to Sir Robert Giffen, some £200,000,000. That is to say, instead of turning our claims on the country's treasury into things that we consume without necessarily adding anything to our powers of future production, we turn them into forms of wealth that will make the future richer: we "fund" much of our income for the benefit of posterity.

Under-consumption.

So notably is this the case that some have complained of "under-consumption," conceiving that the constant saving is baring the present of its due, and putting too much power into the hands of future possessors, while making no provision that the increasing income of the future will be any better distributed than it is now.[1] But

[1] This is the theory elaborated by Mr. Hobson in his *Evolution of Modern Capitalism*. It does not, of course, assert that consumers generally are unwilling or unable to take into consumption all that could be produced, but represents us as a race of magnificent misers, accumulating for successors who, in turn, go on accumulating till wealth becomes a dam instead of a source. The main factor in this is the present distribution of income, which puts

even if we are so pessimistic as to think that wealth will always run to one end of the social scale, satura- Saturation with wealth.

the power over the great mass of wealth into the hands of those who have stronger motives to save than to consume. Consumption, in short, does not grow so fast as the power of production. Mr. Hobson may have arrived at his theory by generalising a somewhat common experience of individual firms: that they are tempted, sometime or another in their history, to invest their "undivided profits" in extending their production, only to find that the demand does not expand in the same ratio, and that the expenses of half-employed machinery run away with the future dividends, the result being permanent discouragement and depression. He starts from the firm basis that, as all production is ultimately for consumption, there must be a proportion between the two, and goes on to argue that, if wealth increases twice as fast as population, and if a great amount of that wealth (say two-fifteenths of the national income) is every year thrown back into capital, there comes a time when consumption must extend very rapidly or capital must go on short time. True, the tendency of the production process to lengthen conceals this for long periods, but sooner or later comes the breaking up of the ice and the flood of new consumption goods, and these must either be consumed or thrown back into still more roundabout processes. But as the rate of interest falls the motive of the richer classes to save rather than to consume grows stronger. Thus, at every stage in the roundabout journey, capital is heaped up in fixed forms, incapable of being unfixed or of getting to work because the stream of wealth is dammed up at the mouth. This, *inter alia*, is the explanation of the portentous increase in the distributing trades as compared with the producing, these middlemen being supported on the difference between the reduced wholesale and the comparatively unreduced retail prices. Mr. Hobson's general proof, of course, is the phenomenon mentioned above; that in every trade there is more fixed capital and available labour than ever gets wholly and continuously to work. I do not think that this theory has met with the attention it deserves. To my mind the above analysis commends itself as explaining depression in at least a great many industries. Compare Mr. A. J. Wilson's well-known thesis that what the world is suffering from most of all is an overburden of interest-exacting or profit-exacting capital, which has become dead, but lies clogging all the avenues of trade.

tion with wealth is a lesson that perhaps we yet need. I am quite sure that the world is still dazzled with the idea of what wealth can give, because it has not had sufficient experience of it. But in this respect the temper of the present generation is different from the temper of the last. The more men and women who find themselves free to enter the liberal professions,—I mean those whose inheritance of wealth is enough to leave them free to choose lines of life to their liking,—the more rapid will be the spread of liberal ideas about wealth, and the nearer we shall come to the experience of educated persons, that the best work is never done for salary, but for fame or for love. That is to say, the more quickly the educated classes become rich, the more eagerly will they turn from the accumulation of wealth to the right disposal of it.

If, then, there is no danger that our consumption, *as a whole*, will be beyond the income which we can afford to consume without getting poorer, is it the case that we can afford to consume it all irresponsibly? Is no harm done to any one by foolish consumption so long as the community as a whole does not consume more than its income?

9. *The Right to Consume*

The condemnation of certain forms of consumption as "culpable" is so involuntary that it at least deserves analysis. Here, however, the economic question comes so close on the ethical that one must tread cautiously. The late M. Laveleye, whose great reputation seemed to give an economic sanction to all his social judgments, appears to me, in his book on *Luxury*, to have hopelessly

Laveleye on *Luxury*.

confused the two issues, and made it difficult, for any economist coming after him, to get a hearing when he asserts that the question has one distinct and positive economic side.

Confused ideas as to luxury,

The ordinary idea of what is so readily condemned is, of course, of the vaguest. Some would say unhesitatingly that it is "culpable luxury" to live beyond one's income. Others, that "throwing away money" on trifles or in ostentation deserves the name. Others, again, more cautious, have a doubt about drinking champagne when beer or claret is so much cheaper and spring water perhaps as refreshing. Mr. Hyndman once thought it necessary to explain to me why he carried a gold-headed stick. And women of the upper classes, as a rule, are quite sure that it is culpable for mill and shop girls to spend their wages in copying the dress of their "betters."

but all seeming to condemn it on account of quantity consumed.

In all these we may see a haunting suspicion that this or that consumption is unjustifiable because of the *amount* spent. It takes form in the question, which most conscientious people put to themselves now and then, if it is right to spend money on luxuries while so many people cannot get necessaries. The vague impression that there is some causal relation between the wealth of the few and the poverty of the many is often echoed in the quite erroneous phrase, "the rich getting richer and richer, while the poor are getting poorer and poorer." Charities are suspected to be a kind of peace offering, or reparation for unconscious harm done by the way. And, while we make casuistic excuses for most of our own expenditure, there are some forms of our neighbours' spending which we have no hesitation in denouncing as culpable, not because the money is spent on anything which demoralises body or soul, but simply because it is what we sometimes call "sinful extravagance." Where there is so much smoke there is likely to be a spark at least of fire.

