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ECONOMIC RECONSTRUCTION

A FURTHER DEVELOPMENT OF
"A NATIONAL SYSTEM OF ECONOMICS"

BY

J. TAYLOR PEDDIE, F.S.S.

AUTHOR OF "FIRST PRINCIPLES OF PRODUCTION,"

"ON THE RELATION OF IMPORTS TO EXPORTS,"

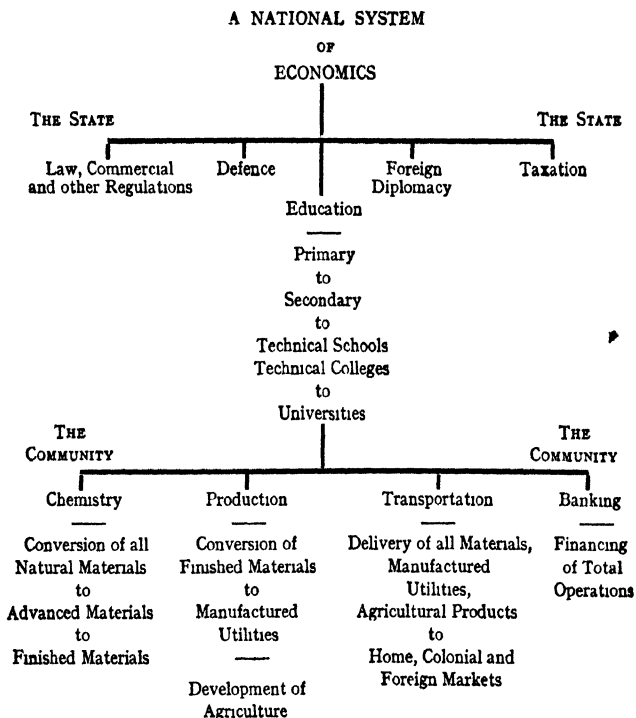
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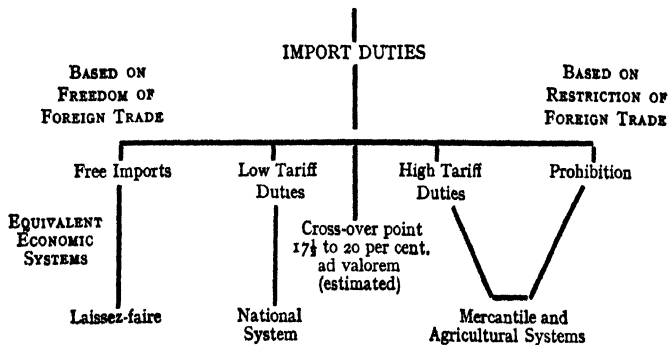
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N.B.—Each of the above headings can of course be very largely subdivided.



NOTE

I ARRIVE at the estimated cross-over point of 20 per cent. ad valorem by calculating the manufacturers' profit at an average of 25 per cent. on cost. Therefore the moment that import duties exceed 20 per cent. ad valorem they become a restraint upon trade.

The cost of manufactures is made up of material + labour + standing charges + profit. In those industries which are fortunate enough to be able to indulge in, and are capable of, large-scale production and distribution, there is a certain point, generally described as the cross-over point, at which the item of standing charges automatically becomes profit. The manufacturer distributes his standing charges over a given amount of production, but the moment his sales exceed the production provided for, the allowance made for standing charges naturally becomes profit; and this is technically known as the cross-over point.

If, therefore, import duties are confined within the limit of 20 per cent. ad valorem, they are not likely to act as a restraint upon trade. And manufacturers would be well advised not to press for import duties beyond this limit, for a reaction from one extreme (restraint of trade) to the other (Laissez-faire) would inevitably occur. It should be their care to guard against a violent change, particularly if it is technically unsound.

It is by the taxation of profits only that a Government can secure the cost of its services and meet the interest charges of the National Debt. And no system of taxation could conceivably exceed the profits which manufacturers usually provide for on cost of manufacture. The construction of the National System I develop has regard to this fact.

J. T. P.

DEDICATED TO
OUR GLORIOUS ARMY AND NAVY
AND MERCHANT SEAMEN
TO WHOSE VALOUR WE OWE THE PRIVILEGE OF
BEING ABLE TO CONSIDER
RECONSTRUCTION PROPOSALS

ECONOMIC RECONSTRUCTION

PRELIMINARY ESSAY

IN writing the following pages I have endeavoured to continue the extension of the National System of Economics considered in my previous works, and to the best of my ability to place before my fellow-countrymen some real problems of reconstruction. I crave indulgence for any errors and omissions that may appear therein, as I have written them in moments spared from an active business life.

There is a pacifist and rank and file movement in this country which has imbibed in an extreme degree the doctrines of Bolshevism and Karl Marx. From want of a better understanding, the spread of these doctrines has created an unsettled feeling in the minds of a certain class of workers. These men have been taught to believe that there is no difference between Kaiserism and democracy so long as Capitalism exists, which they consider to be their greatest enemy; but which in reality is their greatest

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friend if considered in true perspective. I have therefore in the following pages endeavoured to supply a definition of capital and other matters of kindred interest, in the hope that it may help them to pursue a rational and progressive line of thought.

Whilst I recognise there must be a certain anxiety as regards the future on the part of the workmen, such as, for instance, unemployment and oppression of taxation, problems of this kind that may arise for consideration can only be overcome by all sections of society working harmoniously to this end during and after the war. And the following pages have been written with a view to assisting in this course.

In peace as in war, however, we must abandon ourselves to wise and beneficent leadership if our inheritance of Liberty, Freedom, and Justice is to be effectively preserved for our children.

Democracy has not yet found that system of Government which can give shape and form to the great ideals which it nurtures. It is too prone to indulge in the delegate theory or Laissez-faire form of Government, forgetting all the while that there is such a thing as Art rule, in being led by men of genius in conformity with certain agreed principles, who can give to the people more than they already possess, who can see "disorder and confusion where, very

often, the ordinary person imagines everything to be admirably arranged," who can "value and interpret things for us and put a meaning into reality which, without them, democracy would never possess." The democratic system of Government, as we have experienced it, requires to be thoroughly re-examined; and if anything I have suggested in the following pages will assist to that end, I shall have been amply repaid for the time devoted to the subject.

As I state on p. 215, a free democracy satiated with the doctrines of *Laissez-faire* and the theories of Karl Marx can impose worse tyrannies than any autocracy can impose. I am, of course, deliberately attacking the whole school of *Laissez-faire* because I believe with Colwell that the extent to which Governments have gone, and must necessarily go, in protecting and promoting industry, clearly contradicts the idea that men and business should be allowed to go their separate ways without regard to the general welfare of society as a whole. There must be laid down for general guidance certain principles which should "run through and be the foundation of the laws of the nation," but subject to which each man may then "pursue his own interests in his own way." I quite realise that I may again be the object of counter-attacks by the scholastic professors of *Laissez-faire*. But in

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defence I need only refer my readers to one of the many brilliant thoughts contained in Bacon's *Novum Organum*, p. 279:—

“ But for the treatises upon this subject which have no tincture of experience, and are only drawn from general and scholastic knowledge, they commonly prove empty and useless performances; for though a bystander may sometimes see what escaped the player, and although it be a kind of proverb, more bold than true with regard to prince and people, ‘ that a spectator in the valley takes the best view of a mountain,’ yet it were greatly to be wished that none but the most experienced would write upon subjects of this kind; for the contemplations of speculative men in active matters appear no better to those who have been conversant in business than the dissertations of Phormio upon War appeared to Hannibal, who esteemed them but as dreams and dotage.”

The fact that moral considerations are expressly excluded from the science of *Laissez-faire* may go far to explain the extremely bitter controversies that have existed between management and labour in the past in this country. That such a science should have been taught in our public schools and universities will one day be regarded as among the intellectual and moral shortcomings of our age.

In saying this, however, I do not wish it to be assumed that I have no respect for the opinions of those whose business it is to develop the theory of the science. Far from it. I recognise that theoretical knowledge is as essential to society as practical knowledge. But there are many theorists who go too far with their theoretical reasonings, and who unconsciously in my opinion do far more harm than good to our national prosperity and well-being. The old saying that an ounce of practice is worth a ton of theory has never been so fully demonstrated, in so far as the science of Economics is concerned, as it has in the course of the present war.

