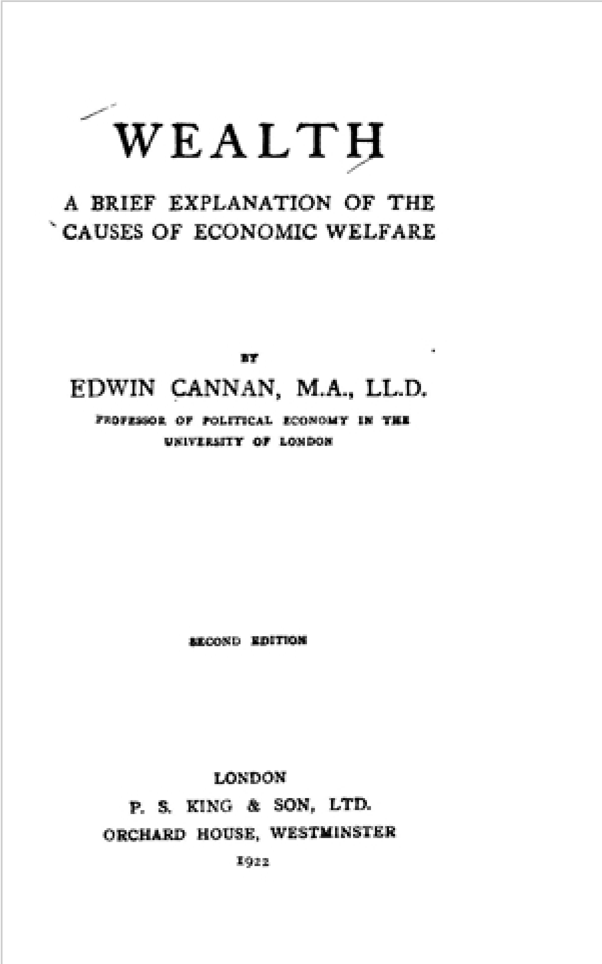
Edwin Cannan, ***Wealth: A Brief Explanation of the Causes of Economic Wealth*** [1914]



WEALTH

A BRIEF EXPLANATION OF THE CAUSES OF ECONOMIC WELFARE

BY

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SECOND EDITION

LONDON
P. S. KING & SON, LTD.
ORCHARD HOUSE, WESTMINSTER
1922

Edition Used:

Wealth: A Brief Explanation of the Causes of Economic Wealth (London: P.S. King and Son, 1922).

Author: Edwin Cannan

About This Title:

Cannan provides a brief survey of the basic principles of economics, the division of labour, the nature of demand, income, and concludes with his own chapter on “the wealth of nations.” It is based upon his lectures to first year at the London school of economics since 1898.

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PREFACE

The really fundamental questions of economics are why all of US, taken together, are as well off—or as ill off, if that way of putting it be preferred—as we are, and why some of us are much better off and others much worse off than the average.

I am convinced that immense harm is done by the common assumption that the answers to these questions are so obvious and easy that no general treatment of them is necessary. We should not tolerate a person who professed to explain the inefficiency of some locomotive and to provide a remedy for it, if we knew that he had never studied mechanics and was quite ignorant of the construction and working of locomotives. The existing economic organization is a much more complicated and delicate piece of machinery than a locomotive, and yet, whenever some imperfection in the work done becomes particularly prominent, we are overwhelmed with suggestions about causes and remedies by persons who have not the smallest general knowledge of the reasons why the machinery works at all. It often happens that a man of considerable eminence in his own profession, but without the smallest acquaintance with the fundamentals of economics, will make a suggestion which is precisely on a level with the proposition that the locomotive would be much more efficient if its weight were taken off the driving wheels so that they could revolve more easily. The editor of an important magazine accepts with joy the contribution in which he develops his idea, and the public feebly thinks there may be something in it, and is confirmed in this view by the fact that professional economists are as disinclined to publish a refutation of it as the Astronomer Royal is to answer the theorists who declare that the world is flat.

It is not refutation of ridiculous suggestions which is required, but their non-appearance in consequence of there being no possibility of their gaining acceptance in minds already occupied by a knowledge of the actual nature and working of the economic machine. When, therefore, I tire the reader with insistence on something which appears to him too obvious to need mention, I hope he will ask himself whether he does not know of some important propaganda, or of some opposition to some important reform, which is based on a doctrine incompatible with the acceptance of that which seems to him to be obvious. I refrain from giving examples, because I would rather that all the various propagandists and their opponents should read the book than that some of them should be warned off it as dangerous to their faith.

Experienced teachers, in search, as usual, of the heaven-sent book to use in their classes, are not likely to complain of obviousness. They are much more likely to say that much of my matter is too difficult for beginners. But I doubt the policy of trying to teach beginners only what is easy. We must take things as they come, and if in economics, as in some other things, we find that the foundations are the most difficult part of the work, that is no reason for trying to build a superstructure without any foundations at all I hope, therefore, that the book may be round useful by academic teachers and students as well as by readers who wish to improve their capacity for dealing with practical economic problems without attendance at lectures and classes.

It has, at any rate, been evolved gradually out of the annual course of lectures which I have given for first-year students at the London School of Economics since 1898, during which period I do not think a year has passed without considerable changes in the matter or the arrangement of the exposition.

Having acute sympathy with those who dislike ponderous tomes, I have tried to keep the book as short as possible. A great deal of the discussion of wages, profits, and rent which had some local importance a hundred years ago is now obsolete, and should be relegated to the works which deal with the history of theory. By omitting this and other obsolete matter, by excluding special subjects like currency and taxation, which are better considered in special treatises, and by forgoing detail and picturesque illustration, I have managed to make room for some very fundamental matters which are often ignored in general treatises of moderate length. I refer especially to the hereditary character of inequalities of income, the inferiority of women's earnings, and the differences in the wealth of different "countries" or "nations."

EDWIN CANNAN.

London SchoolofEconomicsandPolitical Science.*November*, 1913.

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NOTE.

IN 1913, when the passage near the bottom of page 87 was written, no one would have been inclined to deny that the aggregate cost of being "prepared" for war had "come to exceed enormously the cost of war itself." The gigantic cost of the present war may seem now to suggest that the adverb "enormously" should at least be modified. But readers must bear in mind that if the system which prevailed before the war is to continue, the cost of preparedness will then be not on the old scale, but on the new and immensely higher scale suggested by the experience of modem war which society now enjoys. There is, indeed, no reason why, in that case, international competition in preparedness should not absorb every particle of human energy that is left after providing the barest necessaries of efficiency (in war work and propagation of the race) for able-bodied adults and children. This, at any rate, would be the ideal which governments would have to hold up to their probably—in the long run—reluctant subjects.

February 1917.

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WEALTH

CHAPTER I

The Subject-matter Of Economics

There is no reason for not accepting the time-honoured identification of the subject-matter of economics with "wealth." At any rate, I intend to accept it in the present work, and consequently I shall treat the question "What is wealth?" as exactly the same question as "What is it most convenient to take as the subject-matter of economics?" Most convenient, I say, because economics is a department of science, and therefore the question what should be included in it is a question of the most convenient delimitation of the different departments of science.

To such a question the practice of writers and oral teachers usually furnishes a better answer than their preliminary search for a definition which they hope will fit the matter of their investigations. I proceed, therefore, to ask what is, in fact, the usual subject-matter of books and lectures on economics.

It is, in the first place, undoubtedly something possessed or enjoyed by human beings.

It is true that when economics first began to stand out as a separate department of science, the economists stepped straight into controversies about national wealth, and it did not occur to them to ask themselves definitely whether they had to do with any other body than "the nation." So when Steuart, in 1767, called his large work *An Inquiry into the Principles of Political O Economy*, the term "political" indicated that he intended to discuss national wealth. Adam Smith, ten years later, probably imagining himself to be precluded from giving his book the same title as Steuart's, used *An Inquiry into the Nature and Causes of the Wealth of Nations* as synonymous. In the more general parts of his treatise, however, he often substitutes "the society" for "the nation," and it is clear that he intended his work to cover more than a literal interpretation of the title would include. Later writers have often used the word "community" in the same way as Adam Smith used "society," and have spoken of "the wealth of the community" when they massed into one body all the human beings with whom they were dealing.

All economists have considered the wealth of classes and individuals within the community as well as that of the whole community, so that it may be said that neither the use of the term "political" in "political economy" nor the use of the term "nation" are to be taken as intended to confine the science to the wealth of nations. The subject-matter of political economy or economics has always been the wealth of human beings generally.

Originally "wealth" in ordinary English was the name of a state or condition of human beings such as is suggested by the prayer for the King in the Book of Common

Prayer, "Grant him in health and wealth long to live. "The suffix *th* indicates a state or condition, so that "weal*th*" indicated the state or condition of being well, or as we should say in modern English, prosperous, just as "heal*th*" indicated the state of being healed or free from disease. But in course of time the word came to be applied to money and other concrete things, command over which made a person live in wealth. In the eighteenth century some writers found it necessary to protest against the view that national policy should be directed towards the aim of securing a perpetual increase of the gold and silver within the national territory. In doing so they very naturally said that wealth did not consist entirely of gold and silver, but also of certain other concrete things, such as horses and cattle, houses and orchards. This led them to lose sight of the older meaning of wealth as a state or condition of human beings, and to regard it rather as certain material possessions of human beings.

Most of the statements which an economist is likely to make relate to quantities: he deals with increases and decreases. It is impossible to make statements about increases and decreases of the wealth of human beings if their wealth is supposed to consist merely of certain concrete objects without reference to time. Propositions about increases of tables, chairs, or loaves, which at first sight appear intelligible enough, are as meaningless as propositions about the increase of raindrops without reference to time would at once appear to us. It is quite true that we do not usually; find bare statements that tables, chairs, or loaves have increased unintelligible, but that is because from the context or by some other means we have gathered that the statement refers to these things, not in the abstract, but in some definite relation to time. We are led to think of the tables and chairs in the world or some part of the world at some one instant of time, or of the loaves produced in the world or some part of it in some particular length of time, such as a week or a year.

But till quite lately the searchers for a formal definition of "wealth" overlooked this point, and great confusion resulted from the oversight. The more primitive the economy of a people, the more likely are they to have regard to their possessions at a point of time rather than to what they can expect to receive as time passes. The poorer a person is, the more likely is he to think of what he has at the moment and the less of his receipts in the past or his prospect of receipts in the future. The question "How much a year have you?" or even "How much a week?" is not one which occurs to primitive man or even at the present time to a man of the lowest class or to a child of any class in the most. "advanced" countries. To them the question is "How much have you got ? "Hence it is not surprising that the collection of objects which a man of the seventeenth or eighteenth century would usually have in his mind when he talked of increases or decreases of wealth would be the collection of things in existence at a point of time rather than the amount coming in or being created per annum or perdiem. Nor is it surprising that in cultivated society the conception of a periodical receipt should have subsequently forced its way in and overpowered the conception of a realized amount.

It is, however, perhaps rather surprising that the transition from one idea to the other should have taken place without economists noticing the change. An explanation which is at least plausible may be given. Adam Smith greatly facilitated the transition by first calling his book *An Inquiry into the Nature and Causes of the Wealth of*

Nations, and then deliberately defining the wealth of a nation as its "annual produce," or "the necessaries or conveniencies of life which it annually consumes." But he did not notice the difference between the wealth of a nation defined in this way and the conception of it as a number of things possessed at a point of time, because he was engrossed with the desire to protest against the cruder conception of it as the amount of gold and silver possessed. Thus instead of saying that the wealth of a nation is not the land, cattle, machinery, and other things possessed by it at a point of time, but rather the annual produce of the land and labour of the people, he says it is not gold and silver, but the annual produce. Later writers for a long time followed him in making the same antithesis, and were thus led, like him, into overlooking the really important part of the change which was being made.

Whatever the explanation may be, there is no doubt of the fact that economists did fail to indicate clearly in their definitions of wealth whether the wealth of persons and peoples,

which alone could be meant when quantitative statements were made about "wealth," was the collection of things possessed by them at a point of time or the collection produced by them, or somehow obtained by them, within a length of time. But in their practice they usually followed Adam Smith. Dealing, like him, with the "production" and "distribution" of wealth, they were obliged to keep length of time in their minds: the production of wealth was greater or less according as more or less was produced per annum, and the distribution of wealth, as he and they conceived it, was the distribution of the annual produce. Thus, in spite of the absence of definitions indicating the fact, the "wealth" with which economists generally intended to deal when they made quantitative statements concerning it was the wealth periodically produced or coming in, and we can now proceed to inquire of what this was supposed to consist.

The English statisticians of the latter part of the seventeenth century regarded the annual produce of the country with the eyes of a farmer. They thought of the raw produce of a farm, and regarded this as forming the subsistence of the whole of the people. The French *économistes*, or physiocrats, the followers of Quesnay, had the same agricultural standpoint, and made the doctrine more definite by expressly denying the quality of productivity to all labour not employed immediately on the land. Adam Smith made a change 10 the right direction by including in. "productive" labour not only the labour employed immediately on the land, but also all other labour which improved material objects, and thus, as he said, did not perish in the very instant of its performance. Probably he would not have halted here if it had not happened that he mixed up the question of productive and unproductive labour with an inquiry into the accumulation of capital, and was thus insensibly led to ask himself what labour produces capital instead of what labour produces "produce." J. B. Say saw the weakness of his position, and extended the notion of productive labour to cover "non-material products." From his time, in spite of J. S. Mill, who here, as often, tried to furbish up the obsolete, the annual produce was generally regarded as consisting of —services" as well as "commodities."

The annual produce was sometimes for greater accuracy called the “net produce,” because it was seen that care must be taken to avoid double or triple reckoning of the same thing, which would occur if, for example, iron ore, pig iron, and iron pokers were all added together. The annual produce, or more precisely, the annual net produce, consequently came to be regarded as consisting only of those commodities and services which actually reach the consumer, *plus* those commodities which were added to the existing stock of commodities and *minas* those which were deducted from the existing stock. The consumer here was of course the final consumer, who consumes for his own satisfaction and not in order to secure some further result; for example, the consumer of wheat was the person who ate it in whatever form, not the miller or the baker.

Now there are no means by which we can actually distinguish net produce from gross produce in this way if we approach the subject from the side of the producer. A few commodities, such as loaves of bread, may be supposed without material inaccuracy to belong entirely to net produce. But many commodities are used both for immediate satisfaction and for further production, and there is no way, from the producer's side, of distinguishing which parts are used in one way and which in the other. For example, of lubricating oil, the quantity used in a cotton-spinning factory will be a means towards the production of another commodity, cotton cloth: the quantity used in running a motor-car for pleasure will fall into net produce. Again, gas is sent out from the same gasworks to persons who use some of their supply for driving a gas-engine to make something which they sell, and some to light their own dinner table. Another great difficulty arises from the fact that when the stock of existing things which are used by man is, as continually happens, depleted by the subtraction of some things and increased by the accession of other things, there is no way of marking out the gross additions into two parts, the net additions and the remainder. Suppose the stock of ships is diminished by the sinking or breaking up of three hundred small sailing ships and increased by the addition of fifty large steamers: it would be misleading to say simply that the number of ships was reduced by two hundred and fifty, while on the other hand, any calculation as to the relative carrying capacity of sailing ships and steamers and a consequent reduction of the two to some common measure involves all sorts of assumptions and conjectures.

A perception, not always very distinct, of these difficulties has gradually led to the substitution of “income” for “produce” or “net produce.” One of Marshall's suggestions for the definition of economics at the beginning of the earlier editions of his great work was how man “gets his income, and how he uses it.” Here we approach the subject from a different side. Instead of starting from the land and labour and trying to trace the product through its various stages, excluding double reckonings as we go, we look in the first place at the valuation of the net results which we get by considering individuals' money-incomes.

But money-income does not always include everything which we should regard as belonging to the net produce. Nearly all farmers consume part of their own produce, most wives perform domestic duties of a kind which add to the material welfare of themselves and their families, and so on. Observing this, economists have been led to add to the actual money-income a money-valuation of all economic services and commodities which are not accounted for in the money-income. This plan encounters two difficulties. How are we to decide what is economic, and how are we to value? Are the services of a mother to her child economic, and are they to be appraised at the same money-value as those of a wet-nurse?

Supposing these difficulties to be surmounted, we find ourselves dealing with a sum of money supposed to represent the commodities and services of an economic character which are enjoyed, *plus* those commodities which form the net addition to the stock of useful things. But quantitative statements about this sum of money are not satisfying by themselves. If we say the income of the community has increased, we do not want to be met with the retort "The income valued in money may have gone up, but that is only due to a fall in the value of gold. The increased sum of money at which you value the income means no more and no better commodities and services than before." Consequently we are driven to "go behind" the valuation by inquiring into the purchasing power of money, and so the adoption of the money-estimate of income does not in the least relieve us from the necessity of considering. the "real" income. The inquirer who has been told that income consists of commodities and services, and that it rises and falls with the quantity of those commodities and services, still wants to know how that quantity is to be measured.

Where commodities and services of different kinds are concerned, there is clearly no possibility of comparing the quantities intelligibly by weight, bulk, or number. We might say that a collection of things consisting of one loaf of bread, one pound of beef, one pint of beer, and one railway ticket is equal to half of a collection of things consisting of two similar loaves of bread, two similar pounds of beef, two similar pints of beer, and two similar railway tickets. But we cannot make any statement about the relative quantities included in two collections one of which consists, as before, of one loaf, one pound of beef, one pint of beer, and one railway ticket, and the other collection of three leaves, half a pound of beef, and two railway tickets. At first sight of the problem we may think we can, but a moment's reflection makes us see that the comparison we then have in our minds is one of values, not of quantities.

If we drop quantities and compare values, we are satisfied so long as no doubt is raised as to the invariability of our standard. At the same time and place our standard will always "mean the same thing" in regard to the two collections of commodities and services we are considering, but as soon as the places differ, and still more as soon as the times differ, we begin to question whether the measure of value means the same thing at the two places or times. We then invariably find that it does not. Whatever standard be taken, at the one place or time some commodities or services will be worth more of it, and others less, than at the other place or time: it will even often happen that some commodities or services which are worth little of it at one place or time are wholly unprocurable by the offer of any quantity of it at the other place or time.

Eventually we find ourselves groping after a measure of the good effect of the commodities and services upon the persons who get them; we find we really want to know whether a person or body of persons with such and such an "income" in pounds sterling (or consisting of such and such commodities and services) is what we usually call as “well off” as another person or body of persons with such and such other income in pounds sterling (or consisting of such and such other commodities and services) at some other place or time.

Moreover, recent economic analysis has drawn attention to the fact that even where quantity can be measured by weight or bulk, the effect of the enjoyment of these commodities on the persons who enjoy them cannot be regarded as proportionate to the quantity. Six loaves of bread consumed per day, it is pointed out, will not make a man six times better off than one per day. Even £6,000 a year to be spent as he pleases will not make a man six times as well off as if he had only £1,000 a year. 'With £6,000 a year he will not consume six loaves instead of one: by introducing variety he can retard the fall of utility, but he cannot altogether prevent it. With the larger income he must spend some of his pounds sterling on more trivial satisfactions than would be obtained by the least important pounds spent out of the £1,000 a year.

In the last forty years it has consequently been the practice of economic teachers to deal more and more with the ultimate results of the possession, use, and consumption of commodities and services, regarding these commodities and services as the means to an end rather than an end in themselves. So, instead of having our attention directed entirely to outward objects and particular actions, we find ourselves considering “utility” or “satisfaction.” Nor is this all. The democratization of literature and political science which has taken place since the earlier part of the eighteenth century has led to the practice of bringing into account the pain and irksome toil involved in the creation of positive utility or satisfaction. Most economic writers before Adam Smith, and some after him, regarded the interests of the “nation” in some way which enabled them to exclude the interests of the “working classes,” as we call them. Most of the pain and irksome toil of production fall on this portion of the people, so that exclusion of the working classes from the nation led to a neglect of all consideration of the pain and irksome toil involved in procuring “wealth” for the nation. Whether the working classes should labour for ten hours or for sixteen was a question to be determined solely by discovering which number of hours produced the greater amount of commodities. The idea of deliberately sacrificing positive utility or satisfaction in order to have greater leisure was scarcely thought of. If he advocated it at all, an economist would regard himself as deliberately suggesting an economic sacrifice in order to secure a non-economic but greater good. Most recent economists would unhesitatingly reject this view, and regard the economic condition of a people who had a certain amount of positive satisfactions and worked ten hours a day as superior to that of a people who had the same satisfactions of a positive kind but worked sixteen hours to obtain them.

Thus the subject-matter of economics has become utility or satisfaction *minus* disutility or dissatisfaction, so that if we retain “wealth” as its compendious description, we must take “wealth” as having reverted to its old meaning of a particular state or condition of human beings.

What that state or condition exactly is, however, it is not very easy to say. It is compounded of satisfactions and dissatisfactions, but these are by no means exclusively economic: there are plenty of them which no one in his senses and with any regard to the ordinary usages of language would call economic, and which no one with any regard to the convenient delimitation of sciences would attempt to treat in a work on economics.

Till recently most economists, if asked to distinguish between satisfactions of an economic and uneconomic character, would have said that the economic could be bought and sold, and also said or implied that the non-economic could not be bought and sold. There are, however, several difficulties to be overcome before this can be accepted as furnishing a criterion for distinguishing what is actually treated in economic works from what is not. On the one hand, it seems to exclude from economics many things which are actually included by every economist, or would be included by him if he happened to come across them. That the satisfaction which some hundreds of thousands of people enjoy every week from the use of Hyde Park is an economic one no economist would: think of denying, but it seems impossible to describe that satisfaction as even potentially exchangeable or subject to purchase and sale. Again, if it were discovered that Mars was inhabited by people like us, and that the Martians found satisfaction in food, clothes, and shelter just as we do, no economist would be prevented from comparing the economic condition of the Martians with our own by the further discovery that the Martians had not established a system of private property nor practised exchange. Yet in that case could it reasonably be said that the satisfactions of being fed, clothed, and sheltered were saleable in Mars ? And if not, would the fact of similar things being saleable on the earth be sufficient to justify us in regarding them as "potentially saleable" in Mars? On the other hand, the criterion of buying and selling brings many things into economics which are not commonly treated there and which it does not seem convenient to treat there. A large trade has existed since (and no doubt before) history began in supplying certain satisfactions of a sensual character which are never regarded as economic goods. Indulgences to commit what would otherwise be regarded as offences against religion or morality have been sold, sometimes openly and almost at all times under some thin disguise: nobody has regarded these as economic goods.

The economists who have distinguished the sphere of economics by the aid of this test seem after all to have treated of just the same subjects as are described as economic in the everyday conversation of educated people. In such conversation the term has no necessary reference to buying and selling, nor to the potentiality of being bought and sold. We talk of "economic questions," "economic interests," and "the economic point of view." We separate economic questions from religious questions, from literary questions, from historical questions, and from hundreds of other questions. We inquire whether in some particular case the economic interests of some persons are opposed to their political or their religious interests. We regard some things as desirable from an economic point of view which for some non-economic reasons we reject as on the whole undesirable.

In these and similar phrases the term economic conveys to our mind an impression about which we have so little doubt that we find it difficult to define in the same way and for the same reason as we find it difficult to explain what we mean by the terms "blue" or "red." Confronted suddenly by the word "blue," a weather optimist thinks of the sky; some of us think of the block marked "blue" in the box of paints with which we dabbled when we were children; others of our first or last blue frock. Confronted by the word “economic,” one man may think first of coins, another of figures in bank-books, another of crops growing in the field and cattle browsing in the meadow, and another of the morning crowd going to its work in some great city. None of them will come at all creditably through a cross-examination on any definition which they may construct either on the spur of the moment or after considerable reflection. But if one example after another were put before them all, they would be found to agree, at any rate very nearly, as to what things were to be included and what excluded from the list of things economic.

They would agree, for instance, that the question “Was Mahommed the Prophet of God ?” was not an economic one, and that the prohibition of pork as human food was of economic interest. They would agree that “Did Bacon write Shakespeare?” was not an economic question, and that the satisfaction which believers in the cryptogram would feel if it were universally accepted that Bacon did write Shakespeare would not be an economic satisfaction, while on the other hand they would agree that the controversy would have an economic side if copyright were perpetual and the descendants of Shakespeare and Bacon were disputing the ownership of the plays.

If their examination were continued, and more and more examples adduced, they would soon begin to say that there is no “hard and fast line “between economic and non-economic things, but that the one shades gradually into the other, as blue neckties shade into green, so that just as there are some ties which some persons call green while others call them blue, although every one is agreed that the sky (in fine weather) is blue and the grass green, so there are some things which some persons call economic and others non-economic, although every one is agreed that the satisfaction of hunger is economic and that the satisfaction which a Tibetan fanatic feels when he has himself immured for life in the dark is non-economic.

For ordinary purposes economic things can best be described as economic, just as blue things can best be described as blue. But if we must have a second-best description for the benefit of those who doubt whether they. know what is meant by the term economic, I think we must fall back on “having to do with the more material side of human happiness,” or more shortly,.” having to do with material welfare.”

The exact phrase used does not really matter very much, since we must face, and face boldly, the fact that there is no precise line between economic and non-economic satisfactions, and therefore the province of economics cannot be marked out by a row of posts or a fence like a political territory or a landed property. We can proceed from the undoubtedly economic at one end of the scale to the undoubtedly non-economic at the other end without finding anywhere a fence to climb or a ditch to cross. Beginning with the satisfaction of hunger and thirst as the most material, we can arrange other satisfactions roughly in order, till at last we arrive at the most purely non-material, such as that felt by a martyr dying of starvation rather than abjure his God. We shall never be able to say that 99 per cent. of such a martyr's welfare was non-material and due to religious fervour and the remaining I per cent. was material and due to the sustaining effects of the food he ate a week before. We shall never be able to say of any man that 50 per cent. of his welfare came from food, clothing, shelter, pictures, and concerts, 25 per cent. from the love of his wife, 15 per cent. from his support of his Church, and 10 per cent. from his pride in his position as president of the local party caucus. But we can quite legitimately and usefully consider what will increase or diminish the more material side of his happiness, or shortly,. his material welfare or wealth, and it is quite convenient to have a separate department of science, called economics, to deal with the causes of the material welfare or wealth of human beings, considered both as a whole, and as individuals, and also in groups.

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CHAPTER II

The Fundamental Conditions Of Wealth For Isolated Man And For Society

Most of economics deals with man living in society, but it is best to begin with the simplest possible cases. I shall therefore disregard the sneers which have sometimes been directed by sciolists against "the Crusoe economy," and consider for a moment the conditions on which the material welfare or wealth of isolated man depends.

Our Isolated Man must necessarily be somewhat of an abstraction. Adam, as described in Genesis, was too much surrounded by supernatural influences to be a useful type for our purpose, and if we fell back on evolutionary theories, we should, I suppose, trace the human race back not to an isolated man, or even to an isolated pair—an Adam with an Eve—but to something more like a society of chimpanzees. Robinson Crusoe is not quite satisfactory, because he started on his career of isolation with a stock of knowledge acquired in societary existence, to say nothing of the important tools and other things which he saved from the wreck. Moreover, his efforts during his isolation were frequently directed towards a return to the societary existence from which he had accidentally become divorced, so that he did not always act as a completely isolated man would have done. In order to study profitably the conditions on which the material welfare of Isolated Man really depend, we can best proceed by imagining our Crusoe as having been always the sale human inhabitant of the globe, putting behind us any inquisitiveness as to how he got there and as to the probable duration of his life. We may also suppose that he has by some means or other become located in the most suitable situation for Isolated Man.

In these circumstances the wealth of the Isolated Man will depend first on his original qualities, secondly on the extent to which he has improved his powers and his material surroundings in the past, thirdly on the judgment which he exercises in the use of his actual powers and surroundings, and fourthly on his deliberate choice between wealth and other welfare.

1. The proposition that the original or natural qualities of the Man are one of the conditions on which his material welfare depends needs little elaboration. If strong in body and mind in proportion to his physical needs, he will obviously be able to satisfy those needs more easily and better. The only mistake likely to be made is one which is not of any very great practical importance, namely, the omission from consideration of the magnitude of physical needs. We are apt to regard the stronger man as the superior engine for the production of material welfare, without much thought for his greater requirements in the matter of food, clothing, and shelter. But we cannot reasonably suppose that a large man gets greater satisfaction from his large meal, his large suit en clothes, and his large bed than the smaller man gets from his smaller meal, clothes, and bed. The most favourable condition, therefore, is not simply the greatest strength, but the greatest strength in proportion to physical requirements.

2. When we start from any particular point of time and consider the material welfare of the man for the ensuing period, it is clear that much depends on what he has done in the past.

(*a*) Unless he has abandoned himself to some sort of vice which has enfeebled him) he will almost necessarily have improved his powers. The frequent repetition of different forms of manual exertion will have made him more expert with his hands and body. He can scarcely live without observing, and can scarcely forget all that he observes, so that his knowledge can scarcely fail to increase, and this increase of knowledge means an increase of power to gain many, at any rate, of the ends which he is likely to put before himself. But over and above this merely incidental kind of improvement, the man may have deliberately set himself to improve his manual or mental dexterity and to Increase his stock of useful knowledge. At one stage of his development, for example, he may have trained his mind to calculate distances and his hand to act on the knowledge by shooting at targets when no game presented itself, or he may have deliberately experimented with different kinds of ore with the intention of increasing his knowledge of metals and their properties. The longer he lives, then, the more expert and the more well-informed he is likely to become.

(*b*) In addition to improving himself, our Isolated Man may also have improved his surroundings, that is to say, he may have made them more suitable for his own purposes. The outer crust of the earth itself may have had its qualities altered by him in such a way as to become either better or worse from his point of view. He may have cultivated the soil in such a way as to destroy many of its useful properties, or by careful management he may have made it more and more suitable for cultivation in the future. In taking out of the earth such things as stone, minerals, or clay, it is true, he cannot expect to leave the land as good as he found it, as he can when he takes away crop after crop of vegetable or animal produce. But while somewhat worsening the land, he may all the same be improving his surroundings as a whole. The stone or clay which he takes out of the land will certainly be not less but more useful to him when he has, for example, fashioned them into the walls of a house which he wants, than they were in their raw, unworked state. It is surely better to have a finished axe-head than the mere iron ore necessary to make such an axe-head.

There is no simple means by which we can measure the extent or amount of improvement which the Man may have effected in his outward surroundings. The utility of the changes which have been effected is frequently increased or diminished, or altogether destroyed, by alterations in the circumstances of the Man. When, for example, he has made a tool, some change in his knowledge may easily make it more useful to him than it was when he made it, while some other change in his knowledge may cause him to lay it aside as utterly useless. He has, let us say, with great labour dug a number of pitfalls in which to catch wild animals, and these require elaborate re-roofing each time they have come into action. Then he discovers some simpler kind of trap, which can be re-set time after time with no appreciable labour: such an invention will entirely destroy the usefulness of the old pitfalls, and the man will quite rightly, quite economically, allow them to go to ruin. Before the invention of the superior trap the pitfalls were useful objects or “improvements”; after it they are only troublesome holes in the ground. Even in the absence of such changes in knowledge and other circumstances, it is not possible to reckon up the amount of improvements as a whole and make definite quantitative statements about it, such as that it has increased by 30 per cent. in some particular period of time: we cannot make such statements, because we have no means of adding together different kinds of improvements and comparing their aggregate magnitude with that of some other group. How, for example, should we add together a row of apple-trees and a plough, and compare the magnitude of the result With that of the sum of improvement represented by a ditch *plus* a barn-door? Even when we have to consider precisely similar objects, their number will not afford us any precise guide for estimating the magnitude of the improvement in the man's material surroundings which they actually represent. It will be better, no doubt, for the Man to have two precisely similar spades than one only, but he certainly will not think two are twice as good as one—and he will be quite right.

3. The Man's judgment in making use of his powers and surroundings is clearly of great importance.

To make use of them at all some effort is necessary. However great his powers, and however excellent his surroundings, they will not even feed the Isolated Man unless he exerts himself to some extent. Exertion should not be lightly pronounced agreeable or disagreeable in itself. Some kinds of exertion are probably always disagreeable to every one who is obliged, in order to attain his ends, to undergo them. But most kinds of exertion are pleasurable when not carried too far, and disagreeable only when carried beyond that point. We get into the way of regarding all the exertion for which we are paid by other people as disagreeable, because we want the pay, and the exertion necessary to obtain it presents itself to us as an obstacle, and an obstacle is necessarily unpleasant and something, to be diminished if possible. But if we were prisoners without any chance of earning anything, we should welcome our present employments as most agreeable relaxation from the ennui of doing nothing. On the other hand, there is no doubt that all kinds of exertion become unpleasant if carried on for too long a time at once. The most passionate devotee of football or even golf does not wish to “play,” as we call it, for eighteen hours a day and three hundred. and sixty-five days in the year. To “play” too long becomes a “labour.” This is true, no matter how diversified. the exertion may be; every one requires a certain amount of absolute repose in the diurnal round. Hence the Isolated Man would be quite justified in regarding exertion as a thing to be reduced wherever possible. He could always have as much as he wanted of it, taken as a whole, and therefore he might as well have as little as he could in getting each particular satisfaction. The first use of judgment is thus to keep effort as small as possible in proportion to any given result.

But this is not all. The Man would also have to seek a certain balance between effort and satisfaction in regard to each particular sort of satisfaction, and in regard to the whole taken together. He would have to arrange his activity and repose so that it might yield the maximum of satisfaction after allowing for any unpleasantnesses involved in the exertion itself or its incidental accompaniments. If he had to do this starting from a *tabula rasa*, it would be extraordinarily difficult. But, in fact, habit would help him; he would never have to start absolutely fresh, so to speak, and decide all at once to give so many hours to securing animal food, so many to each class of vegetable food, so many to making clothes, and so on. What he would have to do would be merely to decide whether it would give him more satisfaction to make some small reduction in the time and labour given to one mode of production and divert the time and labour to some other line of production, or, as another choice, to knock off the small amount of labour and give the time to repose. Of course even this might be a difficult question. If it were a choice between two different lines of production, the Man would have to weigh not only the satisfactions obtained, but the agreeableness or disagreeableness of the different kinds of labour involved. If it were a choice between the usual exertion and result on the one hand, and on the other hand slightly less exertion and result together with slightly more repose, he would still have to estimate three quantities—the satisfaction foregone, the labour remitted, and the repose secured.

Consequently, much depends on the accuracy of the Man's judgment as to the regulation and distribution of his effort. We have no right to assume, as we sometimes do, that his judgment is certainly infallible. In practical life we never think of doing so. We are always prepared to say that one of our friends overworks himself and should be content with a somewhat smaller income, and that another misdistributes his energies, giving too much of his resources to secure what we consider a disproportionately large amount of some particular satisfaction.

This would be true, even if there were no decisions to be made as to the distribution of effort between immediate and more distant ends. The necessity of making such decisions introduces a further complication. Not only has the Man to decide how much to work and how to distribute his labour between various kinds of satisfactions, but also to decide how far he is to sacrifice the present to the future or the future to the present.[1] In ordinary circumstances there are three great choices open to him, and two of them may be adopted to a greater or less degree, as he chooses. He may arrange his work and consumption so that at the end of the period under consideration, the week or the year or whatever length of time we find it convenient to take, his position with regard to the future is just the same as at the beginning of the period, or so that it is more or less better, or finally, so that it is more or less worse. Any one of the three courses may be the judicious one, according to the circumstances of the period. If the period is one of stress, during which the Man finds it very difficult merely to keep himself alive, if, for example, he is ill, he will be quite justified in allowing his position with regard to the future to deteriorate; he will be right not to trouble for the moment about increasing his stores of knowledge and improving his material surroundings: he will be justified in reducing his stores of consumable articles, and even in allowing his tools, his house, and his other effects to fall into some disrepair. On the other hand, when his circumstances are very favourable, when he has no difficulty in making ends meet, he will be a fool if he does not devote some time and labour to improving his position, either by increasing his powers or improving his material surroundings. He should not only try to provide for unfortunate contingencies, but also to secure that even in ordinary times his life will be easier in the future. Why? Because in the circumstances described the future gain will be greater than the present sacrifice. As his circumstances for the moment are favourable, he will not lose very much at the present by devoting a portion of his labour to the future instead of the present, and it is certain that he will know some way of expending labour which will be of permanent benefit to him. He knows, for example, that if he can give ten hours to some investigation into the habits of some animal or the location of some plant, the knowledge will be as useful to him in the future as an extra hour per week of average labour would be. Or it may be that he knows that ten hours spent on the construction of some tool or other improvement of material surroundings will be as useful as an extra hour per week of average labour, of course after allowing for any labour that may be necessary to mend, and when necessary to replace the tool or other improvement. That is to say, ten hours labour now will bring in as much as fifty-two hours per annum in perpetuity. The Man's circumstances being favourable for the moment, he would be foolish not to grasp at the larger return, although if he were extremely pinched for the moment, so that every minute devoted to satisfying present needs was very important, he would be quite right to go on "living from hand to mouth" and not to attempt to make the improvement in his future condition.

Of course only a limited amount of the Man's time should be devoted to the future, even when it is desirable that he should so devote some part of it. There are two reasons for limitation. In the first place, the more labour so devoted the less (in proportion to the amount of labour) is the advantage in the future, and secondly, the more labour so devoted the greater (in proportion to the amount of labour) is the loss in the present. For example, the Man may know one way of spending ten hours labour which will bring in a return, so to speak, of an hour a week or fifty-two hours per annum, but when he comes to think of a second way he may not be able to find another which brings in a return of more than perhaps half an hour per week–*i.e.*, twenty-six hours per annum, while the third way may only bring five hours, and so on. On the other side, also, he has to remember that while taking ten hours off his labour for immediate needs may involve no very severe privation, to take off a second ten hours will be a much more serious matter, and the deduction of a third might involve the loss of some absolute necessaries of life. Clearly the Man must stop somewhere, and the decision where to stop requires the exercise of a nice judgment. The Man will be likely to make a mistake, even if he can foresee all the future quite accurately. In fact, he will not be always right about the future, and consequently we must not expect that his decisions on this subject will approach anywhere near to infallibility.