The justification of this condemnation

The economic answer comes in on the question of quantity of consumption. It rests on the fact that the total amount of income we, as a community, yet have is so small, that any undue consumption by individuals must put a painful limit, not only to the luxuries but to the comforts and even the necessaries of the many. The question of the right to consume, in fact, would not emerge but for one thing; that the world is yet poor. To one who realises the giant strides made by invention in the extractive industries, in manufacture, and, above all, in transport,—which does more than anything else to utilise wealth that otherwise would waste itself on the desert,—it is not a little surprising to find how poor this rich England is. Equally divided, the income of this country would give about £36 per head, or £180 per average family of five.[1] It follows that no distribution of income would allow every one to have even those comforts which some of us count necessaries. Of course it must not be concluded that those families whose incomes are more than £180 per year are robbing other people of the surplus. As we have seen, it is not receipt nor even expenditure of income that determines this, but consumption of it. The squire's income of thousands may be mostly spent in calling out incomes of hundreds to the tenants on his estate, who in turn call out

in the fact that we are yet so poor.

[1] Taking the population at 38,000,000, and the income at £1,400,000,000.

incomes of tens to the village shops. What we can say is, that every family which *consumes*, or lets go to waste, more than £180, takes that value of wealth clean out of the world. If it were not taken out of the world, it would be added to the community's stock and be available for consumption later on. Others may have our cake although we *spend* it: but we cannot *eat* our cake and let others have it! This consideration, it seems to me, is serious enough if we remember how much of all incomes goes to butcher, baker, grocer, and the like.[1]

Luxury in itself is not culpable,

The popular idea, then, about "culpable luxury" is to a certain extent justified. If we abstain from luxuries, however, it should not be on any false ethical ground that luxuries in themselves are culpable, but on the real economic ground that there are not luxuries enough to go round. "Plain living and high thinking" must not be taken as a modern ideal unless so far as the "living" in question

[1] The exact bearing of this must not be misunderstood. If the consumption of the few is far above £180, it may be that their production is as much above that figure. If the consumption of a great many families is under £180, the great majority, in all probability, do not produce anything like that amount. An equal distribution of income has only arithmetical simplicity to recommend it. Since income depends upon production, and production is, more or less, our concern, there is no reason for the skilled labourer to restrict his consumption to £180 in order that he may thereby feed the unskilled. If £180 were the limit of any family's production it would be very different. . . . Even in the case of the "mere consumer" we must be careful of our censure. The owner of wealth is not a mere consumer: if he were not also the owner of wealth-making tools, why should any one offer him interest for the use of them? The class who clearly dip other families below the £180 limit are those who draw salaries for sinecures and useless offices, whether in church, state, or business—certainly a pretty extensive class.

is confined to eating and drinking and wearing of apparel—which is rather an arbitrary limitation of a noble word. The thinking of the present day requires a plant of books, instruments, subjects, laboratories, and an expense of travel, recreation, etc., which is anything but cheap, and art has opened out to us a life which is anything but plain. The expression, in fact, comes to us from harder times, when it was very evident that, if the upper classes were to live luxuriously, the masses must live miserably. It kept to the front the fact that the true life—the life of thought—was the life to be secured: it was the "high thing": and, accordingly, the sacrifice which the philosophic person was called on to make was not, after all, an unreasonable or unbearable sacrifice. Perhaps plain living is even yet the sacrifice which the conscientious person must make. It is possible so to divide out £1,400,000,000 among 38,000,000 people that every one shall have the "irreducible minimum"[1] necessary for the rational life, while not seriously curtailing any "living" but that which is idle and irrational. But it must be confessed that the present distribution certainly does not do this. So far then as

but only as it prevents the masses having the necessaries of a rational life.

[1] I speak of "irreducible minimum" because, undoubtedly, the first *moral charge* on the national income is such a sum as is necessary to bring up a family, providing for health, education, efficiency of work, and the conditions generally of a moral life. Anything below such a level subjects human beings to hardships and temptations to which they should not be exposed, and to conditions in which men and women are not free but in bondage to physical wants. If the present system or any system did not promise this at some not distant period, we should have to say, like Mill, that, if this or Communism were the alternative, "all the difficulties, great or small, of Communism would be but as dust in the balance." Cf. p. 37.

the expression gives and commends itself as an ideal of sacrifice, there is nothing to be said against it. But, so far as it is accepted, it should be based distinctly on the economic consideration of the still-prevailing poverty.

Sudden changes in consumption are dangerous.

Whether, however, the abstention of the rich from luxuries would, in the present circumstances, distribute income among the poor, is a practical question on which this much may be said by way of warning. Any sudden or violent change in our consumption and social demand would be simply disastrous. It is comparatively easy for the consuming world to change its habits: it is not easy for the producing world. The vast majority of the nation are producing as they have been told and trained to produce. To stop consumption of their goods is to stop production; to throw the fixed wealth of years back to the waste—like the plant of the Panama Canal; to stop wages and employment; in a word, to disorganise a complex and sensitive co-operation of men who produce in order to consume, and of men whose consumption gives the order to produce. What has to be remembered is that, up till now, public opinion has allowed production to provide for wants as they suggested themselves; whether those wants were wise or foolish, wasteful or provident, it was all the same so long as profit could be made from their supply. For the motive of the undertaker, the organiser of labour, is profit, and profit can be made by producing penny articles or by producing guinea ones; by printing bibles or by sending spirits to the heathen. Millions of men and women have no other means of getting wages—that is, of living—than in this kind of production. Any great diversion, then, in the ancient currents of consumption would affect production at its spring and end, the human worker. There is not, however, the slightest danger that the numbers of those who wake up to the responsibilities of consumption will be great enough to cause any such revolution.