The great error made by the professors of *Laissez-faire* is in developing economic science as a science of wealth and not as a science of production and distribution; it is here that men of theory and practice intellectually take their point of departure.

Now I contend that if these professors were accustomed to think clearly and accurately the public—and it has a certain instinct in such matters—would insist upon electing the best of them to the most prominent positions in the Government. But what happens? The popular cry is for practical men—for the men who have mastered the science of production and distribution. But when we stop to think, is not this

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instinctive intuition exercised by the public an accurate one? Is it not absurd to expect that the fate of the great industrial establishments throughout the kingdom should be determined by men whose reasonings are constructed *à priori*; who care not what the effect of things may be; and who, in fact, too rarely go inside a factory or workshop to be able to appreciate the working conditions essential to successful production?

The professor of Laissez-faire prefers to reason from assumptions and not from facts. But how is it possible for them correctly to assume anything not based upon, or deduced from, an actual fact? If an assumption is not based, or deduced from, a fact, it cannot be explained; and if it cannot be explained it cannot survive. It becomes a useless hypothesis and a waste of mental energy. Intellect is given to man to reason from the known effect of things. To hazard the fortunes of men on probabilities based upon assumptions when we have fact to go upon is to my mind the greatest of all economic political blunders.

Economics should deal with the known effect of things. "The deepest things in life are not known by way of the intellect, but are lived and felt. The profoundest truths of life we know intuitively and directly, with a deeper certainty than the understanding can give." If philosophy and experience teach us this truth, is there any

reason why the sphere of economics should be an exception to the application of this truth ?

A well-known professor of political economy, one whom I admire and respect, in a letter he wrote to me mentioned that "the free trade theory is all right on its assumptions, but then one goes on to consider its application." Now I contend that even on its assumptions it is all wrong, for the simple reason that a nation can produce standard utilities more cheaply than it can buy them ; and this point I have endeavoured to prove in the following pages.

It is to be hoped that politicians, and business men for that matter, will have learnt the lesson by this time that political science cannot be divorced from economic science ; and, that, whilst men of theory serve a very useful purpose, if their reasonings are not entirely divorced from the practical side of things, it is altogether unwise to seek for inspiration and guidance upon such matters wholly from that source. This leads me to the conclusion that the nation, in order to safeguard itself against similar mistakes in the future, should, in addition to establishing a Ministry of Industry and Commerce, also establish a Ministry of Economics by means of which men of theory might be brought into contact with practical business men in reviewing our National System of Commerce, and in studying the effect

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which our Foreign Policy and Agreements may have upon that system from time to time.

The point I am endeavouring to make clear is this, that there can be no two sciences upon the same subject; and if a Ministry of Economics were to be founded, it might, with the interchange of ideas between men of theory and practice which such an organisation would effect, bring about a quicker realisation of this fact. It might, at any rate, be the means of our students at the public schools and universities being taught sounder economic theory and practice.

Economic science, in so far as it concerns production and distribution, is precise and definite. Cause and effect have been thoroughly mastered by men of business and the leaders of organised labour. But any economic system which ignores considerations of morality and humanity is bound to fall of its own dead weight. The production and distribution of wealth is mainly concerned with human well-being. The science should therefore be judged by the good it can do to humanity, and this can be its only starting-point. It is for this reason, therefore, that I favour the teachings of Smith, Say, List and Colwell, by far the greatest and most original thinkers of the last century, because their works rest upon the Baconian system of philosophy. They have had many imitators since, but their leading and main

ideas have been carried to absurd extremes by theoretical reasonings constructed *à priori*.

John Stuart Mill was the greatest offender in this respect. He rejected the method of reasoning adopted by Smith, Say, List and Colwell which was founded upon induction and observation of facts, and upon reasonings constructed *à posteriori*, *i. e.* from the effect to the cause.

Mill in his attempt to be original constructed his reasonings *à priori*, or, in other words, from cause to effect; which is, in fact, the method followed by the whole school of Laissez-faire. After explaining how certain differences lead men astray and how they involve the old feud between men of theory and practice, Mill says: "In the definition which we have attempted to frame of the science of political economy, we have characterised it as essentially an abstract science, and its method as the *à priori*." "It reasons, and, as we contend, must necessarily reason from assumptions, not from facts." "That which is true in the abstract is always true in the concrete *with proper allowances*."

Has absurdity ever been carried to such extremes? Man's destiny is decided beforehand by certain abstract propositions, but with proper allowances, and these are not even defined.

The danger of following the *à priori* method of reasoning is this, that every natural moral

tendency is bound to be ignored. Human impulse of the moral order cannot be controlled, nor can it be made to tolerate an injustice.

With the application of science to industry, whether in the sphere of chemistry or engineering, there arises a continual accession of problems, subversive and constructive, which can only be judged and decided from the standpoint of experience as they arise. And knowledge and experience are only gained from the effect of things, not from the cause; although the wise man will always take steps to ascertain the cause of the effect. In the development of modern industry, the business man has substituted investigation and accuracy for intuition and empiricism. The modern business man is, if anything, inquisitive and a great believer in the importance of evidence, and rightly so.

It may safely be taken for granted that business men and the leaders of organised labour care not whether men of theory construct their reasonings *à priori* or *à posteriori*; although if a choice had to be made they would certainly prefer the latter method. From their vast experience of the effect of things, and the cause of the effect, they are able to speak *ex cathedra* on matters which immediately affect their interests. And who better than they can do so?

The natural inclination of labour, for instance,

is to demand higher wages for the services it renders in production, but this was never anticipated, nor is it provided for in the theoretical conceptions of the school of *Laissez-faire*. Yet we now know that high wages has a reflex, and favourable action upon production. It stimulates consumption and reconsumption. But experience only has taught us this great truth; it was never possible for the school to give it a moment's consideration. If it had done so it would have wrecked the whole system of *Laissez-faire*; inasmuch as the foundation of their system is cheap labour. *Laissez-faire* is a science of wealth—man and his necessities are not considered. Man, as Reed bluntly puts it, is regarded as being “merely a fraction of a horse-power.”

The demand by labour for an adequate means of subsistence is, after all is said, a natural tendency, and every tendency is natural; but our business is to choose the moral ones from the immoral. As Smith says, humanity does not desire to be great but to be beloved and respected. But these virtues are not to be found in the doctrines of *Laissez-faire*. Humanity is not supposed to expect anything more than the effect which the cause ought to produce, no matter how harmful the effect may be to its own material interests. It must consent to be bound hand and foot to the theoretical result. If the school deny this

argument they repudiate their system ; it falls to the ground.

A striking example of what I mean by the development of a natural tendency is, for instance, the growing desire by the Dominions and Colonies for the formation of a British Imperial Customs Union. The growth of this sound natural sentiment, let it be said, is based on sound technical considerations. The true ideal has discovered itself, being the product of the effect of things, wholly unconnected with theory. Men, like nations, soon discover what is best for their own material interests, happiness and prosperity, and are not easily diverted from the true ideal they see in life. It cannot be said that British policy has been instrumental in creating the conception for closer unity in matters of a military, moral and economic nature between the Dominions, Colonies and United Kingdom. On the contrary, British statesmen have on more than one occasion "banged, bolted and barred" the door to the idea. But truth will ever assert itself and theory will, sooner or later, have to be discarded. In other words, an unsound system invariably has to give way to a natural growth of things.

Nothing can be determined, or ought to be determined, until we are in possession of all the facts, until we know the effect of things.

And no man is capable of formulating a policy, or, of adjudicating correctly, until he is in possession of this knowledge. But on the other hand there can be no greater wisdom than that which endeavours intelligently to anticipate events in the light of experience, so as to time well, as Bacon would say, all necessary changes and so avoid all revolutionary ferment against ordered Government. As I have more than once stated, a crisis will always occur at unexpected moments. But it will only arise when an adjustment, long overdue, is necessary to regularise an inequality. If, therefore, we concentrate our minds on these essential facts, the probability is that no crises will occur. This philosophy of life is intended not only for men of business, but for the leaders of organised labour as well. It should be a guide to the many problems they will have to consider together, for their mutual advantage, relating to, and arising out of, the long economic struggle that lies ahead.

If further support be required to maintain my contention that the method of reasoning *à posteriori* is by far the sounder in dealing with the problems of life, let us turn to other great departments of thought. If we turn to poetry, we find Goethe exclaiming thus :—

“ He only gains his freedom and existence
Who daily conquers them anew.”