It must be noticed that we have considered the Man's material welfare as a whole, beginning, it is true, at some arbitrarily chosen point, but without any further limitation. We have supposed the problem to be to maximize the Man's material welfare over all subsequent time. If we wanted to compare his welfare at one period with his welfare at some later period, say his welfare in 1890 with his welfare in 1910, we should have to regard the extent to which he thought it desirable to work for the future instead of for immediate results as one of the conditions on which his material welfare for the particular period depended. Given all other conditions, it is clear that the Man will be better or worse off for the moment according as he devotes more or less of his time and labour to present gratifications and less or more to improving his position with regard to the future.

4. We have so far assumed that the Man will desire to make his material welfare as great as possible, but this is not quite certain. He may deliberately sacrifice some portion of material welfare in order to secure some satisfaction which he regards as of a higher order. J. S. Mill in his earlier days and Bagehot thirty or forty years later thought that political economy must assume an imaginary being, often called the "Economic Man," who had no desire to do anything except pursue wealth. There is no need for making any such unlikely hypothesis except, perhaps, for simplicity at the very beginning of our exposition. It is quite easy to suppose that our Isolated Man may sometimes deliberately prefer to do things which do not increase his material welfare. He may, for example, think it desirable to endeavour to secure happiness after death by propitiating some idol or other divinity by scourging himself or burning the best of his animals upon an altar. The more he chooses to act in ways like this, the less, other things being equal, will be his material welfare or wealth.

The conditions which govern the material welfare or wealth of Society–of a number of persons living in contact with each other–are, for the most part, identical with those which would govern the wealth of Isolated Man, though some complications are introduced by association and by the mere fact of numbers.

1. The original qualities of the race are obviously just as important to Society as the original qualities of the Man to Isolated Man. If the world had been peopled with a race of men with only one arm or with no eyes, we may quite confidently say that their material welfare would not have been as great as ours, unless the disadvantage was counterbalanced by some advantage which we do not possess. It is also true of Man in Society, as we saw it was of the Isolated Man, that the most favourable condition is not simply the greatest strength, but the greatest strength in proportion to physical requirements. It seems at first sight quite certain that we should not be as well off as we are if we were as small as Swift's Liliputians. But we begin to see that the question is not quite so simple as we supposed, if we ask ourselves whether it is quite certain that we should be much better off if we were as big as the Brobdingnagians. With the strength of a Brobdingnagian we should presumably acquire a Brobdingnagian appetite, and so be no better off than before, unless our numbers were reduced, for that might make an important difference.

2. Secondly, if we start from any particular point of time and consider the wealth of Society for the ensuing period, it is clear that the wealth of that period depends on what has been done by men in the past.

(*a*) The powers of the people alive at the time must necessarily have undergone great change since their infancy, not owing only to mere "growing up," but also owing to practice of the various arts and to deliberate education or drawing out of original powers. The conditions of Society may clearly be much better in this respect at one time than at another. No doubt the inhabitants of Europe before the establishment of the Roman Empire were better educated and trained for the work they had to do than we are for that work, and the example suggests that it is difficult to set up any absolute standard of education good for all times and places. But given certain conditions, no one can doubt that it is possible for the people to be better or worse trained for those conditions, and that the difference will affect their material welfare.

More important still than the difference in skill due to education or training are the differences resulting from the varying quantity of the knowledge of which the people may be in possession. When we look round and ask ourselves what are the main causes of the improvement which has taken place in the material condition of the civilized world, we cannot fail to put among the chief of them the increase of knowledge. We are able to use the forces of nature so much more effectively than our remote ancestors, not because we are naturally cleverer nor because we are better educated than they, but because each generation has acquired new knowledge, and has transmitted it to posterity at first by word of mouth and afterwards by means of written and printed symbols, so that the sum of accumulated knowledge has been perpetually increasing.

(*b*) We saw that the material condition of our Isolated Man would depend largely at any one time on what he had done in previous periods to improve his surroundings. It is equally true that the material condition of Society must depend largely on what has been done in the past by men in altering the arrangement of matter on the face of the globe. Next to the increase of knowledge the improvement (from man's point of view) of his material surroundings is the greatest and most obvious cause of his progress in material welfare. The face of the earth has been adapted by him to his purposes in many ways. The Suez Canal has practically altered the geographical situation of whole continents, and the Panama Canal will do the same. But these are in reality but small things compared with the immense network of roads and railways which covers the civilized and is beginning to penetrate the uncivilized parts of the globe. That network, again, is but a trifle compared with the adaptation of millions of square miles–in fact, the greater part of the land surface of the planet–to agricultural purposes. Then there is the enormous stock of houses and other buildings in which people live and work and store things which will not bear exposure to the weather. Household furniture, tools and machinery of all kinds, including vehicles and ships, form another mass of metal, wood, and other materials originally extracted from the ground and now fashioned to suit man's purposes. And lastly, there is the stock of materials and food which has been raised from the ground and which jt is necessary to keep for the supply of sudden emergencies or to equalize supply over the different seasons. Each generation of men is heir to all that has been left by its predecessors, and the legacy seems to be larger at each transmission, not only absolutely but in proportion to the numbers who inherit it. We must not expect to be able to measure the greatness of the legacy by any numerical standard: we cannot do this any better for Society than for the Isolated Man. The utility of changes in material surroundings can no more be expressed in numbers than the utility of changes in knowledge. It is useful to have a knowledge of the ways in which steam can be made to serve us; it is also useful to have a stock of steam-engines and of the things such as factories, ships, and railroads, which are necessary for their working. No one supposes that we can make numerical statements about the utility of the knowledge we use, and no one should suppose that we can do so about the stock of useful objects which we use in connection with that knowledge. If we wish to get some idea of how useful the stock is, we should endeavour to imagine what would be our condition to-morrow if the whole stock were swept away to-night. Let us try to realize what it would be like to have no knives and forks to eat our food with, no tables to put it on, no rooms to put the tables in, no food ready in the larders, the shops, or the granaries, no sheep, no cattle, but only a few wild pigs, rabbits, and birds, no railways, nor even roads, scarcely any edible vegetables–nothing whatever except a thickly wooded and very swampy land.

Of course much that is done in the way of permanent alteration of material surroundings, and is supposed at the time to be a permanent improvement, eventually turns out to have been only temporarily useful, but a heavy balance to the good seems, at any rate in modern times, always to remain, and this, together with a perpetual increase in the stock of non-permanent useful objects which are replaced by up-to-date substitutes when they wear out, renders the position of each generation in regard to material surroundings more favourable than that of the last.

3. The wealth of Society, like that of the Isolated Man, will obviously depend on the judgment exercised in making use of its powers and surroundings.

Effort, or labour as it is commonly called, is necessary for the use of these powers and surroundings in the case of Society as in that of Isolated Man. There is no more reason for pronouncing effort or labour to be generally a good or an evil in the one case than in the other. But without regarding labour as essentially evil, Society, like the Isolated Man, is justified in desiring to shorten the labour requisite for the attainment of any particular aim, since it is always possible to have enough labour, and labour in excess of a certain quantity is an undoubted evil. Accordingly, Society, like the Isolated Man, in order to make its material welfare or wealth as great as possible, must adopt the easiest methods of attaining its ends, and must regulate the whole of its labour so that it works just up to the point at which the labour and the produce of the labour taken together (the disagreeableness of the labour, if any, being deducted from the agreeableness of the produce) cause the most satisfactory result. Society must at the same time distribute its total labour between the various possible channels in the manner which will bring about the best result, when both the labour and the produce are taken into account.

Difficult as this is for the Isolated Man, it is ten times more so for Society. The Isolated Man has a single brain to estimate the comparative advantages of all the different courses; Society has no common brain, but millions of separate ones. To cast up with any considerable approach to accuracy the total pleasure and pain resulting from any particular arrangement would require knowledge far beyond that which could be possessed by any person or committee served by the most perfect organization which we can conceive. In practice, of course, Society, like the Isolated Man, has never to start from the beginning and decide how much time or labour shall be given to the production of food, how much to clothes, and so on. Some distribution is in force, and all that has to be decided is whether this distribution shall be slightly altered in one direction or another. But even this is a very difficult matter, in which the probability of mistake is enormous.

The difficulty of the Isolated Man as to the distribution of effort between immediate and distant ends is also present in the case of Society. The only difference is that it is considerably greater. Isolated Man, as we have imagined him, with an infinitely long duration of life, would be able to estimate the desirability of skimping enjoyments in the present in order to secure more in the future far more correctly than a society consisting of persons with a short duration of life, who have to estimate the desirability of skimping their own enjoyments in order to increase those of their successors. Little as a single man may be able to compare the advantage of, say, 10 per cent. less this year for himself compared with I per cent. more in every future year for himself, he can perform that feat more easily and accurately than a number of persons can compare 10 per cent. less this year for themselves with 1 per cent. more in every future year for such of themselves as may happen to be alive and the successors of those who are dead. They cannot estimate the strength of the desires of the future persons so well as a man can estimate the strength of his own future desires, and they do not know what changes in numbers there may be. The greater the numbers in the future, the greater, *ceteris paribus*, the desirability of present saving. Still further difficulty is introduced by the fact that the numbers will be themselves affected by the amount of saving. The more that is saved, the greater the population of the future is likely to be.

Here, as in regard to the Isolated Man, we must remember that we are thinking of the wealth of Society from some point of time onward, taking immediate and more distant future as a whole. We might, of course, take some particular period of time, such as a year, and ask ourselves on what depends the wealth of Society for such period. In that case we should have to regard wealth as (for the time, of course) reduced by any skimping of present enjoyments for the purpose of increasing future enjoyments, however much the future enjoyments might in the end exceed those lost during the period considered.

4. Society, just as much as Isolated Man, may be, and often is, willing to sacrifice a certain amount of wealth in order to secure some other end which it, or at any rate the ruling part of it, thinks preferable.

In addition, however, to these causes of variation common to Isolated Man and Society, we have to add three others affecting Society alone.

5. Though the health of Isolated Man and also of the individual members of Society may be regarded as the result of original personal qualities and what has been done in the past to improve or worsen them, yet in the case of Society health seems to require separate classification in so far as it affects the duration of working life. A people will clearly be stronger and more capable of producing goods if a less proportion of the aggregate number of years lived are years of childhood and old age. It would be better for all to die at 70 than for half to die at 50 and half at 90; it would be better, too, for half to die at 50 and the other half at 90 than for five out of six to die at 15 and the other at 65.

Moreover, the proportion of persons of working age in a population at any moment is affected not only by this different distribution of lifetime between working and other years caused by differences of mortality, but also by increase and decrease of population. A population increasing "naturally"–*i.e.*, by excess of births over deaths, must necessarily have, *ceteris paribus*, a larger proportion of children; if the increase has been going on steadily for a long time, the weakness from this cause will to some extent be counterbalanced by the smaller proportion of old, infirm people. Similarly a decreasing population will have a larger proportion of old people, and if the decrease is continuous, the weakness from this cause may be counterbalanced by the smaller proportion of children.

We must say, then, that Society's wealth partly depends upon the age-composition of the population.

6. It is also dependent on the advantage taken of the benefits derivable from co-operation, or combination and division of labour.

7. Finally, it is dependent on the nearness of population to the most suitable magnitude. These last two heads will be dealt with in the two following chapters.

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CHAPTER III

Co-operation, Or Combination And Division Of Labour

A NUMBER of men living in such circumstances that they can communicate with each other may, if they choose, work together or co-operate. Co-operation, intelligently directed, enormously increases their aggregate power of producing the effects they desire.

The advantage of what has sometimes been called “Simple Co-operation”—the kind of co-operation which takes place between a number of men when they unite their forces in doing precisely the same kind of work—scarcely needs detailed exposition. Two isolated men within hail of each other would obviously often be justified in abandoning their isolation in order to assist each other in tasks which were beyond the strength of a single man but within that of two, such as lifting a heavy weight, or which could not be accomplished quickly enough by a single man, such as the getting in of a crop of grain while the weather holds. Scientific discussion and interest relate exclusively to more complicated forms of co-operation, sometimes called “Complex Co-operation,” but more usually “Division of Labour,” in which different kinds of work or labour are allotted to (or “divided” between) several or many different individuals who. consciously or unconsciously, unite their forces for the attainment of some end.

1. The first of the advantages of division of labour is that it enables man to make the best use of the various qualities possessed by different parts of the surface of the earth. If each man worked entirely by himself, he would be obliged to get everything from a very small area. Even if he wandered about, and managed to avoid coming into fatal collision with other men in the course of his wanderings, he could not cover very much ground, and if he had a home to which he returned every night or even every few days, his range would be so small that he could only reach a small selection of the numerous materials which we consider “necessaries of life.” Even those men who were lucky enough to find themselves in what would then be considered the best situations on the globe, where all the barest necessaries of life and a few luxuries could be obtained, would be confined to a very few of the minerals and other things which we dig or quarry from the earth. The situations least suitable for such a social or anti-social state, where the available selection of materials is too small, would be quite uninhabitable. With division of labour, on the other hand, it becomes possible to make full use of a situation which is only good for the production of one or a few articles or services, as the Rand is good for producing gold and Jersey for producing early potatoes.

The importance of this is obvious, and it is illustrated by well-known facts in the history of the world. Peoples which have been confined to the products of a small area have always remained in that condition which we call “primitive” or “barbarous”: restricted to a small selection of materials, they have had little opportunity of making mechanical improvements, even if they had the necessary inventive faculty. Civilization started where communication, and consequently co-operation, were easiest, and so far as we can go back in history, the peoples which are now civilized have had a large supply of products brought from distant places. Silver and gold, for example, found only on a few spots, have always been spread over the whole area of civilization.

We must not think only of the impossibility of obtaining certain products from certain areas. There is a good deal more than that to be considered. There are many degrees of difficulty short of the infinite degree which is literal impossibility. We get coffee from Brazil, tea from Ceylon, and bananas from Teneriffe or Jamaica, not because it is absolutely impossible to grow these things in England, but because it is much more difficult to grow them here where the soil and climate are not so suitable. Soils and climates differ in such a way that the wants of mankind as a whole can obviously be best satisfied by a certain concentration not merely of the industries which can only be carried on in particular places, but also of a great many others for which the circumstances of some places are more favourable than those of others. What is required may, perhaps, be easier grasped if we confine our thought for the moment to the area of a single farm which includes several soils and aspects. In such a case the cultivator will consider these different soils and aspects, and distribute the land between different products in the way he thinks will be best on the whole, taking everything into account. It would be obviously the act of a madman to insist on growing a little of everything on each acre, or to cut the farm up into sections for wheat, meadow, potatoes, and so on with no regard to anything except facility of transport to the homestead. Mankind at large is in much the same position: it will find it advantageous to concentrate each of the great majority of industries to some extent on particular areas, although this course involves more labour of transport. The chief difficulty which we encounter In extending our view from the single farm to the world arises from the fact that in dealing with the single farm we usually accept the position of the homestead, and consequently also the destination of the produce, as settled once for all by historical circumstances. When we consider the world at large, on the other hand, we have to allow for the fact that the location of mankind is not fixed. Consequently the position of the consumers cannot be taken as given; the question of the concentration of particular kinds of production in particular areas is inextricably inter twined with the question of the distribution of population. To attack the problem in its most abstract form, we should suppose ourselves a benevolent being with the Earth uninhabited before us and its whole population in our hand ready to be planted where we please on its surface and to do what we order. How should we then best arrange the people and the industries? The task would certainly be a puzzling one, but with omniscience we could solve it exactly, and the solution would obviously involve a considerable concentration of industries and of population on particular areas. It would probably be seldom, if ever, desirable to concentrate the whole production of any particular commodity in a single district, since the disadvantage of having to transport the product to every place where for any reason it was desirable people should live would seldom be overbalanced by the superior qualities of any one district: for example, it might be desirable to plant a certain amount of cotton manufacture in South Carolina or Bombay, although neither of those places were quite so suitable for the actual production, considered apart from transport, as

Lancashire. So concentration would usually be only considerable—certainly not unlimited.

We must be very cautious about accepting any short and taking phrase for a summary description of the advantage resulting from the local concentration of industries. To say, for instance, that it "enables everything to be done in the place best fitted for the purpose" is not satisfactory, since it often happens that one place is the best fitted for carrying on two, or even more than two, different industries. Then, as there is not room for more than one, the others must be placed not in the best, but in the second or even third, fourth, fifth, or sixth best place. Industries must be arranged in what is the best way on the whole, taking into consideration all of them and also the amenities enjoyed by the consumer so far as these are to be considered separately from the industries. This last proviso, concerning amenities, is necessary in order to prevent such things as the discomfort of living in a bad climate from being overlooked. A concentration of industries which was extremely good so far as the mere product of the industries was concerned would be a very bad one if it compelled a large part of the people of the world to live on the Antarctic continent. If we adhere to the phrase adopted at the beginning of this section, and say that co-operation enables man to make the best use of the various qualities possessed by different parts of the earth's surface, we seem to be on fairly safe ground.

In practice, of course, the question is never presented as a whole. The past course of the world's development has resulted in a certain distribution of people and industries over the face of the earth, and it is obviously undesirable to make, or rather to attempt to make, any very enormous change in it suddenly, even if we think we know that a wholly different arrangement would be best if we were to start with a *tabula rasa*. We are actually more in the position of the farmer we mentioned just now, who comes into possession of a farm already provided with a homestead in a particular spot, and already divided into fields, each of which has had certain qualities given to it by the past labour of man, so that it is more appropriate for some purposes and less appropriate for others than it would have been if left in its natural state. Such a cultivator has not to consider the very difficult questions of what would be the best position for the homestead and what would be the best distribution of the whole area of the farm between different kinds of cultivation if he could, as he would say, "start the whole thing fresh," but only the much easier questions of whether it would pay him to take down and remove the homestead to another situation and alter the acquired qualities of all or some of the fields, as, for instance, by ploughing up the pasture and converting the meadows to arable cultivation, or by removing some of the hedges or walls in order to redistribute the area on new principles. In the same way, if we take the world at large at any particular moment, we find people already settled in certain proportions over its area, with their homes and work-places already built, and the land, or most of it, already adapted by the past labour of mankind to various uses. We find, too, that the population of the globe, consists of various races, for the most part concentrated on particular continents and in particular countries, and that these races are of very various powers or in very various stages of development. It would obviously be impossible, and undesirable if it were possible, to make any great, sudden redistribution of these people, their homes, and their industries. All that mankind has to do is to change things very gradually in the right direction. It was, for example, never necessary to remove the iron-workers of Sussex or the woollen-workers of Wiltshire to Yorkshire: the redistribution was quietly accomplished by the rise and growth of these occupations in Yorkshire, coupled with the dying out of the iron-workers in Sussex and the absence of increase among the woollen-workers of Wilts.

The names “territorial division of labour” and “localisation of industry” have sometimes been applied to co-operation which involves the concentration or, as perhaps it would be safer to say, the unequal distribution of industries on the face of the globe.

2. The second great advantage of division of labour is that it enables labour to be so distributed between different persons that their original or natural qualities may be best utilised. According to the old distich, “Adam delved and Eve span,” but this is a fourteenth century anachronism. Modern research rather suggests the probability of Adam having been a thorough “gentleman” of sporting proclivities, while Eve did any heavy work which had to be done. There is not much reason for believing that primitive man arranged co-operation in the most satisfactory way so far as this advantage is concerned; the strength of the strong was apt to be utilised not in carrying the heaviest burdens, but in forcing them on the backs of the weaker. Nevertheless, at any rate in times of stress, the advantage of distributing the whole of the work to be done among the old men, the young men, the women, and the children in such a way as to make the best use of their respective powers must have been apparent even to the most primitive barbarians. A very little consideration is necessary to make us see that this rough division can be improved by taking into account the various natural qualities of the different persons in each of the four classes. In each class we find great and little strength and stature, great and little mental ability. Examining still more minutely, we find that some have the particular strength of mind or body appropriate for some particular kinds of work, while others have the strength required for other kinds of work. Obviously it will be better to divide the whole of the work to be done between all the workers concerned in such a way that the work requiring great strength is given to the strong, work requiring dexterity of mind to the clever, and so on, as far as possible. The proviso “as far as possible” is necessary because, just as it is not true to say everything must be done in the place best fitted for it, so it is not true to say everything must be done by the person best fitted for it. Often the person best fitted for one kind of work will also be the best fitted for another kind of work or for several other kinds: he must then be allotted the labour which it is best he should perform when the special capabilities of all the workers, including himself, are taken into consideration. Some of the work will then necessarily be allotted not to the person best fitted for it, but to the second, third, fourth, and fifth best fitted.

In practice this advantage of division of labour is inextricably mixed up with the third, to which we now proceed.

3. The third advantage of division of labour lies in the fact that it enables much greater skill and dexterity of hand and brain to be acquired for each of the various occupations. “Jack of all trades” is proverbially “master of none.” A person who had

to supply all his own needs would have to do so many things that he could not expect practice to make him perfect at any of them. When different kinds of labour are allotted to different persons, so that the whole or greater part of the working time of each is given to one or at any rate a few kinds of labour, each acquires in a high degree that special dexterity required for his particular work which is obtained by practice. Furthermore, it becomes possible to give to each person the perhaps more important kind of skill and dexterity which is to be obtained by education or deliberate training. Human life is far too short to make it worth while to give individuals the elaborate training necessary for more than one of the more difficult employments. To train a man adequately for one of them takes a large slice out of his life. Evidently there is great economy in training each person for at most a very few employments. This is specially remarkable in what is generally called "scientific research." In modern times discoveries of new means of utilizing natural forces are not to any great extent made by accident, but are for the most part the result of investigations which could only be carried on successfully by men who have spent not years, but decades, in being trained and training themselves.

This advantage is necessarily mixed up with the second, because when once particular qualities have been acquired, it does not matter whether they have been acquired by training and practice or are the result of "original" or "natural" characteristics. At any particular moment we find the persons who form the population of the globe endowed by nature or education with certain qualities, and the problem before mankind is to make the best use of these qualities, regardless of their origin.

So it must often happen that persons whose natural or original qualities marked them out for some one occupation can best be retained in some other occupation for which they have as a matter of fact been trained. To secure the fullest advantage of the possibility of dividing labour according to the natural qualities of the workers it is necessary to distribute the required education and training in the best manner. Under any conceivable circumstances this would be a difficult thing to do, even if the future could be exactly foreseen in all its details. But the future cannot be exactly foreseen, and this increases the difficulty of securing even an approximation to a correct distribution of persons between the various occupations in accordance with their natural and acquired characteristics.

4. The fourth advantage of division of labour is that it greatly facilitates the acquisition and retention of the sum of knowledge which is transmissible from one generation to another. This is quite distinct from the advantage of skill and dexterity just discussed. Skill and dexterity enable people to use known processes effectively, but knowledge reveals the processes themselves. Without division of labour the inventions and discoveries which have made modern man's power over the forces of nature so much greater than that of his remote ancestors could not have been made, because no man would have had time to specialize sufficiently in the particular lines of study required. When the knowledge has been once acquired, it would often be lost if it were not for the existence of books and instruments which could not be produced without division of labour. In other cases the retention of the knowledge in the world is only effected by means of the exertions of a class of educators, which, again, could not exist in the absence of division of labour.

5. The fifth advantage of division of labour is that it economises tools and machinery of all kinds, including the buildings in which work is carried on. By this we mean that it makes a given amount of machinery "go farther," or be more effective, and so makes it advantageous to mankind to provide itself with machinery which would otherwise be too costly. Every one has experienced difficulties from the want of appropriate tools when he has attempted quite simple jobs outside his own trade or profession. "Jack of all trades" is not only unskilful, but also ill-provided with tools. Evidently if every one had to do all kinds of work, it would have to be done for the most part with very much less effective tools and machinery than at present. As things are, these things can be liberally provided, even when costly, because the division of labour allows them to be kept in continuous use, which would be impossible if every one had a complete equipment of each.

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CHAPTER IV

Population

To the Isolated Man in possession of the whole world there could be no question of Population—of too many or too few human beings. If we suppose the world inhabited by large numbers of isolated men, men that is to say who did not co-operate, the question would be present, but in a very simple form. Each man could only be benefited by the existence and consequent actions of the others in an incidental way, as, for example, he would be benefited by their killing off tigers or snakes to protect themselves. On the other hand, he would be injured by their occupation of land and catching of beasts which would be useful to him, and the greater their numbers the worse his position would be: obviously, the more numerous the human beings, the less land there would be for each, so that each man would have a smaller command of space and materials for agriculture and other industry. It would seem probable that this disadvantage of large numbers would much more than counterbalance its incidental advantages in all ordinary circumstances.

The existence of co-operation modifies the situation very greatly without making any fundamental alteration. The advantage of having a number of neighbours becomes more than a matter of freedom from attack by wild beasts killed by those neighbours entirely for their own purposes. Co-operation being established, people enjoy the advantages of it, which we have already described, and the more people there are the greater can be the advantages derived from it. But there must always be a point at which the advantages are just counterbalanced, and beyond which they are more than counterbalanced, by the disadvantage of less space and materials per man. The disadvantage of putting "too many" people on a given space of ground has been observed from the very earliest times. "Abram," we are told, "was very rich in cattle… and Lot also, which went with Abram, had flocks and herds and tents, and the land was not able to bear them, that they might dwell together… and they separated themselves the one from the other." If people had imagined they could live in unlimited numbers on any given area they would have squeezed themselves all into a fertile field just outside the Garden of Eden, or on the slope of Ararat, or wherever the original home of the human race may have been, instead of spreading all over the globe. If it is thus obviously possible to have over population on a portion of the earth's surface, it must also be possible to have it on the earth as a whole, which is only made up of its several parts.

Put in this way the theory of population seems to be little more than a very obvious generalization which scarcely admits of discussion. But it has a rather complicated history, without some knowledge of which it is difficult to understand the form which modern discussion of the subject usually takes in economic works.

We need not go back very far. The ancient Greek philosophers regarded population from a point of view which was quite different from that of the modern economist.

They were interested in what are called political rather than economic questions, and their politics were the politics of small city states. So they inquired how many people could be properly governed in a city state, but not how many should live on a given space of land in order to bring about the best economic results. The population of any considerable territories known to them probably did not increase perceptibly enough to make them ask whether it should ever stop, and if so, when. In the Middle Ages, too, throughout Europe population did not increase fast enough to make people think about the question whether it was desirable that it should go on increasing indefinitely. What we find is very frequent complaints of depopulation couched in such a form as to imply that no one could possibly imagine depopulation to be a good thing. In the seventeenth century growth of population was visible in England, and persons interested in the colonization of Virginia tried to show that it would be much better if large numbers of people were shipped across the Atlantic, but their arguments did not lead to the emergence of any general theory. In the eighteenth century the great wars led each nation to desire the largest possible population without thought for the economic consequences.

As one who wrote towards the close of that century observes, “Population! Population! Population at all events!” was the universal cry throughout Europe.

The history of the population theory, in fact, only goes back to the middle of the eighteenth century, when its origin is to be found in the controversy which then took place between certain scholars about the population of the world, or rather the “populousness of ancient nations.” Some writers contended that the number of people was much greater in ancient than in modern times. Others, among whom Hume was pre-eminent, took the opposite view. It was only natural that some of the disputants should, in the course of discussion, hit on the plan of enforcing some argument by showing how rapidly population would increase if human fecundity had full scope and mortality were normal. Robert Wallace did this in 1753 with the object of showing that there was no difficulty in supposing that the population had increased so much between the Deluge and the time of Alexander the Great as to be greater at the end of that period than it actually was in the eighteenth century. He constructed a table showing that if we suppose six children to a marriage and a mortality which destroys two of them before they have time to become fathers and mothers, the total population will increase in 1,233 years from two persons to over four hundred and twelve milliards (412, 316,860,416). Such a table makes it very obvious that, as Wallace says, “there has never been such a number of inhabitants on the earth at any one point of time, as might have been easily raised by the prolific virtue of mankind.” It also leads to the inquiry “What are the circumstances which have repressed the growth of population ?” and to the further inquiry “Can these repressive influences be removed ?”

Some of the circumstances, Wallace decided, were physical, and independent of the volition of man. Others were due to the errors and vices of mankind, and might be largely removed by better government. But they could not be altogether removed even by a perfect government.

"Under a perfect government," he says, "the inconveniencies of having a family would be so entirely removed, children would be so well taken care of, and everything become so favourable to populousness, that though some sickly seasons or dreadful plagues in particular climates might cut off multitudes, yet in general mankind would increase so prodigiously that the earth would at last be overstocked, and become unable to support its numerous inhabitants."

Even if "some extraordinary method of supporting" the people were discovered, the inevitable would only be postponed, since soon "there would not even be sufficient room for containing their bodies upon the surface of the earth." It is "certain that limits are set to the fertility of the earth, and that its bulk, so far as is hitherto known, hath continued always the same, and probably could not be much altered without making considerable changes in the solar system." Therefore "the greatest admirers of such fanciful schemes must foresee the fatal period when they would come to an end" in a "catastrophe." Barbarous and unnatural regulations would have to be introduced, and mankind would never agree about them, but would fall to fighting over them.

In his *Essay on the Principle of Population*, 1798, Malthus borrowed this argument from Wallace to use it against the Utopian anarchism of William Godwin. Population, or "the principle of population," as he sometimes expressed it, must, he thought, be kept in check, and all checks resolved themselves into vice or misery, so that no Utopia could be possible. But he was not content, with Wallace, to suppose there must at last be a catastrophe. He thought that "the difficulty, so far from being remote, would be imminent and immediate." He thought so because he was imposed upon by a misleading mathematical Jingle which he had invented "Population," he said, "when unchecked, increases in a geometrical ratio. Subsistence increases only in arithmetical ratio." His one example of an increase in geometrical ratio was doubling every twenty-five years, and his one example of an arithmetical ratio was increasing by an amount equal to the original amount every twenty-five years. If these two series, 1, 2, 4, 8… and 1, 2, 3, 4, 5… are placed side by side, it is obvious that after the second term the first series increases much more rapidly than the second series, and Malthus inferred that there must consequently be "a strong and constantly operating check on population from the difficulty of subsistence." For the doubling of population in twenty-five years he relied on the experience of North America, and here he was on firm ground, since whether the period he gives is longer, as he supposed, or shorter than the reality, there is no doubt that an "unchecked" population would double itself in some short number of years. But for the "arithmetical ratio" of the increase of subsistence—for his assertion that the subsistence could only be made to increase by an amount equal to the original amount every twenty-five years he had no warrant at all. He relied merely on a nebulous supposition. Turning his eyes away from his North American example, where, unless, which there was no reason to believe, the existing people were worse fed than their much less numerous ancestors, subsistence must have increased in the same geometrical ratio as the population, he asked his readers to "take any spot of earth, this island, for instance, and see in what ratio the subsistence it affords can be supposed to increase."

"If," he says, "I allow that by the best possible policy, by breaking up more land, and by great encouragements to agriculture, the produce of this island may be doubled in the first twenty-five years, I think it will be allowing as much as any person can well demand.

"In the next twenty-five years it is impossible to suppose that the produce could be quadrupled. It would be contrary to all our knowledge of the qualities of land. The very utmost that we can conceive is that the increase in the second twenty-five years might equal the original produce. Let us, then, take this for our rule, though certainly far beyond the truth, and allow that by great exertion the whole produce of the island might be increased every twenty-five years by a quantity of subsistence equal to what it at present produces. The most enthusiastic speculator cannot suppose a greater increase than this. In a few centuries it would make every acre of land in the island like a garden. Yet this ratio of increase is evidently arithmetical. It may be fairly said, therefore, that the means of subsistence increase in an arithmetical ratio."

It is doubtful if "enthusiastic speculators" would have admitted that the produce of Great Britain could not possibly be quadrupled in fifty years from 1798, but whether or no, Malthus does not prove his case, since it is clear that produce had doubled and quadrupled within the periods supposed in the North American colonies: if this ever happened anywhere, it must be wrong to lay down as a general proposition that the means of subsistence can only increase by equal amounts every twenty-five years. Moreover, even if we confine the proposition, as we may suppose Malthus unconsciously did in his own mind, to countries already as thickly peopled as Great Britain was in 1798, he resembles the candidate in geometry who claimed that if he had not exactly proved the proposition set before him, he had at least made it appear highly probable. It might seem highly probable to reasonable persons that the produce of Great Britain could not be quadrupled in fifty years, and certain that it could not go on being doubled every twenty-five years thereafter. They might even be tolerably sure that it could not be increased every twenty-five years for the next century by more than an amount equal to the produce in 1798, and certain, though Malthus does not suggest this rather obvious reflection, that it could not go on indefinitely increasing, even by equal amounts every twenty-five years. But some one might ask, "Why not? With every mouth God sends a pair of hands, as the proverb says, so why should not the increased number of people be able to grow a proportionately increased amount of produce? Or even more, seeing that they would be able to draw greater advantage from division of labour?" Malthus' argument gives no answer to these questions except what is obscurely implied in "it would be contrary to all our knowledge of the qualities of land." Common knowledge of the "properties of land" tells us that it would be impossible to get an infinite amount of produce from any limited area, even if we could increase the amount of labour expended on that area indefinitely. It also tells us, which is more important for practical purposes, that the amount of additional produce which can be got by equal additional amounts of labour expended on the limited area will begin to diminish before, and often, perhaps we might say generally, long before the point is reached at which additional labour would bring in no additional return at all. The truth was well expressed in a criticism which Turgot wrote upon an obscure essay sent in for a prize offered by the Royal Agricultural Society of Limoges about 1768. He says:—"Seed thrown on a soil naturally fertile but totally unprepared would be expenditure almost entirely wasted. If the ground were once tilled the produce would be greater; tilling it a second and a third time might not double and triple but quadruple or decuple the produce, which will thus augment in a much larger proportion than the expenditure, and that up to a certain point, at which the produce will be as great as possible compared with the expenditure. Past this point, if the expenditure be still increased, the produce will still increase, but less and less, and always less and less, until the fecundity of the earth being exhausted, and art unable to do anything further, an addition to the expenditure will add nothing whatever to the produce."

The statement, of course, applies to some or any one given time, so that it excludes the consideration of the changes in man's knowledge and other circumstances which will from time to time alter the position of the "certain point, at which the produce will be as great as possible compared with the expenditure," and also the position of the ultimate point at which the fecundity of the earth is exhausted and art unable to do anything further, so that "an addition to the expenditure will add nothing whatever to the produce." In fact, the knowledge and circumstances of mankind are continually changing, and very often, probably in the majority of cases, the change is of such a nature as to shift the points in the direction which is favourable to the productiveness of additional labour. Hence common knowledge of the properties of land, while it does tell us that population cannot, at any one time, be greater than a certain size without causing the returns to industry to be less than they might be, certainly does not tell us that population cannot double itself in twenty-five years, treble in fifty, and quadruple in seventy-five, nor even that it cannot double every twenty-five, quadruple in fifty, and octuple in seventy-five years without causing any diminution of returns. The most we can say is that such rapid progress is unlikely to go on long, and certain not to go on for ever.

Malthus himself never attempted to bring his theory of population into close relationship with the law of production laid down in the passage just quoted from Turgot. Though the law must have been latent in the mind of every prudent farmer with sufficient means to over-cultivate if he wished to do so, and though it was, as we see, clearly stated by Turgot in 1768, its history does not really begin till 1814. At that time much discussion took place in England about the new duties on the importation of corn which were supposed to be required in order to keep the price of corn up to what was considered a remunerative figure. Moderate men thought this would be about 80s. the quarter for wheat, but most agriculturists seem to have demanded a good deal more. The dispute led people to give some attention to the cost of cultivating the new land which had recently been taken into cultivation in consequence of the high prices which were brought about by bad seasons and increasing population, little or no importation being possible during the war. All authorities agreed that the cultivation of the new land was highly expensive. The high protectionists thought this a great argument in their favour, since, if the prices fell, the new land could not be kept in cultivation, and then, they said, less corn would be produced and its price would rise again. To this Malthus, Ricardo, and a much less well known but excellent writer, Sir Edward West, all replied in effect that the recent rise of price was the result of the new land being worse than the old, and that if some corn were imported, cultivation could be confined to better land on which the cost of production and the price would be lower, so that the effect of allowing importation would be to lower rather than to raise the price.

To explain their thesis both Ricardo and West wrote brief imaginary histories of the progress of cultivation, illustrated with numerical examples, in which they supposed the most fertile and best-situated land to be taken into cultivation first and then the less and less good in regular succession as population increased and required larger and larger supplies. They recognized that the larger supplies could also be obtained by employing more labour on the old land, but whether they were obtained by labour on the new land or by additional labour on the old or, as would happen in practice, partly by one method and partly by the other, the returns to a given amount of agricultural industry would be diminished. West says:—

"The… principle… is that each equal additional quantity of work bestowed upon agriculture yields an actually diminished return, and, of course, if each equal additional quantity of work yields an actually diminished return, the whole of the work bestowed on agriculture… yields an actually diminished proportionate return. Whereas it is obvious that an equal quantity of work will always fabricate the same quantity of manufactures."

This "principle" of West's received the rather unfortunate title of "the law of diminishing returns in agriculture." The diminution of returns, it was seen, might be prevented from actually taking place by what were called "improvements," that is to say, inventions and the introduction of better methods, but it was supposed that the effect of these changes was merely temporary, and could not prevail in the long run against the general principle, so that diminishing returns was the general rule throughout history. This is so contrary to the results of direct observation that it seems difficult to believe that it could ever have been accepted, but it was supported by the erroneous theory of profits generally held at the time, which led people to suppose that the historical fall in the general rate of interest which had taken place was a proof of diminution of returns.

The doctrine of 1814 that growth of population produces a "tendency," in the sense of a general drift only temporarily interrupted by "improvements," towards a diminution of the returns to a given amount of industry expended in agriculture was not a "law" at all, but a hasty and erroneous generalization founded on observations made in an exceptional period of English history. When the memory of that gloomy period began to fade away, writers began to point out that, as a matter of fact, in spite of the great increase of population, the returns to agricultural industry had, in the general course of history, increased enormously. One of them says:—

"In 1389, in securing the crop of corn from 200 acres, there were employed 250 reapers and thatchers on one day and 200 on another. On another day in the same year 212 were hired for one day to cut and tie up 13 acres of wheat and I acre of oats. At that time 12 bushels to an acre were considered an average crop, so that 212 persons were employed to harvest 168 bushels of grain, an operation which could be accomplished with ease in our time by half a dozen persons."