10. *The Socialising of Consumption*

Instructed consumption;

I said at the outset that the last word on the distribution of wealth has not been said when each factor gets, distributed out to it as income, the share to which it is economically entitled, or which falls to it in the struggle of competition. The analysis in which we have been engaged seems to show that the ways of consumption are also, to a considerable extent, the ways of distribution. "There is that scattereth and yet increaseth." There is some consumption that is necessarily exclusive, but there is a great deal that may be exclusive or may be social. It is, therefore, possible to add to the wealth of the community without adding to the income of the individual. Most men between the ages of twenty and thirty discover that it is possible to divide an income between two without losing half.

its two directions.

The two directions which an instructed consumption would take are: where there is room for choice, that of preferring durable goods to perishable, and, in either case, that of preferring goods whose use is social to those whose use is selfish. The former has been sufficiently emphasised. We must not, of course, make the mistake of thinking that the permanent is always the economic,—rapid superannuation is the price we pay for eager invention,—but generally the world gains when the good thing, once produced, remains in it. If the economic student of these latter days has six shillings to spare in providing an extra relish to his solitary meal, he will know whether to spend it on a pint of Pommery or on a new novel of Mr. Weyman. The latter direction points to what I call the Socialising of Consumption. Here there is room and reward for improvement. I have pointed out how poor this country yet is. The inference is obvious: that we should economise the use of luxuries as far as we can; that is, make them go as far as they will.[1] Yet, as things are, the first impulse of the man who becomes rich is to hedge himself away from his fellows; to put up barbed wire round his belongings; to travel by a separate class; and, generally, to hang out the sign, "Trespassers beware"—not from the admirable motive of being alone with nature, but simply that of being distinguished from the crowd.

A little better knowledge of the *savoir vivre* will bring us past this parvenu stage: perhaps it will require a little more saturation with wealth; for I observe that, in the United States where land is plentiful, there are fewest high walls round the gardens, and in Italy, where art has its home, the great pictures do not hang on private walls. Meantime, the amount of wealth that is poured out to fill the limited capacity of enjoyment of a limited number, makes one think of nothing so much as of the glorious sun, wasting its energy in pouring out

[1] At the banquet of the rich, there are two ways of economising luxury: one is to gather up the fragments that remain and send them on to our poorer neighbours; the other, and by far the more economical, is to ask them to join us at the board.

heat and light for an earth which is too small to catch more than a fraction of it. It is not too much, perhaps, to hope that, with awakened conscience and better knowledge, much of the wealth that now escapes, like unused heat up our chimneys, will be passed on, to be used like steam in a second and third cylinder.

Parent wealth, as well as income, may be socialised.

In speaking of better distribution, it must be remembered that we have an interest in the redistribution of what I must call the "parent wealth" of the community, as well as in the distribution of its income: that is, of the wealth already in the world as well as of that which is added every year and partly consumed during the year. It is not always easy to distinguish parent wealth from income, or even to get a clear conception of what it is, and that for a singular reason—namely, that we measure income by value, while parent wealth is expressed very greatly in terms of utility.[1] Consequently, when we have to put our wealth as a nation into terms of value, it will be observed that we do so by the rough-and-ready fashion of capitalising income, and making certain broad additions. A good parallel to it is the case of our own homes. The wealth that these represent to us is not expressed at all adequately in the selling value of the house and furniture. Similarly, the progress of human society chiefly takes the form of making the world a more comfortable place for man to live in, and such improvements pass away out of the range of valuation. They become brighter, healthier *conditions* of our life. In other words, much of our parent wealth exists in the form of a background of the community's life; changes of physical

The economic background.

[1] See p. 221.

environment that make the house of life into the home of man. The true line of progress is that this background should be common property; that the community should continually be adding, as it were, to the free gifts of nature. But often much of this environment is held in the power of individuals who take their private rights without thought of public claims. For instance, we have the common phenomenon, in the neighbourhood of our cities, of owners building walls round thousands of acres, with the intention of preventing the public from enjoying what surely belongs to no private owner, the *sight* of God's earth. And, again, there is a constant tendency on the part of richer people to socialise the environment for the benefit of their own class. The West End stretches further and further away from the smoke and grime, and is gradually weeded of its eyesores; while the debris of our common industry is heaped up in the East End, around and among the dwellings of the workers. Now it is a double evil if the large incomes go to a few, and if, at the same time, the background of society is a background painted according to the desires of a few. Here the individual should join with the municipality in redistributing burdens and advantages. It is possible, by a wise expenditure and consumption of public and private wealth, to surround rich and poor alike with an environment which cannot be used for one class alone; so that, in estimating the wealth of the working man, we should, indeed, begin with his weekly wage, but then go on to calculate, and add to it, the purity, brightness, education, recreation, amusement, he has for nothing as the background of his citizen life.

The power of a municipality.

"The wayfaring men, though fools, may not err therein."

Unless, then, there is some fundamental flaw in my argument, we have, in responsible and instructed consumption, an immediately practicable way in which the conscientious person may reclaim his own little corner of creation, and enrich the world, if he will only take thought. That dark saying, "More are the children of the barren than the children of the wedded wife," has a definite meaning in economic consumption. The unproducing consumer may save alive the neglected children of the producer, and, inasmuch as every man and woman born is a consumer, the field for saving is wide enough. It is not easy to ascribe to any class the value of its product. It will not be easy to secure that it shall always get this value. And one is inclined to agree with Rodbertus that it will take the next five hundred years to accomplish what is so lightly advocated as "socialising the land and instruments of production." But it needs nothing but the will to allow each of us to socialise his consumption, and throw open the doors of our house of wealth to humanity.