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We are here taught that man must decide his destiny from his immediate experience of things; that each day brings forth its own problems which must be conquered anew if man is to gain or keep his freedom and existence. Goethe further teaches us, if we read him aright, that man cannot shape his life by theory constructed *à priori*. He must guide his life by the effect of things; and not from a cause to a probable effect. In vulgar parlance man is taught to grasp the substance and not to chase the shadow.

If we turn to politics we find that Lord Grey of Falloden in the last paragraph of his pamphlet on *The League of Nations* provides another rule of life as follows:—

“Learn by experience or suffer is the rule of life. We have all of us seen individuals becoming more and more a misery to themselves and others, because they cannot understand or will not accept this rule. Is it not applicable to nations as well? And if so, have not nations come to great crises in which for them the rule ‘Learn or perish’ will prove inexorable?”

It is sincerely to be hoped that Lord Grey will have the wisdom to apply this admirable rule of life economically as well as politically. Lord Grey is a free trader, but the maxim he gives us is really the basic principle of National Economics. In so far as he is concerned, the future, at any

rate, seems to be encouraging, and it is earnestly to be hoped that others will follow his rule of life, which, by the way, is not original; but it is significant considering the source from which it emanates.

Mr. H. A. L. Fisher, the Minister of Education, is to be congratulated on the able manner in which he secured the passage of his Education Bill through the House of Commons, and the country is to be congratulated on having obtained it. In the future the development of Industry, Commerce and Banking will depend more than ever upon brain power. And if we are to have a rich fertile field in this respect, the advancement of primary and secondary education which the Education Bill provides is most essential, and the sooner it is made completely effective the better will it be for all concerned. Advanced education is of as much importance to the country as the building of railways, steamships and battle-ships, and, as Sir Norman Lockyer has said, "it is on this ground that our university conditions become of the highest national concern, and all the more because our industries are not alone in question." I am thinking more of the future relations of Capital, Management and Labour, which should be made more harmonious by the greater dissemination of knowledge. In this connection I recall to mind the great principle

by J. B. Say, which I think is of sufficient interest to quote in full.

“These are the kinds of instruction most calculated to promote national wealth, and most likely to retrograde, if not in some measure supported by the public. There are others, which are essential to the softening of national manners, and stand yet more in need of that support.

“When the useful arts have arrived at a high degree of perfection, and labour has been very generally and minutely subdivided, the occupation of the lowest classes of labourers is reduced to one or two operations, for the most part simple in themselves, and continually repeated; to these their whole thought and attention are directed; and from them they are seldom diverted by any novel or unforeseen occurrence; their intellectual faculties, being rarely or never called into play, must of course be degraded and brutified, and themselves rendered incapable of uttering two words of common sense out of their peculiar line of business, and utterly devoid of any generous ideas or elevated notions. Elevation of mind is generated by enlarged views of men and things, and can never exist in a being incapable of conceiving the general bearings and connections of objects. A plodding mechanic can conceive no connection between the inviolability of property

and public prosperity, or how he can be more interested in that prosperity than his more wealthy neighbour; but is apt to consider all these capital benefits as so many encroachments on his rights and happiness. A certain degree of education, of reading, of reflection while at work, and of intercourse with persons of his own condition, will open his mind to these conceptions, as well as introduce a little more delicacy of feeling into his conduct, as a father, a husband, a brother or a citizen.

“ If the community wish to have the benefit of more knowledge and intelligence in the labouring classes, it must dispense it at the public charge. This object may be obtained by the establishment of primary schools, of reading, writing and arithmetic. *With the help of these advantages alone, it may safely be affirmed, that no transcendent genius or superior mind will long remain in obscurity, or be prevented from displaying itself to the infinite benefit of the community.*”¹

I have placed the kernel of the argument in italics.

In concluding these remarks I would like to refer to the review of a book by Dr. Paul Lensch published in *The Times* (June 15, 1918). It appeared at a fortunate moment. In this book

¹ *A Treatise on Political Economy*, Jean Baptiste-Say, pp. 317-18.

is revealed the whole object of German world policy, and I cannot do better than quote *in extenso* the salient points as given by *The Times* as follows:—

PAN-GERMAN "SOCIALISM"

Much the most remarkable spokesman of the new school is Dr. Paul Lensch, who, after a university education, much foreign travel and study, and some years of Socialist journalism, entered the Reichstag at the last General Election in 1912. Lensch, still only forty-five years of age, and exempt from military service although he did his military training in a Prussian Guard Regiment, is a really brilliant writer who is not yet well enough known in enemy countries, although his work is as illuminating as any of the writings of Bernhardt, Naumann, or General von Freytag. This article is an attempt to analyse the most important sections of a small book called *Three Years of World-Revolution* which Lensch completed last autumn. It is the most candid account of German working-class chauvinism, and contains the frankest statement in the German language of the real relation between German economic policy and militarism.

PROTECTION FOR AGGRESSION

According to Lensch, the present war is a natural explosion in which the organised German State is destroying "Reaction" as represented by the old Russia on the one hand, and by British world-power on the other hand. Whereas Socialism has hitherto been regarded as a war on Capitalism, German Socialism and German Capitalism are now declared to be in alliance for really revolutionary and progressive aims, among the chief of which is the final destruction of "Liberalism" in its old English sense. German Socialism is no longer the enemy of the Prussian State, but its enthusiastic supporter; so far from opposing German expansion, it desires to accomplish Germany's full "destiny," and thereby to revolutionise the world. According to Lensch, the "rise" of Germany dates from somewhere about 1740, and the reasons why the pace suddenly became so fast during the last generation are

essentially economic. While England was struggling to preserve a balance of power and to maintain Free Trade, Germany created an overwhelming combination of economic and political force, backed by all the resources of the State. Lensch has no patience with any nonsense about the war being due to British commercial jealousy; the war for him proceeds inevitably from the German adoption of Protection in 1879. His candid statement is worth quoting at some length:—

“Quite obviously the point of Protection—industrial Protection—was directed against England. Protection kept foreign industrial products from the home market, and gave our own industry predominance, and then complete domination, of the German market. At the same time it created the conditions which gave German industry an organised superiority over English industry. The main factor was the close cohesion of industry and finance. . . . The early and close alliance of industry and finance led to that organisation of industry in cartels and syndicates which became characteristic for the modern development of capital. Organised industry, when foreign competition was warded off by Protection, was able at the same time to produce more cheaply and yet to raise prices in the home market.”

Lensch dilates enthusiastically upon the perfect tyranny of the German cartels and the way in which they completely dominated the market, fixed their own prices, and made “gigantic profits.” He proceeds:—

“These profits were now used for the conquest of the foreign market. The powerfully extended and extremely efficient German industries required more business than the home market could give them. So they began to work for the foreign market, and, in order to meet competition there, the cartel created for its members which were working in foreign countries a special fund, which was fed from the extra profits of the home market. From this fund the cartel paid the so-called export premiums. With this support behind them, the German industrialists were very soon able to appear in the foreign market and there to sell their goods more cheaply than

in the German market. . . . There was no longer any question of protecting the home market; it was purely a question of attacking the foreign market. Protection, which was intended to break the monopoly of the superior English industry and to create free competition for German industry, was converted into the monopoly of a handful of cartel magnates, and had finally driven free competition out of the German market."

But, as Lensch says, this was by no means the end of the process. For the purposes of fighting the competition which Germany had created in the foreign market the whole resources of the German State were brought to bear. The German Customs duties went on rising, and "the higher the duties the higher were the extra profits in the home market, the higher the German export premiums, and the more powerful the position of Germany in the world market." Lensch continues:—

"This fight for the world market and the money market was conducted more and more with the resources of the organised power of the State. German diplomacy was at every moment at the service of German finance, and this help was all the more powerful the more powerful the power of the State which stood behind German diplomacy. A strong navy and a ready army in the background were a precious support in the fight for the world market and for the division of the still 'unowned' remains of the earth's surface."

Crisis followed crisis, and, after Europe had twice in ten years narrowly escaped war, "the third time what was inevitable became a fact."