Statistics of this kind are difficult to obtain, and not always trustworthy, but no reasonable person can have any doubt that the productiveness of agricultural industry has enormously increased. The population of the civilized world is much better fed, and yet has to spend far less a proportion of the whole of its labour on the acquisition of food. If agricultural returns diminished, and yet the people continued to be equally well fed, a larger and ever larger proportion of the world's labour would clearly have to be expended in producing food.

When no longer able to ignore the historical increase of returns to agriculture, those who were determined to take a gloomy view of the effects of growth of population shifted their ground by saying that they did not mean that it caused a tendency to diminution of returns in the sense of a general drift, subject only to temporary interruptions, towards diminution of returns, but that it tended to diminish returns in the sense of causing the returns to be less than they otherwise would be. The growth of population, it was supposed, always tended to diminish agricultural returns, although "improvements" or, as J. S. Mill said, "the progress of civilization," had in the course of history more than counteracted this force, so that though returns had actnally increased, they would have been still greater if population had not increased.

This is clearly untrue if it is applied to the whole history of mankind. It would be absurd to contend that the productiveness of agricultural industry would be greater now than it actually is if the population of the world had remained at two, or whatever other small figure we suppose it to have started from. The "improvements" which have taken place would certainly not have been discovered and introduced if the population had remained so small. But if the doctrine is applied, as Mill seems to have meant to apply it, only to fairly recent times, it does not appear to be possible either to prove or disprove it. Mill coolly assumed that all the improvements which have been made would have been made just the same if the population had not grown. We cannot assume that, and we have no means of finding out exactly what would nave been the position in that respect in Mill's time if the population of the world had remained at the same figure as it had reached in 1800, nor what would be the position now if the population had become stationary at the figure it had attained when Mill wrote in 1848 and which he considered great enough.

Of course the question of the desirability or undesirability of increase of population cannot be settled entirely by its effect on the returns to agricultural industry. Man does not live by bread alone, but requires all sorts of other commodities. The law of diminishing returns was put forward as applicable only to agriculture and other "extractive industries," such as mining, which were regarded as directly dependent on the fertility of the soil. In other industry, especially manufacturing industry, it was supposed that division of labour led to increasing returns when larger quantities of produce were raised by increasing numbers of workers.

Thus it had to be admitted that an increase of population, while tending to diminish returns from agricultural industry, at the same time tended to increase returns from manufacturing industry, so that a balance had to be struck between the effect of the two tendencies: the returns to all kinds of industry taken together would only diminish when the diminution in agriculture was great enough to outweigh the increase in manufactures. It seems difficult to believe that any one could have supposed that this was ordinarily the case, but the theory of profits already referred to required those who held it to think that a diminution of returns, at any rate in all the industry which produces things for the labouring classes, was proved by the historical fall of the rate of interest, and the practice of identifying wages with food which prevailed in the earlier part of the nineteenth century led to the weight of agriculture being grossly overestimated. Consequently it was held that increase of population tended to diminish the returns to all kinds of industry taken as a whole, and the gloomier writers of the time believed that it had actually done so.

What is wanted now is to throw aside the sharp distinction which was drawn in 1814 between agriculture and manufactures. Turgot's law is just as true of manufactures as of agriculture. At any given time (or if the reader prefers, circumstances remaining unchanged) increase of labour up to a certain point is attended by increasing proportionate returns (called for short increasing returns) and beyond that point further increase of labour is attended by diminishing proportionate returns (called for short diminishing returns). Mankind cannot produce an unlimited amount of calico any more than an unlimited amount of wheat. It would be impossible to produce more than a certain amount, however many persons were engaged upon the production: and long before that amount was reached, the amount of additional calico which could be produced by each unit of additional labour would begin to diminish. At any given time, or, which comes to the same thing, knowledge and circumstances remaining the same, there is what may be called a point of maximum return, when the amount of labour is such that both an increase and a decrease in it would diminish proportionate returns. It is a crude and barbarous idea of agriculture which represents it as almost entirely dependent upon original fertility of soil and footpounds of human muscular energy, and as scarcely affected at all by the world-wide co-operation of mankind which provides it with appropriate tools and suitable seed, and combines the products of different regions so as to make them wholesome or palatable to the consumer. The most we can say in contrasting agriculture and manufacture is that the advantages of producing a large aggregate quantity and therefore the advantages of a large population to produce and consume the large quantity are more obvious in manufacture than in agriculture. If we measure returns from the starting point of *nil* suggested by the historical progress of population and assumed by Malthus, West, and Ricardo in 1814, we can say that in both agriculture and manufacture returns increase up to a certain point, and beyond that point they decrease. If we start from what I have called the point of maximum return, we can say of manufacture as well as of agriculture that returns diminish as we move in either direction from that point.

If we suppose all difficulties about the measurement of the returns to all industries taken together to be somehow overcome, we can see that at any given time, or knowledge and circumstances remaining the same, just as there is a point of maximum return in each industry, so there must be in all industries taken together. If population is not large enough to bring all industry up to this point, returns will be less than they might be, and the remedy is increase of population; if, on the other hand, population is so great that the point has been passed, returns are again less than they might be, and the remedy is decrease of population.

It is very important not to fall into the error of supposing that the point of maximum return remains permanently fixed, either for particular industries or for industry taken as a whole. The position of the point is perpetually being altered by the progress of knowledge and other changes. The discovery of the principle of rotation of crops and the invention of steam locomotion on rails, coupled with the provision of the requisite appliances, not only made increase of population possible without diminution of returns and consequent deterioration of wealth, but also made or tended to make that increase desirable. These changes shifted the point of maximum return, pushing it farther along in the direction favourable to large population. Hence it is quite possible that the world was over-populated in some past age when there was not a tithe of the present number of people on the globe, and that all the same it is not over-populated now. In the meantime the point of maximum return may have been shifted.

The course which the development of theory on this subject has taken has led to the use of a great deal of very unsatisfactory phraseology which ought to be discarded once and for all. Writers have said that "the law of diminishing returns had not come into operation," when they only meant that returns had not begun to diminish, and they have spoken of the law "undergoing a temporary supersession" when they meant only that returns had left off diminishing for a time. They have talked of "commodities which obey the law of diminishing returns" when they meant commodities the supply of which could not at the moment be increased without a diminution of returns, and of "commodities which obey the law of increasing returns" when they meant commodities of which some increase of supply would be at the moment accompanied by increased returns. They have even imagined an intermediate class "obeying the law of constant returns." All these expressions involve misuse of the term "law." A scientific law should be true at all times and places, and should not be liable to "temporary supersessions" or failures to come into operation, nor capable of being suddenly replaced by a contrary law. No one says that the law of gravity had not come into operation in regard to Newton's apple until it broke from its stalk, nor that the law would have undergone temporary supersession if Newton had caught the apple as it fell. Nor do we say that a falling balloon is "subject to the law of gravity," but a rising balloon is "subject to another law, that of rising bodies," while a balloon which remains at the same level is "subject to the law of constant height."

If we take the point of maximum return as the starting-point, we can say that returns diminish in either direction, and that all commodities or industries are always and everywhere subject to this "law of diminishing returns." It is possible, however, that the misleading associations of the term make it desirable to adopt the suggestion of M. Gide by abandoning the term "diminishing returns" in favour of the neutral phrase, "non-proportional returns."

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CHAPTER V

The Social Order

We have seen how the material welfare or wealth of Isolated Man must depend on his original qualities, on the improvements he has effected in them and in his outward environment, and on his judgment and will in using his powers and environment. We have further seen that the wealth of Society depends on the same factors, and, in addition, on the completeness of co-operation and on the closeness of population to the point at which it should be in order to give the best results. In order that the position of Society may be good in respect of all these conditions, it is necessary that Society should be well organized—that it should have suitable machinery for securing that the original powers of the people shall be great, that they and their surroundings shall be sufficiently improved, that co-operation shall be properly developed, that population shall approximate to the appropriate size, and that proper decisions shall be arrived at with regard to the amount and direction of the labour of the people.

Some would have us believe that there is at present no organization at all. They use hard words, such as “scramble for wealth,” “suicidal competition,” “exploitation,” “profit-hunting,” and say that the present state of things is “chaotic.” Now whatever our present state may be, however unsatisfactory it is, it is certainly not chaotic. If it were really chaotic, every one who goes to his daily work to-morrow must be a fool, since he would be just as likely to get his daily bread if he stayed at home or went elsewhere to amuse himself. The very fact that we know as well as we do that certain results will almost certainly follow upon a certain course of action shows that we are not living in chaos. Our system may be a bad system, but it is a system of some sort: it is not chaos. If a man holds a book too close to his nose, he cannot read it, and so it is with the world of industry. If we look at it from too close a standpoint we can only see a blur. Gladstone complained that Bonamy Price proposed to legislate for Ireland as if he were legislating for the inhabitants of Jupiter or Saturn, and this has given rise to the saying that “Gladstone banished political economy to Saturn.” Let us adopt the suggestion conveyed in Gladstone's metaphor and imagine a committee of the Economics Section of the Saturnian Association for the Advancement of Science reporting on what they had been able to see of affairs on our planet through a gigantic telescope big enough for them to see human beings moving on its face. Would they be likely to report that poor Mundus seemed quite chaotic ? Would they report that every one was scrambling for himself to the disadvantage of every one else in such a way that the general good seemed entirely neglected ? Would they say that all the land in the most convenient situations was lying idle, that nobody had a roof over his head, and that every one was running about aimlessly or sitting idle in imminent danger of starvation ? They might report something of this kind if they could carry on a conversation with certain people here and believed all they were told, but certainly not if they judged by their own observation.

They would be much more likely to report that they had seen a very orderly people cooperating on the whole with a wonderful absence of friction—that they had seen them come out of their homes in the morning in successive batches and wend their way by all sorts of means of locomotion to innumerable different kinds of work, all of which seemed to fit somehow into each other so that as a whole the vast population seemed to get fed, and clothed, and sheltered. They would not, of course, vouch for the perfection of the arrangements. They would see that there were occasional irregularities and hitches. They might see now and then too many vehicles in one street, too many passengers trying to travel by one train or tramcar. They might even see along our English country roads the melancholy spectacle of men tramping in both directions evidently in search of the same kind of work. They might be able to see that some had too much—more than they seemed to know how to dispose of without hurting themselves and others—while some evidently had too little for healthy and happy existence. But in spite of these defects, they would report, I think, that on the whole the machinery, whatever its exact nature, seemed to do its work fairly effectively.

And if we can imagine them able to go back five hundred or a thousand years, we can feel tolerably sure that they would report still more favourably, since they would then see that enormous improvement had taken place and would discover no appearance of any change which would suggest that the existing system is not the outcome of an orderly development of the institutions of the past.

I insist so strongly on the fact that our existing machinery does work, not with any idea of contending that all is for the best in the best of all possible worlds, but because I think that in order to get any proper hold of economics it is necessary to begin by considering, not the defects of the machinery, but the main principles involved in its construction and working. We are apt to begin with the defects because it is they that strike our eye and often excite our sympathy. Seven per cent. of unemployed are much more likely to make us start thinking about economics than the other ninety-three who are in employment. The emaciated corpse of a single person starved to death naturally makes more impression on our minds than the comfortable bodies of a hundred thousand sufficiently fed citizens. But if we want thoroughly to understand the reason why work and food do not quite "go round," we should begin by endeavouring to discover what, after all, certainly does not explain itself —why they go as far round as they do. If we grant that there is an organization, the next question is, "What is it?" It is certainly not merely "the State." In modern times we become so accustomed to all institutions being defined and modified from time to time by the States within the Jurisdiction of which they exist, that we are apt to regard them all as springing from the State and dependent upon its existence for their origin and development. But this is wrong. There are economic Institutions which are older than the State, at any rate in the sense in which we use the word at the present day, and there are others which have come into being and developed under the ban rather than under the patronage of the State. Moreover, some of them cover the whole world, or at the least far wider areas than any State of the present or past. In dealing with the most Important of the institutions on which our existing economic organization is based, it is most convenient to take the State as the third, the Family and Property being the first and second.

We are sometimes inclined to talk as if the Family had been entirely superseded by the Individual in modern economic organization. This is a complete mistake, arising from forget-fulness of the fact that at least one-third of the population of the globe consists not of individuals in the sense of independent adults, but of children regarded by older people as too young to be allowed to do what they like. It is true that the work actually done by children is not of much importance. The world would not suffer much in the next twelve months if all child-labour were entirely cut off for that period. But the children themselves are of paramount importance because it is from them only that the adults can be recruited, and for the most of mankind childhood is the period during which it is settled whether the person shall be industrious or idle and what he shall work at so far as he does work. By far the greater number of men and women have acquired the habit of industry because they were persuaded or driven to work by influences brought to bear on them by the Family when they were still children. These influences, of course, are multifarious; some are typified by the kiss of the mother, some by the stick of the father; some consist in the gibes of elder brothers and sisters, some in the appealing cries of hungry younger ones. Taken all together, these family influences are so powerful that modern States find it necessary to make many regulations and employ many inspectors to prevent children from being overworked. How uniformly the habit of industry, once acquired in childhood, remains with the adult, is shown by the frequency with which we find ourselves attributing idleness in adults to the accidental absence of the normal family influences. Within the Family, too, as a rule, is made the decision which governs the allotment of the person to some one profession or occupation. Every grown man or woman is doubtless legally free to choose his or her occupation and to change it as often as he or she pleases, but legal freedom is generally not of much use after childhood is over. This might not make much difference if the parents always chose for the child just as the child would choose if it had experience before the choice took place. But that hypothesis is far from being a true one: the distribution of persons between the various occupations is influenced in the most important manner by the fact that parents often cannot, and often will not when they can, choose for their child the occupation which he would choose for himself if he were perfectly well-informed and capable of making the selection which seemed to him best in his own interests.

To say that the Family regulates population looks at first more like a physiological truism than an economic proposition, But it is not to be denied that the economic solidarity of the family has an important influence on the number of births and the number of persons who survive childhood. What, however, the precise influence is, and how it works, is at present so obscure that it seems useless to attempt to elucidate it in a work like the present.

We now proceed to the second of our three great economic institutions, Property. I do not say Individual Property, because a great deal of property is the property of groups of persons—groups of more or less magnitude from Nations downwards. I might say Separate Property, but that might mislead, as it is sometimes confused with individual property, and it is doubtful if there is much force in the word “separate,” since if Mankind held everything jointly the idea of property would scarcely be needed.

However far we try to carry our minds back, we call scarcely imagine a time when individual property in movable things was unknown. The very first beginnings of some sort of orderly society involve a recognition of the “right” of a person to retain the share of booty or produce which has been allotted to him either by mere circumstance or by some authoritative decision. As soon as weapons and tools begin to be used, it is inevitable that one person will be in the habit of using one and another person in the habit of using another weapon or tool, that each will resent any one else using what he has come to call “his” weapon or “his” tool, and that disinterested spectators will sympathize with him., We can see this exemplified in any nursery at the present time, and we can conjecture from the example of the nursery that the public sympathy and consequent general recognition of the “right” comes from a respect for custom, that is, from man's proper dislike for seeing things changed without good reason. The children can scarcely have been infected with the adults' ideas of property, since to the adults the whole of the things concerned appear to belong to the parent.

The same feeling must have arisen with regard to dwelling-places as soon as man began to have any, and to pay some respect to order. A person who had secured a comfortable cave or lair under a bush for even a single night would be more annoyed if on returning the next night he found it fully occupied by some one else than if he had found another cave so occupied. If he had held it undisturbed for many nights, he would be still more incensed, and if any general respect for custom had grown up, he would be sure of the sympathy of the disinterested, It would of course make no difference whether the occupation was by an individual or by a family or larger group. Sympathy would be felt with the dispossessed group just as much as with the dispossessed individual.

The idea of property in Land does not appear to come quite so early. Primitive mankind was in much the same relation to the Land that mankind at present is in relation to the Sea. The men were few, the land was big; the number of men using the land was not large enough to make them any appreciable inconvenience to one another. But when numbers grew, each group of human beings living together and in communication with each other began to feel itself menaced by and therefore to resent the appearance of strangers in the district over which they were accustomed to roam, and which they had accustomed themselves to call “their” hunting grounds. In regard to land, however, there was much less possibility of sympathy from disinterested persons than in regard to movables. The dispute involved two whole groups, one of which was interested in making, and the other in resisting the invasion. Opinion outside these two groups would be distant (having regard to the facilities of communication) and probably ill-informed, especially if languages differed. Moreover, the causes of dispute were not so simple in themselves. There is not likely to be much difficulty in ordinary cases in deciding who is the person usually in the habit of carrying a particular bow or spear or of occupying a particular cave or house. But there may easily be great difficulty in deciding whether one or another group is the one which usually hunts in some particular valley or on some particular mountain side. Quarrels were frequent, and could only be settled by a trial of forces between the two interested groups. If the victory of one side was decisive, it often led to some sort of incorporation of the vanquished which led to the amalgamation of the two territories into one, so that now a larger territory would be held under one authority against all invaders. When two territories were amalgamated into one, it would not necessarily or probably follow that the whole territory would be one property: much more often the old line, or a more accurately defined line, of demarcation would be preserved, or in some cases it would even happen that entirely new divisions of the territory might be made for its convenient use by several groups, each under a subordinate authority or in some way united together and divided from the rest. The land held by each of these groups is "theirs" in a somewhat different sense from that in which the land of all the groups now under one authority is "theirs." It is their property, while the whole land is their country or territory.

It was long before the difference between propertj in land and territory was grasped: it is scarcely grasped at the present time 10 many minds when acquisition of territory by a sovereign state is in question. But in practice the distinction has been recognized ever since conquest or other acquisition of territory ceased to carry with it the entire dispossession of the proprietors of the land annexed.

While the territories of small groups, defended only by force of arms against external aggression, were thus being transformed into their collective property, recognized by the governing authority of the larger territory of which they now formed a part, the idea of property in land was gaining strength in another direction owing to changes within the areas occupied by the small groups. The site of a house with some small curtilage must necessarily be subject to the same ideas as the house itself so far as the "right" to undisturbed occupation is concerned. It is practically difficult to differentiate the house and its site. So people early began to regard the homesteads as "theirs" and to be supported by the authority of the group in maintaining their position not only against outsiders but even against other members of the same group. But at first there could be no similar ideas with regard to the rest of the land of the group; land being plentiful and men few, a single person or family would not be likely to claim a particular stretch of land as land which it had occupied, and which, therefore, should not be touched by others. In search of game every man would desire to roam over the whole of the land wherever the quarry happened to take him. So, too, pastoral people would turn out their flocks and herds with the idea that they should all be able to go where they would in search of pasture. Even arable cultivation could be carried on in common by groups consisting of a moderate number of persons without any very difficult problems of organization being encountered. As time went on, however, it was found practically convenient to allow permanent occupation of plots of land for arable purposes by individuals and their heirs, and eventually even the pasture was divided up with the small exceptions which we see in the "commons" of the present day.& The institution of property, whether individual or "group-al" promoted material welfare both by preventing destructive actions and by making it the interest of people to perform productive actions. If we can imagine men existing and living in contiguity without property, we can see that without property the pursuit of individual self-interest and even the pursuit by groups of individuals of their joint interest must lead to destruction rather than production. Self-interest and the interest of the group would lead the individual or group to take the easiest means of satisfying their desires. They would simply take whatever they wanted wherever they found it, just when they wanted it. To take it beforehand would be of no use, since, proprietary rights being supposed non-existent, some one else might take it away again. The only way of making sure of anything would be to secure and consume it before any one else. Such a system or absence of system could only work tolerably where men were few, nature's useful products very abundant, and man's wants confined to game, fish, and a few other things requiring no preparation before use. In other circumstances it is clear that the endeavour of each person or each group to satisfy his or its desires in the shortest possible way must lead to disastrous results. If the game is not enormously plentiful it will be disastrously reduced and probably eventually exterminated by wasteful killing, especially in the breeding season. Unless the vegetable products which man wants are in enormous abundance, the desire of every man to make sure of them will lead to their being plucked before they are quite ripe, as is the case in the present day, in our own country with blackberries growing by the roadside in the neighbourhood of towns. No one will make any provision for the future or prepare any materials for use or construct any tool or other appliance unless he can be quite sure of concealing his proceedings and his product from the eyes of his neighbours.

Property being established, persons and groups find it to their interest to undertake all sorts of productive operations which would not be worth while if they could be interfered with by others. The proprietors of land (whether individuals or groups) can regulate the use of it so that as little waste as possible shall take place.

At first sight, perhaps, property appears as rather a separating than a uniting force: it seems to set up separate interest and thus to divide the people. But as a matter of fact it unites them by compelling and facilitating their co-operation. It compels it, at any rate where there are any persons without enormous stretches of landed property, because small patches of land do not contain all the requisites of existence, and so if a person has only a small patch he must obtain some things from other people. If he has no land at all, it is still more obviously necessary that he should make terms with others in order to satisfy his needs. Property facilitates co-operation by making it depend upon innumerable separate agreements between individuals and groups of individuals instead of on decisions arrived at by Society at large, acting through some kind of world-wide authority. I say a world-wide authority because we must not forget that cooperation is at present world-wide. It is by no means to be regarded as a merely national affair. An immense amount of co-operation is carried on between the inhabitants of different countries with different sovereign governments. The nature of this co-operation is to be discovered chiefly in the returns of the various custom-houses, which reveal the kinds and quantities of goods imported and exported. We find that the people of England co-operate with the people of every other country in the world. The people of England somehow manage to agree with these other peoples so that a long list of exports is produced by the people of England for the use and consumption of the other peoples, who, in return, produce for the people of England the long list of imports. The co-operation by means of mere immediate exchange of goods for goods is evidently enormous, and often includes absolute necessaries of life, so that in its absence some of the countries would cease to be inhabited. Moreover, this simple immediate exchange of goods for goods is no longer the only kind of co-operation between the inhabitants of different countries. It now often happens that the inhabitants of one country lend things to the inhabitants of another country, taking in return periodical payments in the produce of the second country. This loan of goods is as much entitled to be called co-operation as the Immediate exchange of goods. Further, much co-operation between the inhabitants of different countries now takes place in the form of supervision or direction by persons residing in one country of productive operations carried on In another.

The whole of this co-operation is dependent on the existence of the institution of property in the various countries concerned. Property is by no means exactly the same in all its qualities and incidents all over the globe. Different ideas prevail in different countries and are embodied in the laws and customs which are enforced by the various governments. But there is sufficient similarity to make it possible for "business to be carried on" without unpleasant surprises being too frequent.

The State in its earliest manifestations appears, like the Family, as a group of persons: it was, in fact, scarcely more than a somewhat wider Family. Relics of this may still be found in the fact that parentage still often confers citizenship, wherever the child may happen to be born, and in the fact that States claim the allegiance of their "subjects" or "citizens" even when the persons have left the country in which the State is established. But except for such relics the modern State is completely territorialized. We have already noticed the common origin of the ideas of territory and property in land. The two ideas begin to become distinct as soon as groups of persons are united under one authority in such a way that they have a common government without common land. It is only then that a distinction is necessary between "land" belonging to a group of persons and "territory" belonging to a wider group containing within it various groups owning different parcels of land. The wider group and the authority which governs it then become inseparably connected with the territory, and instead of "tribes," "peoples," or even "nations," "countries," represented by "governments" or "States" are spoken of as taking the initiative in all sorts of ways.

Before we try to unravel the part played by these countries or States in economic organization, it will be well to insist on the fact that they are very numerous. It is very misleading to talk as if there was only one State in the world, and so to identify the State and Society. When we speak of "the Family," we do not mean to imply that there is only one family in the world: just so, when we speak of "the State" we need not imply that there is only one State in the world. Even little Europe is divided between about twenty sovereign States. There is no common authority to settle disputes between them, and they are not always capable of setting up a special authority to decide a particular dispute when it arises, and if they do manage to do this, there is nothing to prevent the decision of the special authority being disregarded, though it must be granted that such repudiation seldom takes place. Disputes are consequently often settled, or rather attempts are made to settle disputes, by violence, and destructive wars take place which certainly serve no useful purpose in the general economic organization of Society. Moreover, the possibility of war leads to the permanent establishment of military and naval forces during peace. Since wars have become less frequent and shorter in duration, the cost of maintaining these forces in time of peace has come to exceed enormously the cost of war itself. This is a very serious imperfection in the present organization of Society which should not be ignored. We should regard it as a very serious imperfection in the organization of a "country" if it had no police, so that each person had to go about armed to the teeth and to fortify his house against burglars and other malefactors. The present condition of things as between different States is precisely similar, and should be regarded in the same way.

Even apart from actual war and preparations for war the policy of States is often anti-social. General opinion holds in each country that the policy of the state should be "national," that is, should be directed towards the "good of the country" without regard to the good of "the foreigner" except in a very strictly limited sense which only excludes what are regarded as "barbarous" actions. It is, for example, no longer thought right to eat the foreigner, or even to reduce him to slavery, and States which insist on carrying national policy to such lengths sooner or later find themselves suppressed by some other State or combination of States. But to "tax the foreigner" for purposes which cannot possibly do him any good, and to prevent foreigners from peaceably settling in the country when they want to improve their condition, are considered perfectly legitimate objects of national policy, although they may be and are often admitted to be contrary to the good of the world at large. No one, so far as I know, has ever contended that the pursuit of self-interest by individual States tends invariably to the common good of the whole.

On the other hand, it is clear that the individual self-interest of separate States does lead to a considerable and valuable amount of co-operation between them, and that this amount is continually increasing. Common interest has led them to agree to extradite offenders against each others laws, to arrange for the world-wide transmission of letters and messages, to adopt joint systems for the encouragement of literature and invention.

Inside each country the position of the State is less equivocal. When not in the hands of a mere faction, its influence is always intended to be directed in favour of the organization which is best for the "people" or the "country" as a whole, and though it is often far from clear who the "people" are and what the "good of the country" means, there is no doubt that on the whole, in spite of mistakes and misapprehensions, the modern State plays a most important part in economic organization.

In the first place the existence of the State and the order enforced by it makes it possible for property to play the part in organization which we have already dealt with. We can perhaps conceive a state of things where the co-operation carried on under the influence of the institution of property might exist without any organized authority or government. The whole people might have so much respect for each other's rights, as established by custom, that no one would ever require to be restrained from invading the rights of another, even if that other was weaker than himself. But we do not suppose that such a state of things has ever been realized in the past nor that it is likely to be realized in the near future, and if we are right in this, it is clear that the State has been necessary in the past and is likely to continue to be so in the immediate future. Further, even in a society of perfectly just men it would be desirable to have some common authority to make changes when necessary. Otherwise progress would be exceedingly slow, since it would have to be imperceptible. If fast enough to be perceptible, it would seem to violate custom and would, therefore, be tabooed, in the absence of machinery for discussing reasons and passing judgment on them.

In the eighteenth century there grew up a school of thinkers who said to the governments of the time, "*Laissez faire,"* or "Let alone." The more philosophical among them were influenced by the cult of Nature prevalent at the time, thinking that certain institutions were Natural and therefore good, while others were artificial and bad. They wanted the institutions which they thought natural let alone and the others abolished. The practical men (from whom the phrase itself is said to have come) wanted certain institutions which they regarded as harmful abolished, and did not trouble themselves to think of the others. The philosophers' ideas about Nature are now recognized as erroneous, their natural institutions being nothing but slight modifications of those of their own time. To the practical men, the precept "*Laissez faire"* never really meant "Leave everything alone," nor even "Leave all natural things alone," but simply "Leave alone certain things which I think ought to be left alone." The practical men got their way to a considerable extent, especially in England, and therefore it has become the fashion to speak of "the triumph of *Laisser faire,"* of the "*Laisser faire* period," and even of the supposed subsequent "Fall of *Laisser faire,"* But there never was and never can be a State which practises *laisser faire*. The very establishment of a State negatives a policy of complete "Let alone." In primitive times the demand upon the authority which represents the rudimentary State is constantly for the enforcement of "good old customs." When the State complies with the demand, it is not letting alone, but taking an active part in the enforcement of these customs, which might otherwise fall into disuse owing to violation by interested parties. Moreover, the enforcement of these customs, coupled, as it usually is, with neglect to enforce other old customs, involves a discrimination which is favourable to progress. It is only the customs which are felt to be good which are enforced, while the others are left to be violated by those who find it to their interest to violate them. Enforcement of good customs necessitates precise definition, and a good deal of amendment is possible and probable in the process. Consequently there was really a large amount of "State interference" even in periods when the State seemed to do nothing except reinforce the people's respect for custom.

The general enforcement of law and order and the facilitation of necessary or desirable changes in that law and order, though perhaps the most vital, is by no means the only important function of the State in economic organization. Separate property in land has never completely covered the face of any considerable country. A network of narrow strips forming the means of communication is always found outside the limits of ordinary private property, either free to the use of all-comers or available to all on payment of some toll or due prescribed or limited in some way or other by the State. Without this reservation from private property any considerable amount of communication would appear to be impossible. A single proprietor of a large parcel of land usually finds it to his interest to provide roads and sometimes more elaborate means of communication within the area, and it is obvious that a number of different proprietors would often do well to co-operate for the same purpose. On a very small scale, of course, they often do, but the difficulties of "voluntary" co-operation on a large scale are enormous. The single proprietor who makes a road entirely for his own benefit gets the whole of that benefit and, provided the benefit exceeds the cost, the amount of the benefit need not be accurately known or estimated. If, on the other hand a number of proprietors co-operate in making a road, and adopt, as would seem natural, the principle that the cost must be apportioned between them in proportions determined by the relative benefits they individually obtain, the total of these benefits must be precisely estimated in order to allow the apportionment to be made. If the arrangement is that the cost shall be recovered from the persons using the means of communication in proportion to the use they make of it, as usually happens when railways and canals are made, difficulties arise about the charges which should be made for different uses, *e.g.*, should a man who sends a ton of gold over the means of communication pay only as much as one who sends a ton of coal ? Further, if this plan is adopted, the owners whose land is taken for the purpose of constructing the means of communication must be paid for it, and the question arises how much they should be paid. If each is allowed to stand out for as much as he can get, the means of communication will never be made, since each will try to get more at the expense of the others. If this difficulty is overcome by some arrangement about the apportionment of the total price, and the highest possible price is obtained for the property taken as a whole, the cost of transport is likely to be raised to an undesirably high pitch. For example, if there were a range of hills with only one pass through them dividing two parts of a country which it was desirable to connect by a railway or canal, and the owners of the land in the pass were allowed to exact the highest possible price for the monopoly of transit through it, the cost of transit and transport would be higher than it would if there were no range of hills, or if there were many passes through them, and there seems to be no good reason for the difference.

Hence provision of the means of communication has always been very largely in the hands of the State. The State resolves the difficulties not always precisely in the best conceivable manner, but in a rough and ready fashion which is vastly better than leaving them alone. It apportions cost according to some arbitrary standard which very roughly corresponds with benefit received, modified often by some consideration of ability to pay: it prescribes rates and charges, or at least maximum rates and charges, for particular uses of the means of communication; and when it takes the land required, or when it authorizes enterprising persons to take the land, it never adopts the principle that the full competitive price is to be given, but only "compensation," based on the value of the land for purposes other than that of being used for the new or improved means of communication.

In modern times a number of other things have grown up which resemble the means of communication in being spread over large areas in thin lines. Water, instead of being obtained from a well in each curtilage, or being carried a long distance in buckets from some natural source, is supplied through large pipes or an open aqueduct from some river or lake, natural or artificial, to service-reservoirs in the neighbourhood of a town, and from these it is dispensed by a ramification of smaller pipes into every house. House drainage is carried out in a very similar way. The provision of gas and electric light is also very similar. The provision of telegraphic and telephonic communication requires the laying of a network of wires all over the face of the world, Very often the most convenient plan is to place these waterpipes and gaspipes and wires along the already existing roads or railways, but it is constantly necessary to acquire private property for some part of the work. These things are very similar to roads, railways, and canals in many of their characteristics, and they are dealt with much in the same way.

In providing or actively helping to provide these engineering works required by the progress of invention and the thicker population in modern times the State may be said to be arranging for a necessary supplement to the organization based on separate property, In other important functions it appears rather as supplementing the organization of the family. We can conceive a state of things where children were always sufficiently trained and educated by their parents, and where the sick, aged, and infirm were always properly taken care of by the members of the family who were strong and well. But the actual does not come up to the ideal. Owing to many obvious causes, the family does not always perfectly fulfil its functions in these respects. At first individual almsgiving or “charity” attempts to supply the deficiency with very unsatisfactory results. Crowds of lusty beggars wander from one religious house to another or terrify the lonely housewife by the roadside. Little children are maimed in order to excite compassion for their mutilators. Some kind of organization covering the whole territory and armed with certain disciplinary powers becomes obviously necessary, and is supplied by the State; badly as it works in its earlier forms it is never worse than the chaos which preceded it, and as time goes on it is gradually improved.

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CHAPTER VI

The Controlling Power Of Demand

Isolated Man's activity would be governed directly by his wants: he would endeavour to produce just those things which he thought would best satisfy those wants. The same may be said of any society when it proceeds by way of authoritative direction to its members: when it says, for example, "Thou shalt repair the highway, giving three days' labour each year," it is endeavouring to satisfy its desire for good roads. Of course a vast quantity of the labour of mankind is still called forth and regulated directly by the wants of those who perform it. Taking the world as a whole, and not thinking merely of the north-western corner of the Eastern Hemisphere and the thinly peopled continents of America and Australia which have been colonized in recent centuries, we see that individual families still very largely provide their own individual food-supply by their own labour devoted directly to the purpose, and even in western Europe and its colonies quite a considerable proportion of the whole of the labour expended is that of women and girls engaged in household and nursing service which satisfies directly the wants of themselves and those to whom they are bound by affection or conventional family ties. A certain, though much smaller, amount of labour is compulsory labour ordered by territorial societies with a view of satisfying wants directly, and another, probably larger, portion is expended voluntarily by well-disposed persons with the view of benefiting societies directly.

The same observations may be made about the use of the material instruments of production and enjoyment. Isolated Man, of course, would use them to satisfy his wants directly, and as things are, many of them are used directly to satisfy the wants of their owners, whether their owners are individuals or societies: a man may use his own spade to dig in his own ground, and may live in his own freehold house, and a society may enjoy its own club-house or its park. But under existing institutions in the parts of the world where this book is likely to be read, people work and allow their property to be used chiefly, not to satisfy their own wants directly, or because society orders them, but in order to get money.

Of course no one wants money for its own sake: we want it because we can get the things and services which we want by paying it away again. Money is but the "medium of exchange" between the things or services which we give and the things or services which we ultimately get. Originally, we may suppose, all kinds of goods were "bartered" for one another directly, but at a very ancient date it became customary for the particular kind of goods accepted as money to appear on one side of every exchange, so that, for example, instead of exchanging corn directly for armour, a man would "sell" corn for money and "buy" armour with the money. Barter is clumsy, because it is only easy when one man happens to meet another who has what he wants, and neither of the two think the other is making too good a bargain if the things are exchanged. Common sense early suggested the desirability of the one party offering the other some third commodity which could subsequently be exchanged for what the other party wanted. Particular commodities soon became pre-eminent for this purpose, and now two or three have entirely superseded all others. A commodity so used is called a "currency," because it "runs" or passes easily from hand to hand. Many different kinds of things have been used at different times and places, but what we call the "precious" metals, gold and silver, with some assistance from "token-coins" made of other metal, and from pieces of paper on which are written or printed promises to pay sums of gold or silver, are now the only important currency. In very early times it was found convenient to use metal which had been stamped in some way so as to indicate its fineness, and soon pieces of particular weight were stamped so as to save the taker the trouble of weighing as well as of assaying. The Romans called the stamped metal "*moneta,"* after the temple in which the stamping happened to take place, and we have the word in our "money," but when we think of the pieces of metal separately we call them "coins."

We want money because the possession of money enables us to buy "valuable" things and services, and so it is in the first place in order to get money that people produce valuable things or perform valuable services.

The ways of securing money in exchange for valuable commodities and services in modern civilization are innumerable, but it is well to review briefly the chief types.

The simplest of all, and probably the oldest, is that in which one person sells finished commodities to the "consumer," which means here the person who proposes to use them for his own direct benefit or that of his family and friends.

Another equally simple but much more modern method is that of working for "wages" under the direction of the "consumer" of the service rendered, as, for example, persons usually do in "domestic service." I call it a modern method because in ancient conditions we do not find one person voluntarily engaging to put himself under the direction of another man and work for him in exchange for pay. If one man in such conditions works for another it is because he must: the relationship between the two is of master and servant in the old sense of the words, in which the master is one who commands and the servant one who has to serve whether he likes it or not. Nowadays the words are not much used, and where they are they have lost their old force. People work voluntarily for their "employers" because their employers offer them inducements to do so: they enter into contracts of service of their own free will, the contracts are for short periods, and the penalty for breaking them is generally trifling.

A third method appears when land, things affixed to land, or movable objects are lent for a payment agreed on. So far as ordinary movable objects are concerned, this method is doubtless of high antiquity. We can imagine that in very primitive conditions one man would say to another, "You can have my boat to-day, if you will give me ten fish," or it might be "if you will give me half the fish you catch," and the substitution of money for fish in payment is a mere detail.

We can imagine it soon becoming convenient on some occasions to lend sums of money with which the borrower would purchase what he wanted; instead of borrowing a boat and paying ten pieces of silver a month for its "hire," the would-be fisherman might borrow a hundred pieces, buy a boat with them, and pay five pieces a month for "interest" (at 60 per cent. per annum) on the money. The loan of money differs a little from the loan of a boat, because the lender of the boat receives back the same boat, older and the worse for wear, while the lender of money receives back a hundred pieces of silver just as good as those he lent, and therefore we should expect the "hire" to be somewhat more than the "interest," but we should expect the two methods to yield in the end the same net return to the lender and to cost the borrower the same net amount. Though they are so nearly alike, however, a widespread prejudice used to condemn the lending of money for interest, apparently because the fundamental similarity of the two methods was not seen, and it was consequently supposed to be more uncharitable to charge for the loan of "barren" money than for the loan of a boat or anything else which could more easily be seen to be "productive." It was long before the requirements of business overcame this prejudice in any part of the world, and it is still widely prevalent.