X

THE PLACE OF INDUSTRY IN THE SOCIAL ORGANISM

ARGUMENT

An ethical study of the economic position. The problems of poverty. The optimism of the older economists, and the impatience of the new in view of the failure of growing wealth to open the good life to all. Short of Socialism, is there any policy that promises better than laisser faire? (1) *Trade Unionism, militant, cancels itself as it succeeds;* (2) *The patriarchal relation was simply despotism tempered by benevolence, and is impossible of re-establishment. What must the economist do but seek the economic ideal in subordination to, not independence of, social development? Some things which must be realised in this quest: that the natural environment is friendly to man; that bad distribution does not tend to rectify itself; that the claim of man as man is not only wage but good work. The misleading inclusion of pain in the idea of labour. The economist of the future will start with man as a spiritual being, demanding realisation and happiness not only by but in his work.*

X

THE PLACE OF INDUSTRY IN THE SOCIAL ORGANISM

"*Brothers, I am sorry I have got no Morison's pill for curing the maladies of society.*"

"*The mandate of God to His creature man is: Work!*"—CARLYLE.

An ethical study.

ETHICS and economics are now recognised to have such close relations that it may be permitted an economist, by way of *l'envoi*, to leave the stricter limits of his own subject, and look at things economic from a more purely ethical standpoint.

To the philosophic onlooker political economy in the present day must seem to have become more healthy and more human. While it is certainly becoming more scientific,—coming nearer to universal propositions and the possibility of prediction in great departments, such as currency and international trade,—it is coming into line again with those social sciences which it had, perhaps, fallen rather behind. Its teachers are realising that we are not living under the industrial system which prevailed in Ricardo's day, or even in Mill's. A century of *laisser faire* has made *laisser faire* impossible. The question has been forced on the economist, What is the place and dignity of economic effort among the other activities of human life? Is it really the "business" of man's life, as the time given to its pursuit seems to imply? Or is it merely a current in the main stream of spiritual development and realisation?

The possibilities of wealth contrasted with actual poverty.

What most stirs the imagination of the economic student is the possibility of material wealth now within human grasp. What most perplexes him is that, with it all, the majority of our people are yet poor, and that we are not quite certain if they will ever be anything else. It is safe to say that, except by a few socialistic writers, a world without poverty has not yet been imagined. Poverty, indeed, was never yet an insupportable condition of life. But our people are not only poor: they are slaves to incessant work. If we would comfort ourselves with the reflection that work is, at worst, a disguised blessing, we have to admit that much of their work is deadening, sometimes degrading, toil. If, finally, it be said that toil, and even degrading toil, may be made part of the training of the gods, our persistent optimism breaks down in face of the fact that the working man, and *à fortiori* the working woman, has no guarantee of permanence even in such pitiful employment, and has no time nor chance for life outside it.

The machine life of the many.

As regards the actual conditions of the labouring classes, the economist has often to complain that there are two things, familiar to him, which society does not seem quite to realise. The one is, that the *majority* of men and women spend their days, from morning to evening, in work, and spend their nights simply in preparing for more work. They are little more than living machines, wearing out their bodies in toil and spending their non-working hours in making up wear and tear. Use has so dimmed the eyes of religion that we are not shocked at the masses spending their life—the one life given them in which to realise the god within—in the mere wearing out and renewal of muscular tissue. The horizon that lifts—the prospect of the "little more" in knowledge or happiness or power that is the beginning and the pledge of eternal life—is almost unknown to them.

"The power of 6d. in my pocket depends on the want of 6d. in yours."

The other is, the dependence of the richer classes on the working classes. These common folks who plough the fields, and sweat in factories, have to produce necessaries and comforts sufficient for themselves *and* for us, and that not of choice but of necessity. The working man is born into a world of which great part is already taken as private property. He finds himself as a citizen subject to many claims imposed on him by the past history of his countrymen: he is heir of a mortgaged estate. And he is compelled to earn his living under an industrial system where the tools with which he must work belong to others. While working, then, to supply his own wants, he has to pay rent for land, taxes for old wars, and hire for tools; and although his labour, thanks to the organisation bequeathed him by the past, is very productive, yet it must be confessed that the lion's share of the product goes to those who hold the claims and the tools. It is misleading, too, to point to the superior conditions under which the working man now lives as compared with the working man of former times. A great deal of his comfort is due, not so much to his getting a direct share in the additional national income, as to the fact that there is a great deal of wealth which the other classes cannot consume selfishly. If the workers had not clean streets, gas-lamps, pure water, cheap amusements, and the like, the comfortable classes would be the sufferers with them. It is notoriously the pit that pays for the boxes, and the third class for the first. The crumbs which fall from the rich man's table should not be counted the workers' share in the increasing wealth of mankind.

The optimism of the older economists.