OVERTHROW OF "LIBERALISM"

Lensch attributes the German success, first, to the fact that Germany was really producing "a riper and higher form of economics"; secondly, to the very fact that the movement started from such small beginnings and apparently hopeless prospects, and Germany positively profited from her political backwardness, which caused all the brains of the country to be thrown into economic organisation, while other countries

were spending their brains and activities upon "politics"; and, thirdly, to the fact that England was hopelessly wedded to obsolete traditions and barren "Liberal" ideas. Lensch's contempt for "Liberalism" and Free Trade is unbounded. Germany, he remarks, was helped at every turn by the rivalry of her enemies, and especially by the fact that England was "too proud to see" the meaning of Germany's successful wars between 1864 and 1871. With the utmost gusto he writes:—

"Nothing is more touching than the soft assurances of German politicians and professors about German peacefulness. Of course! Of Germany's subjective peacefulness there is no doubt. But that ought not to prevent us from recognising that, regarded objectively, we are and must be the disturbers of the peace."

One might quote Lensch at length concerning the "death and burial" of "Liberalism," and the need for Germany to root out the last remnants of *bourgeois* faith in English "catch-words" such as "freedom" and "democracy." For him all that is necessary is for Germany to break down old-fashioned political barriers in her stride towards world-power through ever greater State concentration. He is satisfied that the necessary amount of "freedom" will be granted to the German people, simply because that will be a necessary relief from the ever tighter domination by the State. For example, the Prussian franchise will be reformed because it has become the interest of German finance to remove such obstacles to German prestige abroad!

Particularly interesting are the passages in which Lensch ridicules the hesitation of "official" German Socialism "to recognise the tremendous historical mission of Germany." He attributes this to a traditional "humility" and sense of inferiority, and writes sarcastically:—

"Germany and a special historical mission! But what would become of international brotherhood? What would the French and English Socialists have said if German Socialists had talked of an 'historical task of Germany' in this war? Had not the time of chosen people passed away for ever?"

And would this argument not be 'arrogance,' and amount to a wicked hurting of the feelings of 'our foreign brethren'? No, one was defending his country because it had been attacked, and as long as it was attacked, and that was enough. For the rest, he was serving peace best who insisted most emphatically upon German peacefulness and modesty, and represented this policy at home as well as abroad.

"This was a 'policy' without political thought, and that is why, the longer the war lasted, the German Socialist Party more and more obtained the unearned reputation of being a Government Party. In order to dissipate this painful impression, it occurred to some of the Parliamentary and literary spokesmen of the Party to say rude things occasionally to the Imperial Chancellor and to demand his removal; but this could not be a substitute for the lack of political ideas."

PRIDE IN "BARBARISM"

Lensch remarks that the German Socialist Party became "a sexless Fatherland-saving party" and "dangerously approached pacifism." He repeatedly exults in the charges of barbarism that are levelled against Germany, and says that they are really a measure of foreign admiration. In one place he writes :—

"They call us barbarians. So let it be! We ought to drop all our whimpering or horrified protests against the barbarism cry of the English—to say nothing of the French."

In general, Lensch holds that the German "mission" in this war was to overthrow both Russia and England. "Tsarism lies crushed upon the ground," and "the English world-despot will soon have also to descend from his throne." For France Lensch expresses the utmost contempt, and declares that it is almost a matter of indifference what attitude France may choose to adopt towards Germany after the war. According to him the main point is that "a weakened France has ceased to be the point of attraction for the neighbouring small States, and especially for Belgium." Drunk as he is with the doctrine of the organised State going hand in hand with organised Capital, Lensch attributes all the "weakness" of France to

the fact that she did not after the Revolution concentrate all her forces upon aggressive aims, as Prussia-Germany has done, but dissipated her energies and in particular became a nation of small-holders. Of Austria-Hungary Lensch candidly observes that she has served her turn. Thus :—

“Owing to the necessary renunciation by the Russian democracy of Constantinople, world-domination, and other ‘childishnesses,’ Austria has lost the necessity of her existence for Europe. That is the new situation. The consequences cannot yet be seen, but it need hardly be said that they by no means require the dissolution of the Austro-Hungarian Monarchy. For the German Empire a strong Danube Monarchy and a firm alliance with it remain the corner-stone of Germany’s world-position. For the Slav peoples in the Danube Monarchy the maintenance of the State remains a real interest, and all that is necessary is to make them conscious of this interest and so to secure their active co-operation.”

As for Russia and the Balkans, Lensch easily regards them all as mere instruments of German policy and spheres of profitable invasion, with whose peoples Germany will deal by separate “agreement.”

The importance of Lensch’s book lies in its candid, if boisterous, expression of what the ordinary German Socialists think but do not dare to say, and in its penetrating analysis of the economic foundations of militarism. Lensch regards England as the one great enemy, and he expects that England after the war will adopt Protection and be “rejuvenated” by faithful imitation of the whole Prussian State system, economic and military. What he has never attempted to face is the possibility that Germany’s enemies will achieve real economic unity and destroy the German system in the only way by which it can be destroyed—by the destruction of its economic foundations.

I have long foreseen the true aims of German policy,¹ and I cannot agree with *The Times* that it is a new creed of Pan-German socialism. The

¹ See *National System of Economics* (Peddie).

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whole of German society is saturated with the doctrines outlined by Lensch, of which he is merely an exponent, whether they be Junkers or Socialists. It has been a consistent policy of the latter to deceive the Internationalists as to their real object and policy. And as for Lensch's remarks that "England is the one great enemy, and that after the war she will adopt Protection and be 'rejuvenated' by faithful imitation of the whole Prussian State system, economic and military," I would truly plead that the Lord save us from the error of any such spurious imitation.

The war has demonstrated, more than anything else, that the social ideal of internationalism can never be made practicable. The conception is dead. It was, like Bolshevism, invented in Germany, and although the proletariat of that country paid lip service to its principles for the good of the Fatherland, they never had any intention, as Dr. Lensch confirms, of carrying them to a logical conclusion.

The working men of this country should therefore guard themselves against the disintegrating force still existing in their midst. Although it is a small one it is nevertheless active, and they may be certain that it will again seek to establish internationalism or Bolshevism as the working man's ideal. Working men should understand

that as a Government cannot extend its influence beyond the immediate care of its own citizens, or subject races, it likewise follows that the concern of every individual should be their own immediate welfare. It is a true proverb which says, "Charity begins at home."

Nationalism must precede internationalism. There is more logic in the ideal of a League of Nations. In such a league each nation would be left free to attain its own standard of civilisation, and develop its own conception of social progress and particular characteristics. After all, does not the word internationalism signify a co-operation or community of organised nations? And would it be possible to attain the ideal of internationalism by merely organising the citizens of the world? We very much doubt it. It is a Utopian dream.

In the four works I have now developed I have endeavoured to outline an alternative system to the German which, if completely adopted, as it seems likely to be, would go far towards placing an effective check on Germany's ambitious world economic policy. Moreover, it is consistently democratic.

Adam Smith has established the doctrine that "Defence is of more importance than opulence." And wherever one turns nowadays we are constantly finding out that Smith was a true national

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economist; and I trust I have been of some service in making that clear. Acting upon this sound doctrine and without in any degree imitating the German militarist system, which I earnestly hope will soon be destroyed, the best system of defence which we can employ against German aggressiveness, *i. e.* economic militarism, is to develop the nation's productive power. History has clearly demonstrated that nations have only been destroyed through being impotent in that respect. For example, where would the Allied cause have been to-day if we had not been able to rely upon the high productive power possessed by the American nation? Even British productive power had to be assisted by American at the commencement of the war, and it would be dreadful to think of the consequences that must have ensued had America failed us; but no such thought ever occurred to her and we shall gratefully remember it.

Yet America has never been, literally speaking, a military power, but a truly democratic nation, and this is the point I am endeavouring to force home. Nor has she ever been a supporter of the doctrines advocated by the school of *Laissez-faire*. And nowhere in the world has Labour a more settled, established and happier existence than is to be found in America.

In developing my National System I have seen

fit to make a liberal use of quotations from the best authorities. In the words of Frederick List, "it would be impossible to expect a complete scheme from the head of any single philosopher." My own particular work has been to pick out those doctrines which I believe from my own immediate experience to be known and demonstrated truths, and to place them together as one complete scheme with such improvements as I have myself conceived to be necessary; realising as I do that the public in the immediate years to come will require all the authoritative information it can obtain, in order to be able to fulfil its duties adequately to the State.

In the words of Dr. Ludovici, "opinions are a matter of will, and the opinions we hold concerning life should point to a certain object we see in life," and it is upon this ground I state my case. But as I mentioned at the outset, the work is written in moments ill spared from business, and if, in consequence, there be any imperfections in the manner of presentation, I trust my readers will excuse me in advance.