The lending of land by the owner to persons who wish to cultivate it in exchange for a payment voluntarily agreed upon is quite modern. The periodical payments by cultivating tenants which we call "rent" did not spring up as the result of voluntary contracts between free men. Some men were lords, and others were "their men." The men at first served, and in later times paid rent to the lords, not because the "landlords," as we call them, "owned" the land and none could be got on better terms, but because they were the lords' men and owed the lords services which they were not free to refuse. It is only when the cultivators become free to leave the land and go elsewhere that we find the relation between landlord and tenant coming to resemble the relation between lenders and borrowers of other kinds of property.

In process of time, as population has increased and commerce extended, intermediaries have appeared between the ultimate "consumer" of commodities and services on the one side and the persons whose labour or property is used to produce the commodities and services on the other side. Particular persons devote themselves to undertaking the business of causing the commodities and services which they think the consumers will pay for to be produced. They "employ" people to make the commodities or perform the services at "wages" agreed upon, and sell the commodities and services to the consumers for what they can get, taking the difference between their expenses and their receipts as their own "profit" or gain on the transaction. Their expenses often include payments to the owners of land, money, and other things which they have borrowed for the purposes of their business, but it is usual for them to have some property of their own with which to start the business, even if they borrow largely. Without such property they obviously cannot "undertake the risk" of the business in any real sense: they may start the business and carry it on, but it is at the risk of some other person or persons and not at their own risk, since, if the business turns out a failure, it will be these other persons who will suffer.

When he thought of this property necessary for starting a business as a number of different things, such as cattle and agricultural implements for a farmer, tools and wood for a carpenter, ships for an old-fashioned merchant, the Englishman called it the "stock" or "stock-in-trade" of the person undertaking the business, and if he was asked what his stock was, he replied with an enumeration of its various constituent parts. In simple conditions this is all that is required. But as soon as the stocks of different persons and even of (the same person at different times begin to show great variation in kind, a money valuation of the stock is desirable for comparisons between one person's stock and that of another and even between the same person's stock at different times. This is particularly obvious when people club stocks together for the purpose of carrying on a business on a "Joint stock." When they do that, they are compelled to devise some means of distinguishing the different "shares" held in the business by the different partners. Even if the shares are brought in originally in ships or merchandise, it is necessary to value these things before it is possible to say that, for example, the two small ships brought in by A make his share one-third of the whole, while B, who contributed one much larger ship, is to own the other two-thirds. But ordinarily the original stock of the partnership or company will be bought in the first place with money contributed by the partners or members, and here it is still more obviously the simplest course to credit each partner or member with a sum of money in the stock of the partnership or company, and it becomes convenient on many occasions to call the total of the sums so contributed "the stock" of the partners or the company. It seems that before this practice was established in England, book-keeping on the Continent had introduced the foreign forms of the word "capital" to indicate the sums of money contributed by each partner or member and the total of these sums. The extension of the use of the term to England was assisted by the fact that the total sum was the principal or capital stock of the partnership or company, the head or chief fund with which it started, in contrast with minor stocks or sub-divisions of stock for particular purposes and any other funds, such as those which would eventually constitute profits. Whatever doubt there may be as to the early history of the term, it is certain that before the end of the seventeenth century it was in common use as the name of the original stock of companies considered as a sum of money, and that gains were calculated as percentages on it and profits were divided among the members in proportion to their shares in it. Individual business men adopted the term, and applied it to their own businesses, saying that their business had such and such a capital invested in it and that they were making such and such a percentage on that capital.

The present organization of industry is sometimes described as capitalistic, and the term is quite properly applied, if all that is meant by it is that in our part of the world the greater part of industry and property is immediately controlled by persons and institutions whose object is to make a profit on their capital. In Western Europe and America it is certain that the majority of workers work as they are directed to work by persons and bodies of persons who employ them in order to make a profit by getting more than they pay for all expenses, and who reckon the profit as a percentage on their capital. The greater part of the property is also in the hands of such persons and institutions. But we are not to conclude from this that these persons and institutions exercise any really spontaneous control over mankind and the useful things upon the face of the earth. They are only intermediaries between the consumer on the one side and the persons whose work and property is necessary for production on the other. They can only get their profits in consequence of a careful attention to value which compels them to agree on the one side with the consumer with means, and on the other with the workers whom they employ and the owners whose property they use.

Their profit is dependent on the price the consumer with means will give, and on the prices at which they can obtain the things and services necessary for the production. If the consumers for any reason choose to place a lower value on some commodity or service which is being produced by "capitalistic" methods, the profits fall off, and all or some of the persons, firms, or companies engaged in the trade are compelled, or at the least find it better, to reduce their output. And the same thing happens if, on the other hand, the value of some of the necessary elements of the production rises: profits are reduced until the amount produced is cut down, so that a rise in its price takes place.

Thus every one, including the capitalist, is governed by the desire of being able to produce commodities and services of high value. A man capable of several different kinds of work of equal pleasantness will take up that which "pays" him best. If he is well disposed towards his children and able to train them for several such different kinds of work, he will train them for that kind which will "pay" best after allowing for the cost. If he has property, he will devote it to the purpose which will "pay" best. Whether he works for a person who consumes for his own satisfaction what he produces, or for a person or firm or company which sells what he makes to the final consumer and wants to secure a profit, matters not.

If there were no correspondence between the production of what is valuable and the production of what is useful, this seeking after the production of what is valuable could not be expected to have good results for Society as a whole. Now for ages past people have been in the habit of contrasting value and usefulness, or, which is exactly the same thing, utility. The stock examples used to be water and diamonds. Water, it was said, is of very great use, but has no value, while diamonds are very valuable, but of very little use. The proposition was accepted too lightly. Clearly a great deal depends on circumstances. A lady in a ballroom who did not happen to be very thirsty would probably pronounce diamonds a great deal more useful than water. The easy acceptance of the doctrine seems to come from the belief that the world could get on much better without diamonds than without water: yet people will give more for a quarter-ounce diamond than for millions of tons of water. Usefulness is taken to be the quality which satisfies our more elementary and corporal needs, and there is no doubt that the word is constantly used in that sense in ordinary conversation. But economists have been inclined to give to usefulness, or at any rate to "utility," a somewhat different meaning, by making it signify capacity to satisfy anyone's desires, so that it would be wrong (using the word in their sense) to say that diamonds, or even a poisonous drug which some people were ready to buy because it was pleasant for the moment though it was pernicious in the end, had no utility. If utility be taken in this sense, the contrast between it and value seems much less marked. We are no longer inclined to say that diamonds have little or no utility, since we have to admit that they satisfy a want–the desire for ornament–which is distinctly economic. But we still feel that there is a considerable contrast between value and utility when we reflect that a deficient harvest will sometimes bring in a greater aggregate price than a normal one. According to the often quoted estimate of Gregory King, a deficiency of 10 per cent. in the harvest of wheat would raise the price of the bushel by 30 per cent., so that the small harvest would sell in the aggregate for 17 per cent. more than the normal one. Surely, we may say, a 90 per cent. harvest cannot satisfy wants better, and thus have greater utility than a 100 per cent. one, so here is a plain contrast between value and utility ? But when we remind ourselves that the value with which we commonly deal is the value of some small unit of the commodity in question and not the value of the whole of the commodity in the world at the moment or of the whole produced in a year, we begin to doubt the contrast again. A bushel of wheat is more valuable when the harvest is small than when it is big. Is it not also of greater utility? At the first blush we may feel inclined to answer in the negative, because it supports life just as much and no more. But is there no difference ? When wheat is plentiful some will be used to feed cattle or pigs: it has even, it is said, sometimes been used for fuel, just as fish when caught in abnormal quantities have sometimes been used as manure. So the uses of the wheat, the kinds of wants satisfied by it, are not quite the same when it is plentiful as when it is scarce; some of it goes to satisfy less important wants when it is plentiful. And even if the kinds of wants satisfied were the same–if, for example, wheat was never used for anything except the food of man, could we truly say that the utility of a bushel, its effectiveness in satisfying man's want, was quite the same when bushels were very plentiful as when they were very scarce? When they were very scarce, people, or at any rate some people, would have to stop eating earlier than they would in times of plenty. They could say without misusing language, “In these hard times every bushel is so useful.” It would certainly be justifiable to say that when the harvest is small, every additional bushel is of greater utility than when it is large.

This train of thought suggested the use of a new term, “final utility,” or “marginal utility,” to indicate the utility of additions to the supply of a commodity available at any moment, or what comes to the same thing, the utility of any particular portion of the supply considered as something which may be subtracted. Jevons in a classical passage put it thus:—

“We must now carefully discriminate between the *total utility* arising from any commodity and the utility attaching to any particular portion of it. Thus the total utility of the food we eat consists in maintaining life, and may be considered as infinitely great; but if we were to subtract a tenth part from what we eat daily, our loss would be but slight. We should certainly not lose a tenth part of the whole utility of food to us. It might be doubtful whether we should suffer any harm at all.

“Let us imagine the whole quantity of food which a person consumes on an average during twenty-four hours to be divided into ten equal parts. If his food be reduced by the last part, he will suffer but little; if a second tenth part be deficient, he will feel the want distinctly; the subtraction of the third tenth part will be decidedly injurious; with every subsequent subtraction of a tenth part his sufferings will be more and more serious, until at length he will be on the verge of starvation. Now, if we call each of the tenth parts *an increment*, the meaning of these facts is that each increment of food is less necessary, or possesses less utility, than the previous one.”

The utility of the small unit supposed to be added to or taken away from the whole supply of the commodity was called the “final utility” of the commodity, because it may be supposed to be that of the final or last unit. But the word “last,” if not the word “final,” often suggests the idea of last added in point of time, and this is misleading. The bushel garnered late in October is not the final bushel In Jevons's sense any more than those got in on the first of August. For this and perhaps other reasons, his term “final” has been dropped in favour of “marginal,” and writers talk of “the marginal utility of wheat” when they are thinking of the utility which would be gained by the addition of a single bushel, or (which is the same thing) the utility which would be lost by the subtraction of a single bushel. Sometimes it is sad that the marginal utility of wheat is the utility of the marginal bushel, but this is apt to mislead by making the reader imagine that there is some particular bushel which he must pick out as the marginal bushel. Sometimes, no doubt, after the whole of a particular quantity of a commodity has been used, we can say that some particular part of it was used for the least important purpose. If, for example, we have only a small quantity of water per day, we will drink it all; a little more, and we will use some for cooking; more still, and we will wash our hands; still more, and we will wash our face and neck; yet more, and we will have a bath or wash the doorsteps; and if this does not exhaust the supply, we may even water the garden or the dusty road. We may then say the water was used in that order and that the gallons expended on the road were the marginal gallons. But usually even this much is not possible. Every ounce of bread we eat, for example, is as marginal as any other: we cannot pick one out as the one which we should have dispensed with as the least useful, supposing our supply had been reduced by that amount.

Between marginal utility and value there is no contrast whatever. The less there is available of any commodity the higher its value, and also the higher its marginal utility: with increase of quantity both fall together. But we should not jump to the conclusion that “value depends on marginal utility.” If two cisterns are connected, the water in both will maintain the same level, but that does not make us say that the level in the second cistern “depends upon” the level in the first. This would obviously be no more true than that the level in the first cistern was dependent on the level in the second. Just in the same way, it is no more true that value depends on marginal utility than that marginal utility depends on value. It is true that if a commodity has a high marginal utility it will have a high value, but it is also true that If it has a high value it will have a high marginal utility. The two qualities go together and are jointly the result of a multitude of causes which it is hopeless to expect to summarize in one short phrase, unless it is something like “the magnitude of the supply of the commodity and the demand for it,” which conveys nothing to the mind without lengthy and elaborate explanations of the terms used.

The importance of the conception of marginal utility is not to be looked for in any compendious formula professing to sum up the causes of variations in value, but in the light which it throws on the connection between wants and their satisfaction under a system in which production is regulated by changes of value. Before the idea of marginal utility was conceived, the fact of some connection was known, but its basis was not clearly seen. We can now see that it rests on the psychological fact that a person wants additions to the quantity of any commodity or service supplied to him less and less as the quantity supplied increases.

How does all this affect the question of the beneficence of the control which, as we have seen, is exercised by value?

So long as we have to do with only a single person we may say that the coincidence between control by utility and control by value is complete. A single person, acting with proper judgment, distributes his expenditure between various commodities and services in such a way as to satisfy all his various wants, taken as a whole, as well as he can considering his aggregate means. If he finds that a shilling subtracted from his expenditure on beer or tobacco will cause a loss of satisfaction less than the gain of satisfaction which he will get by spending a shilling more on tea or newspapers, he will make the transfer. So it is sometimes said that he arranges his expenditure in such a manner that "the last shilling" or "the marginal shilling" will bring in equal satisfaction in every line of his expenditure; but as this rather suggests that we can pick out some particular shilling in each line as the "last" or "marginal" shilling, it is better to say that he arranges his expenditure so that no shilling could be better expended by being transferred from any line to some other line. If the supply in any one line becomes greater, he will reconsider the distribution of his means with the result that he will give less per unit than before for the commodity in question, because, now that it is more plentiful, a little more or less of it makes less difference to him. In short, he will give more or less for the unit of a commodity according as he more or less wants his command over the commodity increased, or what comes to the same thing, not decreased. This means that, so far as his power goes, value will regulate production in the manner which will cause the greatest amount of utility, since there will be great encouragement to produce more where more is much desired and *vice versa*.

The same thing is true where we have to deal with a number of persons with equal means and equal wants, so that if the community consisted of such persons, we could say that there was complete harmony between value and utility and that the variations of value caused production to be directed into precisely those channels which would be best for satisfying economic wants.

So, too, this harmony would exist where wants were unequal, if means were distributed unequally but exactly in proportion to wants. Then, too, expenditure would be so arranged that no shilling could be better expended by being transferred from one line to another, and there would be great encouragement to produce more just where more was most wanted and little encouragement to produce more where more was least wanted.

But in the world which we know wants are not equal, means are not equal, and means are not distributed in proportion to the unequal wants. Some persons with very great wants have little or no means and other persons with comparatively small wants have very great means. The wants of those who have small means do not count for so much in settling values as the wants of those who have large means. Consequently the fact that two things are of equal value does not prove that additional supplies of each would satisfy the world equally. A gallon of milk and a gallon of petrol may be of approximately the same value without its being true that a million gallons of petrol added to the petrol supply would satisfy mankind just as much as a million gallons added to the milk supply. In actual fact the additional milk would for the most part go to satisfy the wants of a class with less means than the class which would consume most of the petrol, and it would therefore satisfy more urgent wants, as, on the average, the wants of those with small means are less completely satisfied than the wants of those with large means.

It is, therefore, not true that when people work, or allow their property to be used, in order to obtain money from other persons, they are governed by men's wants in the same sense and as completely as when they work or use their property for their own direct benefit or that of their family or friends. They are really governed only by the wants of those who have ability to pay. To use the short expression which is found useful in common life, they are governed by “demand.”

The word “demand” implies a want on the part of the person demanding, and therefore at first sight the effort to satisfy demand looks identical with the effort to satisfy wants: no one will demand a thing unless he wants it. But the word also implies a power and a willingness–of course often enough a very reluctant willingness, but still a willingness–to give something in exchange. I may want a motor-car in the sense that I would gladly accept one from any philanthropist who would pay both the first cost and the expenses of running and garaging, but if there is no such philanthropist and I have not the slightest intention of purchasing a car with my own money, my want plays no part whatever in the “demand” for cars. This is simple enough, but it is far from covering the whole of the ground. The people of the world are not divided into those who are willing to give an unlimited amount for an unlimited number of cars, and those who will not give anything at all for a single car, however small its original and working cost. The actual state of things is that at one price a certain number of cars will be sold, at a higher price fewer will be sold, and at a lower price more will be sold.

With this in our minds let us ask ourselves what we mean by the demand for cars. It seems to be the want for cars coupled with the willingness (of course largely dependent on ability) to pay more or less for them. So when we talk of “satisfying demand,” all that we mean is supplying people who want and will pay.

Accuracy of thought and expression about demand and its effects can be assisted by the use of the technical terms “elastic” and “inelastic” or “rigid,” applied to two different qualities of demand by most economists at the present time. The demand for a commodity is said to be elastic when a small fall of price would cause the amount sold to increase by a large percentage. This use of the term was probably suggested by the Budget speeches of Chancellors of the Exchequer in the second half of the nineteenth century: when they had reduced the duty on some article and then found the revenue nearly as large as or larger than before, they used to congratulate themselves on “the elasticity of the revenue” from this article, the idea being of course that the consumption was repressed by the duty, and, when the weight of the duty was lessened, rose up like a lump of some elastic substance which has been squeezed down. If a small fall of price will cause the amount sold to increase by a large percentage, it is probable that a small rise of price will cause it to decrease by a large percentage, and so the demand is equally said to be elastic if this is the change actually observed. Contrariwise, if the fall in price will only cause a small increase in the quantity sold, and if the increase in price will only cause a small decrease in the quantity sold, the demand is usually said to be “inelastic.” Cases are sometimes imagined rather than actually found, where an alteration of price would cause no difference in the amount sold, and the demand is then said to be "absolutely inelastic" or quite rigid."

It is of course a commonplace that traders are governed by demand. If a commodity is not demanded at all, they soon cease to offer it. If they find that there is, or think that there is going to be a "greater demand," meaning by that phrase used in this connection that it will be possible to sell more at the existing prices per week or per annum, they will offer more, provided they can get more at the same cost as before. If their business pays them under the existing circumstances, it will pay them, or at any rate some of them, to enlarge their business provided prices and costs remain the same. This very simple case only occurs by way of a rare coincidence. In a usual way the cost of producing a unit of the commodity will either rise or fall in consequence of an enlargement of the quantity produced. Then the elasticity of the demand comes into play.

If the cost rises with enlargement of the quantity produced, "increased demand must be checked by a rise of price." This means that there will not be as much sold as could be sold if the old price had been charged: exactly how much more than before will be sold, and what exactly the rise of price will be, and exactly how much more than before will be sold depends upon the elasticity of demand and the rate at which the cost rises with increased production. If the demand (after the change described as an increase of demand) is very elastic, and the rate at which cost rises with increased production is high, the increase of demand will be so "sharply checked by the rise of price" that the increase of quantity produced and sold will be small. If, on the other hand, the demand is not highly elastic but inclining towards rigidity, and the rate at which cost rises with increased production is low, the increase of demand will not be sharply checked, and nearly as much will be produced and sold as if the price had remained stationary.

In the contrary case, where increased production lowers the cost of the commodity per unit, the "increase of demand" will not be checked by a rise of price, but will be "stimulated by a fall of price." More being called for at the old price, those who sell to the demanders will each try to enlarge their business, and others will enter the trade, and they will together eventually offer more than can be sold at the old price: prices fall and more is sold. Exactly how much more, and exactly at what price, depends upon the elasticity of demand and the rate at which increased production lowers cost. If demand is very elastic, and the rate at which increased production lowers cost is high, the additional quantity will be enormous, and the reduction of price great. If, on the other hand, the demand is not highly elastic, and the rate at which increased production lowers cost is low, the increase of quantity sold will be small.

Of course changes in prices do not all originate in changes in the minds or the means of consumers. They may also arise from changes in the conditions of supply. Climatic or other natural phenomena may treat a particular kind of production more or less kindly; improved methods may be discovered which make production easier; more or fewer persons may be, for innumerable reasons, obtainable at higher or lower wages for particular kinds of work: more or less land and other instruments of production suitable for particular purposes may be available. But how far such changes affect the amount offered on the market will always depend on the elasticity of demand. The Isolated Man would be influenced in settling the distribution of his time between various classes of work by the causes which make different kinds of products easier or more difficult to procure, but this would not prevent us from saying that the distribution of his time was governed by his wants. In the same way, the fact that the amount of different commodities produced in a society like ours is affected by the conditions of supply need not prevent us from saying that in such a society production is governed by demand.

We must not forget that a considerable portion of demand is furnished not by individuals but by institutions, private and public. When these institutions are supported by the voluntary contributions of living persons their demand does not amount to more than that of individuals in combination, and needs no special remark. But many institutions are able to demand not in consequence of the continued action of living persons who can control them by cutting off their subscriptions if they are dissatisfied, but in consequence of dispositions made by persons no longer living. When these dispositions become very flagrantly obnoxious to the common weal, or to the sentiment, religious or moral, of the time, they are interfered with by the State in the territory of which they happen to operate, but in spite of this ultimate check, a considerable amount of money is always being spent under the trusts created by deceased persons in ways in which it would not be spent if it was either the property of living individuals or of the State.

The States themselves with their subdivisions exercise a large power of demand. According to democratic theory they should exercise it as directed by the people, but the people are very variously defined by franchise and registration laws, and their power to direct their government is in fact seldom very effective, so that State action is not actually, even in the most democratic countries, merely the joint action of a number of people living on a certain territory.

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CHAPTER VII

The Control Of Provision For The Future

In the preceding chapter, in order to prevent the main argument being obscured by detail, I have ignored the fact that demand may be either for commodities and services which are wanted at once for immediate ends or for things which are wanted because they will improve people's position in the future.

We have seen that our supposititious Isolated Man would have to be constantly deciding between action which gives immediate results and action which improves his position in the more distant future, and that his decision would be governed by rough estimates of the urgency of present as compared with future wants and of the technical advantages to be obtained in the long run by adopting methods which require effort to be put forth long before fruition instead of "hand-to-mouth" methods. We have seen, too, that Society has also by some means or other to make the same decision.

Now Society as a whole certainly has neither mind nor machinery for making and carrying out such a decision on a straightforward estimate of the comparative urgency of present and future wants and the comparative technical advantage of the different methods of production. The decision is made for it by individuals and by public and private institutions, including the territorial states and their subdivisions, in consequence of impulses derived from various motives. We see that while the bulk of the effort of Society is devoted to serving immediate ends, and in preventing the personal and the outward equipment of mankind from deteriorating, a considerable amount of effort is devoted to the improvement of this personal and outward equipment. We find that each generation teaches the next not only as much as it was taught itself but something more, so that each generation becomes better equipped with knowledge; we find that each generation leaves the material surroundings of mankind not only as good as it found them, but somewhat better, so that each generation is better equipped with tools and has easier access to raw material. We have to ask ourselves "Why?"

A certain considerable amount of the effort devoted to the increase of knowledge is due to a desire for the credit and renown gained by remarkable discovery, to the wish to benefit mankind or that part of it which belongs to a particular race or country, and to the natural itch to discover things which affects every healthy-minded person from his earliest childhood. A portion of the effort devoted to the improvement of material surroundings is due to the desire of individuals that they or their families shall enjoy the advantage of those very improvements in the future. I have, for example, constantly to decide whether to go on with books and papers in confusion or to devote time at once to putting them in order so as to save time in the future and the long run. Many things will affect my mind in making the decision. A change in the extent of my knowledge may do so: I may become acquainted with the invention of the card catalogue, and that may make it more worth while to catalogue the items: the weather may be very good, which will make it less worth while to give up leisure time at the present. So, too, every one who does his own gardening is constantly having to decide whether some little permanent improvement is worth while or not. Wherever large numbers of people live to a considerable extent upon the produce of their own and their family's exertions in agriculture, these direct decisions amount in all to something of considerable importance. Where a state exacts compulsory labour from its subjects, as was the custom with regard to road-making even in Europe till quite recent times, it rests with the State to decide how much of this labour shall be devoted to immediate and how much to distant ends: the State can direct permanent improvements to be made or abstain from doing so.

But at present in our part of the world these cases are exceptional. As a rule when we see people producing things for storage, or building additional houses and factories, or improving land, or doing anything else which we believe likely to improve the position of mankind in the future rather than to satisfy its immediate wants, we do not think they are actuated by fear of the State, nor by the expectation that they or their families will themselves use the things they are producing, nor by philanthropy or patriotism. We know that they do this particular work simply because it pays them to do it. Demand governs the distribution of effort between the production of goods for the present and goods for the future just as it governs the distribution of effort between different kinds of goods for the present. If demand varies in one direction, a larger proportion of the whole effort of Society will be devoted to present goods and *vice versâ*. What is true of labour is also true of the devotion of property to different kinds of purposes. If demand varies in favour of present goods, there will be more parks and fewer brickfields, more yachts and excursion steamers and fewer tramp steamers carrying iron ore and other materials for future constructions. At any one time there is a particular distribution of resources between nearer and more distant ends which is governed by demand, and what we want to know is what will cause the demand to be varied so as to vary this distribution.

The principal immediate cause is variation in the proportions between what we colloquially call "saving" and "spending."

The term saving is ordinarily applied exclusively to money. We speak of "saving money" and "saving £100 a year." The money thus spoken of as "saved" might have been spent on current satisfactions and enjoyments, but has instead been reserved, with the effect of improving the outlook of the saver for the future. A person may have saved simply with the view of postponing the spending till some future period, when a given sum of money will, as he reckons, give him, or possibly his widow or children, something more worth having than what he can buy for himself or his wife and children at the present moment. Saving of this kind takes place in primitive conditions when a man puts away coin in a stocking or in a hole in his thatch in order that he may bring it out again to spend when he is old or sick and consequently unable to work; under more modern conditions it appears when people deposit money in savings banks or pay life-insurance premiums not because the savings banks pay a small interest or because interest accumulates on the insurance premiums, but simply because they think it well to make provision for times when they or their families will be more benefited by the expenditure of the money than they would be if the money were spent at once in addition to what is actually being spent upon them. It is thus true that a certain amount of saving takes place which is not caused by the existence of interest, and some economists have pronounced that a little saving might still take place even if the rate of interest sank to zero. But it must be borne in mind that such saving is only intended to be temporary: the savers intend what they save to be spent again, and that at no very remote date, and if their intention is not frustrated by accident, all that they save will be spent within a very moderate period of years, eighty or so at the outside, and usually much less. Consequently no very considerable accumulation could take place if there were no other motive for saving than the desire to "provide for a rainy day" by collecting a store of money which should be spent on the occurrence of the "rainy day."

The most powerful motive for saving is supplied at present by the interest, profit, or rent which can be obtained by it. People who are primarily induced to save by the desire to provide for a rainy day are encouraged to persist in their resolve and induced to increase their savings by the fact that they can get interest so long as the capital remains intact, and others are induced to save in the first place because they see that it would be pleasing to receive interest, profit, or rent while retaining the power of spending the savings if they choose at any moment to give up the interest, profit, or rent. "Interest" is obtained when the "money saved" is lent out on condition of the borrower paying periodically a sum called the "interest," and usually calculated as a percentage on the amount lent, which percentage is spoken of as "the rate of interest," and in modern times is usually calculated per annum rather than per month or per week. "Profit" is spoken of when the money saved is expended on the purchase of commodities and services which are subsequently sold for more than their cost, and thus bring in a profit or gain: this gain, too, is usually calculated as a percentage, but confusion sometimes occurs in consequence of the facts that the amount expended may be regarded as a whole or in parts and that the gain may come in at more or less frequent intervals. For example, it might be said that a secondhand bookseller was making a profit of 60 per cent. when the speaker was thinking simply of the difference between the price at which he bought books and that at which he sold them, and only 20 per cent. when the speaker was thinking of the whole amount the bookseller had put into the business and the return upon that amount per annum. "Rent" is obtained when the money saved is devoted to the purchase of land which is let for periodical payments agreed on between lender and borrower, or, as it is commonly expressed, between landlord and tenant or owner and lessee; and it is also in common language said to be obtained when the money saved is spent in constructing or buying a house or some other fixed object which is let for similar periodical payments. It is not, however, the practice to speak of rent in percentages. Instead of saying the land or the house yields 5 per cent., we say it yields, say, £100 a year. If we want to relate the yield to the money expended, we say it was bought at twenty years purchase, meaning that the price was equal to twenty times the rent. But this phrase is perhaps becoming old-fashioned, and It is quite possible to say that the land or house yields 5 per cent. on the price paid for it. In any case, it is a question of phraseology, which does not affect the fact that people who acquire property which yields a "rent" are actuated by the same motives as those who use the money they have saved to procure interest or profit. Hence economists have found it convenient to use the term "interest" to cover the whole of the periodical "returns" to savings.

Of course interest is not always equally powerful in causing savings. Changes are possible which will cause any given rate of interest to become more stimulating or less stimulating to saving in two ways.

1. A change may take place which will render the potential savers more desirous or less desirous of providing for the future as compared with the present, although their means of doing so and their knowledge of methods remain the same.

There is little reason to suppose that "providence" is always present in the same degree in the minds of potential savers. Writers and preachers are in the habit of assuming that people usually underestimate future goods as compared with present. There is little ground for the assumption: it is chiefly made by the well-to-do, who do not know what it is to be really pinched in the present. But the fact that the assumption is made, and that people are exhorted to be more "provident," while nobody thinks of retorting that a change is impossible, shows that it is generally believed that a change in this respect can take place, and here no doubt the general belief is correct.

More important, perhaps, than the obscure psychological change suggested by the phrase "increasing providence," are the innumerable circumstances which, without any such change and without any change of means, may lead people to be more or less desirous of attempting to improve the future at the expense of the present. More or less certainty about the future is perhaps the most important of these circumstances; we might reasonably expect more to be saved where security prevailed than where the saver ran considerable risk of seeing somebody else enjoy the fruits of his saving. Another important factor is the degree in which wives and children are distributed between the potential savers: a man is more likely to wish to save for his widow and children than for others.

It is very commonly believed that States can alter the total amount annually accumulated directly and very materially by the choice which they can make between taxes which "are paid out of" or "fall upon" income and those taxes which are paid out of or fall upon capital. This belief is founded on a misapprehension. Most actual taxes are supposed to be paid out of income, and the stock example of taxes supposed to be paid out of capital is the inheritance taxes, or death-duties as it has been the custom to call them in colloquial English ever since Gladstone applied that term to them. Obviously, the immediate payers of such taxes, usually the executors or administrators of the deceased, ordinarily pay them out of the proceeds of a part of the property passing from the dead to the living. The money thus obtained is supplied by the purchasers of the property sold, and its ultimate source is the income of the purchasers, or, at any rate, of some persons somewhere who have income to invest. It is because these persons save that the State is able to get the money, and so it seems clear to the attackers of this kind of taxation that it is paid out of capital, which is to its discredit, inasmuch as it is usually regarded as rather discreditable for a State, as for an individual, to live on its capital.

But whether the State takes twenty millions a year from owners of property taken as a whole by taxing each of them a small percentage every year, or takes exactly the same sum from them by taxing each of them a much larger percentage every twenty or thirty years, or whenever any one of them dies, can scarcely make any very material difference in the long run. No one supposes that the small annual percentage must be paid out of capital: why should the larger every-thirty-years or on-occasion-of-death percentage be paid out of capital? The annual tax diminishes the available income left to the owners and available for their spendings or savings, by twenty millions per annum, and the tax levied it certain or uncertain longer intervals does exactly the same.

Taxation does not work in such a direct crude manner as is supposed. But all the same there is a difference between the effect upon saving of different kinds of taxes. The uncertainty of life may, for example, make death-duties "fall upon capital" more than an equivalent annual tax: as people usually think they will live longer than they do, they may, as a rule, underestimate the nearness of the payment, and consequently spend more and save less than they would under an annual tax. Again, all taxation of property, whether capital or income is the standard of the tax, as compared with taxation of labour-income, must somewhat discourage saving. And even in the taxation of commodities, it is possible to discriminate against or in favour of the saving person: taxation of tobacco and whisky is more likely to hit the spendthrift and thus to be paid out of income than taxation of carpets or tricks.

2. A change of means may take place which will make it easier to save. Any one can see that the offer of a given rate of interest will induce rich people–people whose unsatisfied wants of the moment are not urgent–to save larger absolute quantities of money than poor people. It is a commonplace that the savings of the numerous poor are a trifle compared to those of the small section of society which is rich. This is not because the poor are more "improvident" than the rich, but because they cannot afford to save so much. It would be a physical impossibility for them to save so much: they have not got the income.

It may be more difficult to see that a given rate of interest will not only induce the rich to save more absolutely, but will also induce them to save more in proportion to their spendings than the poor. But take two men of similar disposition and, so far as possible, of similar circumstances (*e.g*., give them the same number of children) the one with £100 a year and the other with £100,000, and consider how they will be influenced by an offer of 5 per cent. for all savings. If either of them saves in any year one-tenth of his income, he will find the income of himself and his heirs increased in all future years by one-twentieth of one-tenth, that is, by 1/2 per cent. Cutting off 10 per cent. of the spendings "of this year, then, will in each case increase the income of all future years by 1/2 per cent., and at first sight it seems as if 5 per cent. interest should induce the two men to save equal proportions of their incomes. But this first impression is erroneous. The advantage of the additional 1/2 per cent. of income is really more to the rich man in proportion to the 10 per cent. of "spendings" forgone than it is to the poor man. It may be difficult to see this if we take a small saving like one-tenth, but if we enlarge the proportion to one-half, the truth becomes obvious. If a man had £50 per annum and a family to bring up, we should think him a lunatic if he insisted on saving £25 per annum: we certainly should not pass that judgment on a man with £5,000 per annum who saved £2,500 per annum. The fact is, that the utility of additional income declines less rapidly as incomes get bigger: or, which will seem perhaps more convincing, though it is the same thing, the utility of each pound of income rises more rapidly as the income decreases. Consequently any given rate of interest will stimulate saving more when people are rich than when they are poor.

But, given certain conditions of desire to provide for the future and of ability to save, the higher the rate of interest the greater the saving. This has been questioned on the ground that there are some people who are determined to save an amount which will bring in a certain income, and if the rate of interest is low, these people will save more than if it is high. The existence of such people may be doubted, and even if a few such exist, they cannot make much difference. If strong cases of difference in the rate of interest be taken, it will be obvious that their determination, however obstinate, will be of no avail. A man earning £500 a year who determines to save enough to get a permanent income of the same amount when he retires at the end of thirty years from now, may do it by living on £350 a year if he can get 5 per cent., free of tax, on his accumulations. But if he could only get 2 1/2 per cent., he would have to live on £45 a year, which would certainly break his determination. Taking all potential savers together, there can be no reasonable doubt that the higher the rate of interest, other things being equal, the greater the savings.

What then determines the rate of interest?

In approaching this question the first thing to do is to disabuse our minds of the confusion engendered by the too literal acceptance of the colloquial phrase, "it will not pay," applied to proposed investments. Of course it is true that some proposed investments will not pay in the literal sense of the words: they will bring in no return at all, and the money invested in them will be wholly lost. "It will not pay" often means only "it is not worth while to make this investment since there are others open which will give a better return." At any given moment every one knows that there is some rate of interest which is the lowest that need be taken, and investments which yield less than this as well as those which yield nothing at all are said not to pay. Between the investments which "pay" the current rate and those which would pay nothing at all, there is always an immense number known which would pay something between the current rate and nil. The whole of the known methods of applying savings to the acquisition of new stores and instruments of production, such as machinery for producing cotton goods, or instruments of direct enjoyment, such as theatres and houses, should be supposed arranged in order of profitableness, so that we see some over the profitable level of the moment, 4 per cent. or whatever it may be, and others at lower levels, 3 per cent., 2 per cent., 1 per cent., 0 per cent., and downwards if we like into the minus region. When this is done, we can see that the more savings there are to invest, the lower is the current rate–the rate which is regarded as making an investment "pay "–likely to fall. To be convinced of this we need only suppose the amount coming forward week by week for investment to be doubled. Will not many investments then be made which no one will now look at because they "will not pay"? Will not all existing property yielding fixed sums per annum rise in capital-value, or number of years' purchase, so that the rate of interest obtained by any fresh investor in them will be reduced? Will not every owner of property which does not yield fixed sums, but is subject to the competition of property newly created out of savings, complain that profits are not what they used to be?

The degree in which the rate of interest will be affected by a given quantity of savings will depend upon the magnitude of the field of employment at each rate, just as the number of inches by which a quart of water will raise the level of water in a basin will depend upon the contour of the sides of the basin; there may be a small field between 4 and 3 per cent., a larger one between 3 and 2, and a much larger between 2 and 1, in which case the rate would fall less and less rapidly with given additions to the amount saved: or there may be just the reverse, in which case the rate would fall more and more rapidly: or there may be a large field between 4 and 3, a small one between 3 and 2, and a large one between 2 and 1, in which case the rate would first fall slowly, then fast, and then again slowly.

This would be an end of the matter if all other changes except increase in savings could be neglected. But there are several other important factors.

Firstly, an increase in the numbers of the people works in the opposite direction to saving. The more people there are, the greater the value of any given instruments, whether of production or, like houses, of direct enjoyment, in proportion to given products of labour requiring less saving. It is easy to see that if the population of the Earth were suddenly doubled by an immigration from Mars unaccompanied by any importation of capital or fresh knowledge, the rate of interest would rise enormously, owing to the urgency of the increased population's demand for all kinds of instruments. The unoccupied field of investment would completely alter, and instead of investments at 4 per cent. being “profitable,” perhaps 20 per cent. would be commonly expected and obtained. The gradual increase of population which usually goes on in the world has, of course, exactly the same tendency, though its effect is not so striking.

Secondly, knowledge is continually growing, and additions to knowledge often affect the relative advantage of producing by methods which involve much storage of consumable goods and much provision of instruments compared with the advantage of producing by methods which require little or no stores and instruments. The stock example of an addition to knowledge of this kind is the invention of steam locomotion on iron rails. This provided an enormous extension of the field of investment by showing people a way of investing a large quantity of savings in constructing new level roads by means of cuttings, embankments, tunnels, and viaducts, which was before unknown, and therefore not adopted, although more profitable than other investments which were actually made. This new method being once pointed out, new savings of course went into railway construction instead of being put into other investments yielding less. It is sometimes assumed that all additions to knowledge are like this invention, and thus all tend to raise the rate of interest. But this is a complete mistake. While some inventions increase the comparative advantage of working with stores and expensive instruments, other inventions diminish it. Any one can see that if instead of steam railways, the “wishing carpets” of children's tales had been actually “invented,” so that all that was required to transport persons and goods was a few yards of inexpensive textile fabric, the field for the investment of savings would have been reduced instead of being enlarged, and investment would have been driven further down in the scale of profitableness: it would have been unnecessary to build railways or to improve the existing machinery of transport. There are, of course, no wishing carpets, and we are apt to think that invention in practice always takes the form of the discovery of means which require more elaborate machinery. This is, however, only because the inventions of which we are reminded are those which are called to mind by the presence of the elaborate machinery required to utilize them: the others, which have simplified processes and led to the disappearance of elaborate—or, as we ungratefully say, clumsy—machinery, leave no visible trace and are soon forgotten. Yet they are obviously of great importance—for all we know of even greater importance than the other kind of invention.