Looking back on our masters of the past, in the light of all this, it seems to us of the present generation that they were very optimistic. They had a wonderful faith in the power of economic effort to work out social salvation. The strides which industry had made in this country, since Adam Smith cut its leading strings, might well make economists believe that, as wars became exceptional, and the world of men was allowed to go quietly and continuously about the business of producing, wealth would increase so rapidly that it would not be possible for any considerable class to remain outside the sphere of good wages and leisured life. Capital would increase so much that labour would constantly be at a premium. Perhaps it would be rash to say that this expectation will never be realised under the present *régime*. Still, many of us, looking back over the last decade, and remembering that startling statistic that wealth increases twice as fast as population, are disappointed and alarmed at the time it is taking to give the working man certainty of employment and leisure. We think that the enlightened conscience of the twentieth century, as well as its self-interest, should not be content with the slow grinding of the divine mills. We dread a democracy realising its strength before it has finished its education. We are not willing that this great, stable, historic edifice of a nation should be imperilled by the blind rage of labour without leaders or capital without conscience.

What should strike one is the enormous disproportion between the people to whom the "good life" is open, and those to whom it is practically impossible. Under the present industrial system many have work which is at least not uncongenial, and with that have abundant leisure after work-hours to live as they like. Some few have wealth enough to allow them to choose their life and work. And there are, here and there, people who have immense wealth, and who conscientiously try to use it in furthering the interests of humanity. All this, however, is not sufficient to outweigh the great conspicuous economic fact that the majority of people, even in this richest of all countries, have no time and no means to do anything but toil and sleep.

Laisser faire **at the end of the century.**

Our century's experiment, then, of leaving industry to rectify its own abuses cannot be called a success. It has ended in putting very effectually out of sight the right and due of *every* man, as a spiritual being, to get the utmost assistance from his fellows in securing him a rational, happy, developing, free life. It has raised a few people to a habitual standard of leisure and luxury, which they find so good and enjoyable that they will fight to retain it. It has made the richer classes accept seriously the ridiculous position of thinking themselves the favoured of heaven, and believing that Christ's statement, "the poor ye have always with you," is a warrant for keeping them poor, or, at least, for telling them that Providence is responsible for their poverty. Nay, it has so stripped the working classes of thought and aspiration that as a whole they accept the present state of things for the most part in apathy, though not without sullen mutterings.

Alternatives.

The question naturally suggests itself, Has any plan of regulated industry emerged to guide the actions of those who have rejected the policy of *laisser faire*, and yet are very far from embracing the other extreme of Socialism?

Trade unionism

An answer of a kind seems to be given in the policy of trade unionism. While the majority of the working classes are swept along on a current which they do not try to control, that small section among them which is bound together in trade unions seems to have some idea of steering a course.

A trade unionist may be defined as a workman who considers that wages have a tendency to fall, or, at least, not to rise, unless individual workers form themselves into corporate bodies, agree on a policy, pledge themselves not to act individually against that policy, and take measures to maintain themselves during any period of struggle which the carrying out of the policy may involve. That is to say; to gain his purposes the unionist gives up his individual liberty of action, and subordinates himself to a body which aims at securing a desired end for all its members. The trade unions are necessarily militant. They are sometimes called the defence army of labour; but armies of defence, as we know, very easily turn into armies of aggression, and the attitude of the trade union to capitalist employers is, as a

is necessarily militant,

rule, more than militant; it is certainly hostile. The trade union does not seek to bridge the interests of capital and labour; much less to identify them. It seems to prefer to fight in the dark. It acts very much on the assumption that wages could alway be higher than they are,—which may be true, but is, evidently, not a very scientific basis.

The beneficent part played by the unions in the past has been due, among other things, to the fact that unionist workmen were a minority, and, for fear of the outside unorganised workers, could not press this idea of blind hostility too far. But the ideal which trade unionism puts before itself is to gather *all* labour into its ranks. Whenever it does so, however, it must give up the aggressive attitude; it must even cease to be militant; and must become, not a trade union, but a union of capital *and* labour. For if the time were come when capital was forced to show its books to labour, and prove that labour was getting all the share the wage earners could, in reason or expediency, claim; then to persevere in asking more would be suicidal, and the only form of union left would be that of capital and labour working together to produce the largest total result.

and, universalised, comes to an end.

Even now the most successful unions are showing this weakness of foundation. In the great union of textile workers in Lancashire, they congratulate themselves—and justly—on their success in keeping up the rate of wages, and of assimilating the wages of women and men for equal work. But they can scarcely help seeing that the average profit for some years in cotton-spinning has fallen almost to vanishing point.

Although, then, the economist is bound to defend

Thus it is a temporary ideal.

trade unions, as, hitherto, the bulwark of labour against a power stronger than itself, he approves of them as he would approve of arming the English regiments with the best available rifle—that is, so long as the industrial, like the political, world is divided into hostile camps. And just as he would very much rather see all men lay down their Martini-Henrys, so must he seek for the ultimate solution of the problem in some form of union which is large enough to take in capital as well as labour. The ideal of trade unionism is but a temporary ideal, as all ideals based on war must be.

The patriarchal relation.

When we turn to the other side of society, and ask the representatives of capital what they suggest as the means of remedying the obvious evils of low and insufficient wage,—what, in short, capital would put in place of the trade union,—the answer is, I am afraid, nothing but the recommendation of the old patriarchal relation between the two, which leaves the interests of the working classes in the hands of the enlightened employer. The usual formula is: A good master needs no trade union to compel him to do justice to his workpeople.

Justice in wage paying.