J. TAYLOR PEDDIE.

London,
August 15, 1918.

P.S.—The following abbreviation, Stephen Colwell, *N.S.P.E.*, which appears as a footnote

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in some of the following pages, refers to a footnote made by Colwell to Frederick List's *National System of Political Economy* (American edition).

J. T. P.

CHAPTER I

THE MODERN DEFINITION OF CAPITAL. WE ARE ALL CAPITALISTS

A GREAT deal of interest has been manifested in certain articles which appeared in *The Times* a few months ago under the title "The Ferment of Revolution," and particularly in the letter written by Mr. A. J. Marriott on the "Destruction of Capitalism."¹ On the whole, the articles in *The Times* have served a useful purpose, notwithstanding all criticism to the contrary, since they served to focus public attention on certain aspects of the Labour problem that required consideration.

With regard to the letter written by Mr. Marriott, interest centres in the following phrase used by him: "As an active Socialist, I often use the term 'The destruction of Capitalism.' What we mean is the taking over the whole of the capital and using it in the interests of the entire people, destroying the individualist capitalist."

It would have advanced the discussion considerably if Mr. Marriott had stated precisely what he

¹ *The Times*, Oct. 12, 1917.

and other Socialists mean by "The destruction of Capitalism"; what is Capital according to their conception of the accepted meaning of the word? Is not its meaning or sense in its comprehensive form distorted when he begins to involve it with such questions as the welfare of Labour?

Many business men, politicians, and particularly Socialists, use the words "Capital" and "Capitalism" in a sense they do not altogether mean. Indeed, they frequently convey the impression that they are not entirely conversant with the derivation or significance of the words they use.

Until the community in general, and particularly those who control the forces of Industry and Labour, acquire in a true sense the proper definition of "Capital," *i.e.* the functions of money, property, machinery and personal service, a wide gulf will always separate the various sections which serve the nation as a whole. Reference need only be made to the state of society in Russia to-day by way of example. The Extremists are advocating the wild Marxian theories in relation to capital with results that are proving disastrous to Russia's national and international interests.

As a further example reference may be made to a phrase used by one of our most prominent business men in an interview accorded to one of

our evening journals, viz: "It is absolutely essential that Labour and Capital should work together." In a strict sense this is an impossible conception, for capital cannot in any conceivable circumstance work together with Labour, for the reason that the various forms of capital as defined hereafter, are merely agents of production. What this gentleman really meant to say was, "It is absolutely essential that Labour and Management should work together." There is a distinct difference.

The value of Labour, as we have more than once stated, is not determined by the wages which each individual workman receives, but by the efficiency of the services which he renders in return for wages received. In other words, the worker who employs nothing but his muscular strength, ordinary intelligence, energy and crude implements in production is of little value as a wealth producer. But the worker who applies systematic research, experience and knowledge, intelligence and judgment, as well as muscular strength and energy in production, is of great value as a wealth producer, and should be remunerated accordingly; and in the present discussion, this distinction should be carefully noted.

It follows, therefore, that personal ability, experience and knowledge, whether possessed by

the manager or the worker, may logically be termed Personal Capital; and that, in consequence, the greatest freedom should be accorded to all such individuals to develop their natural attributes to the utmost possible extent. Crude Labour, as described in the former case, may be classified as Labour Power, but, as outlined in the latter case, it may be termed Productive Labour Power.

Whilst it is necessary to draw this distinction between Labour Power and Productive Labour Power in the present discussion, it should not be assumed that crude Labour is of no value as a wealth producer as compared with skilled Labour. On the contrary it assists considerably to that end. Up to a point we cannot draw any distinction, but as economic science is designed for the advancement of human welfare, at any rate it ought to be so, we cannot exclude considerations of morality and humanity. We have to begin from the starting-point that every man must earn sufficient in wages to purchase the means of subsistence for himself, his wife and family; and clearly the only solution to this problem is to concede to all men, as a national obligation of right, irrespective of the employment they may be engaged in, the principle of a minimum wage. But having justly conceded the principle of equal opportunity in this respect, productive

Labour Power should be given free scope for the display of talent and enterprise beyond this limit. If we were ever to admit the doctrine that crude Labour was of equal service in wealth production as skilled Labour, we should also have to agree that the wealthiest producers in the world ought to be the primitive races.

If, therefore, the productive power of the worker is his personal capital, may we not logically all be called "Capitalists"? If A only possesses money, it is of no value to him without the services of B, the producing agent: and, similarly, the producing agent cannot avail of his opportunities in production and commerce without the aid of money. Therefore the distribution of the wealth produced from the co-operation of these two forces ought to be in proportion to the influence which each agent may have had in producing the total result.

The most effective medium available for the distribution of wealth produced is that of wages; but the proportion to be so distributed should be decided by a mutual reciprocal agreement between Management and Labour. In the case of business management there are other factors to be considered, viz. provision has to be made for the payment of interest on the money employed in the conduct of the business, and other credit facilities extended to it, without

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which, labour and business management could not survive, or, at any rate, find profitable employment.

Therefore it can be seen that the measure of success of business management is largely determined by the skill with which it applies its collective experience, knowledge and intelligence, in the development of its opportunities and responsibilities, which must, naturally, be very much greater than those of the individual worker.

The wealth of a nation may therefore be defined as follows :—

1. Personal Capital; *i.e.* the productive power of the individual.
2. Fixed Capital; *i.e.* property, machinery, natural materials, manufactured articles of utility, and commodities; or the securities which represent them.
3. Liquid Capital; *i.e.* money and credit.

Capital, in its comprehensive sense, is used for the purpose of producing wealth, from which further liquid or fixed capital is created, and all that is wasted or destroyed is replenished; and when we discuss the distribution of wealth through the medium of wages, we do not mean the distribution of existing liquid and fixed Capital which is essential to production, but the

new wealth created daily by Management and Labour.

The origin of strikes is due in many cases to the employers of Labour, or their representatives, expressly excluding all moral considerations in their dealings with the men; or to external considerations over which either side have no control; or to the objections by the workmen themselves as to the wages paid for services rendered, or the hours worked per day; but, in all such controversy, in no instance can Capital be held to blame, for, in reality, it is a non-combative force.

Money is used in the conduct of a business, and its successful control or employment entirely depends on the wisdom and discretion exercised by the business management. The currency or the cheque are merely the instruments that are used to give effect to all transactions, whether in the buying or selling of goods, or in the payment of wages; but it is entirely wrong to convert them into a force called "Capital" and represent them, by the use of careless phraseology, as the ostensible enemy of Labour. The general position occupied by Money in the controversies that arise between Labour and business management has no relevancy whatever to the points at issue beyond being the instrument which gives legal effect to such

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agreements as may be arranged between the parties concerned.

Now, to come back to Mr. Marriott, this gentleman would seek to destroy what he is pleased to call the "Individualist Capitalist"; but that is an aspiration which Socialists of Mr. Marriott's type, even if they were the predominant power in the State to-day, could never effect; for the simple reason that character, confidence and personal ability, which is the basis of all personal capital, credit and wealth production, could never be transferred from the individual to the State. If it were practicable and were ever acted upon the whole fabric of society as at present constituted would collapse. And this is just what is happening in Russia to-day. There we have a demonstration of the results that would follow any attempt at a general application of this false theory. The process of disintegration has commenced, and it cannot possibly be stopped until those who control the reins of Government have a more practical knowledge of the science of Government.

The doctrines advocated by the Maximalists—and according to newspaper reports they have already been put into practice in Russia—have no public conscience nor public honour; they contain nothing but the principles acted upon in the old days by Dick Turpin and other

highway robbers. And this is demonstrated by the extraordinary depth to which the internal currency of Russia has depreciated. If there be no moral conscience or sentiment in the actions of a Government in the conduct of its national policy there can be no security anywhere; and as a corollary no confidence can be extended to its instruments of credit. The Maximalists have even abolished all law, so that they may be let alone to pursue their mad theories in relation to wealth and to impose them on their fellow-men, and to enable them to continue their offences against society and good morals, property, trade and the banks. It is quite impossible for any kind of society to exist amidst such confusion and lack of moral considerations. And if the question may be asked, have the Russian people obtained liberty, freedom and justice by the revolution as conducted by the Soviets? Far from it.