The question now arises how well Society is served by the aggregate decision about saving arrived at by individuals and institutions.

At first sight it may appear as if this decision should be perfectly satisfactory. Every individual who saves does so just up to that point at which the rate of interest he gets makes it in his opinion, which is probably as good an arbiter as could be found, just worth his while. Why does A save £100 a year and B only £50? Because A thinks the future advantage which he expects to get by reserving each pound outweighs the present advantage of spending each pound up to a total of £100; beyond that he does not go, because he reckons that it is not worth while to pinch himself in the present for the advantage obtainable in the future. B calculates in exactly the same way, but owing to some difference in his character, needs, or means, the point at which he finds it desirable to stop is reached at £50 instead of at £100. Each of them stops at the margin where the advantage of further saving is just equal to the advantage of further expenditure on immediate wants. Having this in mind we may say that here is another case of correspondence between value and marginal utility, since the rate of interest may be said to indicate the value of saving as compared with spending, since "5 per cent." means that £100 down and £5 per annum are of equal value. But it must be remembered that the correspondence of marginal utility and value is only true of single persons or of persons exactly similar in circumstances and tastes. In fact, of course, the tastes and circumstances of different persons differ enormously. If we suppose each single person to have perfect judgment, we are justified in saying that each person will be induced by rises and falls of the rate of interest to regulate his saving so as to get the greatest possible good out of his means: he will save just up to the point where future advantage equals present loss, and no further. But as things are, it is not justifiable to say that Society saves just up to that point and no further, even if we suppose that taken all together the potential savers have perfect judgment. The different means of the different persons make it unjustifiable. Obviously a society with institutions like our own would save quite different amounts if there were a very few enormously rich people and the bulk of the population was poor, than if means were more equally distributed. It is true that such a distribution of means would not result in too much saving under the actual conditions: that is to say, it would not be advisable to tell the rich to squander their means in riotous living. It is better that the multimillionaires should go on providing the world with new ships, factories, houses, and such-like things than that they should give more thirty-thousand pound banquets. But it is true that such a distribution would result in more being saved than would be saved under more satisfactory conditions, in which what was taken off the annual amount saved went, say, to buy more milk for half-fed children. Here again then we find that there is a connection between value and utility and a conditional though imperfect harmony.

Variation of the proportion between saving and "spending," though probably the principal, is not the only important cause of variation in the distribution of effort between the satisfaction of present needs and the improvement of the future position of Society. People are only said to "save" where the acquisition of property is possible. But much effort is expended which tends to improve the condition of mankind in the future but does not involve the acquisition of property by individuals or by private or public institutions. A large portion of the effort spent on additions to the field of knowledge comes under this head. States have, it is true, tried to create in patents and copyrights a kind of property which would play the same part here that ordinary property in material things plays in regard to additions to useful material things. But neither patents nor copyrights go or can go very far in the promotion of additions to useful knowledge, even if made world-wide. Most useful investigation in this direction is carried on not in response to commercial demand, but from the motives suggested near the beginning of this chapter (p. 121). There is no reason to suppose any perfect harmony here. It is probable that much more effort might well be expended in the direction of increasing knowledge. If more was so expended, less would, of course, be left either for savings in the ordinary sense or for the satisfaction of the needs of the present, or perhaps for both purposes, but the advantage obtained from the greater knowledge would more than counterbalance this loss in the long run.

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CHAPTER VIII

Continuous Power To Demand, Or Income

In order that any person or institution may be able to control production continuously by means of demand, it is necessary that he or it should have a continuous supply of money to spend.

Such a continuous supply is provided, not perhaps exclusively but at any rate principally, by "income," in the sense in which that word is ordinarily used. It is important for this and other reasons to have a thorough understanding of that sense.

Etymology does not help? us much. "Income" is doubtless something coming in, but what? And what exactly do we mean by "coming in"? I suppose that the unsophisticated person, if there is one in this day of schoolmasters and newspapers, will say that what comes in is money. This is nearly but not quite true. We say that a man's income is £100 or £1,000, as the case may be, but the statement is not intended to convey more than that the incomes are reckoned at that value, just as when we say that a person "inherited a million" we may be perfectly well aware that what he actually inherited was not a million pounds in gold, notes, or any other form of currency, but lands, houses, shares in companies, and other things which were valued at a million pounds. In fact, however, in our own and similar countries where "income" and equivalent words are used, the greater part of most men's income in the ordinary sense of the word does consist of money, not necessarily coins put into their hands, but either coin or some kind of written or printed order which enables them to receive coin if they want it. But in addition to this "money-income," there are some other incomings which are often, at any rate, valued in money and added, as a sum of money, to the money-income, to make up the whole income.

One of these things is the advantage which a man gets from living in a house of his own instead of in one for which he has to pay rent. It is usual to add to such a man's money-income a sum of money equal to the net amount which could be obtained by letting the house to a tenant. It is common, too, though not so common, to add to the money-income of a farmer an estimate of the money-value of that part of the produce of the farm which he and his family consume.

On the other hand, we seldom or never add to a man's money-income an estimate of the money-value of the good he gets from owning, instead of having to hire, a stock of furniture and clothes, nor do we add an estimate of the money-value of the various services which he and his wife and daughters render directly to themselves.

Why this apparently "illogical" distinction?

The question can only be answered by the help of a consideration of the purpose for which we want the statement of income. If asked why we include the annual value of a man's dwelling-house in his income if he happens to own it, we should probably say at the first blush, “Because it would be misleading to say that a man lessened his income if he sold stock and bought the house which he had previously been renting and continued to live in it, and to say that he increased his income again when he went out of it into another and let it for a rent which he had to spend in paying the rent of his new dwelling.” The suggestion which we should obscurely imply in the word “misleading” is that we use calculations of income for the puprose of comparing the spending power of one individual man with that of others, or his spending power at one time with that which he possesses at some other time. It would be wrong, for example, not to include the house owned by its inhabitant in an estimate of his power to pay income-tax, since if it was omitted, people of really equal means would be unequally taxed, and a premium would be put upon the owning of houses by their inhabitants. Similarly when we think it desirable to include in the income of a farmer an estimate of the money-value of the produce of the farm which he and his family consume, we really do it because we have in view some comparison between the spending power of farmers and that of other classes who have no such goods coming in; or between the powers of different classes of farmers, some of whom have a greater and some a less value of such goods coming in reckoned in proportion to their strictly money-income. If no such comparison is in contemplation—for example, if comparison is being made between a number of farmers carrying on the same kind of agriculture in similar circumstances, so that the proportion between their money-incomes and these other goods is uniform throughout—we should not think of troubling to include the other goods.

We have not been in the habit of including, the “annual value” of furniture and clothes owned by the person who uses them in estimates of his income in the same way as we usually include the annual value of the house owned by the person who lives in it, although it is of precisely the same character. Partly, no doubt, this is because it is less important, being probably under half the value of the house at an average. But there are also two other and better reasons. In the first place, until recently at any rate, nearly every one who has had the use of furniture and clothing of a value great enough in proportion to his money-income to be worth considering, has owned that furniture and clothing, and the value of such things owned by each person has varied roughly with his income. Secondly, it is difficult to make any accurate estimates of the annual value of these things, so that estimates of incomes which included them would be really: less informing than estimates which expressly omitted them.

The same principles apply to the inclusion or non-inclusion of an estimate for the value of board and lodging received as part of their remuneration by domestic servants and others in exchange for services rendered to their employers. If we want to use income for the purpose of comparing the economic position of such persons with that of another class which does not receive board and lodging, we must, of course, brave the difficulties of estimation: but in instituting a comparison between the cook's place at Mrs. Smith's and at Mrs. Brown's, we should prefer to hear from those ladies that Mrs. Smith paid £25 and Mrs. Brown £30, rather than that Mrs. Smith estimated the total income of her cook at £50 and Mrs. Brown that of hers at £54.

If asked why we never attempt to include in incomes estimates of the value of the services gratuitously rendered by men and women —we should, perhaps, drop the conventional order and say women and men here—to themselves and their families, we should probably at once reply “Because they are invaluable,” and this is as good an answer as can be given. It is not practically possible to value the domestic services of a wife and mother to her husband and children: they are not practically interchangeable with hired services in the same way that eggs produced in one farmer's yard are interchangeable with eggs produced in another farmer's yard.

The conclusion is that the term income as commonly used includes in addition to money-income an estimate of the money-value of incomings of such other commodities and services (and such only) as are ordinarily bought and sold and can consequently be valued with substantial accuracy.

On the other hand, a great deal of money received is clearly not included in the common conception of income, in which it is distinguished from mere “receipts.”

We do not include in income the money which a man gets by robbery or theft, whether he gets it by taking money itself or by taking other things and selling them for money. Little importance need be attached to this fact. It seems to be chiefly due to the illegality of robbery and theft. Naturally a man will feel indisposed to enter in his income-tax return “From the trade or profession of burglar carried on by me in London, £1,000,” and he is not bound by law to do so; if the law catches him, it will not take 9d. in the pound from him nor even is. 2d., but the whole 20s., and restore it to the rightful owners. Gains which are on the face of them illicit escape inclusion in income because those who make them never declare them and other people do not know of them. But when the illegality of the gain can be concealed, it constantly happens that illegal gains do appear in income, and nobody thinks of rejecting them from the category of income. If a baker sells his customers bread 10 per cent. short in weight, it will come to much the same thing as if he sold them full weight at the same nominal price per pound and afterwards went round to their houses and stole money to the amount of one-ninth of their bread bills. But the short-weight gàins would be treated as income by income-tax authorities and every one else, while the gains by stealing would be excluded. There is, of course, no doubt that a vast mass of income is obtained in unlawful ways, so that we need not attach much importance to the fact that gains which are obviously unlawful when described by particular designations do not appear, at any rate under those heads, in published accounts. D?ubtless in the private mental records of the burglar and the pickpocket, whether the word income is actually used or not, no fine-drawn distinction between the proceeds of legitimate and illegitimate “industry” is attempted.

No one thinks of including what he inherits or receives by bequest in a statement of his income. The reason for this seems to be that the word “in-come” does not suggest anything coming in casually once for all, but some continuous receipt which can be conceived as a rate per annum, although no doubt often a fluctuating rate. If a man who received a legacy of £2,000 last year was asked why neither he nor any one else included it in his income for last year, he would probably reply “Because it was a windfall which cannot be expected to recur. My income fluctuates between £800 and

£1,200 a year in an ordinary way. Why should I say it was £3,000 last year when I got a legacy of £2,000 in addition to what every one calls my income in the other years ? Would it not be very misleading?” It certainly would be misleading to any one who took the £3,000 as an indication of the man's ability to pay taxes or subscriptions to charities and football clubs year by year. Why not, then, some one may ask, strike an average, throwing legacies into the total and averaging out to get a fair annual sum? Obviously because an average of that kind would be of no use unless it extended over the whole of a man's life, and little use then. What is useful is something which will be a guide for the immediate future, and this is provided by the ordinary method of reckoning, excluding legacies, and would not be provided by any conceivable method of including them. That the kernel of the matter is to be found in the “windfall” nature of legacies is shown by the fact that if it were known that a particular person's cousins would die regularly, one every year, and would each leave him £1,000, and that their number was infinite or even simply sufficient to last his lifetime, we might, indeed, still hesitate to call this regular £1,000 a year “income,” because we should be influenced by the general rule in our mind that legacies are not income, but we should feel no difficulty in deciding that the professional legatee would be “justified in treating the £1,000 a year as income.”

Gifts from the living are excluded from calculations of income just like bequests from the dead. Some gifts are casual, like legacies, and would be excluded for the same reason, if there were no other. But very often this reason does not apply: the receipts of most beggars are probably as steady as the receipts of large classes of workers, and the greater part of money received by way of gift is received in allowances and pensions of a regular character which can be depended on at least as much as most incomes derived from labour. Here we seem to be influenced by the feeling that “double reckonings” are misleading. We should be inclined to say, for example, that it would be misleading to treat the income of a family as increased by the father giving his daughter an allowance of £20 per annum, and if we say the daughter has an income of £20 we must do so, unless we treat the father's income as reduced by the same amount, which we do not think of doing. If the father wants to reduce his income by £20 in order to get a better abatement of income-tax or for any other reason, he must hand over to his daughter property yielding £20 per annum or secure the income to her in some legal way. So long as he does not do that, he has the ultimate control, and therefore we regard him as the income-receiver.

Even when we come to the undoubted sources of income, the possession of property and the performance of labour, we find that a large amount of money received is by common consent excluded from the category of income.

Let us deal with these two sources separately, beginning with property. In the first place, in order to be regarded as income receipts from property must come in regularly: not necessarily always exactly at the same rate, nor even without occasional intermissions, but regularly enough to be looked on rather as we look on the flow of a river. The flow may now be great and now small: it may even dry up for a week or two at a time once or oftener every year, but still there is the idea of a flow at some rate or other over a reasonable period. So if a man makes a regular business of buying land and selling it again, whether he divides or amalgamates the lots which he buys or leaves them alone, and whether he does anything to the land or not, we should reckon any profits which he made as income, just as we should reckon the profits of a picture-dealer. But if a private person bought a piece of land and let It to a farmer or lived in a house upon it for twenty years, and then sold it at a profit, we should not include that profit in a statement of his income: we should regard it, like a legacy, as a windfall.

Secondly, the more or less steady flow from the possession of property in order to be called income must ordinarily be of the nature of profit, that is to say, it must not include such part of total receipts as are necessary in order to pay necessary expenses, including the maintenance of the property unimpaired. A boot retailer who sold boots for no more than just sufficient to pay back what they cost, including the expense of keeping up the shop and all other necessary outlay, might carry on a big business and receive quite regularly week by week a very large sum, but none of it would be income: the income which such traders obtain is the surplus over the expenses necessary for carrying on the business and maintaining the capital intact. Even the rent of lands and houses is not all income, inasmuch as the contracts between landlord and tenant do not usually bind the tenant to pay everything necessary for maintaining the land and house in an unimpaired condition. An owner must then pay out a certain portion of his rent for repairs and renewals under penalty of seeing his rents diminish in the future, and this portion is deducted from his rent before we declare his income.

While there is a universal acceptance, in regard to most kinds of property, of the principle that income is only what is left after all expenses, including the expense of maintaining the property unimpaired, have been allowed for, It must be admitted that no very precise interpretation of “the expense of maintaining the property unimpaired” has been agreed upon. It cannot well be taken to mean that so much must be annually set aside that, no matter what happens, the property will continue to yield the same amount in the interminable future as it yields at present after the necessary deduction has been made. As we cannot foresee the future with any accuracy, this would be justly felt to be an absurdly high ideal of permanence to aim at. It would seem silly to say that the English agricultural landlords' incomes in the first seventy years of last century were really much smaller than they were reckoned to be, since the landlords ought to have been laying aside large portions of their rents, so as to secure after 1870 incomes equal to the amounts properly regarded as income before the depreciation which set in at that date.

“Maintenance of the property unimpaired” is, in fact, interpreted in different senses in regard to different kinds of property. If the property can be maintained so that it goes on consisting of the same physical constituents without their being the worse for time or wear, this kind of maintenance is regarded as sufficient. But the case is a rare one, some kinds of land being the only important example. It is much more common for the actual constituents of the property to change in character. A Lancashire mill may still be on the same site as when the business was started a century ago, and may still belong to the same family or company, and may have continuous accounts covering the whole period, but scarcely anything in it will much resemble the plant with which it started. When the things concerned have altered in this way, how are we to decide whether the property has been maintained intact, increased, or diminished?

The usual practice in a great many situations is to decide by a money-valuation of assets, and the property is assumed to be unimpaired if the various items of which it consists, taken as a whole, retain the same market value. Such a method of reckoning, for example, is usually supposed sufficient for ordinary agriculture: the farmer's stock, “live and dead,” is valued at the beginning and the end of the year, and the difference between the two valuations, if a gain, is regarded as part of his income, and, if a loss, is subtracted from his gross receipts, before his “true” Income is declared.

But this method is clearly quite inappropriate when the plant of the business is fixed to the ground and specialized to the particular kind of trade carried on. We cannot tear up the half-worn-out rails of a tramway or pull down the walls of a dock and sell them in the nearest market with the ease and absence of loss with which a farmer can drive his cattle and sheep to the next market town and dispose of them among his neighbours. In such cases it is usual to lay aside annually sums which are expected to accumulate during the lifetime of perishable plant sufficiently to provide for the replacement of that plant. The sums thus paid into a, “depreciation fund” are deducted from the gross receipts of the business before the income of the owners is declared. Whenever it is not, as a matter of fact, probable that plant will be replaced by plant of the same value, either owing to change of methods or change of prices, differences of opinion are likely to arise, even among fairly good financial authorities and experts in the particular business, about what the payments to depreciation ought to be. These differences lead to considerable differences in the calculation of income from property, and prevent it being a matter of simple arithmetic as we are apt to suppose it.

Moreover, the principle of non-impairment, though, as has been said above, it is accepted ordinarily or with regard to most kinds of property, is not applied to every kind of property without exception. If a person sells land and buildings he does not dream of regarding the whole proceeds less incidental expenses as income, and the fact that the land contained minerals would make no difference. But if he hires men to dig out the mineral, and sells it ton by ton, he and every one else ordinarily regards the difference between his receipts and the whole expense of working the mine as income: so, too, if, instead of working the mine himself, he allows others to dig out the mineral on condition of paying him a royalty of so much a ton, the whole of the royalty, less any incidental expenses of getting it, is regarded as income. In neither case is it usual to say that “he has to provide for the depreciation of the mine” out of what he gets before his income is declared. The reason why provision for depreciation is not expected here is doubtless to be looked for in the fact that, in the past at any rate, men's knowledge of what is below the ground has been so small that no one has usually formed definite estimates of the total amount of available mineral to be found in any particular property, and the rate of working has been slow, so that there has been a natural inclination to regard each mine as “practically inexhaustible,” and the output accordingly as a permanent flow. The quicker the rate at which the valuable matter can be removed, the more likely is the owner to shrink from regarding the payments he receives for it as income. If, for example, instead of being mineral deep down below the surface, accessible only by narrow shafts equipped with lifting apparatus and by long, low tunnels, the valuable matter is some surface deposit which can be easily removed in a few months, he will regard its sale in the same way as he would regard the sale of acres of land. It seems, therefore, that the apparent exception of income from mines from the rule of non-impairment of property is the consequence of the difficulty of reckoning impairment and its supposed insignificance rather than the result of the application of a principle different from that applied to ordinary incomes.

There is more ground for supposing the application of a different principle to life-annuities when received by the person on whose life they depend. The right to such an annuity is property, and it is a property which depreciates as the annuitant grows older, but the annuitant does not regard the income he receives from the annuity as less than the annuity by an amount sufficient to provide for the depreciation, so that a fund may be provided great enough to furnish the same income (thus calculated) after his decease as before. He always regards the whole of the annuity as income, though “only a life income.” The fact is that there are two sorts of permanence, one of which we indicate when we say “it will last for ever,” and the other when we say “it will last my time,” and the secured life-income, though it has not the first kind of permanence, possesses the second. It should be noticed, too, that the need of providing for depreciation of property does not present itself to the annuitant, inasmuch as he is not in the habit of reckoning the value of the annuity among his assets. If he bought the annuity with a lump sum, he did not think of the purchase as an ordinary “investment,” but rather as a “sinking of capital.” If he bought it by small payments spread over many years, he regarded those payments not as purchasing him a property of so much capital, but as simply buying him the annuity. And if the annuity was given him, he never reckoned it as such and such a capital sum, but regarded himself simply as a person who would from that time forward receive the specified annuity till death.

Coming now to the incomes contained in salaries, wages, and other receipts connected with the performance of labour rather than the ownership of property, we find that the deductions commonly made from gross receipts before income is declared are here of much less importance. Ordinarily, indeed, they are so small that in practice they are disregarded. But we admit that in strict accuracy they ought to be made. We are always willing to deduct the cost of providing any materials which are “found” by the worker out of what are called his wages or his salary. We will allow, too, for the cost of replacing any tools which he has to provide and interest on their original cost. We admit, in short, that all expense to which the worker is put by the conditions of his work in the present must be deducted, although we may often have great difficulty in saying whether some particular expense like that of living in a highly-rented locality, or of paying railway or tram fares in order to avoid doing so, is expense caused specially by the work or by the worker's own tastes and desires.

But though we allow for continuing expenses in the present, we seldom think of allowing anything for the original expenses of training the worker for his particular occupation. Hundreds, and often thousands, of pounds may be spent on the training of a person for an occupation, but the very first time he earns anything, that something is treated by every one as income obtained by him, and the moment he earns more than a certain amount in a year, income-tax becomes due from him. So far as the ordinary conception of income goes, all this expense is treated as non-existent in reckoning the incomes of the earners. Neither interest nor sinking fund is allowed for. There is, however, in reality nothing surprising in this fact. Workers are not brought up on commercial principles, like horses, with a view to the profits of owners. They are brought up and trained by their parents, by charities, and by the State, and it is only in rare instances that they are asked to repay any part of the cost. Consequently the cost is not looked upon by those persons and institutions which defray it as an investment but as an outlay which will bring them in no money return. Moreover, it is often almost impossible to disentangle the special expense from other expense which would have been incurred whether the work was to be taken up or not. We can realize the difficulty when we reflect that the most expensive education is often given to those who are scarcely expected to earn anything, either because they are too rich or too defective.

The degree of permanence which we expect from an individual's income earned by labour is even less than that which we attribute to a life-annuity. A life-annuity is expected to last as long as life, a labour income only as long as working life, which cannot be longer and may be much shorter than life itself. We do not deduct from wages or salaries an amount for the depreciation of the worker before we declare his income.

Consequently, if we disregard the exceptional cases, which, taken as a whole, are really of little magnitude compared with the general mass, we may say that the income of an individual, as commonly reckoned, is equal to the flow of money, usually expressed as so much a week or a year, which, without any assistance from gifts, inheritances, or recognized robbery and theft, and without diminishing. the property he has already obtained by any method, he has available for the following purposes:—

1. To purchase commodities and services (whether taxed or not) from which he expects either no monetary return or one which is obtained only because they increase his earning capacity, by. improving his talents and knowledge:

2. To save:

3. To give away:

4. To meet taxation, so far as it is not included under previous headings, and losses by robbery.

In addition to individuals some institutions are commonly regarded as possessing incomes. We do not and need not regard ordinary commercial companies as having incomes in addition to the incomes of their members. Nor do we or need we regard the amounts received by institutions in gifts or legacies as income to them any more than we regard similar receipts as income to individual recipients. But the net yield of any non-commercial institution's endowments clearly comes under the ordinary conception of income: it is an income from property just as much as if it belonged to an individual owner. If a hospital or a school, for example, possesses land or consols, the income is perfectly genuine income. It may be spent on nursing the sick or on teaching the young, but it will not be reckoned as part of the income of those persons, and so there is no "double reckoning" in treating it as income of the institution.

The position of the States and their subdivisions in regard to income is much more equivocal.

When a State or a local authority possesses ordinary income-yielding property, such as Suez Canal shares or land let to individuals for a rent, there seems at first sight no reason to refuse the application of the name income to its receipts. On the other hand, we usually shrink from regarding receipts from taxes as income of the State which collects them. We make this distinction between the yield of property and the yield of taxes because we think there will be "double reckoning" if we include taxes in income, and not if we only include the yield of property. We think we have already reckoned the yield of the taxes in the incomes of the people who pay them, while we have not reckoned the yield from the property in any one's income.

But neither of these beliefs are quite so easily justified as we at first imagine. It is no doubt true that we should have double reckoning if we first reckoned individuals' incomes in the ordinary way without deduction for taxes, and then reckoned the gross or net yield of the income-tax as income to the State. When we say that a man has £1,000 a year, we mean that he has that sum gross, before his income-tax has been paid (either directly by himself or by way of deduction), and it would be clearly double reckoning to say that both he and the State had the amount paid as tax. But the income-tax has a character of its own, and the argument which applies to it does not seem to apply at all to the yield of ordinary taxes on commodities, such as that on tobacco or tea. Such taxes do not appear in an individual's accounts as charges to be paid out of his income, because they are wrapped up in the higher prices which he has to pay for the commodities which they make dearer. This involves a real difference: when a man pays income-tax he does it because he must, and not because he gets something worth paying for, but when he buys a shillingsworth of tobacco he does actually get something which he reckons worth at least a shilling. If the State gets 10. net out of the shilling, it seems really less confusing to regard the man and the State as having between them 1s. 10d. rod of money-income to spend than to say that there is only is. of income, all belonging to the individual, from whom the State exacts 10d., leaving him with only 2d. The man really has is. to spend. The millions raised by the tobacco duty might be raised, as they are in France, by a State monopoly of tobacco: if the yield of the tobacco tax is not income in the United Kingdom, the amount raised by the tobacco monopoly in France cannot be income; but if the monopoly were the result of private commercial arrangements, should we consider the profits won by the monopolists in consequence of the existence of their monopoly as not properly income because it was got out of the prices charged to the consumers? Do we ever apply that principle, say, to the profits of the Standard Oil Company?

This suggests that we might possibly make a distinction between direct taxes not paid in prices and indirect taxes paid in prices, and confine the doctrine that taxes are reckoned in individuals' incomes to the first class. But there is no way out of the difficulty by that method. It would be very confusing to say that the yield of the income-tax and of the inhabited house duty are not income in addition to the incomes of the taxpayers, but that if a. tax were laid on the building of houses, and was, therefore, paid in the first place by the builders of houses, but ultimately by the users of houses in higher rents and purchase-prices, the yield of this tax would be additional income. What difference can it make whether I pay for a house £100 a year rent and £3 15s. house duty or £103 15S. rent and no duty? It would seem absurd to say that in the first case I spend income amounting to £ 103 155. and the State takes £3 15s. of it, but in the second case I spend £103 15s. of income and the State has, in addition, £3 15s. of income.

The second belief—the doctrine that we need not fear double reckoning when the State has ordinary receipts from ordinary property—also appears less plausible on examination. When a territorial authority is in the enjoyment of such receipts, the presumption is that they will be spent in some way which will relieve the territory from taxation, and this will make the territory a more desirable one in which to live or carry on business. That, again, must tend to raise the value of land within it, and so to raise the income of landowners. In the case of a considerable territory such as the United Kingdom owning a small block of property like the Suez Canal shares, any such effect is likely to be so inappreciable that most persons will be inclined to deny its existence. But no one will doubt that Mr. Carnegie might endow any small town with property enough to cause a very perceptible rise in the value of the land inside it, and it is said that rents in a certain small parish in an old town are actually perceptibly higher than in the neighbouring parishes in consequence of the number of persons attracted by the charitable endowments belonging to the parish. It is only common sense to recognize that any property of which the ownership is attached to a particular territory must raise the value of that territory if the yield from the property is spent in making the territory attractive.

It seems best to avoid the necessity of solving these puzzles. To avoid it we need only refrain from the attempt to build up an aggregate income including incomes of states and all non-commercial institutions as well as incomes of individuals. This need cause us no regret, since the whole importance of the conception of income is to be found in connection with individual property. The conception is useful as an aid in the comparison of the wealth of individuals, and in a less degree of groups of individuals, so far as their wealth is connected with separate property: it is of no use so far as common property is concerned, nor where there is no property.

Returning, then, to our consideration of individuals' income, we may observe that the amount of which people are actually robbed is not, under modern civilized conditions, of any great magnitude; and the amount of which people are deprived by taxation, though of greater magnitude, does not make much difference as between one person and another, in consequence of the natural tendency of governments to tax the richest persons most and the prevalent belief that taxation ought to be according to ability to pay. Consequently the amounts of income which people have left them to spend (or save) as they like are approximately proportionate to their whole incomes.

Now, certainly an individual with property may for a time put forth a demand and consequently exercise a control over production in excess of what his spendable income alone entitles him to, if he chooses to part with property he already possesses.

Smith saves, and with his savings buys land, or a house, or consols from Jones, who then can do what he likes with the proceeds, either investing them so as to bring ill income or spending them on commodities and services which will bring in no income. If he invests, he it is, and not Smith, who immediately determines what kind of addition to property shall be made, but of course he is governed in his decision by his opinion of what demand will be in the future. If he merely “spends,” however, he, so to speak, cancels Smith's savings, and his own tastes will decide what shall be produced. So that every one who has property, and can find savers to buy it, may both divert Society from providing for the future and decide what kind of present goods shall be produced. A very large number of persons act in this manner by “spending” legacies which they have received from richer or more provident relatives. But the magnitude of the property so dealt with is not very considerable, so that the total demand coming from reduction of individuals' property is also small in proportion to the whole. In spite of the flagrant examples which occasionally strike the eye in the newspapers, it is quite unusual for well-to-do people to spend much more than their incomes.

It is also true that income-receivers often hand over portions of their incomes to others to spend, and that then these others exercise the power of demand and control over production. If, for example, a father makes his daughter an allowance of £20 per annum to do what she likes with, power to that extent is transferred to her. But this is of little importance: the power is only delegated, and is withdrawn by the giver as soon as he disapproves of the way in which it is exercised. It is a matter of the merest detail.

We may say, then, that individuals' power of demand and consequent control over the economic activity of Society is distributed and exercised approximately in proportion to the comparative magnitude of their incomes.

The next important question is what settles who has a large and who a small income or none at all, or, as it is usually expressed, what settles the distribution of income? But this question has been so much obscured by the traditional classification of incomes under several heads that it is desirable first to devote a chapter to the consideration of the classification of incomes.

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CHAPTER IX

The Classification Of Incomes

The classification of incomes which is found most convenient for purpose, of economic exposition naturally does not remain always the same. It changes with changing social conditions. That which was convenient in England in the eighteenth century would not have been very enlightening in India at that time, and is not very suitable for English use in the twentieth century. But tradition connected with it still plays such a large part in forming the thought of the present time that it would be useless to ignore it.

It was a threefold classification into wages, profits, and rent, which corresponded very well with the social stratification of the time and place. In the country the labourers were a fairly well-defined class receiving wages and nothing else, the landlords another fairly well-defined class receiving rent and nothing else, and the farmers another such class making profits and having no other income. In the towns, it is true, the profit-makers in the shape of merchants and manufacturers often owned the land on which shops, counting-houses, and factories were built, but this was regarded as a small matter which did not suffice to turn them into "landlords," as the rental value of their premises would be generally trifling in proportion to their gains as "monied men." and in towns was practically ignored: the "labourers" in towns were in just the same position as in the country, so that the classification of income into wages, profits, and rent seemed to fit the national classification of persons quite satisfactorily. Moreover, it seemed to be suitable for explaining the organization of production prevalent in England at the time. In the country the produce belonged to the farmer, and he looked to it to recoup him for what he spent in wages and rent, which were regarded as constituting together practically the whole of his expenses. Merchants and manufacturers certainly had to purchase materials and goods, but what they laid out in this way might be treated as ultimately replacing what had been spent in wages and rent by some farmer or manufacturer who produced the materials or goods in question. The threefold classification was introduced into economics by Adam Smith, and it seems probable that he hit upon the idea while attempting to analyse prices into their component parts. "Market price," or the fluctuations of price in the market, depended, he thought, on supply and demand, but "natural price," or price in the long run, depended on how much wages, profits, and rent had to be paid in order to secure the commodity. By what may perhaps be called a mere accident, he was led to convert this theory of prices into a classification of income. While he was thinking out his theory of prices in Scotland, there flourished in France a little school of economic and political theorists who were called at the time the *Economistes*, but who were subsequently, in order that confusion might be avoided, christened "Physiocrats" in consequence of their belief in the rule of Nature. The school was the product of a reaction from Colbertism, which had tried to bring prosperity to France by favouring manufactures and commerce. Its principal tenet was that agriculture, or at any rate the earth, was the source of all wealth, and its great revelation, regarded with amazing veneration by the elect, was the Tableau Economique or Economical Table, in which its founder, Quesnay, tried to show by a number of zigzag lines how the produce of the earth was "distributed," as he called it, throughout society. On making acquaintance with this scheme, and seeing the immense importance which the physiocrats attached to the "distribution" which it was supposed to portray, Adam Smith seems to have resolved to treat his own analysis of prices into wages, profits, and rent, as also a classification of incomes. He said that just as the price of any particular commodity resolves itself into one, two, or all three of the three component parts, wages, profit, and rent, so the price of all the commodities which compose the whole produce "must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land. The whole of what is annually either collected or produced by the labour of every society, or what comes to the same thing, the whole price of it, is in this manner originally distributed among some of its different members. Wages, profit, and rent are the three original sources of all revenue as well as of all exchangeable value."

The three terms, wages, profit, and rent, seem to have been used in the ordinary conversation and literature of Adam Smith's time very much as they are at present. Wages meant what was paid to persons for their work when they were paid at a rate agreed on before the commencement of the work, and when they worked more or less under the supervision of the employer; rent meant the periodical payments made to the "landlord" by a tenant of land and anything affixed to and let with the land, such as hedges and ditches and houses; profit meant any net gain arrived at by deducting expense incurred from gross receipts. Roughly speaking, no doubt, it could be said that labourers lived on their wages, landlords on their rents, and farmers, merchants, and manufacturers on their profits. But certainly the three words, as ordinarily used, have always included some receipts which lie outside income and do not include the whole of those which lie inside it. The contracts under which the great bulk of rent is paid do not secure the landlord "a clear annual rent without any deduction whatever": he has usually to expend an appreciable proportion of his rent in keeping the property in a rent-yielding condition, so that the income derived from the property is appreciably less than the rent. The wage-earner likewise has often to pay out of his wages some necessary expense of the work which he does, as when he provides his own tools. On the other hand, the three terms do not together cover the whole of income, as there are many other receipts of which the whole or part forms or contributes to the income of those who receive them. There are, for example, salaries received by workers of a higher class than those who are said to receive wages, fees received by others who are less subject to supervision by their employers than wage-earners and receivers of salaries, as well as fines, dues, royalties, and other payments received by owners of property. In the passage quoted Adam Smith ignores all these discrepancies: he alleges explicitly that the three categories taken together include the whole of income, and he implies that they include nothing else. What he was really doing, without clear comprehension of the fact, was defining labour, stock, and land so that together they would include all sources of income, and defining wages for his purposes as income derived from labour, profits as income derived from stock, and rent as income derived from land.

He admits in subsequent paragraphs that “common language” does not always agree with his definitions: a man cultivating his own land, he says, will call the whole of his gain “profit” without allowing anything for rent; a tenant farmer who supervises the work of the farm and even assists with his own hands will call all that is left to him after paying working expenses and keeping up the stock “profit” without allowing anything to himself as the wages of his labour; an independent artisan who makes things for his customers instead of working under a master will also call his gains “profit” without making any allowance for wages; and finally, a working gardener who owns his own garden is “commonly considered” as receiving the “earnings” (not, be it noticed, the “wages”) “of his labour,” nothing being taken off and attributed to him as the profit of his stock or the rent of his land. But these observations did not suggest to his mind any doubt about the convenience of his definitions. He merely infers that “common language” is wrong, and that it “confounds” the different sorts of income. “When,” he says, “those three different sorts of revenue belong to different persons, they are readily distinguished, but when they belong to the same they are sometimes confounded with one another, at least in common language.”

The weak point of this exposition is that it gives no example of cases in which “those three different sorts of revenue belong to different persons.” In fact, it is extremely difficult to find one. The large class of tenant farmers, on Adam Smith's own showing in the passage just quoted, receive “wages” in his sense of income from labour, as well as profits or income from stock, and in a later chapter he tells his readers that the greater part of the gains of a retail shopkeeper may easily be “real wages.” Wholesale merchants and manufacturers he seems to have regarded as receiving no appreciable amount as “the wages of a particular sort of labour, the labour of inspection and direction,” but, all the same, he seems to have supposed that about half their gains were due to some undefined exercise of activity, since he quotes with approval the common estimate that a fair profit is double the rate of interest. This estimate suggests at once the question why the income derived from the ownership of stock should be coupled up with the income derived from the owner's exertions by the whole being called “profits of stock” or of capital. Why not admit that the wholesale merchant and the manufacturer as well as the retailer and the farmer earn by their labour all that they get over and above ordinary interest on their capital?

For nearly a century after Adam Smith wrote, economists were prevented from taking this step by theories of wages which required them to believe that wages in the ordinary sense (agreed payments for labour executed more or less under the supervision of the employer) were regulated by principles entirely different from those which regulate other earnings of labour, in regard to which there is no contract of service. Though they formally defined “wages” as if the term were synonymous with income derived from labour, they always had in their minds wages in the ordinary sense, and the theories which they framed respecting wages could not be stretched to include the earnings of the labour of a person working on his own account. But when these theories crumbled away, the practice changed, and instead of “confounding,” as Adam Smith might have said, the income which the owner of capital derives from his activity and that which he derives from his property in the common denomination of “profits of capital,” economists began almost with one accord to call the income derived from capital “interest,” and to treat the other portion of the owner's gains as belonging to labour's share, though they have not as yet agreed by what special name to call it. The Americans usually call it "profits" simply, but English writers have hesitated about making so great a break with economic tradition, and have sometimes left the category nameless, and sometimes called it "earnings of management." This last course is inconvenient, because it mixes up the gains in question, obtained by persons working on their own account, with the incomes of persons engaged in management but paid by salaries or wages.