This is true; but, as every one knows, even Plato had some little difficulty in getting a definition of justice in the abstract, and, possibly, he would have had more, if he had been trying to find what was justice in the matter of wage. Does "justice" mean paying the average wage for average work? Well, suppose we can find what the average wage is,—which is not such a simple matter,—we are still, in the interests of justice, forced to ask, What determines the average wage? Is it a trade union? If so, there will be some difficulty in convincing employers about the soundness of the average. Or is it a union of employers? If so, it must seem to the workers that the employers are to be as gods, determining justice for other people, their servants. Or is it to be believed that industrial progress is the path of the immanent reason, and that wages work out their own just laws? Suppose we adopt the ideal of free competition which so many people are enamoured of—till it touches their own trade—and say that the "average wage" is determined by all capital on one side and all labour on the other. It cannot, however, be very satisfactory to the philosophic mind to be told that the average wage is determined like a tug of war—even if the weaker party should now and then pull the rope across the mark. Certainly, Plato would have objected very much to a definition of just wage which determines it by the relative strength of two parties.

Good intentions in wage paying.

But, suppose we define the "good master" as one who pays, not the average, but the best wage he can, we have to ask what are the factors of this "best"? Is the employer supposed to calculate somewhat in this way: "I wish ten per cent on my capital; all beyond that I shall pay in wage." The obvious answer is, that no employer does calculate in this way. If he gets ten per cent one year he has to provide against the chance of getting only five per cent the next, and no employer ever thinks any amount of profit too great, just because he puts the surplus aside as insurance against possible loss in the future. But what is an employer to do who never earns ten per cent, or anything near it? Are the workers to suffer because he—perhaps by his own fault

—cannot make what he considers an adequate profit? And is it always the good master who makes the ten per cent? Suppose, to put it concretely, that A, B, C & Co., with five millions of capital, and everything in the way of economic machinery and organisation, are willing for a time to accept five per cent on their capital—the thing is not only possible, but is common—while paying twenty shillings a week of average wage to the workers; what is the proper wage for D, E, F & Co. to pay, who have an old factory and a small capital, and cannot earn interest even on that?

Without going further, any one can see the difficulties of believing that the workers' interests will be adequately guarded by leaving them to the benevolent capitalist. No employer, however good and honest and well-intentioned, should be trusted to assess his workers' wages. He has to cut his industrial coat according to his cloth. If his rivals reduce prices, he has to reduce prices. If his rivals do with less profit, he has to do with less profit. If his rivals sell below cost, he has to go below cost. If his rivals like to live for a time on their accumulated capital, he has to live on his capital. But on what is the *worker* to live, if wages go below twenty shillings a week?

"Neither a body to kick nor a soul to save.'

But, indeed, it is waste of time to argue about the re-establishment of personal relations between worker and employer, when the tendency of the day is to throw employing into the hands of corporations whose soul is not their own, and who dare not be generous for fear of the shareholders.

A purely economic organism impossible.

The failure, then, of trade unionism on the one hand, and of the patriarchal relation on the other, to supply any permanent basis for the future of industry, may serve to suggest that it is not possible to formulate, on purely economic lines, anything but a temporary policy. A purely economic organism is not possible for human beings.

In face of this, what is the function of the economist? It is, of course, as always, to discover and interpret the drift of the economic activity of the time. With this most economists would consider their task ended. It seems to me, however, that the philosophic economist, at any rate, has something further to do. Is it not becoming evident that philosophy and economics must now join hands to find out and declare what is the true end and right relation of economic activity among the other activities of human life?

The task of the philosopher-economist.

The task is no small one. It would involve, first, the formulation of the ideal social organism; and, second, the assigning to economic activity its duly subordinated place in the total activity of this organism. With an adequate sense of my own utter insufficiency to attempt either, I may be allowed to suggest one or two things which an economic profession, and some practical acquaintance with industrial life, have convinced me must be recognised by the philosophical economist, or the economic philosopher, who essays the task.

Some personal convictions.

First, as to the nature of our material environment. There is not much doubt of the peculiar favour which this environment shows to man's economic welfare. According to our prejudices or our education we may put this truth in various ways. We may say, with

The material environment is friendly.

Christianity, that God planted man in an earth that is half garden, half wilderness, and that man is gradually putting all things under his feet, because the universe is his and his Father's. Or we may suppose, with the pure evolutionist, that the savage animal, somehow in the far past, stole fire from heaven, and has slowly fought his way up to the present state of lord of creation because he is the fittest of the animals to survive. Or, more philosophically, we may say that the whole is an evolution, not of matter and force, but of spirit; and that, as man gradually gets to know his world, it wakes into consciousness in him, and he recognises all the powers of the universe as his friends.

It all comes to the same end:—that man, at first the sport and prey of natural forces, gradually bends them to his will, discovers a human use for everything, reconstructs his world, becomes more at home in it, and so makes all things work together for his good. There are forces of which we have not yet got control, but one would scarcely like to say what is beyond human power. Have we not even encroached on the realm of the great destroyer, and exceeded the threescore years and ten? Whatever, then, the present may be, it is clear to the economist that the future holds unimaginable wealth in its command. The environment is friendly. The economic sphere will not always be truthfully represented as a struggle of labour against nature, or a calculus of pleasure and pain.

But this is not enough,

In this friendly environment, what is man's position? On first thoughts we are apt to conclude that the well-being of man is secured as he becomes master of the material conditions of his life;—as he accumulates wealth and capital, and yokes the physical world to his car. But this is not the case.

If man were as the other animals, increase of wealth would certainly mean increase of wellbeing. The cow asks no more than abundant grass and a warm byre. Give her more grass and she refuses it; give her two byres, and the one stands empty. The difference is that the animal gets its provision direct from nature, without more trouble than that of seeking for it, but never increases its wants beyond its provision. The man gets almost nothing direct from nature;—he gets all in the sweat of his brow: but his appetite for good things grows continually by what it feeds on, and his wants are infinitely progressive. Thus, although society has, every year, added power over nature—added wealth, added capital per head—the provision for human wants always lags far behind the wants themselves.

for a few men may use it to their own advantage.