The particular point that has to be remembered by those concerned in the present controversy is this: that they must be careful to draw a distinction between money and general credit. The amount of money a manufacturer may personally possess is part of his capital; but money, by itself, is not nearly as important as his general credit in the market, and obviously this general remark applies to Governments as well. The

great volume of business transacted by manufacturers and merchants, is mainly done on credit, and it must therefore not be confused with money. It is to the men who possess the greatest ability and integrity that the greatest credits are extended, and it is this natural law which gentlemen like Mr. Marriott, and the Maximalists overlook in the consideration they give to matters concerned with the development of modern industry and society.

At the time of the so-called Money Trust Investigation in New York, Mr. Horace White pointed out how largely the control and operation of great sums of money by bankers and other financial and industrial organisations was merely a question of gaining the confidence of the public with funds to invest and deposit.

The statement made by this gentleman, which I take from *A National System of Economics*, was as follows :—

“ I am in favour of a general dissemination of credit. I want to see it made so common that I or anybody can borrow freely, that I or anybody who wants to build a railroad or a sky-scraper, or develop a copper mine, can sell bonds at a fair rate of interest, instead of paying enormous commissions to a grasping syndicate, among impecunious persons or among well-known rascals.

“ Mr. Baker and Mr. Morgan and their like

are able to extend credit to borrowers because the public has extended credit to them. Millions of people who have saved money deposit it with them or put it in banks, trust companies, and other institutions which they control. They do so because they consider it safe in their hands.

“ It is the possession of these tills of wealth, coming from all points to form a great river, that enables Mr. Baker, Mr. Morgan and their fellows to extend credit. Take away from them this general confidence and you will not need any laws at Washington or at Albany to lessen their power to extend credit to others. If you can confine them to the use of their own money—that is, to such property as they can dispose of in their last wills and testaments—the Money Trust will cease to disturb the imagination of politicians at Washington.

“ In other words, before you can shatter the credit which they are able to extend to others you must shatter that which others extend to them. I was taught in my youth that to earn the confidence of my fellow-men was praiseworthy, and would probably be gainful in the long run. If some persons have obtained more of such confidence, or made better use of it than I have, that is nothing to complain of.”

The statement made by Mr. White is most lucid and precise on what is, after all, a natural

economic law, and it is one which no socialistic theory can ever dispose of. And whatever applies to an individual in respect of conduct must ever apply to a nation—there can be no distinction.

Organised labour and the various Socialist groups would advance the cause of democracy, the principles underlying democratic government, and their own material welfare more effectively than they do, if they would but recognise the existence of the natural laws which regulate our everyday life, and that, no matter what energy and effort they might display, with a view to circumventing them, such were bound, in the end, to prove abortive. It is the utopian dreams they indulge in, which creates a want of confidence in their sense of responsibility, and a general mistrust as to their aims, among the intellectual and more responsible elements in the community. We are not all inhuman or unsympathetic. Let them abandon such catch phrases as Capitalism, Bourgeoisie, Proletariat, Conscription of Wealth, Revolution, for they really mean nothing and can end only in nothing. What they really seek to achieve, and, for that matter, what we all seek to achieve, is that all men, rich and poor alike, shall have equal opportunity through the medium of education and the conditions of employment in industry and commerce, and that there shall be no social barrier to an indi-

vidual's advancement in society, politics or industry, provided he, or she, possesses the requisite qualifications.

The advancement of social welfare, in which we are all interested, can only make a real, lasting and solid progress, by being guided by this fundamental principle. The measure of a nation's wealth-producing capacity can only be based on a nation's collective effort intellectually, physically and morally. No individual section in a nation can maintain itself by its own efforts alone. It is only by mutual co-operation and by an exchange of the products of each section, or equivalent services, that the ideals we all desire to effect in social welfare can have any real prospect of success. And this same salutary doctrine not only applies to individuals, and sections of communities, but to nationalities as well.

Our labour leaders should remember—for after all is said the rank and file of labour for the most part take their philosophic and economic guidance from them—that even in the great labour movement itself there are two distinct schools of thought, namely, the American and the German. The American school hinges very largely on the teachings of Mr. Samuel Gompers—the great man who has for many years past led the American labour movement. The British, Russian and French labour movements lean very

much towards the teachings of Karl Marx. And the most extraordinary feature about the international labour movement to be noted is this—that it is in Marx's own country where his teachings have made the least impression.

Listen to what Mr. Gompers has to say of Karl Marx.

“ See what Marx believed was to be the fate of the wage-workers. ‘ Deeper and deeper ’ they were to sink, ‘ pauperism ’ developing ‘ even more rapidly than population or wealth. ’ This was the logical outcome of Marx's doctrine of ‘ surplus values ’ which, in a nutshell, is that ‘ after the labourer has been paid the wage necessary for the subsistence of himself and family, the surplus of his labour is appropriated by the capitalist who exploits it. ’ Marx's misery, oppression, slavery, degradation, exploitation of the masses are essential factors in the intolerable social conditions which must precede the ‘ bursting asunder ’ of capitalism. . . . Without the progressive impoverishment, degeneration and hopeless economic enslavement of the masses of working men, Marx's ‘ crack o' doom ’ is causeless, illogical, anti-natural, a devil's miracle.

“ When the foundation of Marx's theories—the idea of surplus value—is demonstrably an error; when, on the contrary, the possibilities for the arrival of the working classes at a general

plane that will permit the full development of manhood become certainties, his ingeniously worked out correlatives of this first principle have no more value than the imaginings of any other guesser at probabilities for the future. His time-wage system, his co-operative commonwealth, and especially his notions as to religion and the family, then take their place with the fanciful divagations of Jules Verne and H. G. Wells when fashioning their perfect new worlds out of this unlovely old one. You, Mr. Hunter, and your school of observers, and we and other working class observers, see the phenomena of social changes through different eyes. We solemnly assure you, Mr. Hunter, that we have not hitherto heard your news regarding the thousand new great trusts and monopolies.

“One great set of facts, on the contrary, that we have observed, reading them by decades, is that millions of American wage-workers now have a shorter work-day by several hours than they had thirty years ago, and that the present organisation of employing capital has almost wholly eliminated the uncertainty formerly experienced by wage-workers for small employers as to getting their pay when due. Constantly increasing wages, on the whole, during the present generation, considerably exceeding the rise in average prices meantime, can be shown by the

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records of the wage-scales for the workers, organised and unorganised. Looking over our whole broad land, there was never a greater proportion of home owners, never a higher level of comfort, among America's workers. And it is to be remembered that American labour has had to bear the burden of competition, with an immigration that in the last decade has brought to the population a net increase of at least five million labourers, nearly all so poor on arrival that a month's idleness would have brought them face to face with starvation.

“The death-rate, that sure measure of misery, has steadily decreased. Only three children of the poor die now where five died fifty years ago, and for the trades a continually advancing longevity is shown by the insurance tables. Mr. Hunter's reference to the Socialists helping ‘to build up the great trade union movement’ brings us to say ‘Heaven save us from such friends.’ So long as you really teach the value of education, of personal thrift, voluntary co-operative effort, organised self-help, the defence of political rights, the merits of a thoroughgoing democracy, the benefits of good administration, and the abolition of economic privilege, you are assisting in demolishing Marx's Socialism. Mr. Hunter, the time may be at hand for you Socialists to make another little change or two. You may

be able to play at turning back the clock, but you cannot turn back time itself. You should acknowledge yourselves opportunists at present, to the extent of nine-tenths and hide the other little tenth, your universal slave-pen co-operative commonwealth, far back on the shelf among the unessentials to economic justice, where the wise ones among you keep Marx's 'frank and avowed materialism' and Babel's 'Woman.' "

It is not a case of mere coincidence, but it suits the German scheme of world politics to encourage the teachings of Marx's theories in socialist and labour centres in countries other than her own. By doing so it assists her policy of peaceful penetration politically and economically. It undermines her competitors and possible enemies. Now it may be asked why this assertion is made. It is made because the adherents or advocates of Marxian Socialism have not yet shown to the world their capacity to combat the German system of autocracy—the finest example of that form of government yet seen. And therein lies the weakness of their doctrine. In the socialist world there is no room for liberty, freedom and justice.

The great war has put the principles of Democratic Government to the test, but sad to relate large sections of organised labour in Europe do not seem to have the courage to work and fight

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for them to the end as against autocracy. The great masses have not yet found that national system of discipline by which alone it can hope to combat Autocracy. And what prevents them from securing this national discipline? Nothing but the Marxian theories on classes and masses, Capitalism and Labour.