By this division of Adam Smith's "profits of stock" into two shares, one for the active operations of the "undertaker of the work," as he was called in Smith's time, and one (to be called "interest") for the passive ownership of the property, a clear line was drawn between income from labour and income from property. But another question still remained, namely, how to distinguish "interest," the share of "capital," from "rent," the share of land. Adam Smith himself seems never to have felt any need for careful distinction between land and what he called "stock." To him land was land and stock was valuable property other than land: land brought in a rent, and the part of "stock" which he regarded as "capital" brought in a profit, and it did not occur to him that any one would have or make any difficulty about the matter. But even he admits that "the rent of land" may sometimes partly (and conceivably in some exceptional cases wholly) consist of "reasonable profit or interest" on capital expended on the improvement of the land. If we once admit that rent can owe its origin to the expenditure of capital in this way, we must admit that "land" can be increased in value by human labour expended upon it, and the sharp distinction between land, given by Nature, and capital, the accumulated product of past labour, is hopelessly blurred. Ricardo made a slight attempt to enforce purity of doctrine by declaring early in his *Principles* that he would apply the word rent only to what was paid for the "original" powers of the land, but he soon explicitly abandoned this proposal and drew a line between permanent and perishable improvements, classing the income from permanent improvements as rent of land and the income from "buildings and other perishable improvements" as profits of capital, or interest, as later writers would call it.

This second plan of Ricardo's was generally followed until the last decade of the nineteenth century. Then it was perceived that the distinction he favoured was not one of principle but only of degree; improvements are not divided into two kinds, one "permanent" and the other "perishable," but may be better described as all more or less permanent or more or less perishable. Marshall brought the fact into greater relief by devising the term "quasi-rent" for the income derived from the ownership of appliances for production made by man, though he does not actually use it in place of the usual term "interest" for the income obtained from capital regarded as a share in distribution. Since that time it has been possible for the economist to give attention to the division between earnings of labour as a whole on the one side and the income derived from property, whether rent, quasi-rent, interest, or anything else, taken as a whole on the other side. This I propose to do in the next chapter.

Some reader may perhaps object to the division of all income into Income from labour and income from property on the ground that income is sometimes obtained from personal qualities without labour. The Siamese Twins and General Tom Thumb, he will say, got their incomes not because they laboured, but because they had certain rare peculiarities which made people ready to pay to look at them. It is doubtful, however, if there are any personal qualities which can be exploited without some amount of labour. Even the Fat Woman in a travelling show, who might be taken as the type of pure passivity, has to give up her time, and must find being stared at and commented upon quite an appreciable exertion. It seems unnecessary to split hairs over the question. If any one thinks it an improvement to substitute "income from labour and personal qualities" for "income from labour," he is quite at liberty to do so. The change might make an important difference if there were any suggestion that workers get income because labour is meritorious, but there is no such suggestion in the present work.

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CHAPTER X

The Division Of Income Between Owners And Workers

The use of the term "division of income" in the heading of this chapter is not to be taken as implying that there is in reality some great common income which is divided up into shares. There is, no doubt, a conception of the total income of all the inhabitants of the country, and perhaps even of the total income of all the people of the whole world. But this total is not a consistent whole which has to be divided between participants like a loaf which is cut into slices with a knife. It is a total more like the total of all the grains of wheat produced in a year. We can think of that total and talk of it as being divided or distributed between the consumers, without supposing that all the grains are ever brought together in a single barn or elevator and then parcelled out. This is what we have to do with income. We must recognize that the total is nothing but the sum of innumerable separate incomes of individuals and institutions, and a sum which cannot be expressed in any measure giving the bulk, weight, or number of the things or "satisfactions" of which the incomes consist, but only in figures which indicate the number of sovereigns or dollars or some such standard of value which is arrived at as the aggregate value of all the incomes, each being made up of the value of its different parts valued separately. An inquiry into the division or distribution of this total is really nothing more than an inquiry into the comparative magnitude of the different "shares." It often happens that the "share" of a participant is increased by something which makes no difference at all to the other participants, or at all events no appreciable difference. In such a case it may still be a convenient fiction to suppose the addition thrown first into a common heap and then taken out again as an addition to the fortunate person's share, but we should never lose sight of the fact that it is only a fiction. The various incomes are to a large extent independent of each other. I only use the phrase "the division of income between owners and workers" because of the clumsiness of the alternative "the magnitude of the whole income falling to owners compared with that falling to workers," with all the cumbrous phrases which would have to be brought in along with it to indicate changes in the comparative magnitude.

I have spoken of "owners and workers" rather than "property and labour" because it is very desirable to draw attention to the fact that the number of persons who own property and the number of persons who work may undergo a relative change which may cause the average owner to receive a less income in comparison with the average worker, although the proportion of the total income falling to the share of property has increased—and, of course, *vice versâ*, a change of relative numbers in the opposite direction may improve the position of the average owner compared with the position of the average worker, although the proportion of the total income going to the share of property has diminished. For example, if the total income has been 100 (million pounds, or milliard pounds, or whatever unit the reader likes to select), and property has been receiving 30 and labour 70 of this amount, and then property's proportion rises to 35 and labour's falls to 65, the average owner, instead of being better off in comparison with the average worker, will be worse off, if at the same time the number of the owners has increased by 50 per cent. while the number of workers has remained stationary; each worker will, it is true, be getting a slightly diminished proportion of the whole income, but the proportion received by each owner (on the average) will have been diminished still more. This is immensely important, since it means that the division between labour and property does not by itself settle the relative position of the owners and the workers. The individual workers may be better off in comparison with the individual owners when they are receiving in the aggregate a less proportion of the total.

With this preliminary caution we can proceed to ask what determines the division between property and labour in the aggregate, or, in other words, what changes we should expect to alter the division in one direction or the other.

We have to do with the aggregate annual value of all the property on the one side and the aggregate annual value of all the work on the other side. Those aggregate values are of course made up of the value of the units joined with the number or amount of the units in each. Consequently we must not suppose that the division between property and labour is as simple a matter as any ordinary bargain, and is "all a question of value" in the ordinary sense. In ordinary questions of value we have only to think of the values of units—the value of *a* horse, the value of coal *per ton*, of wheat *per bushel*. But in our present discussion we have to consider the annual value of all the property and of all the work. When we compare the value of pig-iron and of gold in the ordinary way, we have no hesitation in saying that, other things being equal, an increase in the annual output of pig-iron will reduce its value in gold, and so we may be tempted to say that an increase of labour will, other things equal, reduce the value of labour as compared with that of property. That would be true in a sense, but not in the sense appropriate to our present question. What we have to do is to consider the value of *all* the labour compared with that of *all* the property, and consequently we have to remember that while the increase in the aggregate quantity of labour has tended to reduce the value of a unit of làbour (however defined), it has at the same time increased the number of units, and this increase in the number of units may, it is true, have fallen short of counterbalancing the fall in the value of the unit, but it may also, on the other hand, have more than counterbalanced it: fifteen articles at tenpence each are worth more in the aggregate than twelve at a shilling each.

In the first place, then, let us suppose that a change takes place in the relative amounts of property and of work available without any change in the elasticity of demand for different things. Suppose, for example, that in a situation where property has been receiving 30.0 and labour 700, the number of workers is suddenly raised from 20,000,000 to 22,000,00. We may be sure that the additional 2,000,000 workers will cause some depreciation of labour as compared with property—that is, the value of an hour's labour will be less compared with the rent of a particular acre, the hire of a particular machine or house. But we cannot tell whether this depreciation of the unit will be sufficient to sweep away the direct effect of the increase of 10 per cent. in the quantity or number of units. That depends on the elasticity of demand for work and property. Property will certainly get a larger share, in the sense of absolute aggregate amount; the average proprietor, too, will find his position improved compared with the average worker. But all this is quite compatible with a rise of property's share only from 300 to 312, and of labour's from 700 to 763, which would mean that the percentages indicating the division between property and labour had altered from 30 and 70 to approximately 29 and 71, labour thus getting a larger proportion than before. On the other hand, of course, with a different elasticity of demand, property's share might rise to 330, and labour's only to 745, thus slightly changing the proportions to the disadvantage of labour.; it is even conceivable that the depreciation of the unit of labour might be great enough to more than counterbalance the 10 per cent. increase of quantity, so that property might get 400 and labour only 675, a smaller absolute amount as well as a much smaller proportion.

So far we have supposed alterations in the amount of labour compared with the amount of property, the conditions of demand being unaltered. Now let us reverse the supposition, and imagine the quantities stationary while changes in demand take place. The quantities remaining the same, if for any reason people with power to demand choose to direct more of their power towards the purchase of work and less towards the hiring of property, the aggregate value of work done in the year or the week, or whatever period is regarded as the most convenient to reckon in, will rise, compared with the aggregate annual or weekly value of the property; and, of course, *vice versâ*, if more demand is directed towards property the aggregate annual value of the property will rise, compared with that of work. The first change will mean that labour will get a larger proportion than before, and the second that it will get a smaller.

It is perhaps a little difficult to give actual examples of changes in either direction, but the following suggestions may be offered. (1) Increase of income is often a cause of change of demand as between different commodities and services, and it may, on the whole, perhaps make people inclined to spend a larger proportion of their income upon the use of land, houses, vehicles, pictures, and such things, and a less proportion in ways which tend to raise the value of work as compared with property. But the case is far from strong.

(2) Changes of taste or fashion are probably more important in practice. It is easy to conceive changes of this kind which would make a considerable difference. We might, for example, become so convinced of the desirability of living in fresh air that we abandoned the use of houses: the abandonment of houses would lead necessarily to the abandonment of such furniture as could not be waterproofed, and the income set free from the maintenance of these things would no doubt largely go to pay for the doctoring and massaging rendered necessary by the increase of rheumatism. Thus the change would be decidedly favourable to labour's share. Something of the kind has actually happened, though of course on a much smaller scale. At one time a rich man's taste for display was chiefly satisfied by the employment of large numbers of retainers; later this fashion largely disappeared, and lovers of display began to prefer palaces, pictures, and jewels. If Mr. Pierpont Morgan, instead of collecting art treasures, had chosen to spend his income like Warwick the King-maker, labour's proportion of the whole income would have been a little larger than it was. (3) Lastly, inventions of machinery and discoveries of new and better methods, without altering

the ultimate consumers' tastes, cause changes in the relative demand for instruments and for labour. One invention shows how labour can be economized by the use of some elaborate machine, and thus tends to depreciate labour compared with the use of machinery and property in general; another discovery shows how to dispense with machinery, and thereby tends to cause labour to have a higher value in proportion to the annual value of property.

It is natural to ask what has been the net result of these causes in the past. Have they actually resulted in property receiving a larger or a smaller proportion of the whole income ? If we knew what had happened in the past we might have some guide for our expectations for the future.

Such statistics as are available suggest that the proportion has been nearly stationary for inhabitants of the United Kingdom during the last half-century. But this does not take us very far. The inhabitants of the United Kingdom are a special class which may not be typical of the whole world in this respect. Moreover, the period is too short to be of much weight. Looking at the matter with a long sweep of vision back to the earliest age in which we can regard property as existing at all, we can scarcely doubt that property's proportion has increased. In ordinary seasons labour brought in sufficient return to maintain the workers somehow, though no doubt not In a very luxurious manner; it is difficult to believe that on the top of this there was a 40 or 50 per cent. surplus for owners of property. The property was small; the land was there, but only slightly improved; the houses of the mass of the people were hastily-built huts, which have mouldered and blown away without leaving so much as a slight elevation of the soil on their sites; the means of communication were grass tracks, over which every man travelled on foot or on horseback; machinery for making goods scarcely existed. It is impossible to believe that the owners of such property as existed received as large a proportion of the whole income as they do to-day.

While it is thus probable that the proportion falling to property has increased, it 1s possible that the position of the average individual worker has improved in comparison with that of the average individual owner of property. Though there is no doubt a greater space than ever between the average worker and the richest man in the world, the increase in the absolute amount of the income derived from property has been so widely spread that it is quite possible that the increase per head is not so large in proportion to previous income as the increase in earnings per head has been. In this calculation we are thinking of workers and owners as such, so that a single person may appear in it both as worker and as owner. If we drop this abstraction and ask ourselves what is likely to he the effect of a growth in the proportion falling to property, we find much depends upon the diffusion of this proportion. If a few individuals get the whole increase, this will be more unsatisfactory than if the increase is widely spread.

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CHAPTER XI

Incomes From Ownership Of Property

Why do some people have property from which the owner can draw a large income without appreciable exertion on his own part, while other people have less such property, and many none at all ? Here the principal cause clearly is the fact that all persons do not receive equal amounts of property by way of inheritance and bequest. Some receive enormous amounts and others small amounts, while the great majority receive nothing at all. Thinking of particular individuals we regard this as a matter of luck. It has always been thought simply lucky to be “born with a silver spoon in your mouth.” The heir of a large property is “fortunate,” and sometimes his property is even called his “fortune.” But it IS not chance which causes greater inequality from this cause to prevail at one time or place than at another. One set of conditions will produce more inequality than another.

Where there is not much property, there cannot be much inequality of inheritance. Consequently, under primitive conditions the inequality from this cause is unimportant. Each generation then receives little from its predecessor, and the inequalities which arise from unequal inheritances are small compared with the inequalities which arise from the same cause when generation after generation has accumulated property in the shape of improved land, buildings, and instruments of all kinds. Hence, even in our own time we can see a difference between what we call the “old” and the “new” countries. The inequality which arises from unequal inheritance is much more marked in Europe than in North and South America or Australia. The American, H. R. Seager, said in 1904: “So long as a fair degree of equality of economic opportunity is preserved, the influences which make for the disintegration of large accumulations of wealth are likely to predominate, and the very rich men of each generation are likely to be those who have acquired the greater part of their fortunes during their own lifetimes. This has been the case in the United States up to the present time, and there is nothing in the practice of paying interest and rent for the use of property fairly acquired that threatens to make It less the case in the future. “But in his 1913 edition he decided to omit this passage. As the United States ceases to be a “new” country, more and more property will be inherited in proportion to that which is acquired in the lifetime of a generation, and there will consequently be more scope for inequality of inheritance. Already the Astor and the Vanderbilt families show that the process of assimilation of American to European conditions has made considerable progress. America may be free from inequalities arising from grants of land made by William the Conqueror, but it is just as easy to be the lucky inheritor of a farm which becomes part of the site of a great city there as in England. The Astor inheritance in America has the same source as the Grosvenor inheritance in England, and the Vanderbilt and Morgan millions are no more likely to “disintegrate” than those of the Rothschilds. We may take it that mere continuance of prosperity is likely to increase the inequality of incomes resulting from inequality of inheritance.

But variations of law and custom exercise an influence, and may exercise greater influence in the future. Primogeniture, strictly carried out, and applicable to the only important kind of property, no doubt kept the inequality greater than it would have been under a system of equal division between children. In our own time primogeniture plays but a small part: property as a whole is generally divided nearly equally between a man's children by his will, except when the eldest has a title, and, therefore, it is supposed, some state to support. The restrictions on freedom of disposition between the testator's children and others which prevail in many European countries probably exercise but little real influence, an merely compel what would almost always be done voluntarily. More important is the state of opinion about marriages between one class and another, which, in modern civilization, practically means between persons belonging to rich and persons belonging to poor families. If there is much intermarriage between the children of the rich and the children of the poor, there will clearly be a more equal distribution of inherited property than if the children of the rich marry none but their own class. Another most important factor is the relative number of surviving children among rich and poor, If every millionaire had twenty children, there would be much more “disintegration” of great fortunes than if he had only one or two. So far this subject has been very little discussed, and very little is known about it. J. S. Mill alone of the older writers thought it worthy of consideration, and not much has been added since his time.

Along with differences of income arising from unequal inheritances and bequests we must place differences arising from unequal gifts from the living to the living—gifts *inter vivos* as it is commonly expressed. Gifts are not, as we have seen, themselves regarded as income, but when property has once been handed over from one person to another, so that the giver has no longer any control over it, then the income which the property yields is of course income to the person who receives the gift. Such gifts of property are not made to any great extent. People who wish to give usually prefer to retain the ownership of the property and give away the income from time to time, so that they can if they please at any moment revise their donation. But transfers of the property are considerably encouraged by the heavy taxes levied on inheritances in recent times. They are made chiefly to persons who would have received the property by way of bequest or inheritance a little later, and are consequently subject to just the same influences as inheritances, and the reasons for their inequality are the same.

The second great cause of inequality of income from property is inequality of saving. Some save much, others save little, and others nothing at all. If those who had little property saved much, and those who had much saved nothing, or exercised negative saving by spending more than their incomes, inequality of saving would, of course, not be a cause of inequality, but rather a cause tending to greater equality. But as a matter of fact it is the rich who save most, both in absolute amount and in proportion to their incomes, so that saving does not mitigate inequality arising from other causes, but aggravates it. The amount of a man's savings depends upon his power and his will to save. His power depends upon the magnitude of his income less any claims on it which have to be met whether he likes it or not, and upon the length of the time during which he has commanded the income. We do not expect to find that a young person with a small income to start with has saved much, especially if his mother has made him contribute a good deal to the support of the family. We do expect a man who started with a good income a long time ago and who had no great claims upon him to have saved a great deal if we know that he desired to save. If inequality in the desire to save were arranged so that those who had the least power to save had the most desire to do so, this might, of course, counteract to an appreciable extent the results of unequal power to save. But there is no reason for supposing any such providential distribution of desire to save, and therefore on the whole we must regard saving as actually operating to increase rather than decrease inequality of incomes.

It must be remembered, too, that the education and training of children is a quasi-investment which competes with saving in the ordinary sense of the word. As here is no object in spending more than a particular limited amount in this direction, it follows that cost of training will absorb a larger proportion of potential savings in the case of parents with moderate means than in that of very wealthy parents, thus leaving a less proportion for savings in the ordinary sense.

The third great cause of inequality of income from property is the fact that the income derived from particular property is liable to change from all sorts of causes which are beyond human foresight. If all property came to its possessors by inheritance, It is not clear that this liability to unforeseen appreciation and depreciation would increase inequality: if a number of persons are given unequal amounts by chance, and then some other chance disturbs these amounts, there is no reason for supposing that the second distribution will be more unequal than the first. But as a large amount of property is obtained by savings from earnings, and earnings are not altogether a matter of chance, but are largely subject to certain obvious rules, it follows that chance changes in the income derived from particular property do aggravate inequality. Two men earn equal amounts because they are of about equal ability and industry and work at the same trade: they save equal amounts, and invest with what good authorities would consider equal judgment, but the investment of the one turns out fortunate and that of the other unfortunate. The one becomes rich and the other remains poor.

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CHAPTER XII

Incomes From Work

Why do some people receive large incomes in consequence of their performance of labour, others only small incomes, and others none at all?

This is not, as is sometimes erroneously said, all a question of value. Earnings differ not only because of differences in the value of a definite amount of service rendered by the worker, but also because of differences in the amount of the service rendered. It is obvious enough to all of us in private life that the comparative earnings of different individuals depend very largely on the comparative amount of labour which they perform. One man works hard, is “industrious” as we say, and earns a good annual income in consequence, another is lazy, rather enjoys being out of a job, and consequently earns very little. The only reason why this very important fact is often ignored in economic treatises is that it is so obvious that it does not occur to writers as worthy of mention. But it is not so obvious that the old do not find it constantly necessary to insist on it in their exhortations to the young. At one period they even thought it well to present boys with pocket-handkerchiefs on which the career of the industrious apprentice to the loftiest commercial position was depicted in lurid prints.

Differences of individual output of service may of course arise from other causes than differences of “industry.” Individuals differ largely in the physical and mental qualities given them by nature, and we expect the more capable to earn more in each occupation than the less capable, where the more capable and the less capable are equal in “industry.” Here again the only reason for overlooking the truth is its extreme obviousness.

But besides these differences between individuals following the same occupation, we find differences between whole classes of individuals following different occupations. There are low paid occupations and high paid occupations—or, at any rate, better-paid occupations. The difference here cannot be entirely attributed to differences of “industry” and natural endowments. Some few of the worst paid occupations are, indeed, largely filled up by lazy persons of small natural ability, and possibly some of the best paid are largely filled up by persons of more than the average industry and natural endowments. But there is little reason for supposing that these propositions can be applied to all the poorly paid and all the better paid occupations. Most of them are filled by very ordinary persons. Moreover, even if the propositions did apply, that would not account for the difference of remuneration. Even if road-sweeping were paid by the piece in strict proportion to the amount of service rendered, the most industrious and able man in the world could not earn £250 per annum by it. There is clearly something more at the bottom of the differences of earnings as between one occupation and another. The value of the work of an average person is less in some occupations than in others. But why?

In endeavouring to answer this question it will be well to clear away at the outset a deeply rooted misconception about the creative power of labour. It has been supposed by many people during the last two hundred years at least that labour creates value, or gives value to the things on which it is expended. This is an entire mistake. Labour certainly performs valuable services and produces or creates valuable things, but it is not because labour is expended upon these services and things that they are valuable. The proposition should be reversed: it is because it is known that the services and things will be valuable that labour is expended in producing them. This is quite obvious when we reflect that no amount of labour expended on a thing which is not wanted by any one will make it valuable, and that if the labour employed in producing some valuable service or thing is increased with the effect of causing more of the service or thing to be forthcoming, its value will fall. In fact, it would be truer to say that labour destroys value than that it creates it: every minute of labour given to the production of anything tends to reduce the value of such things by increasing their quantity. Labour then is generally remunerated, not because it creates value, but because it is generally devoted to the creation of services and things which are valuable.

Bearing this in mind, we can still see some foundation for the assumption, often made, consciously or unconsciously, that in the absence of reasons to the contrary we should expect all kinds of labour to receive equal remuneration. We should expect it, not because labour creates value, and therefore the product of equal quantities of labour should be of equal value, but because we should expect people to sort themselves out between the different kinds of labour in such a way that the services rendered by an hour of labour of each different kind would be equal in value. We should expect that as soon as any one kind of labour appeared to be better paid than another, people would crowd into the better paid occupation till the increase of the service offered brought down the remuneration to the general level. Freedom to choose and change an occupation would maintain one level throughout all occupations.

In fact, of course, this single level is not found to exist.

In the first place it is obvious that there must be frequent temporary departures from any such level in consequence of the abrupt and unexpected changes which take place in demand and in the knowledge of methods and the possession of means of production. Owing to all kinds of reasons the demand for any particular product is subject to considerable variations which no man can be expected to foresee, or at any rate which the large number of persons concerned certainly do not as a matter of fact foresee. New methods of production are constantly being discovered which diminish or increase suddenly the demand for particular products of labour, though the demand for the ultimate result remains the same: for example, the invention of petrol-driven cars diminished the demand for persons capable of driving and taking care of horses, though it did not diminish the demand for the service of carrying passengers by road. Climatic variations constantly lead to a shortage or a superabundance of particular products, with the result of diminishing or increasing the demand for the services of particular classes of workers. All these changes, however, would not create any permanent differences between different occupations. It is a matter of luck whether one occupation or another is affected by them, and so in the long run we should expect substantial equality between all the various occupations so far as these causes were concerned.

Some changes, nevertheless, are “always going on”: they are not, like those just discussed, beyond human foresight. Such is the change which, throughout modern history, has caused agricultural labour to be a declining proportion of the whole of industry. So far, the returns to agricultural industry have steadily increased, and as Adam Smith remarks, “the desire of food is limited in every man by the narrow capacity of the human stomach.” Consequently, the fact that it has become easier to produce food for the number of human beings which has actually existed at any moment has led to a smaller proportion of human effort being required for the production of food. Isolated Man in such conditions would have found some of his time set free from the production of food, and would have been able to devote the time saved either to increased leisure or to larger production of other things. Associated men find that a smaller proportion of their number suffices to feed the whole. Agriculture, therefore, offers a less expanding field of employment than other occupations taken as a whole. Though this phenomenon can scarcely be described as beyond human foresight like an earthquake or an abnormal drought, it is a thing which, down at any rate to the present or very recent times, individuals could scarcely be expected to provide for by any action. Agricultural workers have thus been at a steady continuing disadvantage compared with workers in general: the conditions under which they live having been more favourable for the bringing up of children than those of many other workers, there has always been an over-supply of young persons available for agriculture. Many of them have, of course, been kept out of agriculture, and have supplied would-be reformers with the theme of “the exodus from the country to the towns,” but their extrusion has been an effort which has been inevitably depressing to country labour.

Secondly, it is probable, we can scarcely say more, that the persons following certain occupations are worse off than others owing to a permanent tendency on the part of ordinary mankind to miscalculate chances. Adam Smith thought that people generally overrate their chances of exceptional good luck in such a way that they overcrowd the occupations which offer a few very high prizes. He says very justly: “That the chance of gain is naturally overvalued, we may learn from the universal success of lotteries. The world neither saw, nor ever will see, a perfectly fair lottery, or one in which the whole gain compensated the whole loss; because the undertaker could make nothing by it. In the state lotteries the tickets are really not worth the price which is paid by the original subscribers, and yet commonly sell in the market for 20, 30, and sometimes 40 per cent. advance. The vain hope of gaining some of the great prizes is the sale cause of this demand. The soberest people scarce look upon it as a folly to pay a small sum for the chance of gaining ten or twenty thousand pounds; though they know that even that small sum is perhaps 20 or 30 per cent. more than the chance is worth. In a lottery in which no prize exceeded twenty pounds, though in other respects it approached much nearer to a perfectly fair one than the common state lotteries, there would not be the Same demand for tickets. In order to have a better chance for some of the great prizes, some people purchase several tickets, and others small shares in a still greater number. There is not, however, a more certain proposition in mathematics, than that the more tickets you adventure upon, the more likely you are to be a loser. Adventure upon all the tickets in the lottery, and you lose for certain; and the greater the number of your tickets, the nearer you approach to this certainty."

In the choice of a profession, as he recognizes, not only overestimation of luck but also overestimation of their own ability makes young people over-inclined to think themselves suitable for the Bar and other professions where high ability meets with a very high remuneration. Hence, owing to this cause taken by itself, such professions tend to be overcrowded, and therefore worse remunerated than others, though of course other causes may overcome this tendency and render them actually better remunerated.

Thirdly, we must notice that pecuniary remuneration is not the only thing which people with free choice between occupations think it worth while to consider. They are guided also by their estimate of the agreeableness or disagreeableness of the work to be done and the various conditions accompanying it. If all kinds of work were equally remunerated, there would be no supply to the most disagreeable: every one would of course choose the most agreeable. The natural tendency to choose the agreeable and avoid the disagreeable in fact keeps down the pecuniary remuneration of the agreeable by increasing the supply of labour, and keeps up the pecuniary remuneration of the disagreeable by diminishing the supply of labour. In occupations of what we call "the same class," this effect is very obvious. For example, while successful authorship in a few fields of literature is certainly highly paid, respectable average authorship receives what would be considered an almost incredibly low wage if the remuneration is worked out per hour of all the effort expended.

Fourthly, remuneration per hour is not the only thing to be considered in the choice of an occupation even when the choice is simply between occupations in which each hour's labour may be reckoned of equal agreeableness. People have to think also of the number of hours of labour which can be put in during a period of some considerable duration, such as a year. If we found an occupation which could not, owing to climatic or other reasons, be carried on for certain months in the year, during which it was impossible for those employed in it to find other equally well-paid employment, we should expect the supply of that kind of labour to be small enough to raise its remuneration per hour somewhat above that of other occupations of the same class in which employment was more continuous throughout the year. We should not necessarily expect the excess to be just and only just sufficient to bring out an equal average for the whole year, since on the one hand the holiday might be regarded as a certain advantage, or on the other hand Adam Smith might be right in supposing that the anxieties of the workless period would be more deterrent than the possibility of using it as a holiday would be attractive.

Fifthly, we must remember that we reckon remuneration per hour as "net" in the sense that we allow for any continuing present expenses, such as the upkeep of tools supplied by the worker, but that we do not allow anything for the expenses of original education or training required by the worker in order to fit him for his particular occupation. Now this varies enormously between different occupations, and we should consequently expect very great differences of remuneration, calculated in the ordinary way without taking account of this particular cost. We should expect, for example, that well-trained dentists would be better paid than well-trained navvies. The navvy would probably begin to earn something at fourteen or fifteen years of age, while the dentist could scarcely begin before twenty-five, so that there is a great difference in the cost of maintenance accumulated at compound interest when working life begins. On the top of that there is the special cost of training, which would be nil for the navvy and some hundreds of pounds for the dentist. The two amounts would have to be paid off out of earnings in about equal periods. If we take the working life of both occupations at thirty years, and the rate of interest at 4 per cent., the dentist ought to earn about £58 a year more than the navvy for every £1,000 by which his original cost of maintenance and training exceeded that of the navvy.

If this were all, and if we took cost of training as a deduction to be made at its face value, we might say that the differences of income received from labour in different occupations, so far as not accounted for by the miscalculations into which fallible human beings are necessarily liable to fall, were apparent rather than real for the most part, and that so far as they were real they were balanced by differences in non-pecuniary advantages and disadvantages. Thus there would be nearly a realization of the state of things pictured in Adam Smith's famous passage:—

“The whole of the advantages and disadvantages of the different employments of labour… must in the same neighbourhood be either perfectly equal or continually tending to equality. If, in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments. This at least would be the case in a society where things were left to follow their natural course, where there was perfect liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper. Every man's interest would prompt him to seek the advantageous and to shun the disadvantageous employment.”

We should have to remember, however, that in this method of reckoning we should be understanding “advantageous” and “disadvantageous” in a somewhat unusual sense which would be likely to mislead unless carefully explained. We do not usually reckon the advantageousness of an occupation as, so to speak, net, after the deduction of cost of training. Being accustomed to see this cost defrayed, not by the person who takes up the occupation himself, but by his parents or by some charitable institution or by the state, we are not in the habit of regarding it as a disadvantage of the occupation. It is as a matter of fact no disadvantage to the person who pursues an occupation that some other person or institution had to pay for his training, unless he would have got the money if it had not bèen so spent. Doubtless where the cost is defrayed by parents this would often be the case, but there is no certainty about it, and we are consequently inclined to overlook the cost of training when we compare the advantages of different occupations.

Even now we are far from having probed the subject to the bottom. Even if we do reckon expense of training as a disadvantage, differences of earnings between different occupations cannot be entirely accounted for by differences of advantages other than earnings. Every one knows that the whole or net advantageousness of different employments is highly unequal. If equality prevailed, we should find well-to-do parents in doubt whether to make their sons civil engineers or naval stokers, doctors or road-sweepers. What we do find is a persistent, sometimes almost frantic effort on the part of all well-disposed parents to get their children fitted by training for a “class of employment” as good as or better than they themselves have followed, even if they have to pay the whole cost. They know very well that in the average of cases it “pays” much better in the interest of the child to spend money in this way than to put it into ordinary investments for his benefit.

It may be asked, “If this is so, why is not money spent in training more young people for the occupations of superior advantageousness until the competition reduces this excess of advantageousness to nil?” The answer is that the conditions of human life have not hitherto allowed the spending of money in this way to become an ordinary investment to which savings can be attracted in the ordinary way by the expectation of interest. They have not done so because Society has not thought fit to provide means by which money could be advanced to young people for their training on terms which would make the lenders secure of recovering their money with interest. In order to make them secure it would be necessary to legalize contracts under which children and young persons would undertake to repay money advanced for their education, and it would be necessary to provide machinery for the enforcement of such contracts. There would be great difficulties about this, as such contracts would be of the same nature as the contract under which a man sells himself into slavery, a thing which is regarded as “against public policy,” to use the phrase of English law courts. Whether it is possible or impossible to provide facilities for commercial investment in the training of human beings, they are not provided at present, and consequently this business has been left to parents, charitable persons and institutions, the Church and the State, who carry it on now, as always, in rather a haphazard manner. Parents spend money on their children's training and face postponement of the children's beginning to earn because they think it will “pay” from the children's point of view. If there were enough well-disposed parents with adequate means, therefore, the absence of commercial investment would not matter: enough young people would be trained for all occupations, however great the expense of training, to bring all to a common level of total advantageousness. There are, however, in fact not enough well-disposed parents with adequate means, and there is in consequence a permanently insufficient supply of persons trained to the occupations which require expensive training, and this short supply keeps the whole advantageousness of those occupations higher than that of the other occupations for which no expensive training or long postponement of earnings is necessary. The insufficiency of well-disposed parents with adequate means is to some extent counterbalanced by the working of the numerous charitable endowments of education which exist in civilized countries: the institutions to which these endowments belong act as fosterparents with adequate means. The Churches and the State, too, have done a little in recent times in this direction. But the Churches have never had the economic advancement of their charges primarily in view; they have taught in order that children might learn to read the Bible, or in order to prevent them falling into the hands of the irreligious or schismatic. The States have taken up education from motives which are complex and difficult to analyse, but it may be said quite safely that none of them have ever been moved by a desire to cheapen the products of the “better-class employments” by multiplying the persons qualified to pursue them. Consequently, while the charitable endowments of universities and upper-class schools have had an important influence in reducing the remuneration and cheapening the products of the better paid employments, the efforts of the Churches and the States have rather resulted in diminishing the remuneration and cheapening the products of the class of labour which requires a smattering of letters, but is scarcely above, if it is at all above the average. Attempts to increase the numbers trained for any high-paid manual employment usually encounter trade-union opposition. The trade-unionist of a skilled trade is in favour of steps being taken to break down the monopoly of the professional classes, but naturally objects to anything which makes it easier for the lowest class to break into his own circle.

The result is that the remuneration of labour is much more an hereditary matter than it would be if heredity only played its part by bringing infants with different original powers and qualities into being. Surroundings as well as innate qualities are hereditary. There are no absolutely insurmountable barriers preventing those who are born into poor surroundings from forcing their way into the best paid professions if they have exceptional ability and grit, and there is nothing to prevent exceptionally incapable persons born into good surroundings from falling into the lowest class of workers. But all the same, it is, as every one knows, a great advantage to the ordinary person in the matter of earning his living, to be the child of fairly well-to-do parents, and an enormous disadvantage to be the child of parents belonging to the poorest class.

Whether a child is born to parents who are well-to-do or to parents who are poor, it is an economic advantage to be born a boy rather than a girl. It is commonly observed that women's earnings are considerably lower than men's; it is often said that they do not average more than about half.

Now if there was only one occupation, and that occupation required heavy muscular exertion and none of those qualities in which women excel, we should have no hesitation in explaining the difference of earnings by the smaller output of the women. To many men, and perhaps to some women, this appears a sufficient explanation of things as they are. They see that in many occupations in which men and women compete the women's output is measurably less than the men's, and in regard to others, in which the output cannot be measured by the ounce or the yard, they argue that the very fact that men continue to be employed along with women, although the men earn more money, shows that the men are somehow worth more to the employers than the women, which must mean that at any rate their net produce is greater. This is quite sound as far as it goes, but it by no means covers the whole ground. There are, no doubt, many occupations in which men are superior to women. If the less well-paid women's work came cheaper to the employer than the men's work, women would rapidly, or at the least slowly, drive out men, just as men would drive out women if men's work were the cheaper: the employers who declined to move would be driven out by those who did. But there are also employments in which women are superior to men—to take an example about which no one has any doubt, we may give as an instance the care of children. In such occupations men do not compete, and if they tried to do so they would get few situations, even if they offered themselves at rates immensely below those at present earned by the women. The reason obviously is that in these occupations the men's output would be much inferior to the women's. Yet here, too, we find women's earnings low as compared with men's. We cannot compare them with the non-existent men's earnings in the same occupation; we must compare them with the earnings of men employed in occupations of the same class, in the sense of occupations which were open to the particular women in question (both men and women being employed), or which would have been open to their choice if they had been born boys (men only being employed). It would be absurd, for example, to compare the earnings of the average children's nurse with the earnings which we might suppose her brother might make as a nurse, and consequently to declare her earnings high. What we must do is to compare her earnings with the actual earnings of her brother in his occupation of, say, carting coal, and then we find that her earnings are low—at any rate when hours, loss of freedom, and other considerations are taken into account. Now, it is clearly no use to say that the woman earns less than her brother because she cannot heave as much coal; we might just as well say that he should earn less than his sister because he cannot wash as much baby.

The true explanation of the general inferiority of women's earnings, like every true explanation of any earnings, must combine the consideration of amount of output with the consideration of the value of a unit of output. The real reason why women's earnings are low in occupations in which the ultimate judge, the consumer, finds their output superior to men's, is to be found in the fact of the restricted area of employment offered by these occupations in comparison with the number of girls choosing them, which of course brings down the value of the output. The value of work being thus depressed in these occupations, not only are men driven out or kept out of them, but many girls find they can do as well for themselves by going into occupations in which men are superior, although they have to take earnings inferior to those of the men. This, of course, throws us back on the question why the area in which women are superior is so restricted. Like women, men are only superior within a certain area, but they have no need to invade the women's field, whereas the women do need to invade theirs. The number of women is certainly appreciably greater than that of men in the "old" countries from which there is migration, but the difference in the world at large, the real market, cannot be great enough to make much difference. It seems clear that the field within which women show themselves superior to men must be smaller than that in which men show themselves superior to women.

Believers in the generally smaller capacity of women may attribute this, in part at any rate, simply to that smaller capacity. If women are, for productive purposes as a whole, inferior editions of men, it is only natural that there should be a smaller field of occupation in which they excel, although it includes the very large occupation of motherhood. But even if this be, in part, the explanation, it certainly is not the whole explanation. The pressure of competition in the occupations in which women are superior would be less than it is if it were not for restrictions which prevent women from entering many occupations in which they could, if allowed to compete, succeed better than they do at present in occupations in which they are allowed. If these forbidden occupations, of which railway clerical work in this country is a very obvious and important example, were unlocked for women, the women who entered them would be withdrawn partly from the occupations in which women are superior, and partly from the other occupations, while, on the other hand, the men kept out of the formerly reserved occupations would, by their competition in other occupations, tend to lower men's earnings, so that men's and women's earnings would tend to be more equal.

This enlargement of the field of women's employment is probably the most important of the means by which women's earnings could be raised in comparison with men's. It is obstructed not so much by law as by the inertia of employers and their fear of inconvenience from the active resistance of the men employed at present. It is hindered too by the cry for equal wages for men and women, as the most powerful lever for increasing the opportunities of women is taken away if they are not to do the work cheaper. It has been assisted by the invention of new machinery, such as the telephone and the typewriter. If such things had been invented long ago, and owing to the conditions of that time the occupations connected with them had been made men's employments, women would probably have still been shut out from them.