Indeed, a small minority of the world's inhabitants may take up all the increase in wealth, leaving the majority at the old level, or sinking them below that level. This may be seen most easily by a concrete case. Plant a field with potatoes, and leave enough grass to pasture a cow, and the field will maintain a dozen farm-labourers in sound, healthy life. But sow the field down in the finer vegetables and plant gooseberry bushes on the pasture, and the field will now yield food for perhaps half a dozen. Finally, suppose the field to be sown down in flowers, not only does it not support anybody, but it cannot supply enough of flowers to satisfy a few rich people. By this it may be seen that a certain amount of labour and capital may be devoted to maintaining an entire nation in plain but sound life. Or it may be so employed as to yield a high level of comfort to a good many, while keeping the majority at the twenty-shilling-a-week level. Or it may be laid out to supply the intellectual, spiritual, æsthetic wants of a few, while the majority are on the twenty-shilling level, and a minority is at the starvation-level. It is not true that the wellbeing of society as a whole is secured by the accumulation of wealth and capital. The great majority may be very little the richer for it.

And bad distribution does not cure itself.

What is even more serious than the present bad distribution of wealth,—which corresponds very much to the latter case in the illustration,—is that the evil does not tend to rectify itself. The fortunate few may go on consuming as much wealth as the circumstances of society allow them—by fair means or conventional ones—to obtain, and, what is more, they may spend it *well*. Just as one could not say, in the abstract, that money spent in raising flowers was ill spent, so the few may take to themselves all the increase of wealth as it comes, and spend it in adding to the fulness of their own life, or laying the foundation of their children's better life.

Hence the callousness of the rich.

This, probably, explains the callousness of the richer classes to the condition of the working classes. They feel that their annual incomes are not too large for what they may, legitimately and honourably, desire as their standard of life. If a man finds himself this year with a hundred pounds more of income than he had last, it is not altogether selfish if he spends it in hiring a horse for himself, or buying a new piano for his wife, or a pony for the children. The whole family is, perhaps, cleaner in limb and in soul for having these things. Similarly, the few rich can quite well absorb all the increase of wealth that comes into the world, and persuade themselves that they are doing well with it,—all the while forgetting the solidarity of man and the claims of their neighbours to a share. Thus, I repeat, the bad distribution of wealth does not tend to rectify itself. The rectification usually comes of the struggle of the one class to get and of the other to hold.

Two ideals of life.

And as people get accustomed to this bad distribution, and lose sight of the fundamental equality of all men in the love of their Creator, there emerge two very different ideals of life, which are expressed with charming naïveté. We say to the poor man, It is a good thing for you that you should labour ten hours a day, else you would get drunk in the evenings. We say to the rich man, You give far too much time to business; you should come home early and read a little. We present the one class with an ideal of work, the other with an ideal of leisure.

Man, the moral being, demands certain things

In any philosophical ideal of social economic activity, we can have no such dualistic view. Dismissing as accidental and temporary the present condition, where society is divided into a few men on the one side with too much leisure, and a vast multitude on the other with no prospect but lifelong toil, we find certain things written very clearly in the universal nature of man as man. Physically his best condition is when he has such food as he can well digest, such clothes as secure him from damp and cold, such shelter as guards him from draughts, bad air, etc.; and, lastly, such *work* as keeps his body at its highest pitch of fitness. But this is also his best intellectual condition. Nay, it is more; it is the best background for all the virtues: it is the everyday condition of an ideal society.

—among them, subsistence and work—

What man demands, then, simply as man, and in virtue of his very constitution, is, primarily, enough wealth to supply the purely physical wants, and enough labour to keep his whole organism working in perfect health. These are the indispensable requisites of every life, not only of the rich, but of the poorest. They are the minimum standard of the animal called man—the standard he must have if he is not to occupy an actually worse status in the world than the mere beasts of the field.

and the good life of the few must not be had at the degradation of the many.

Once this standard is gained, man may devote himself to the infinite life that lies around and above him,—the life of thought, of feeling, of living for pure living's sake. But surely it is very far from an ideal state if the attainment of this higher life by the few is to prevent the obtaining of the lower—the indispensable—life by the many. We must think *our* lives something very valuable in the sight of heaven, if we imagine that they are worth the price of the degradation of our fellows. But how else are we to interpret the common question, If you raise the working classes, who will do the dirty work?

"There is no wealth but life."

Here, then, is the heavy indictment against the industrial organisation of to-day. Not only does it make the life of the vast majority a life below the level of good food, good clothing, good houses, good surroundings generally, but it totally neglects the other condition,—the healthy labour which alone can knit these into the healthy man. It looks on labour as a mere means to an end, the obtaining of subsistence, instead of looking at both labour and subsistence as means to—living. Thus the proposed Eight-Hours Bill is generally argued from the consideration of the effect shorter hours will have on production. The question is seldom asked, Is eight hours' labour not enough for the true health, in body and mind, of the worker?

A new society needs a new economy.

No doubt it will be said, by those who think political economy formulated and finished fifty years ago, that this consideration is not one with which economics has anything to do. The answer is that the new attitude of most economists is one that has a warrant in new circumstances. It is no disparagement to Ricardo, for instance, that he did not bring these considerations to the front. Nor will any intelligent student blame Mill that he was altogether too hopeful of what the accumulation of wealth would bring with it. We have half a century of economic development since his time to take account of,—and that the half-century which has given into man's hand the most gigantic power over natural forces. It would be inexcusable in the modern economist if he did not see that we are at a new stage of social history, and that a new society demands the revision of a political economy based on an analysis of the old.