These erroneous Marxian theories and beliefs and the school of Laissez-faire have done more to kill national discipline and co-operation than anything else. And until they are dissipated we shall never be able to introduce a National System of Economics—which, in reality, means a National System of Ordered Government—through which alone democracy can maintain, either in the defensive or offensive, the principles of Liberty, Freedom and Justice; or secure a fair distribution of the national wealth produced to the worker.

The great American leader, Samuel Gompers, fully appreciates the general situation, and, as previously shown, he will allow none of the Marxian theories to prevail in the councils of the great labour association over which he has the honour to preside. Gompers' policy is to identify himself as closely as possible with the management of great industries, and, by this means, to secure for American workers through the medium of wages the distribution of a fair proportion of the

new wealth created daily, very much on the lines Mr. John Hodge follows in this country on behalf of the steel workers. There is no revolutionary ferment in the minds of these gentlemen—there is no desire to scrap the machinery, as in the case of the French Revolution, or as in the case of Russia to-day, by which society has reached its present state of civilisation. They may lead people to believe they do at times—that is legitimate and permissible—but they know very well the limits to which they can wisely go.

Society as at present constituted is by no means perfect, but it can be stated with certainty, that there is no alternative to it. Our main achievement should be to mould present society into a more perfect form ; but, in the process of doing so, we should all exercise the greatest care to prevent from collapse the props on which our present civilisation rests. And the reason for uttering this warning is that we are drifting to the danger zone through sheer misunderstanding of the issues involved. Every historical period may have laws of its own, but the underlying fundamental principles of human existence will always remain constant. The true ideals are there, but the difficulty hitherto has been to perceive and define them, in a manner that will find general acceptance. Economic science

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is not yet by any means perfect, it may make a great advance in the near future, but it will certainly not be through the Marxian theories advocated by modern Socialists such as Mr. Marriott and the Maximalists of Russia.

CHAPTER II

ON THE CONSCRIPTION OF CAPITAL

A GREAT deal of interest has been shown in Mr. Bonar Law's reply to a labour deputation which on November 24, 1917, placed before him proposals for a conscription of wealth as a means of liquidating the National Debt; the theory underlying the proposal being contained in a statement made by a well-known labour leader, Mr. Adamson, in the House of Commons as follows :—

“I want to say to the Prime Minister and to the Government in all seriousness, if you imagine that you are going on making call after call for men without some definite and distinct arrangement as to the conscription of wealth, then you will find that you are up against a very difficult proposition.”

The assumption that a Government can conscript capital very much on the lines that it has a right, in a national emergency, to conscript men for military service is, needless to say, erroneous; but it is nevertheless necessary to demonstrate that it is so by careful reasoning,

if this Marxian doctrine is to be adequately dealt with, especially if we are to avoid the spectacle which is now taking place in Russia, where the Soviets have already put this extraordinary Marxian doctrine into practice by seizing all property, and the securities and liquid funds of the Banks. We see the fact clearly demonstrated that Russian society cannot be restored so long as the Soviets continue to pursue this doctrine to its logical conclusion. If the motive which underlies the conscription of capital be to bring about an entire dissolution of society then its strict application would certainly be effective. But the masses who labour would be the ultimate losers.

The deputation which waited upon Mr. Bonar Law were no doubt inspired with a desire to save the great mass of the people from the oppression of taxation after the war, with which laudable desire we are in fullest sympathy; but we contend that this cannot be effectively achieved by a conscription of capital. Such a policy lacks all moral consideration, and would penalise most those who, by abstinence and thrift, had provided for possible future needs, and particularly those who are physically incapable of restoring the funds of which they would be deprived by its application, the revenue from which is perhaps necessary to their sustenance.

Whilst our remarks are intended to be critical, we are nevertheless painfully aware that there is something wrong with the whole economic fabric of society, when such masses of intellectual thought are in conflict over the remedial measures essential to reconstruction. But it will be our endeavour in this work of reconstruction to make suggestions which may help to reconcile the conflicting views which exist ; and in this national duty it should be the duty of everyone capable of doing so to assist to this end.

The great stress of war has put all economic theories into the melting-pot, and without question it has severely shaken the teachings of our eighteenth-century economists, and the later ones for that matter. Theories that were once considered sound, have, by the test of war, proved to be false ; or at any rate, to have outlived their usefulness. In the present condition of things men consider not only their immediate circumstances but also what the future may have in store for them. If then the intellectual thought of the nation is divided in its future outlook, it must also in like ratio have a reflex action upon our national energy, our war aims, and the will to win through to victory over the enemy. It is therefore of great importance that we should endeavour to find an economic basis that will find a wide general acceptance,

particularly among the masses who labour for the reconstruction of society. It has become a pressing problem.

In his reply to the Labour Deputation which waited upon him as above mentioned, Mr. Bonar Law made the following observations:—

“Until now I have never seen any proposal which seemed to me to be practicable for getting money during the war by conscripting wealth, and personally up to this moment I do not believe it is possible. In the year before the war the total amount collected in indirect taxation—to which all classes were liable—was £69,000,000, and that form of taxation had now risen to 102 millions. The amount of direct taxation in 1913-14 was 93 millions, and it had risen in the present Budget to 466 millions. In other words, the indirect taxation in 1913-14 represented 42 per cent., and the direct taxation 58 per cent. Now the indirect taxation was 18 per cent. and the direct taxation 82 per cent. The great cost of the war had been paid by those who had wealth.

“But you are, of course, thinking of what the effect will be after the war. What sort of parties we are going to have I do not know, but as a matter of prophecy I would venture to say this—that the political conditions which prevail in this country will be of such a nature that the

burden of this taxation is not likely to fall upon the wage-earners so long as there is wealth which can be made to pay for it. That is my own view. I think there is very little danger, from your own point of view, of the great bulk of it not continuing to be paid in the same way as the war itself is being paid for."

The *Economist* observes that "Mr. Bonar Law's figures concerning direct and indirect taxation are open to question. They are evidently based on the assumption that the Excess Profits Duty is a direct tax, but since this tax, though taken from income, is ultimately derived, in most cases, from the high prices paid by consumers, largely owing to the Government's inflationist policy, this impost may perhaps be more fairly described as on the border line between the two forms of taxation. On the subject of the capital levy, the Chancellor's view that the burden of the debt should be made to fall as far as possible on the 'wealth that . . . is in existence at the time when the war comes to an end,' is hardly likely to help the sale of National War Bonds."

In our view the essential part of Mr. Bonar Law's reply is contained in the following :—

"I feel that the total burden of taxation represented by the National Debt, however you adjust it, will mean a burden upon industry.

Everything comes down to that in the long run where there is taxation. That burden is one of the inevitable consequences of the war, and all we can do is to try and make it tell as little as possible on the life of the country.”

We presume Mr. Bonar Law meant to include all commercial activity as well in this proposition; if he did we are in full agreement with it. But he proceeds to counteract this very sound doctrine by the following:—

“Suppose you take this view—and I am inclined to take it myself—that we ought to aim at making this burden one which will rest practically on the wealth that has been created and is in existence at the time the war comes to an end, not merely that it should not fall on the wage-earning classes or on the people with small means with which to meet it, but that it should, as far as possible, be borne by the wealth that exists at the time, so that it would not be there as a handicap on the creation of new wealth after the war. I think that is what we have to aim at. And how is that to be done?

“The question of whether or not there should be conscription of wealth, then, is entirely a matter of expediency, and I think it is a matter which concerns mainly not the working classes but the people who have money. In my opinion, it is simply a question of whether it will pay them

best, and pay the country best, to have a general capital levy and reduce the National Debt as far as you can, or have it continued for fifty years as a constant burden of taxation.

“Perhaps I have not thought enough about this to justify me in saying it, but my own feeling is that it would be better, both for the wealthy classes and the country, to have this levy of capital, and reduce the burden of the National Debt. That is my own feeling, but I am convinced that you can’t do that while the war is going on, and that you will not get the money if you try to do it, but that you will run the risk of falling short of money.”

Mr. Law is perhaps correct in stating that the conscription of capital is “not a matter which concerns the working classes, but mainly the people who have money.” But to convey the impression that the working classes have no interest in the matter would be erroneous.