Besides enlargement of the field in which women can be employed, there are two other important ways in which their earnings might be raised. Firstly, the opinion of the consumer about the comparative quality of things produced by men and things produced by women might be modified in a direction favourable to women. At present, for example, many “consumers” of the service of waiting at table appear to regard the service as superior when performed by a waiter, even if the waitress handles an equal number of dishes with equal dexterity and dispatch. Opinions—or prejudices —such as these are clearly as capable of being changed as opinions about the beauty of tight or loose skirts, or tall hats and bowlers. A change of opinion or taste might have quite an appreciable effect in increasing the demand for women's labour and raising their earnings. Secondly, women's capacity as compared with that of men might easily be raised, with the effect of increasing their output in the occupations in which they compete with men, as measured not only by taste but by pounds avoirdupois or cubic yards. Girls as a rule do not have so much spent upon them as boys. If they were better fed and trained, their output would be bigger than it now is in occupations in which they compete with men: their average earnings in such occupations would rise more nearly to that of men, and their improved prospects here would relieve the pressure on the special fields in which women only are employed because they are superior to men. These special fields might even be somewhat increased in area, as the rise in the capacity of women might add to the list. In some occupations women may be just a little inferior to men at present, and a small rise in capacity might make them more than equal. It should be noticed, however, that an increase of women's output, if it was confined to the employments in which women alone are at present employed, might very probably reduce their earnings by cheapening the unit of output more than the amount per head increased.

The disparity of incomes between the sexes is one of the two most prominent features in the inequality of the distribution of income. The other is the hereditary character of the inequality. Any one can see that the distribution of income depends largely on the unequal inheritance of those natural qualities which enable one person to get more than another either by ordinary labour or by better judgment in the management of his property. Careful analysis shows that acquired qualities which have the same effects are also in great measure hereditary, owing to the fact that the children of well-to-do parents have much better opportunities of acquiring them than the children of poor parents. On the top of this comes the fact that property is mostly acquired by way of inheritance, and that it is easier for a person to acquire more by saving when he has already acquired a great deal by inheritance. The result is that when persons are arranged in a scale of incomes from the highest to the lowest, the receivers of the high incomes are easily seen to be chiefly the children of those of the last generation who received in their time the high incomes of that time, and the receivers of the small incomes to be chiefly the children of those of the last generation who received small incomes. There are no clear-cut classes, no definite boundaries over which no man may step. The able members of the poorest class are constantly rising to the top, and the particularly incompetent members of the richest class are constantly falling to the bottom; but all the same, among the bulk of mankind there is a continuous hereditary transmission of inequality of income the importance of which it is foolish to ignore.

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CHAPTER XIII

The Relation Between Individual Income And Individual Wealth

For many purposes we are in the habit of accepting incomes as a rough measure of the material welfare or wealth of the persons receiving them. Of course, we remember that a very large proportion of the normal population—namely, children and others who are not "independent"—obviously enjoy wealth not founded on their own income, since they receive the benefit of some other person's income. But even when we are dealing with "independent" persons living at the same time and in the same place, we constantly find it necessary to modify the conclusion to which a bare comparison of figures of income would bring us.

Firstly, as has already been pointed out (pp. 140–43), income, at any rate as ordinarily understood, does not cover all the material benefits which people get from their own and their family's labour and property. Generally, it may perhaps be said that this is not of great importance, since the uncovered benefits will be approximately proportionate to the incomes, so that their omission will not seriously vitiate a comparison of wealth or material welfare based on income. But often this is not true. It would, for example, be misleading to treat two groups of working families with equal incomes as equally well off if in the one case part of the income was obtained by the mothers going out to work in factories, while in the other case the whole of the income was obtained without that resource, so that the mothers were able to spend their whole time caring for the children and making home-life comfortable. Hasty calculations based on income alone often vitiate comparisons of the wealth of persons living under rural conditions with that of persons living in towns, because the rural people do for themselves many things which have to be paid for out of income in the towns. The fact that incomes are supplemented by unreckoned services performed by the receiver of the income and his family seems on the whole to tend towards making inequality of wealth less than inequality of income—to alleviate inequality of income, as we may perhaps say for shortness—since it is the smaller incomes which receive the larger proportionate supplements. To be convinced of this we need only think of the different results of the death of the mother, first in a working-class family, and then in that of a millionaire, while the children are still young. The millionaire father may regret his loss, but it will not be an economic disaster to him, as it is to the poorer father.

Secondly, comparisons of wealth based on incomes alone are vitiated by the fact that income is not exclusively applied to benefit its receiver. More than a third of an ordinary population consists of children maintained out of the incomes of their parents or other relations, and it is not much use to try to evade the difficulty by reckoning up some very vaguely defined "family income," so that Bill Smith with a wife and five young children and a pound a week becomes merely one-seventh, or some more nicely calculated fraction, of the Smith family with a pound a week. This method only involves us in an inextricable tangle in regard to family incomes, and still leaves us with a great mass of transferred income on our hands. It leaves us with all charitable expenditure on objects which happen to lie outside the definition of the family, all expenditure out of income in payment of taxes, and all expenditure for non-economic ends. It is far better to recognize frankly that a considerable portion of income is not employed for the material benefit of the recipient of the income. Some he parts with because he prefers either the material benefit of others or some non-economic gain to his own material benefit; other portions he parts with because public opinion or the law compels him. It is little use to attempt to distinguish sharply between what he parts with voluntarily and what he parts with involuntarily. He often makes a virtue of necessity, trying, for example, to feel a glow of satisfaction as he parts with his subscription to the local hospital, although he would not give it if he were not afraid the absence of his name might give rise to unpleasant comment. On the other hand, he often complains of the necessity of paying rates and taxes to defray the cost of things which he would willingly buy if they were sold in shops, like butcher's meat, instead of being provided out of rates and taxes by government.

The fact that recipients of income part with large amounts of it without receiving any material return in their own persons can scarcely be said either to alleviate or to aggravate the inequality of income. On the one hand, it may be said that the obligation of parents to maintain their children aggravates the inequality of incomes, inasmuch as it is generally the recipients of the smaller incomes who have the largest families. But on the other hand, the payments out of the incomes of one set of people, not for the benefit of their families, but for the benefit of a different set of people, whether these payments are voluntary or enforced by public opinion or by law, are, on the whole, transfers from the rich to the poor. It is difficult to see how any judgment about the net result can be arrived at under present conditions, but it seems probable that in future times the transfers of the second class will increase, while the inequality in the size of families is likely to be reduced, so that, on the whole, we shall find here an alleviation of inequality of incomes.

Thirdly, a person's wealth or material welfare, in the usual sense of material welfare enjoyed in some short period of time taken for comparison, is not affected by any portion of income which he saves. If of two men with £100 a year each the one saves £50 and the other nothing, the one who saves will enjoy less wealth during the time this continues, though he may possibly enjoy more in the course of his whole life than the other. Even if we changed our method of comparison, and tried to compare whole lives instead of confining ourselves to a single year or some such period, the different amounts of saving would vitiate comparisons of wealth based on income received, since savings are constantly made from which the saver does not expect to benefit in his own person; and even if savings were all made for the saver's own benefit, discrepancies between whole-life income and whole-life wealth would be occasioned by the uncertainty of the duration of life. Presumably the savers would buy life annuities, and those who lived longest would then get most benefit from their savings.

As at present practised, there can be little doubt that saving alleviates inequality of incomes to some considerable extent. Well-to-do people save money, invest it, and then die and leave all their property to their poor relations, who straightway sell it (to other saving people) and live for some time upon the proceeds. The wealthiest class of all can scarcely spend the whole of its income in ways which will not be more trouble than they are worth: it is much less trouble to purchase £10,000 worth of stock or shares than to maintain a third or fourth country house, and the advantage of a third or fourth country house is inconsiderable. So the wealthiest class becomes a kind of automatic saving-machine, which provides new capital for the world because it finds it is less trouble to do so than to spend, the advantage of further spending being very small after some thousands a year have been spent. It is clear that out of the incomes of the rich a much larger proportion, as well as an enormously greater amount, is saved than out of the incomes of the poor, and, so far as it goes, this tends to alleviate inequality of income.

Fourthly, comparisons of wealth based on income alone are vitiated by the fact that the material wants of individuals differ very greatly, owing to original and acquired differences of body and mind, and these differences are often of such a character as to prevent equal amounts of expenditure yielding the same, or even approximately the same, amounts of material welfare. One man, from his excessive size or some defect of digestion, may require more food, or more expensive food, to keep him in health and strength than another man of smaller size and better digestive organs. Illness at once upsets comparisons based on income: the sick man has to pay for medicine and operations which afford him no active “satisfaction” at all, but only disgust and pain. In real life we are perfectly alive to this. If one man is well and another has to pay £200 a year to doctors and nurses, we never dream of supposing that the two men are equally well off, enjoy equal material welfare, merely because they both have £500 a year. The only reason why we are sometimes apt to overlook the matter in theoretical generalizations is that we are then usually dealing with large classes, and we suppose that individual differences may safely be ignored for the moment. But the differences in question are not altogether a matter of individual idiosyncrasies. They sometimes exist between whole classes. For example, the persons engaged in a particular occupation may very easily be especially liable to some form of sickness which makes the average of sickness higher in that occupation than in others. It may be, too, that some kinds of work actually require for their efficient performance a greater quantity of food or a better quality of food than is sufficient to give equal “satisfaction” to persons engaged in other kinds of work.

The fact of inequality of wants is a great aggravation of the inequality of income. If inequality of income corresponded with inequality of wants, so that those who had the greatest wants had also the greatest incomes, material welfare would be much more equal than incomes. But just the contrary is true: not only is there no correspondence between income and wants, but the rule for the whole working population is rather that when wants are greatest, owing to sickness, childbirth, or infirmity, income is wholly absent. This has been recognized for thousands of years, and well-disposed persons have endeavoured to supply the place of income by charitable gifts, poor laws, and insurance schemes. Children, too, have no income, though their wants are considerable, and without the institution of the family the rest of the economic system could not have preserved the human race.

Fifthly, even where wants are the same, equal amounts of income may yield different amounts of material welfare, owing to the fact that people are not all equally capable of arranging their expenditure in such a way as to satisfy those wants as completely as possible with the money at their disposal. It is absurd to assume that every one's Judgment on the question of what will benefit him most is infallible. Obviously, many people misjudge in a manner which seems amazing to other people at the time, and often to themselves when they think about it after sad experience. They buy too much of one thing, such as intoxicating liquor, tobacco, or motor-cars, and too little of some other things which would have added much more to their material welfare. They live too much for the moment, and spend money to-day which would have produced much more material welfare if it had been reserved till they were out of work or sick. The well-authenticated observation that regular income is considerably better for most people than a somewhat larger but irregular income testifies to the general belief that want of good judgment in the distribution of means over time is a very common phenomenon.

Inequality of judgment in expenditure aggravates inequality of income, since the class with the smallest income is likely to be the most ignorant, and therefore to have the worst judgment. All close observers of the poorest class know that ignorance of how to use their very small opportunities has much to do with their continuance in poverty.

Sixthly, the relative wealth of individuals is clearly affected by the conditions under which their incomes are acquired as well as by the magnitude of those incomes. A man who makes £70 a year by easy work in daylight certainly enjoys greater wealth than one who makes the same amount by hard work underground for the same number of hours. A man with £1,000 a year from investments which give him no trouble is usually better off than one who has to sit in a city office boring over business for sixty hours a week in order to acquire the same amount of income. No doubt the second man would be less happy if he retired and sat on a chair all day, reading the newspapers and worrying his wife, but if he had the income from investments he would not be obliged to adopt that mode of life; he could choose whatever work he liked best and be as active as he pleased. It may be taken as certain that those who have considerable income from property do not have to submit to so much “disagreeableness of labour” when they earn additional income by working as those who have to depend entirely on their labour. They can afford to pick and choose, and they do so. They need not work so far into the realm of fatigue and boredom, and they do not.

The inequality of the conditions under which income is obtained is certainly an alleviation of inequality of income when competition makes it work simply as a counterpoise, so that one occupation giving an income of £100 a year is only as good, on the whole, as another but more agreeable one giving £90. The absence of fully effective competition, however, prevents this balance being universal, and, in fact, we find that the worst-paid occupations are also the most disagreeable, they being chosen by large numbers of people for the same reason—inability to choose a better.

Seventhly, even when equality in all the conditions so far dealt with is present, or, what comes to the same thing, when differences in any or all of these conditions are allowed for, an important cause of discrepancy between income and material welfare or wealth is still left in the fact that though the larger an income is the larger is the wealth of the recipient, yet the increase of wealth is not as a rule proportionate to the increase of income. It is useless to discuss what is the case below a certain very low limit of income necessary for mere subsistence. When this limit has once been reached, a small absolute addition to income, such as £10 a year, will give a very large addition to the wealth of the recipient, because it will be spent upon things which make a great difference to him. The next £10 will not be of quite so much importance, and so on, till, when we get to the richest man in the world, we find that £10 more or less per annum is an inappreciable sum to him. The more income a man has, the more it is spent on comparatively trivial things. So complete has popular perception of the fact become that progressive taxation is often defended by the aid of propositions which imply that, for example, one-tenth taken from Smith with £10,000 a year means less to him than one-tenth taken from Jones with £1,000 a year means to Jones, although Smith's tenth is ten times as big as Jones's tenth, so that we are expected to believe that Smith will "feel" the cutting off of £1,000 less than Jones will "feel" the cutting off of £100. To estimate precisely the acuteness of the feelings of average persons with incomes of different amounts appears to be scarcely possible, but there can be no doubt about the main fact, that material welfare or wealth is not proportionate to income, though it moves in the same direction—more income gives more wealth, but always in a less and less proportion.

This "diminution in the utility of additional income as income increases," as it is sometimes called, has the important effect of making inequality of income an evil in itself, or, to put it in another way, an evil if we disregard the ultimate effects of inequality upon the future action of the persons concerned. Common opinion fully recognizes this. Whenever we have, without thought of ulterior consequences in the way of encouragement of industry or otherwise, to divide a given amount between two or more persons who have the same wants, we always decide in favour of equal division, if there is enough to keep both or all alive. We may, indeed, allege that our reason for doing so is that it is "fair" or "just," but a very little thought will suffice to show that it is also economical in the sense of making the given amount "go as far as possible." If one gets more than the other, the one that gets most will be given something which will satisfy less urgent wants than some of the wants of the other person which remain unsatisfied, and which might have been satisfied if the division had been equal. It is this which is really involved in our feeling that the unequal division is unfair or unjust. We can see it at once if we take a strong case. Let the two persons be supposed to have no other means of support, and the proposition be made that the whole of what is to be given them be given to only one of the two. The one who gets nothing will clamour for "justice," and the impartial spectator will sympathize. But why? Evidently because the total might have been distributed in a way which would have given greater satisfaction on the whole—that is, to both persons taken together. If there was not enough to keep both alive, but only enough for one, it would be found that there was no general agreement about the demands of justice, and the discussion would turn on the comparative advantage to the persons themselves and others of this or that person's life being saved. The popular belief that "it was never intended," as the pious sometimes say, or that "it is not right, that some should have so much and others so little," has a perfectly sound economic foundation.

The popularity of progressive taxation, especially of progressive death duties, is due to perception of the fact that it is economical to levy taxes in a way which reduces inequality of available means.

Rather paradoxically, perhaps, the diminishing utility of additional income, though it makes inequality of income a bad thing in itself, undoubtedly tends to alleviate it in the sense of making the difference of wealth less than the difference of income. If increase of income is accompanied by a less than proportionate increase of wealth or material welfare, it is clear that a man with ten times the income of his neighbour is not ten times as well off. Every one knows that this is so, and it is one of the most important reasons why the rich, and especially the very rich, are not more envied than they are. The poorer classes would be much more discontented with their lot if they had not a perfectly sound belief that the rich do not get very much out of a great deal of their expenditure.

I do not feel confident that there is much to be gained by an attempt to sum up the total effect of all the seven causes of discrepancy taken together, but I am inclined to think that, chiefly in consequence of the powerful effect of the seventh, wealth is not on the whole so unequal as income. Possibly we ought to make a distinction between different parts of the scale. It may be said with considerable plausibility that those persons who have very small incomes or none at all are not so badly off as their want of income would indicate, and those with very great incomes are not so well off as their plenty of income would indicate; yet there may be an intermediate class among which variation in the wants of the individual and the claims of his family upon him is so important that differences in wealth become greater than differences in income. But it would be rash to be certain about this.

So far we have only considered persons living at the same place and time. When the persons whose wealth is to be compared live at different places and times their incomes are still less of a guide to us, since in proportion as the places and times become more and more "different," which is nearly equivalent to more or less distant, the measure of value in which we reckon the magnitude of incomes becomes more and more untrustworthy. The information that one man has £ 100 a year and another £200 in our own country and our own time conveys a good deal to us, because we have some rough notion in our minds of what can be procured by the two sums. The information that two men have those incomes in Siam at the present time, or had them in our own country in the reign of Henry II, conveys something to us, because, though we do not know very well how far the sums mentioned would go in Siam or would have gone in England in the time of Henry II, yet we know at any rate that one sum would buy twice as much of the same things as the other. But if we are told that one has £100 a year in Siam now and another has £200 a year in England, or that one had £100 a year in England in the time of Henry II and another has £200 a year in England now, we cannot even say that the £200 a year man will be able to buy twice as much of the same things as the £100 a year man. The values of most things reckoned in money will be different. It might conceivably happen that £100 in England would buy all the things that would be bought by a man with £100 a year in Siam and leave something over, but such a simple case is vastly improbable. It usually happens that some things are dearer in the one of two places or times and others in the other.

Statisticians try to lump everything together by means of what is called an index number, but this does not really help very much, since all men do not want to buy different things in equal proportions. A rich man may think prices have not gone up at all when a poor man, spending a much larger proportion of his income on bread and other provisions, thinks they have risen a great deal. Moreover, in comparing different places, and still more in comparing different times, it is not possible to lump everything together, because some of the things present at the one place and time will be wholly absent at the other. We now buy even out of quite small incomes innumerable things which Henry II could not have bought with the whole national revenue.

All the same, we need not conclude that comparisons of income relating to different places and times are wholly useless. Many different places are sufficiently similar to make a comparison of income quite a useful starting-point for a comparison of wealth: we may not find a comparison of the incomes of the inhabitants of Siam and that of the inhabitants of England much use, but a comparison of the same kind between France and Germany or Italy is quite useful. Similarly, a comparison of incomes in the time of Henry II and that of George V may be futile, but a comparison of incomes between the present time and 1900, or even 1850, will serve very well, because the kinds of things used have not changed very much in the interval, and we have a general knowledge of the sort of change which has taken place sufficient to enable us to modify our conclusions where necessary.

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CHAPTER XIV

The Wealth Of Nations

When serious discussions about the wealth of such entities as “England,” “France,” “Holland,” and “Spain” first began to take place, writers usually thought of “the country” rather than of the people of the country. Thus a country of great wealth was supposed to be one in which there were large quantities of the things which were regarded as constituting riches, whether the people of the country were well-off or not. A very thickly peopled country is, of course, likely to have a large aggregate of such things in proportion to its area, and a thinly peopled country only a small quantity. Hence China and India were regarded as enormously rich, even when it was admitted that the peoples of those countries were very poor. This kind of comparison is still often made between the “countries” of to-day. We are Still inclined to speak of a sparsely peopled country as “a poor country,” even if its few inhabitants are very comfortable, unless there is something which suggests the potentiality of larger numbers in the future.

The more humane spirit of the eighteenth century, however, set up in place of, or perhaps we should only say alongside of, the old comparison of “countries” a comparison of “nations” in the sense of the persons of whom the nations are composed. Berkeley asked in 1752, in his *Querist*, “Whether a people can be called poor where the common sort are well fed, clothed, and lodged ?” The opening paragraphs of Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* imply that a “nation” is more or less wealthy according as there is more or less wealth per head for the people of whom the nation consists. But it is noteworthy that Smith seems to have felt that there was something novel in his plan of treating the condition of the people as the important thing. He asks, much like Berkeley, whether an “improvement in the circumstances of the lower ranks of the people is to be regarded as an advantage or as an inconveniency to the society,” and quite patiently points out that these lower ranks make up the greater part of the society, and that “what improves the condition of the greater part can never be regarded as an inconveniency to the whole.”

In our own time no one thinks it necessary to argue the question: every one is used to comparisons of the wealth of nations being based upon estimates of the wealth of the people of whom the nation is taken to consist.

It is, however, worth while to ask ourselves exactly what people do constitute nations in the economic discussions to which we are accustomed. In the first place we may notice that the old tribal significance of the word “nation” has entirely disappeared. We do not attempt to compare the wealth of French and German citizens wherever they may happen to be. What we do compare is the wealth of the inhabitants of France and Germany, whether they are citizens or not, and without making any attempt to include those citizens who are living abroad. This does not appear to raise any really important question. Most citizens living abroad have left their country for good, and, If not themselves about to become citizens of the country they are inhabiting, will at least have children who will be citizens of that country and who will eventually inherit their property, wherever situated. To attempt to distinguish between those who have gone for good and those who will return would be useless.

Secondly, it is worth while to observe that the countries of which the inhabitants constitute the "nations" dealt with are almost invariably countries with independent systems of customs duties. We nearly always in economic discussions treat the United Kingdom, Canada, Australia, and Jamaica as separate nations: we treated New South Wales and the other Australian colonies as separate nations till they were amalgamated in the Commonwealth, and then straightway abandoned the practice: we never think of treating Massachusetts and Texas as separate nations, though they have better claims to be regarded as sovereign States than Jamaica, or even the Canadian Dominion.

It is easy to explain this identification of nations with groups of persons surrounded by a customs line. The levying of customs, as soon as any proper accounts of the amounts paid are kept, has always necessarily resulted in the collection of statistics of at any rate a part of the trade carried on between the people inside the boundary and those outside it, and these statistics have always become public. The natural interest which has been felt in them has led to a demand for completeness in them, which has eventually induced all the most civilized nations to publish annual returns which seem to give a very full and accurate account of the amount and value of the whole of the goods passing in either direction across the frontiers, whether taxed or not. The publication of these accounts makes people think of the people inhabiting each of the customs areas as a united whole, trading as a single unit, in a way which they do not follow when they think of the inhabitants of other areas, except occasionally and with a considerable effort.

Explanation, however, here as well as elsewhere, must not be mistaken for justification. There is clearly no scientific foundation for singling out the inhabitants of the areas which happen to be within each customs boundary as worthy of a consideration which the inhabitants of other areas do not receive. There is no good reason for assuming that it was impossible to say anything useful about the wealth or material welfare of the people of Australia before the Commonwealth was inaugurated, and that since that time it has been impossible to say anything useful about the wealth or material welfare of the inhabitants of New South Wales and Victoria. No doubt customs duties do give a certain unity to the inhabitants of the area surrounded by the fiscal barrier, but it is only the same kind of unity as is given by any other common system of taxation, and the fact that it exists affords no reason for neglecting the general question, "What determines the comparative wealth of the inhabitants of different territories, whether surrounded by fiscal barriers or not ?"

We must begin by a discussion of a somewhat negative kind in order to get rid of some erroneous notions which have long obscured the question.

At one time it was thought by almost every one that the great object of national economy should be, as it is of individual economy, the acquisition of money, and the fact that the individual gets his money not to keep, but to part with, either in satisfying immediate needs or in increasing his property, was overlooked, so that it was supposed that the wealth of a nation depended on its getting and retaining, or even continually increasing, a stock of gold and silver. It is easy for a person with any modern economic training to see that a number of individuals living together in one territory do not want an unlimited amount of money to keep and not to spend, any more than a single individual does; and experience has gradually taught us that a sufficiency of money will always be found where a sound currency is established. But even at the present time children and uninstructed adults confound money and wealth, so that we need not be much surprised that even the well educated of past generations did so. Still less need we try to prove that no such confusion existed in their minds. Is it likely that economics is the one science in which no progress has been made?

Impressed with the belief that "something must be done" to secure money, the statesmen of each country at first attempted to turn their country into a kind of beetle-trap for the reception and retention of precious metal. The metals were allowed to come in freely, but laws were made against their being carried out of the realm. Then this method was attacked by people who could not carry on their trade easily without exporting bullion. These said that export of bullion ought to be allowed, because it would eventually lead to the importation of a larger quantity. All that was necessary, according to them, was to watch the "balance of trade," as they called it, very carefully, and regulate the whole trade in such a way as to make sure that a balance of bullion should come in. They called the balance of trade "favourable" when the exports, valued at the frontier, exceeded the imports, also valued at the frontier: for then, they supposed, the balance would be imported in the form of bullion.

The first thing to notice about this balance of trade doctrine is that it was never true without considerable qualification that a "favour able balance of trade" must mean an equivalent importation of bullion. It is quite possible for a country to have an export of bullion along with a favourable balance of trade, and an import of bullion along with an unfavourable balance. There are disturbing factors, the chief of which may be classified as follows:—

1. The cost of the carriage of the imported and exported goods across the intervening distance which often separates countries is a disturbing factor when the values of imports and exports are both taken on the coast or frontier of the country considered. If there is no such intervening distance, there will, of course, be no disturbance from this cause. We can imagine Dutch merchants standing on one side of an imaginary line selling to Belgian merchants standing on the other side a thousand francs' worth of goods, and then, having got the thousand francs, promptly laying it out in the purchase of a thousand francs' worth of goods from the Belgians. In such a case it is obvious that all that would have happened would be an exchange of Dutch goods worth a thousand francs for a thousand francs' worth of Belgian goods, and imports and exports, valued at the frontier, would appear equal, both in Holland and Belgium. But when there is an intervening distance between the two countries the case is different. In the trade between Portugal and Brazil, for example, Portuguese ships do

not carry the Portuguese goods to the middle of the Atlantic and exchange them there for Brazilian goods brought by Brazilian ships to the same point. If they did, and the values of imports and exports were set down at that point, again the values of imports and exports would exactly balance. The prices of the exports from Portugal would of course be lower on the coast of Portugal than in mid-Atlantic, and lower in mid-Atlantic than on the coast of Brazil, or it would not be worth while to carry them, and for the same reason the exports from Brazil would be lower-priced on the coast of Brazil than in mid-Atlantic, and lower in mid-Atlantic than on the coast of Portugal: so that, for example, wine worth £1 in mid-Atlantic might be worth only 19s. on the coast of Portugal and be worth £1 is. on arrival in Brazil, while coffee which was worth 19s. when it left Brazil might similarly rise to £1 in mid-Atlantic and to £1 1s. on arrival in Portugal.

This would not destroy the equality of values. But what actually happens is that instead of one set of values taken in the middle of the transit of the goods, we have two sets of values, the one calculated on the coast or frontier of the one country, and the other calculated on the coast or frontier of the other country: the Portuguese say they have exported 19s. worth of wine and imported 21s. worth of coffee, while the Brazilians say they have exported 19s. worth of coffee and imported 21s. worth of wine. There is clearly no ground for concluding from this apparent inequality that either or both countries have lost 2s. in cash, and we must beware of rushing to the opposite and equally fallacious conclusion that each of them has made a “profit” of 2s. The 2s. is nothing more or less than the money value of the labour and property used by each country in carrying away the exports and bringing back the imports.

The supposition just made of the ships of two countries exchanging goods in mid-ocean is, of course, an extravagant one. It is easier to suppose the ships of each country going right across the intervening distance and yet dividing the whole of the work equally between them. This change of supposition would make no difference whatever: the values of imports and exports would still differ in each country by half the whole cost of the carriage of both imports and exports. But now let us suppose that the Portuguese ships provisioned in Portugal do the whole of file work, carrying the wine all the way to Brazil and bringing back the coffee. Then the Brazilians escape the labour and expense of manning and fitting out a fleet of merchant ships themselves, but naturally have to pay the Portuguese, who now do that work for them. The amount may be imagined as first paid to the Portuguese shipowners in money, just as it would have been paid to the Brazilian shipowners when they did the work. But as there is no reason for depleting Brazil of cash and filling up Portugal with cash, we may be sure that the money paid will sooner or later filter back to Brazil in exchange for exports to Portugal, so that the result of Portuguese ships and men doing the work is sooner or later to increase the quantity of Brazilian exports and the quantity of imports into Portugal. Consequently, when a country does none of the work of carrying its imports and exports outside its own boundaries, there will be no difference in the values of its imports and exports due to cost of carriage, but when, on the other hand, a country does the whole of the work, then, other things being of course supposed equal, its imports will exceed its exports by the whole of the cost of carriage of both imports and exports. It is this fact which accounts for the general tendency of imports to exceed exports: if the imports into all the countries of the world are calculated in this way and added together, they will exceed the value of all the exports calculated in the same way.

Sometimes the carrying trade between two countries is not in the hands of either country but in that of a third country. Then both of the first two countries are in the position of Brazil in our last example. Exports will go from them to the third country to pay its denizens for the work done.

2. Other services besides those involved in carrying goods are often performed for people living in one country by persons who have their home in another country and wish their earnings to be remitted home. This leads to exports from the first country to the second without any corresponding import from the second country to the first. Thus an Englishman working in India for the Government or any other body will be likely to transmit part of his earnings to England to support his wife and children there, and that will mean exports from India and imports into the United Kingdom, unbalanced by any corresponding imports into India or exports from the United Kingdom. When he retires from work in India and lives at home on his pension, the effect of the transmission of the pension is the same.

3. Persons living in one country often own property in other countries and have the interest, dividends, or rents of that property remitted. to them. This leads to unbalanced exports from the country where the property is to the country where the owner is. It is the chief cause of the large excess of imports into the United Kingdom, France, and Germany, countries whose inhabitants own large amounts of property in "new" countries. It is said to account for a quite considerable amount of imports into Italy, a country which attracts rich people from America and elsewhere for temporary residence.

4. Much of the property yielding income to persons inhabiting other countries than that in which it is situated owes its origin to what is called "foreign investment," that is, to investment, whether by way of loans, subscriptions to issues of new shares and stock, or purchases of property made by persons in other countries than their own. This is another disturbing factor, which works, of course, in the opposite direction to the third factor. It causes exports from the investing country, which are, no doubt, in time usually more than counterbalanced by the imports resulting from the receipt of income from the property, but which are not immediately balanced at all. The export of capital, as it is usually called, may take place in the form of the actual additions to the valuable property in the country in which the investment takes place, as, for instance, when in consequence of British investment in an Argentine railway a British-built locomotive is bought by the railway company. But this is by no means necessary: French investors in the Argentine railway might very probably cause an export of lace or wine, from the sale of which funds would be obtained which would be applied to secure the requirements of the railway company, either in Argentina or somewhere else.

This disturbing cause is an important cause of violent fluctuations in the trade between the old countries and the new countries. The amount of foreign investment made by the old countries is apt to fluctuate considerably owing to variations in the prevailing estimate of the security of investments in the new countries, and the demand for capital from abroad in each particular new country is apt to fluctuate largely with the policy of its government and other local causes.

Repayment of foreign loans is, of course, merely the same thing as foreign investment, the investment now being, however, in the direction opposite to that of the original investment.

5. There are various payments of a noncommercial character made by people living in one country to people living in another country. The stock case is that of a political tribute paid, not for any services rendered, but simply because the country paying it has at some time or other been conquered by the country to which it is paid. Whether the tribute is a sum of money or an amount of corn, like the Egyptian and Sicilian tributes to Rome, it must lead to unbalanced exports from the tribute-paying country and unbalanced imports into the tribute-receiving country. Political tributes are not of much importance in the modern world. The examples of non-commercial international payments which occur to us at the beginning of the twentieth century are rather the remittances made by Irish emigrants to their relations who have remained in Ireland, subscriptions made in this country for sufferers by an Indian famine or a Sicilian earthquake, and such part of the dowries of American heiresses married to Europeans as is (or is popularly supposed to be) actually paid to their European husbands instead of remaining invested in America.[1]

The more intelligent of the early balance of trade theorists were aware that these allowances, or rather such of them as were of any appreciable importance in their time, must be made before any inference can be drawn about the country's gain or loss of bullion from statistics of the imports and exports of goods other than bullion, even if those statistics are perfectly accurate. They knew also that they had no means of estimating the exact amount of the allowances which ought to be made, and that their statistics of imports and exports were very inaccurate. Consequently they admitted that exact knowledge of the actual balance of trade as between their own and other countries could not be obtained from the statistics which were available, and they were driven to seek indications of a favourable or adverse balance in the state of the “exchanges.” These were, however, very difficult to interpret, owing to the multitude of currencies and the bad state of most of the coinages. Modern inquirers in regard to the present would naturally endeavour to solve the question whether the bullion of a country was increasing or decreasing by referring to statistics of its production within the country, if any, and of its importation and exportation. But such statistics were not to be had in the seventeenth century, and the consequence was that any one who wished to terrify his fellow-countrymen with the bogey of losing their money to the foreigner had a very excellent chance of doing so.

Intelligent or unintelligent, well or ill-informed, the people of the seventeenth century were unanimous in being anxious about the national stock of precious metals and in thinking that in order to secure a sufficient stock it was desirable to encourage exports and discourage imports of other goods taken as a whole. Hence, besides a comparatively unimportant system of bounties to exports, a vast system of intentionally highly restrictive import duties hampered trade inwards across national boundaries.

For the purpose of acquiring or retaining bullion the whole of this "mercantile system," as Adam Smith called it, was perfectly futile, and this became gradually obvious during the eighteenth century. But when a particular trade in a country had once been "encouraged" by an export bounty, or when its "discouragement" had been prevented by the imposition of duties upon imported articles competing with it, those who were interested in it were not likely to give up their advantage without protest. They desired to retain it, and their bias naturally led them to believe that it was for the national good that they should do so. The balance of trade doctrine was replaced by the doctrine of "protection," the theory that home industries should be "protected from foreign competition" either by prohibition of competing imports or by "protective" duties.[1]

In the absence of definite argument public sympathy is apt to go with a claim for protection partly because of the common dislike of change, and partly because of a feeling like that which induces juries to give extravagant compensation to persons who have had railway or tramway accidents or have had their property taken for a public purpose, the feeling that it will not hurt the numerous shareholders in a company or the still more numerous ratepayers in a country or town to pay a few pence each as much as it will please the poor sufferer to receive a few hundred or a few thousand pounds. Besides, it is natural to suppose that any industry or trade is a good thing, and therefore that it must be bad to allow an existing one to be diminished and good to increase it or to cause a new one to be set up. The underlying assumption is that the preserved or the added industry will be a clear addition to what would otherwise exist in the country.

This assumption that an industry gained by Protection will be a net gain, uncounterbalanced by a loss of some other industry, is usually based merely upon the simple suggestion that if the importation of an article is stopped, there will "obviously" be an addition to the population of the country of a number of persons equal to that formerly employed in producing the article elsewhere. Suppose, for example, that typewriters are at present made in America and imported into the United Kingdom: it is then obvious, say the supporters of this doctrine, that if the importation of typewriters into the United Kingdom is stopped, there will have to be a number of persons producing typewriters in the United Kingdom instead of in America, and there is no reason to suppose that there will be any fewer people producing other things, so that the typewriter-makers will be a net addition. The answer very often given to this is, "What will become of the people, perhaps the printers of bibles, whose products were before exported to pay for the typewriters?" To that the modern Protectionist has a ready answer, "They will continue to print bibles for export, since though American typewriters are no longer required for the British market, the additional population in England will want wheat, tobacco, and other things from America." That opens the way for a *reductio ad absurdum.* "Then, I suppose, you will proceed to exclude those imports also, in order to add to the British population all the people who produce them, and so on *ad infinitum*, or at any rate until the whole American population is transferred to the United Kingdom?" But the *reductio ad absurdum* is seldom a very satisfactory form of exposition. It is better, instead of asking what will become of the bible-makers if the typewriter-makers come to live in England, to challenge at once the implied proposition that keeping imports out of a country is likely to tend to increase its population. It is not in the least likely to increase births or immigration nor to decrease deaths or emigration. If it had any such tendency, that tendency obviously could not be confined to the country of the Protectionist who happens at the moment to be speaking, and we should have the curious result that the population of all countries, and therefore of the world as a whole, could be raised by the abolition of international trade.

The truth is that the population of a country is likely to be increased by circumstances which make it a better country to live in, and there is no reason to suppose that restrictions on importation generally form such a circumstance, but rather the contrary. Any argument which goes to prove that every kind of protection everywhere tends to increase the population of the protected area must be wrong.

It does not, however, follow that it may not be possible in some circumstances to devise a scheme of particular protection for particular products which might tend to keep the population of some particular country higher than it otherwise would be. It is clearly possible for a State to pay people to come and live in a country or to continue to live in it by offering them inducements. For example, if the State in the United Kingdom or the Union of South Africa were to appropriate all the mineral property in the country and pay every one who chose to reside in it a small pension from the proceeds, this would be a clear inducement to live in those countries uncounterbalanced by taxation of residents as such. It is, I think, possible that in certain situations a scheme of restrictions on particular imports might be devised which would have, in a roundabout way, the same effect. The scheme would, however, involve a reduction of average income, since it would cause an increase of numbers without a corresponding increase of aggregate income.[1] The subject is full of difficulties, and it is clear that nothing of this refined character is intended by the protectionist who argues that Protection will increase the industry of the country.

He will, indeed, very probably deny that he ever thought of increasing the population at all. He meant, he may explain, only that his scheme would cause the existing population to be more fully employed by doing away with those great fluctuations of trade which seem to have much to do with the existence of the unemployed. There is some truth in the idea that reduction of foreign trade as a general rule should tend to diminish fluctuations in employment: on the whole, the smaller a trading community is, the less likely is it to suffer from such fluctuations, since miscalculations with regard to demand and supply are less likely, and the effects of changes due to invention and alteration of taste are more easily seen and are consequently more easily met. There is no limit to this advantage, so that we should find it greatest when we have reduced the trading community to the smallest possible size, and then it will strike us that Isolated Man possesses the advantage in the highest possible degree: he has never to fear unemployment. But we do not think it worth while to become isolated men in order to be wholly free from unemployment, and there is no reason to think that it is worth while to reduce international trade by a trifling amount in order to secure a trifling reduction in unemployment.

The whole of the ordinary crude doctrine that Protection gives employment is usually thrown over by the more cultivated Protectionist. He has no expectation of giving employment by cutting down imports, and generally he disclaims any desire to cut down imports. He does not advocate indiscriminate Protection, but a discriminating Protection which will, he thinks, bring about a better selection of trades and industries by the people of his country than the selection which their self-interest will induce them to make in the absence of the duties which he proposes. There are two possibilities: (1) the country may specialize in the directions in which self-interest leads in the absence of protective duties, and (2) it may specialize in the directions in which self-interest leads when influenced by the existence of protective duties. Which is likely to be best?