The first necessity of the true life.

In all the stern economic development of past centuries it is easy to see a true line of teleological purpose. Life was hard and leisure was difficult, not because it is a good thing for man to live hardly and have little leisure, but because the first necessity of a true life, physically, intellectually, and morally, is Work, while it is not a necessity that there should be leisure, unless men have learned to use it for the higher life. It would have been a curse to England in earlier times if bananas had grown overhead, and the cassava-root been had for the digging. With no books and no amusements, no senses awakened to nature, no home but a mud-hut without chimneys and windows, what could the Saxon peasant have done with leisure but spend it as the African tribes do, — between drinking and fighting? The labour that this stern northern climate necessitated was his salvation, and, in the hard-working life, he gradually awakened to the goodness and possibilities of the life outside of labour.

But when machinery is replacing man and doing the heavy work of industry, it is time to get rid of that ancient prejudice that man must work ten hours a day if he is to keep the world up to the level of the comfort it has attained. Possibly, if we clear our minds of cant, we may see that the reason why we still wish the labourer to work ten hours a day is the fear that we, the comfortable classes, may not go on receiving the lion's share of the wealth which these machines, iron and human, are turning out.

The inclusion of pain in the idea of labour.

If there is anything in these considerations, we must revise an economic conception which was accepted too easily. Two great English economists, it seems to me, have given a wrong turn to our ideas about labour. Mill said that the idea of labour "included all feelings of a disagreeable kind, all bodily inconvenience or mental annoyance, connected with the employment of one's thought or muscles in a particular occupation." Jevons defined labour as "any painful exertion, undergone, partly or wholly, with a view of future good." This inclusion of pain in the conception of labour, with its even more doubtful corollary of measuring labour by the pain which attaches to it, is surely misleading. What one, of course, knows is that, to the majority of men and women at present, labour involves a certain—even a considerable—amount of something of which they would gladly be quit. But this is the accident of our industrial system, due very much to the fact that we have forgotten the proper end of man, and have looked upon the worker not as a spirit but as an instrument of production. It is an accident from which the comfortable classes and the professional classes have escaped. To speak of the labour of the merchant, the employer, the farmer—of any one, in fact, who has reasonable hours, who has some pride in his work, and who has some object in it—as "pain," is, in my view, a serious abuse of language. The pain of present-day labour is a consequence of the long hours and monotonous processes of the factory system; and as better organisation and education shorten the hours of labour, make the working classes more conscientious in their work, and give them a share in the result proportioned to the extra work they do, they also will escape the pain of labour.

What every moralist, since Aristotle, knows is, that only in the full, free, but unstrained exercise of body and mind does man find happiness. It is too much, perhaps, to hope that, in any scheme of social organisation, it will be possible to give every one a life of congenial work,—which would, certainly, be the ideal of economic activity. But, it may be said, with full conviction, that, if not yet, at any rate in a very short time, it will be possible so to shorten the hours of labour as to take away the pain of labour, change it into the healthy discipline of every clean life, and allow every one in his leisure hours the chance of recreation in congenial work, play, or thought.

If we wish it,

But all this is contingent on the proviso that we really wish it. A great many good people have not yet recognised the claims of the working man to a soul, further, at least, than is implied in the effort to "save" it. But once philosophy joins hands with economics, and finds, perhaps, popular expression through the pulpit, it should not take long to rouse all good men to realise the great possibilities that now lie in our present economic position.

the abolition of poverty is possible.

The abolition of poverty is now within our reach, if we, as a society, are really bent on its abolition.[1] The resources of the nation in capital, invention, and labour are now so great that the one want of the time is organisation, so that there shall be no misdirection of production, no waste in consumption, no friction from the currency. That there should be unemployed men in Great Britain arises from the same cause as brings about those frightful crises and this universal uncertainty —that we have not brought consumer and producer to understand each other and work into each other's hands, and that the best brains of this nation have not yet been turned to organising its industry.

To sum up. The error of us all hitherto has lain in

[1] Of course, I do not speak of that poverty which comes from disinclination to work, or is brought on by vice ; this kind of poverty we should not abolish.

looking at man's economic effort too exclusively as an *end;* in looking upon those who started in life with a competency as "lucky souls," who alone could afford to live the life they pleased; in thinking that we had no responsibility for the fact that the great majority start infinitely behind those few.

The chief end of man.

The new economist must look at man primarily as a spiritual being, and must look at all men as spiritual beings. In considering the world of working persons, he must take what we may, without irreverence, conceive as the standpoint of the Almighty Himself. To him all men must be equal in the one respect, that the *end of their being* is the same,—that is, the realisation of all the powers of spirit in a free life. It is well within this limit that economic effort lies: the spiritual life must be helped, not hindered, by the daily work. "What shall it profit a man if he gain the whole world and lose his own soul?"

From this standpoint, how are we to deal with the fact that some are born rich and many born poor? It must, I think, be the purpose and endeavour of all conscientious people to break down this primary inequality; not necessarily to take away from the one class the advantages they have, but to give something like the same start to all. No considerations of the sacredness of private property or freedom of bequest should be allowed to obscure the fact that the birthright of *every* human soul in a civilised country is an education, a training, and, finally, an occupation, that will make it possible for him to realise himself in what we know to be the only true life,—the life of thought.

The universal birthright.

How this is to be brought about is not for me to say. The first step towards the solution of a problem is to state the *quaesitum*. Once we realise the spiritual purpose of social evolution, the means will be found.

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