In answer to this question it is sometimes said that the principle of *laisser faire* or letting people do what they want to do "has been abandoned," or "is dead," and therefore we must not suppose that there is any presumption in favour of a particular territorial specialization being good merely because it is profitable for individuals to adopt it. But this is clearly an error, and a bad error. The whole of civilized society is based on the principle that people should be allowed to do what they like until good reason is shown to the contrary, and this implies a presumption that profitable specialization is good. To justify interference with it some positive argument must be brought forward, showing that it, or the part of it which is attacked, is bad. A bare proof that complete *laisser faire* is bad, impossible, and inconceivable does not carry with it a corollary that every proposal for preventing people from doing what they want to do is right.

To examine here all the thousands of positive arguments which have been brought forward in favour of discriminating Protection at different times and in different countries is of course impossible. All that can be done with advantage is to draw attention to their great variety and inconsistency. In each country at any particular time the arguments accepted by protectionists are just those which appear to show that the particular form of specialization to which the country is at that time tending to devote itself is bad for that country if not for every country. Thus in a country of which the inhabitants, when uninfluenced by protective duties, on balance export agricultural products and import manufactured produce, the reigning school of Protectionism is always found asserting that it is obviously ruinous to specialize in this way on agriculture; while in a country of which the inhabitants, also uninfluenced by protective duties, on balance export manufactures and import agricultural produce, the assertion is that it is disastrous to specialize on manufactures and "neglect agriculture" or "allow it to fall into decay," since it is obviously necessary for national security and the physique of the people. The fact that arguments in favour of discriminating Protection are found in every country, whatever its circumstances, is suspicious, the more so when we reflect on the support they get from the self-interest of those sections of the people which would gain by them either for a time or permanently. There is a presumption in favour of people being allowed to do what they wish, but this does not extend to allowing some people to pass legislation to prevent others from doing what they wish.

There is, however, one general argument in favour of a particular sort of discriminating Protection which has obtained such wide acceptance that it is worth while to examine it shortly. This is the argument in favour of "protection to infant industries." It has been said by J. S. Mill and others that an industry may be very suitable for a country and yet unable to start there because imports of the commodity which it produces come in from other countries in which it has become well established, and in such circumstances it may be proper to restrict imports for a time, until the "infant" can stand competition. Economists who would call themselves free-traders have often admitted this as an exception to their general rejection of Protection. Very little, if any, force really resides in it. So far as it goes, it justifies local just as much as national protection to infant industries: an infant industry may find it difficult to establish itself in Yorkshire because the products of that industry come in from Lancashire, or in California because they come in from Massachusetts. Secondly, it is wrong to assume that the mere fact of the advantage of the country from which the product is exported being an acquired rather than a natural advantage is a reason for endeavouring to counteract it. A great deal of territorial division of labour inside national areas now rests only on the acquired characteristics of places and their inhabitants, and nobody thinks any the worse of it for that. For example, if some place in England just as well adapted by nature as Lancashire for the seat of the cotton manufacture were now discovered, no one would think that a good reason for moving that manufacture. There is just as much reason for allowing acquired advantages to count when the question is one of the specialization between nations. Thirdly, it is doubtful whether the supposed difficulty of starting an industry really exists, and whether, if it does, Protection is the best way of reducing it. When a good deal of a thing is imported into a country, it is easier for a home manufacturer to slip in with an article slightly better adapted for use in the country than it is for him to devise the article and "create a market" for it where imports are kept out. If the need of encouragement were clearly proved, it would seem better to give the encouragement by way of bounty or other direct assistance, as this is more likely to be withdrawn when the assistance has done its work or is proved to be useless.

The most plausible of all general protectionist arguments is one which is seldom put forward. This is that it must be a good plan to protect those industries in which labour is best paid, so that the country will specialize in the best paid occupations: products of coarse, rough labour will be imported free, while the products of highly skilled, well paid labour which are imported will be heavily taxed. So the labour of the people of the country will be confined to the highly paid work as much as possible, a highly desirable consummation. Now, no doubt, every well-disposed parent wishes his children to be engaged in well paid occupations, and we may agree that the State should wish the same for the inhabitants of its territory. But would it be reasonable for a parent who had taken no trouble and incurred no expense in the education of his children to assemble them and say, "My sons, on no account employ a dentist or a lawyer. Be your own dentists and lawyers: let Jack attend to your teeth and Tom to your legal business. The work is much better paid than the unskilled work which you usually work at. It is true that you will not get any one outside the family to employ you as dentists or lawyers, as you will be rather unskilful, but you can at any rate keep your own work inside the family." It is clearly better to be a competent rivetter or even a competent jam-maker than a quite incompetent dentist or lawyer, at any rate when the interest of the customer as well as that of the worker is taken into account. A people that is competent to follow the better paid trades is sure to do so: the only way to secure that the people of a particular country shall do the best paid work of the world is to give them the highest intelligence and the best possible special training.

Considerable support is obtained for Protection in consequence of the existence of a belief that export and import duties afford each country means of taxing all the others, or “taxing the foreigner” as it is commonly expressed, this belief being combined with a somewhat confused impression of the connection between such duties in general and protective duties in particular. A dispassionate outside observer might suppose that considerations of justice would deter people from discussing the question of the practicability of taxing the foreigner. As I have already remarked, it has long, except in a few isolated parts of the world, been considered wrong to eat the foreigner: almost everywhere it is now thought wrong to reduce him to slavery; if he is of the same colour, it is even thought wrong to deprive him of his land or other property. But as yet, scarcely any one is ashamed to say that he would be delighted to tax the foreigner if only he could discover a way of doing it. I suppose the defence of this attitude which would be put forward, if any one thought defence was necessary, would be that the foreigner's wicked aggressive designs put the country of the speaker to an expense far greater than could be met by anything likely to be got out of him by this method: but the defence is quite insufficient, as the readiness to tax the foreigner is found almost as much when the foreigner is obviously unaggressive, and even when he is an ally or even a member of the same federation flying the same flag in war.

In considering the practicability of taxing the foreigner by duties on foreign trade, every one must recognize that money cannot be directly collected from people living outside the jurisdiction of the State imposing the duties. The hope is simply that the duties will make the terms of the trade more favourable to the people of the country, or in other words, that they will make the foreigners take less for the goods which are imported into the country and give more for the goods which are exported from it.

It is easy to conceive circumstances in which a number of persons, small or large, owning the resources of a particular area, may sell their products dearer when they act in combination than when they compete. Suppose these people have a number of springs of some mineral water of highly curative properties which is not found and cannot be manufactured anywhere else. If the springs belong to a number of competitors, the whole of the water produced will be sold, say at 6d. a gallon: but the demand may be of such a character that if the price at which the water were offered to the buyers was raised to 1s. a gallon, three-quarters of the whole could still be sold: it will then pay the owners to combine and raise the price to 1s., although they have to let 25 per cent. of the water run to waste or drink it themselves. Now this is just the principle of the plan of “taxing the foreigner” by means of an export duty: instead of assembling all the producers of a particular commodity in a country and persuading them to enter into some complicated agreement for restricting exports, the government of the country takes the simpler and more effectual course of restricting exports by imposing the payment of a duty (proportioned to the amount exported) on every one who chooses to export the commodity; it is hoped that the foreigners will be forced by the reduction of quantity exported to give a higher price per unit. So, for example, if the character of the foreign demand were as just supposed, and the export duty caused a reduction of 25 per cent. in the quantity exported, so that the foreigners gave 1s. a gallon instead of 6d., the "foreigner would be taxed" to the extent of 6d. a gallon. The country as a whole, *i.e.*, the people in their individual and their corporate capacity, would trade on better terms, since it would be better for the owners of the springs and the government together to receive 1s. per gallon for 75 than 6d. per gallon for 100 gallons of the water: the total received would be 50 per cent. greater than before, and the people inside the country could, if they chose, drink the quantity now cut off from the exports.[1] Thus an export duty may tax the foreigner, and it may be profitable to impose one.

But the example just given is clearly an exceptional one. Few commodities are like rare natural mineral waters. Take instead the case of a number of persons living together on a certain area and producing potatoes. Would it be likely to pay these persons to combine together and try to raise the price to their outside customers? Clearly not. They would not expect to be able to get a halfpenny a sack more for their potatoes, however much they restricted the quantity they sold. This is what happens with export duties on ordinary commodities: whether they restrict the exports from the particular country little or much, they fail to raise appreciably the price at which the foreigner purchases, because they only touch a trifling fraction of the whole supply to the world outside the country imposing the duty, and this trifling fraction can be made up from some other source without appreciable increase of cost and consequently of price.

Circumstances, again, are conceivable, though extremely unlikely, in which a number of persons living on an area could buy some commodity cheaper if they acted in combination than if they competed. They might be the only people in the world who wanted that commodity, and it might be one of the numerous commodities which would be cheaper, even in the long run, if less were bought of it. Suppose, then, that tea is such a commodity, that the tea-consumers left to their individual volition would buy 7 lbs. per head per annum at 2s. per pound, and further, that if they resolved to buy only 5 lbs. per head the price would fall to 1s. 6d. It follows that if they made and carried out this resolution, they might fairly say they had "taxed the foreigner" to the extent of 6d. per pound, and as they would have to spend 6s. 6d. less on tea while only forgoing 2 lbs. in their consumption, they would probably be gainers on the whole transaction. Now this is precisely the principle of the proposal to tax the foreigner by imposing an import duty. The duty is intended to check the demand, and it is supposed that the foreign producers will be obliged by the reduction of demand to sell the reduced quantity at a lower price per unit, being thus "taxed" to the extent of the difference in price, and that the fall of price on the reduced quantity taken will be more than sufficient to counterbalance the privation caused by the reduction of quantity. Suppose, as before, that the commodity is tea, and the consumption 7 lbs. per head when there is no duty, and the price inside the country 2s. A duty of 1s. is then put on imports: the price at home rises to 2s. 6d., of which the foreigner only gets 1s. 6d. in consequence of the reduction of consumption from 7 lbs. to 5 lbs. per head. Then the foreigner may be said to be taxed to the extent of 6d. per pound: the tea-consumers have lost 2 lbs. of tea and only spend 1s. 6d. less upon tea, so that they are certainly worse off, but as the State gets 5s. out of what they now pay for tea, the change is probably a profitable one to tea-consumers arid taxpayers considered as one body.

The trouble, however, from the point of view of any one who desires to "tax the foreigner" in this way is to find a commodity and conditions such as those described. A much more likely result of the shilling tax on tea, even if it were imposed by the country which consumes most tea, would be that the price outside the country would only fall permanently by 1/4 d. a pound, while the price inside the country rose 11 3/4d. with a fall of consumption to 5 lbs. per head, in which case the foreigner might still be said to be taxed 1/4d. per pound, but the gain at his expense would probably not be worth making, as it would probably be more than counterbalanced by the disagreeableness to the people of having a particular branch of their consumption so sharply attacked by the tax instead of being allowed to spread the burden of taxation as they pleased. In the usual conditions, the imposition of an import duty by any one country will make no appreciable difference to the outside or "world" price of the article taxed, and, of course, in some conditions the imposition of such a duty might absolutely raise the world price.

I have for simplicity taken in the first place an example in which the import duty is not protective. Where it is protective it is no more likely to be beneficial in the manner supposed than when it is not. About one-fifth of the wheat consumed in the United Kingdom is grown within the country, because that amount, and no more, can be grown there profitably (or so as "to pay" all the factors concerned more or at least as much as they could get in other employment) at the price which can be obtained. Suppose it pays to produce seven million quarters at 31s., and that it would pay to produce eight at 32s., and so on, till at 80s. a quarter it would pay to produce all demanded at that price and make the country independent of importation. It is evident that if the elasticities of demand inside the country and the conditions of supply outside it were the same for tea and wheat, any given percentage of *ad valorem* duty would diminish the British importation of wheat more than that of tea, since the home production would increase and to some extent supply the void. The greater reduction of British demand would cause a greater, though probably still almost inappreciable, fall in the outside price, but it must be remembered that the less taken of the commodity, the less the aggregate amount which the foreigner can be said to be "taxed."

On the whole, it may be said that the possibilities of getting anything out of the foreigner by import duties are so small that they are not worth setting against the usual fiscal considerations, with regard to the distribution of taxation between different classes of consumers and persons of different wealth.

The conclusion is that Government manipulation of foreign trade, whether in order to give employment, to select the best industries for the country, or to tax the foreigner, is not likely to have good results, however excellent the legislature of the country; and we shall feel even less confidence in the probability of good results when we reflect upon the imperfections and fallibility of the actual legislatures of the different countries of the world. We must beware, however, of exaggerating the evil effects which have actually resulted. A great deal of the trade which is prevented from taking place by Protection is not very important; it consists of the exchange of commodities—such as different kinds of thread—in regard to which international localization is advantageous indeed, but not enormously advantageous. When Protection stands in the way of something more important, such as the urbanization of England in the nineteenth century, it breaks down. Moreover, under modern conditions in which extensive migration and conscious regulation of births are both possible, no State can by erroneous foreign trade policy, whatever its folly, permanently make the condition of its working-classes—that is, the mass of its population—seriously worse than that of the working-classes of other countries. They leave or refuse to multiply till their condition is brought up by the want of competition to the level prevailing in the other countries. The inquiries which were carried on at the beginning of the twentieth century by the British Government and other persons, with the idea of finding out by observation and statistical examination of the condition of the working-classes in England, France, Germany, and the United States which country had the best fiscal policy, were ridiculous in the extreme. The effect of long-continued superior fiscal policy in any of these countries would only be to make its population and the value of its land somewhat greater than they otherwise would be—not, of course, necessarily to make them increase more rapidly than those of the other countries—and this effect could not be proved by statistics.

The question, "What then does determine the comparative wealth of the inhabitants of different areas ?" can best be approached by beginning with the smallest possible example, that in which the territory is so tiny that it is only inhabited by a single family. Let us ask ourselves what determines the material welfare of the inhabitants of some spot, it may be of a few acres or only of a few yards in extent, when those inhabitants consist, say, of a man, his wife, and their young children. Every one will recognize at once that this is a personal matter, dependent on the original qualities of the persons concerned, their energy and industry, the occupations for which training has fitted them, and finally the amount of property which they own. We should not think of attributing differences simply to the fact that one family lived on an infertile area, another on a fertile one, nor to the fact that one lived where there were no minerals at all and the other at the mouth of a coal or gold mine. We should expect such differences in natural surroundings to be counterbalanced by differences in the rent the families would have to pay if they did not own the land, and if they did own the land we should regard the resulting differences as the consequence of differences in the amount of property held by them, just as much as if the property they owned was somewhere else. Nor would any one think of attributing the superiority of one family over that of another to the one having adopted a superior "fiscal policy." The idea of "fiscal policy" in relation to the single family would not be likely to occur to any one. Yet some at least of the ideas embodied in the fiscal policies of the past and present could conceivably be carried out. The mediaeval maxim that money should on no account be allowed to go out of the country could be carried out if a family refused to buy anything from outside. The later maxim that trade must be so regulated as to bring as much money as possible into the country by a "favourable balance" could be carried out much more easily by a family than it ever could be by a State; all that would be necessary would be for the family to be careful not to spend in purchases as much money as it got by sales, and not to lend out the surplus nor even deposit it in banks, but put the money in a stocking or a hole in the ground. The self-sufficiency of the territory, which the advocates of one fiscal policy desire so strongly, could be obtained in any required degree by abstention from purchases of commodities and services, even when it was evidently easier to procure these things by the indirect method of making other things, selling them for money, and then buying what was wanted with the money so obtained. Finally, full employment could doubtless be secured quite easily by simply attempting to produce everything required on the given spot; the employment might not receive much remuneration, but that is another matter, usually regarded as immaterial by the fiscaliters. All these ideas would seem ridiculous to the single family.

Now let us take as examples the inhabitants of somewhat larger territories, such as English counties. To give a touch of reality we will take two actual counties, Hereford and Durham, but we need not trouble about the precise facts, nor even commit ourselves to any opinion on the question whether the people of Durham or Herefordshire are actually the better off. All we have to do is to consider the main factors on which the answer to that question must depend.

First among these factors we may mention, as in the case of the single families just above, the different original qualities of the two groups of inhabitants. Inferiority in efficiency is constantly given as the explanation of the lower earnings of one large group of persons as compared with another large group carrying on the same kind of work in a different place. It is commonly said, for example, that the superiority of agricultural wages in the North of England is due to the greater efficiency of the workers. If the people of Durham are, on the average, gifted with greater strength of mind or body than the people of Herefordshire, we should expect them to earn more in the same time and so to be better off. Whether the two groups produce for their own consumption or for sale to others outside their territories will make no difference. If for their own consumption, the group producing most will obviously be better off than the other; if they sell to outsiders, they will have to sell in the world-market and consequently at the same price.

The only difficulty here is to account for the differences in personal qualities. Climate, no doubt, may have some influence. The Durham men, some will say, are superior because they live in a colder and drier part of the country, but there is probably little in this. Others will speak of differences of race, and say the Durham men are taller and stronger in consequence of the immigration of Northmen more than a thousand years ago; this is probably more important, though the assimilation of races by migration and intermarriage inside England has been proceeding for all that time. Possibly, too, the fact that the population of Durham has been increased largely by immigration, while Herefordshire has not attracted immigrants nor even retained its natural increase, may be supposed to favour the efficiency of the Durham population. It is usually thought that the people who migrate are superior to those who remain at home, and if this is so (it can scarcely be regarded as proved) a population largely consisting of immigrants, and possibly even a population consisting of the nearer descendants of immigrants, should be superior in quality to one consisting more entirely of natives and the descendants of natives. There is also usually less inbreeding among a population which is gaining by migration, and inbreeding is often considered inimical to efficiency.

Secondly, as in the case of the single family, we have to think of the different occupations of the inhabitants of the two territories. Herefordshire is a county inhabited chiefly by agriculturists and persons whose trade must be carried on in the vicinity of agriculturists. The only town of any magnitude is the county town, and that is little more than the necessary commercial and legal centre of such an agricultural district. But Durham, which has an agricultural population of nearly the same size as Herefordshire, has in addition about two persons engaged in shipbuilding and seven engaged in mining to every one engaged in agriculture. It follows that the comparative material welfare of the inhabitants of Durham and Herefordshire must largely depend on the material advantages of the agricultural occupations compared with those of shipbuilding and mining. If shipbuilders and miners are better off than agriculturists, the people of Durham will be better off than the people of Herefordshire. Consequently we have to ask ourselves why the inhabitants of some districts submit to belong chiefly to the poorly paid occupations while the inhabitants of other districts manage to adopt the better paid. We may, I suppose, attribute some small part of the phenomenon to differences in efficiency. The less efficient people are less likely to bring up each new generation to the best paid kinds of work than the more efficient. But this is a trifling matter compared with the simple fact that it is convenient for persons carrying on one trade to live and work principally or wholly in some places, and for people carrying on other trades to live and work principally or wholly in other places. It is not because the people of Hereford are weak, stupid, and wanting in energy that Hereford has not as many miners and shipbuilders as Durham, but because it has neither coal nor sea-coast. It is not because the inhabitants of Oxfordshire and Cambridgeshire have some hereditary cleverness that they happen to contain an extraordinary proportion of well-paid teachers, but because some long-forgotten accident placed the two Universities in the county towns. It is not owing to the enervating nature of the climate of Poplar and West Ham, nor to the inferior character inherited from the particular Anglian families who settled there in the fifth or sixth century that those districts contain a large proportion of the worst-paid class of manual labour, but because the docks are there. The inevitable conclusion is that geographical features and those incidents which, because we know very little about them, we call historical accidents, play a great part in settling whether people who are well paid for their labour or people who are ill paid live in any given district.

Thirdly, again as in the case of the single family, the differing amounts of property owned by the inhabitants of different territories is an important factor in determining their comparative material welfare. The amount owned y the inhabitants is not to be confused with the amount of property apparently situated within the territory.1 In Durham there is considerably less property liable to local rates under the English law per head of population —about £125 worth (in capital value) against £200 worth per head in Herefordshire. Move-able tangible objects, together with such intangible property rights as might be supposed to be somehow connected with the fixed property, are probably more important in Durham than in Herefordshire, and might thus restore the balance. But if we found that the total property thus connected with the two counties worked out to exactly the same value per head of population, should we be justified in assuming equality between the two populations so far as property was concerned? Certainly not, since the inhabitants of each county own much property outside it, and many persons who are not inhabitants own much property inside it. Equality would only be present if the balance of the two amounts was the same in the two counties. In fact, the balance is probably in favour of the inhabitants of Herefordshire. It is probable that the amount of property held outside Herefordshire by inhabitants of Herefordshire exceeds in value the property within Herefordshire held by people living outside, whereas the contrary is probably true of Durham. Does any one ask why this should be so? Simply because owners of agricultural properties find it pleasant and convenient to live on them, while owners of mining and shipbuilding properties do not. Neither a colliery nor a shipyard are pleasant things for a wealthy person to live alongside of, and there is the further fact that the shipyards belong largely to shareholders whose avocations lie elsewhere. There can be no doubt about the importance of this cause of difference whenever small territories are under comparison. The inhabitants of Mayfair are richer than those of Wapping because a richer class of persons select Mayfair for their residence. The average wealth of the people of Sussex is increased by the fact that it is a pleasant place of residence and convenient for London work or amusement. The parish of Dornoch must have the wealth of its inhabitants enormously increased, and the county of Sutherland must have the wealth of its inhabitants considerably increased simply by the fact that Mr. Carnegie chooses to live at Skibo Castle instead of nearer the sources of his riches.

This is all fairly simple. The only question is whether in the case of territories as large as English counties it is true, as in that of the smallest possible localities, that we should not think of attributing the superiority in material welfare of one whole population over that of another directly to the fact that the one lived on an area which was more fertile or contained a better or more accessible underground store of minerals than the other. What the question comes to in our example is this: Are the natural advantages of Durham over Hereford—its possession of coal and a sea-coast with harbours—entirely appropriated by the owners of property (whether resident in Durham or elsewhere), or is there a certain part which is unappropriated and consequently obtained by the mere propertyless workers ? The question is not to be disposed of by a negation based on the proposition that if there were any such unappropriated item workers would migrate into Durham, with the effect of cheapening work and raising the value of property so that the unappropriated item would become appropriated. This migration into Durham is precisely what did take place for many years prior to 1881: so long as it went on it showed that Durham was attractive, and the fact that it was attractive was due to there being something unappropriated which the workers managed to get. But as between one English county and another a very small advantage will turn the scale in the matter of migration. Migration such as is required does not mean the rooting up of middle-aged people, but only a slight trend of the annual new recruits to the army of labour in one direction rather than in another. Moreover, though such attractiveness may endure for several generations, it is properly regarded as a “temporary” phenomenon. Durham in recent decades has not quite succeeded in retaining the whole of the “natural increase” of its population. It is perfectly true that in time the immigration into such a district will cause its advantages to the workers to sink to a level with those of other districts.

If Herefordshire and Durham each had their own customs duties and had adopted different “fiscal policies,” the advocates of the Durham policy would contend that the inhabitants of Durham were much better off than those of Herefordshire, and that the superiority of their condition was entirely due to their fiscal policy: the advocates of the Herefordshire policy would contend that the inhabitants of Herefordshire were much better off than those of Durham, and that this was entirely due to the Herefordshire fiscal policy being superior to that of Durham. The important considerations which we have just dealt with would be ignored altogether unless the difference in material welfare between the two counties was so great that one of the two parties lost all hope of being able to show that the county which had adopted the policy it favoured was, in fact, the better off. In that case this party might begin to point out that there were other things besides fiscal policy to be thought of, but this would be loudly hailed by the second party (and secretly regarded by the first party) as a last and almost desperate resource. As things are, neither county having had the opportunity of adopting any fiscal policy, no one troubles himself about the facts, and no one is able to contend that the superiority of the one county over the other is due to its greater wisdom in fiscal matters.

But if statistics of imports into and exports out of each of these counties were collected and made available, it is certain that in each county persons would be found to contend that it would go to ruin unless it carefully regulated its foreign trade by means of customs duties. In the remote past these persons would have contended that as money was very useful to the people of the two counties, and there were no gold or silver mines within their boundaries, it was necessary to prevent any gold and silver going out of the county when it had once been got into it. Later, they would have contended that this was a mistake, but that what was really wanted was a careful attention to the balance of trade and such a manipulation of duties and prohibitions as would secure a perpetually favourable balance and consequent net importation of gold and silver. Later still, when it had been conclusively shown by theory and experience that wherever there is a sound currency there will be a sufficiency of money—that, in other words, if legislators will look after the quality of the currency, the quantity will take care of itself—the advocates of the manipulation of external trade would have fallen back on special doctrines made up to suit the circumstances in which they found themselves. In Herefordshire, which exports agricultural produce and imports coal and manufactured articles, they would have contended that agricultural counties were always poor, and that the people of Herefordshire should therefore force themselves to become manufacturers or, at any rate, attract manufacturers from other counties by preventing themselves, either by prohibition or by duties, from buying manufactured articles produced outside the county. In Durham, which imports agricultural produce and exports coal and ships, they would have contended that it was necessary for the physique of the people of Durham that they should grow inside the county all the food they required, however numerous they might be, and that their exportation of coal meant that they were living on their capital and providing their shipbuilding competitors with fuel to their own damage. The advocates of manipulation in each county would have shut their eyes to the fact that the advocates in the other were using arguments inconsistent with their own, and their opponents would in all probability have neglected to draw attention to the fact, so that the question at issue would have escaped all discussion on broad lines. While inconsistent arguments based on the special circumstances of each county were being used in this way, there would also have been some attempt in both counties to prove that if customs duties were imposed upon the importation of almost any article, an appreciable portion of the duty would be paid by the outside producers, so that the people of each county would gain something at the expense of all the others by imposing import duties, though it might possibly be better for all the counties taken together to agree to refrain from imposing any. In the fortunate absence of statistics of imports and exports, no one in either Herefordshire or Durham seems ever to have thought of advocating a "county policy" which should enrich the people of the county at the expense of outsiders.

We may now proceed to examine the case of "nations"—groups of persons inhabiting areas usually larger than those of the biggest English county and invariably possessing independent systems of customs duties. There is no reason for supposing that the circumstances which we found to be the main factors in determining the comparative material welfare of the inhabitants of a couple of English counties are not also the main factors in determining the comparative material welfare of "nations."

In the first place, there is the difference in the efficiency of the various nations due to difference at racial qualities and to the climate of the territory occupied. Of course, to explain a difference in efficiency as the result of original difference in racial quality does not take us very far. To complete our knowledge we ought to know why races with small efficiency have settled in one place and races with great efficiency in another. But in the present state of knowledge we cannot say much about this. All the earlier wanderings of the different stocks of mankind are wrapped in obscurity. We know a great deal about the reasons why the present North and South Americans are what they are, but we know very little about the reasons why Germany contains Germans, India Indians, and China Chinese. Nor can we say much about the probabilities of the future. All that seems certain is that at present it is becoming more and more difficult for one stock to destroy another or violently dislodge it from a territory which it has once occupied. There are few stocks now left which are likely to yield place to others with the rapidity and completeness of the Red Indians and the Australian aborigines. It appears likely that there will be a very slow amalgamation of various stocks, and that while this is going on others will decline imperceptibly till nothing is left of them. But meantime we are perfectly justified in treating original differences in racial characteristics as a cause of difference in efficiency, and consequently in material welfare.

Original racial qualities are constantly being modified by migration, and if we take the view that inbreeding is likely to produce inefficiency and "new blood" is likely to produce efficiency, we may suppose that a country into which there is a net immigration is more likely to have efficient inhabitants than one from which there is a net emigration, since, *ceteris paribus*, there will be more new blood in it. And if it is true, as often alleged, that emigrants are generally superior to stay-at-homes, the country of immigration will tend to be superior to that of the country of emigration from that cause also.

The effects of climate are doubtless much more important in regard to the inhabitants of "national" territories than in regard to those of smaller territories such as English counties. We have no hesitation in attributing any want of efficiency which we find in Italy or India compared with colder and drier countries to the "enervating" character of the climate of a large part of those countries. But it is well to be cautious in this matter. It seems possible to live up to any given standard with less labour (of a given efficiency) in warm than in cold climates. The clothing, the shelter, and the food required are all less in amount. Consequently the refusal of the inhabitants of the warm country to work as strenuously as the inhabitants of the cold country may be the result of deliberate and wise choice rather than of incapacity. We must remember, too, that the effects of climate are awkwardly mixed up with those of original differences of race, since it is doubtless true that the most energetic races have on the whole been the most successful in securing, not perhaps always "places in the sun," but, at any rate, situations in the surroundings, including climate, which they imagined to be the best.

Whatever may be the truth with regard to the comparative importance of climate and original racial qualities, it will scarcely be questioned that the difference in efficiency resulting from the differences in these two circumstances is a more important factor in determining the material welfare of nations than in determining that of territorial groups of inhabitants inside the nations. But it is desirable to bear in mind that this is not because the nations are political units or because they have each a customs system of their own, but simply because they are bigger. If we had to divide the world into territories which differed in the extent to which the efficiency of their inhabitants was favoured by racial qualities and climate, we should use divisions still bigger than nations and disregard a good many international boundaries. The longest boundary in the world between two nations, that between the United States and Canada, would be disregarded, and so also would many of the intra-European boundaries.

Secondly, in regard to nations, as in regard to the inhabitants of smaller areas, we have to think of the occupations of the inhabitants. The time when it was possible to suppose each nation providing for practically all its own wants directly is past. Then it was legitimate to assume that the occupations of different nations were all the same except in so far as the richer would be able to devote a rather larger proportion of the whole of their labour to producing the less necessary articles. Now the growth of international trade means that the people of one nation produce things largely for other nations as well as for themselves. Each people becomes to some extent specialized, producing commodities and even services which to a great extent are not consumed at home but are sold on the world-market, It follows that the wealth of the inhabitants of a national area is largely affected by the occupations followed by them. If, from whatever reason, they are predominantly engaged in occupations which are the poorly paid occupations of the world, their wealth will be, so far, less than if they were chiefly employed in the highly paid occupations.

The chief actual difference here arises from the fact that certain countries are more suitable than others for the residence of the well paid commercial class. Just as the wealth of London is swollen by the fact that its geographical position has made it a convenient place in which to carry on the commerce of the world, so, though of course to a less extent, is the wealth of the United Kingdom swollen by the fact that London is in it. A good deal of historical change in the comparative position of different nations is due to the fact that progress in knowledge and the spread of population has altered the relative advantageousness of the different parts of the world. The shores of the Mediterranean at one time had the advantage in this respect: the discovery and use of the way round the Cape improved the relative position of this country and the Netherlands: the Suez Canal perhaps worsened it and benefited the European continent: the Panama Canal seems likely to improve the position of the United States. Railways, of course, have immensely benefited inland countries compared with maritime ones.

Even in manual occupations there is a difference between different nations which causes some to earn less than others with only equal efficiency. It is obvious that in some countries agriculture and other poorly paid manual occupations engage a larger proportion of the population than in others. A country which exported nothing but wheat would have, *ceteris paribus*, a poorer set of inhabitants than one which exported nothing but mathematical and astronomical instruments. But the range is not very great here, and on the whole we must pronounce this cause of difference to be of less importance in regard to nations than in regard to smaller areas, such as English counties.

Thirdly, we have differences arising from the different amounts of property held by the inhabitants of the different countries. This has long ceased to be almost entirely determined by the number of people in the country and the amount of property within the country. It may happen, as it happened to the Transvaal when it was a separate country, and still happens, though in a less degree, to the Union of South Africa, that an overwhelming proportion of the Valuable natural resources of the country and of the instruments used in working them belong to people who are not resident in the country: or that some valuable property within the country, though it belongs to the inhabitants, has been provided with borrowed money, on which interest has to be paid, as is the case in India and Australia. And on the other hand, the inhabitants of a country often hold property abroad, as happens in the case of the United Kingdom, the inhabitants of which draw more than £2 a head from their property outside the country. Monte Carlo is probably the richest country in the world owing to this cause, but for the larger countries it cannot amount to very much, being only at the extremes two or three pounds to the good and probably not more to the bad.

It is very important all the same, because it means that the income of the inhabitants of a country is not, as we are apt to think, dependent on the value of the things therein. There is no necessary connection between the two. In modern civilization the inhabitants of a country, *as such*, do not own the country and all that is therein: they simply own their property where-ever it may happen to be situated: the people who own the country are the proprietors, wherever they may happen to live.

Fourthly, there may be some temporary but possibly very long-continued difference of earnings owing to some countries being “new” and others “old.” By a “new” country we seem to mean one which has not been open to settlement from the parts of the world settled earlier for a time long enough to allow migration to fill it as full as the “older” parts. Owing to the somewhat smaller repletion of these territories with human beings, the natural resources are not quite of such high value as they would be if they were situated in long-settled parts. The fertile virgin soil in Alberta is not worth as much to its proprietors as it will be when the distribution of population between the Eastern and Western Hemispheres has been rectified by a few more decades or perhaps centuries of migration westward. Meantime the mere workers who go get a slight advantage over those who stop at home. If they did not there would be no attraction. The attraction is really afforded by the migrants receiving a small share in the value of the natural resources.

So apart from any superiority in efficiency, such as I suggested exists in a country of immigration, we may expect to find some superiority of earnings in new countries from this cause, just as I showed we might expect it in an English county occupying a position like that of Durham in the decades before 1881. As between nations we should expect this to be more important than as between counties, since the migration is less easy. The movement from Europe to America has been going on for centuries and is yet far from complete.

It is likely that the workers of the new country and their descendants, considered simply as individuals, will benefit by the immigration of new workers, since these workers are always likely to be hewers of wood and drawers of water who produce things cheaply for the already established inhabitants. To oppose their arrival from the point of view of the intelligent individual is like opposing the arrival of horses: horses deprive men of some kinds of employment altogether, but raise their remuneration by cheapening products which they consume. If horses worked for wages, the arrival of further contingents would lower the wages of horses, but would do no harm but good to the men workers. In the same way, the arrival of Irish raised the position of previously established workers in the United States, and the arrival of Italians, Hungarians, and such-like raised the Irish already established there.

But workers are apt to think of themselves as a class, especially if they have organizations of the nature of trade-unions, which necessarily represent a class rather than a number of individuals. Class feeling resents any lowering of the *per capita* income of the class, even when it is merely the result of the introduction of new members who have improved their own position by gaining admittance without worsening the position of the individuals already within the class. Hence it is natural that the workers of new countries, especially when represented by their organizations, should favour restrictions on immigration.

The most actually effective of restrictions on immigration are doubtless those which are inspired by race antipathy. They are imposed by people who say, "Which race is to fill up this continent? Yours or ours? We say ours." It may be possible that some of these can be defended on the ground that they segregate a race or races which have not as yet at any rate sufficient control over their own multiplication. If any people acts as if its ideal of progress was, in J. S. Mill's picturesque phrase, "a human anthill," it is probably desirable that it should be confined within as narrow limits as possible. It is better that it should learn that overpopulation is an evil, and how to avoid it, in one country or continent, than after extending it all over the world.

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[1]It is convenient to talk of "the present" as opposed to "the future," but it must be remembered that "the present" means nothing more than the near as opposed to the distant future.

[1]It is as yet impossible to sum up the history of property in land except in a vague and tentative fashion. How easily much that was recently accepted may be attacked can be seen in Mr. Jan St. Lewinski's *Origin of Property*, 1913.

[1]Some years ago it was usual to endeavour to prove that an excess of imports of goods did not necessarily mean an exportation of bullion by alleging that the excess was balanced by the "invisible exports." This was a clumsy and confusing way of treating the matter. It is tolerable in regard to the first two disturbing factors, since services can be conceived as "invisible exports," but it fails entirely in regard to the other three factors.

[1]A duty which "protects" and consequently may be described as "protective" is one which puts upon an imported article a charge from which a similar article produced within the country is exempt, and to advocate such duties is to be a Protectionist or supporter of Protection. It should be noticed that not every duty on imported articles is protective, because (1) some import duties are "countervailed" by equivalent duties on home products, as is, for example, the British customs duty on beer, and (2) because some import duties are levied on articles which do not compete with similar things produced within the country: either because they cannot be produced there at all by any amount of expense, or because they cannot be produced there at such an expense as would make it worth any one's while to compete with the imported product even when the imported product is subject to the duty. *E.g.*, the British duty on tea is not

protective, because it is not worth any one's while to grow tea here in hot-houses and with made-up soil when the duty is only 5d. per lb., but the duty might be protective if it were raised to 40s. per lb. or if some cheaper method of growing tea here were discovered. It is, of course, the fact of protection, not the intention of the imposers of the duty, which matters. When we describe a duty as "protective," we are not to be taken as deciding the often difficult question whether the duty was originally intended to be protective when it was first put on, perhaps two centuries ago.

The policy which rejects Protection has for many years commonly been called Free Trade. A Free Trade country is one which refuses to impose protective duties, and takes them off if they come into existence by accident. It is sometimes said in a challenging tone that there is not Free Trade between the United Kingdom and countries which have adopted Protection. Did any one ever say there was ? What is said is that the United Kingdom has adopted a Free Trade policy. Sometimes, too, Protectionists say that the British customs duties on tea and beer are negations of Free Trade. This is merely to quarrel with the established and convenient usage of words, and it would be just as reasonable to refuse to call some Mr. Whitehead by his surname because he had brown hair. Equally senseless, on the other side, is the practice of the newspaper which insists on printing Tariff "Reform" thus With inverted commas because it trunks the word "reform" can only be properly applied to changes which are good.

[1]Unless, in consequence of very peculiar circumstances and extraordinary ingenuity, the whole cost could be thrown on absentee owners of property.

[1]In order to sell within the country the 25 per cent. cut off the exports, the owners of the springs will have to sell at less than 6d. a gallon, and consequently the duty required to raise the price to the foreigner by 6d., as supposed in the text, will have to be more than 6d.: how much more, will depend on the elasticity of the home demand.

[1]I say "apparently" situated, because a great deal of property in modern times cannot be cut up and have its several parts attributed to the different small localities in which as a whole it is situated. At first sight it appears possible to allocate it, but the experience of the American property taxes shows that the possibility is only apparent.