He lays emphasis on the fact that the conscription of capital “mainly concerns the people who have money.” Did he mean capital as a whole or does he propose to draw a distinction between fixed capital and liquid capital? To penalise one and not the other? And if he suggests a conscription of fixed capital, by what means does he propose to effect it without impairing values?

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No consideration seems to have been given to the great inflation of values and prices which exist at present in consequence of the war, and to the inevitable reaction which is bound to follow after the war is over. We will not prophesy whether the reaction in values will come immediately after the war; but sooner or later it must come. And what then? It seems to us that to enter into schemes for the conscription of capital before we can see more clearly the ultimate situation that has to be met, is to pursue a policy that is unwise to an extreme.

To the extent to which a Government might conscript fixed or liquid capital, to that extent would capital cease to give employment to those engaged by its previous operation. And as productive industry and commerce will require all the capital it can possibly obtain if they are to provide adequate employment for the masses who labour, would it be wise for a Government to press the matter? It is to this extent that the masses who labour are interested in this all-important question.

As mediocrity can never give to the people more than it already possesses, the same may be said of bureaucracy when it attempts to control great business enterprises which it would have to do if it conscripted capital. In the great business world creative genius has opportunities for

development which are not possible in a bureaucratic system. The management of great industrial enterprises is a specialised occupation, and only men possessing the requisite experience, knowledge, judgment and enterprise are capable of doing the work successfully. And these are not to be found in Government offices, but only in the great world outside where men are hardened and tempered by fluctuating fortune and adversity.

The standard of our industrial efficiency can only be a reflection of our industrial leadership. Great industrial organisations are made by great men, and are built up with infinite effort and sacrifice. Sometimes they succeed and sometimes they fail. But the reward of gain is the inspiring force, in success or failure, throughout the great struggle. Wherein can a Government hope to succeed in this great game of speculative enterprise? It is clearly not a Government's business.

The productive capacity of the country has been built up with infinite effort and sacrifice, enterprise and energy by past and present generations. But a mistake in judgment as regards future policy, and the attitude of the Government towards the means of production, may create antagonisms and prejudices, which may lead to the destruction of the whole organisation of industry by the masses who labour in one hour of

passion. All Government policy should be constructive and tend to stimulate productive power ; it should be conciliatory without being subservient ; and in so far as it may concern the respective interests of management and labour, it should, consistent with national interests, be just but firm. In the pursuit of this practical ideal, however, it will be seen that the theory which underlies the conscription of capital in so far as it relates to the means of production would be destructive of its aim and purpose. No ideal should be pursued or even discussed in critical times like the present which are not possible of realisation ; which may raise false hopes and ultimately lead to disappointment.

It may be a perfectly easy matter to put a levy on liquid capital ; but if the attempt were made to put a levy on fixed capital and personal capital, insuperable difficulties would be encountered. And to put a levy on one form of capital and not on others would be iniquitous. But even if it were possible it would not be of any advantage to the Government, because if it were to detach fixed capital from its present productive activity and management, it would destroy its existing value and so defeat the end the Government had in view.

It is therefore clear that so long as capital is engaged in productive industry and commerce,

it is performing far better service for the country with its present owners than it would be under Government control. There are cases, of course, that can be argued where men have unduly enriched themselves in consequence of the war ; we are not here concerned with the conscience of these gentlemen, the Government can deal with them at the proper time. But apart from the consideration which must be given to capital engaged in productive industry and commerce, consideration must also be given to the interests of those who have rendered faithful service to the country in person and with their savings. It would be an act of injustice on the part of the masses who labour to insist, whilst they are deriving immediate benefit in the form of high wages from the savings which these people have lent to the State, that after the war these same savings should be conscripted.

There are, then, two alternatives before the Government. The first is to conscript capital on the lines suggested by the Socialists with a view to liquidating part of the National Debt. But in so doing it would be necessary for the Government to make provision for the masses who labour until such time as the conscripted capital could be replaced by new wealth which would no doubt take many years to accomplish. The second is to pursue the more economical

and expeditious course of liquidating the National Debt by placing the burden of taxation upon productive Industry and Commerce. From the foregoing remarks it is clear, then, that the duty of the Government is—

1. To create the most favourable working conditions for the development of productive industry.
2. To provide remunerative employment for the masses who labour upon the most humane and scientific principles.
3. That if effect be given to items 1 and 2, productive industry and commerce as a whole shall, in return, liquidate the National Debt, subject to certain conditions we shall mention hereafter.

THE INCOME OF CAPITAL

As we have already shown, capital in its multifarious forms can only maintain its marketable value so long as it retains potential productive power. And the greater its productive power, the greater is its marketable value. By productive power we not only mean capacity to produce, but also capacity to produce profitably. Capital which does not produce profitably has little, if any, marketability. It often happens, however, that dead values are made live values by efficient

management, because the potential productive power is converted into profitable productive power by efficiency of control. Profits, therefore, are the reward of enterprise, prevision, abstinence, thrift and, above all, efficiency.

It is out of the profits of industry and commerce that all taxation is paid and that all income is derived. And profits are merely the differences between actual cost of production, including all payments for use, and the actual price which purchasers are willing and able to pay for the articles of utility, or commodities, that are produced. They are therefore merely the savings of capital expenditure. The distribution of profits is in fact a redistribution of capital in liquid form.

It sometimes happens that great business men become wealthy, but that is because they have, by their enterprise and efficiency, gathered into their hands certain means of production which, so long as the control remains with them, has a certain degree of marketable value if shared with others. But it often happens that the moment these same means of production fall into bad hands, they cease to have any marketable value. To illustrate the point more fully we need only refer to the numerous factories in England and Scotland which, before the war, were in an impoverished condition, either from lack of business, or from inefficiency of manage-

ment, or lack of productive power. But the exigencies and the demands of war have forced them temporarily into a condition of prosperity because profitable business has been forced on them whether they liked it or not. The potential productive power of the factories have been essential to the State. In competition in peace times these same factories, however, lacked efficiency and profitable productive power. The temporary prosperity, therefore, has given these factories a marketable value, artificial of course, but which if prudently and efficiently managed might acquire more stability as time progresses.

Capital, therefore, is like the sands of time, it is constantly changing in character and value due, as we have indicated, to varying circumstances, demands, efficiency, time and place. And it mainly rests, as we have shown, for its stability of marketable value upon the national standard of education, knowledge, experience and efficiency, manifested in the national productive power.

There is another form of capital which does not yield profits, but yields pleasure in use, and so long as it can continue to give pleasure in use it will maintain a marketable value. We refer more particularly to private houses, motor-cars, diamonds, pictures, etc., etc. But whilst they do not earn profits in private use, they give employment to many people and so provide them with

income. In the case of motor-cars and horses, there arrives a time when they cease to have any marketable value because of excessive use or age. Further capital expenditure is then necessary to replace them in order that the owners may derive the same pleasure in use, and the same capacity to maintain employment both in maintenance and production.

Some Socialists see an evil in all things that give pleasure in use to those who can afford to pay for them. But they overlook the fact that all things that give pleasure in use necessarily increase the circulation of capital. If fashion inclines a rich man to pay a fancy price for a house in Park Lane, or build an expensive house in the country, that can only be an advantage to the community, because he puts a portion of his liquid capital into circulation. If fashion did not incline men to Park Lane and vicinity for houses, these same houses would merely acquire a nominal value, and a nominal rent, for the very simple reason that they ceased to give a high degree of pleasure in use. But if this came to pass, wherein would it affect the Socialist's conception of life? The population of London cannot all live in Park Lane and vicinity. It would still only be the fortunate few who could live there. And who is to choose?

It will be seen, therefore, that high wages can only be paid, and the highest possible yield of

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income obtained, provided industry and commerce are maintained in the highest state of efficiency and productive power. And this necessitates all the forces of the nation working harmoniously to this end. But it also points to the fact that the Government cannot, with any degree of safety, indulge in the policy of conscription of capital for reasons which have been stated. Its safest and wisest course, indeed its only course, is to liquidate the National Debt, and pay for the annual cost of Government, out of the profits of industry and commerce and the income of capital.¹ Annual profits and income constitute the live wealth of the country, and the only one that has an immediate and liquid marketable value, and the only one that has a measurable taxable value.

¹ The moment income receivable, or interest receivable, passes into actual possession it becomes capital. The amount the owner may save of it depends upon the prudence, abstinence and thrift he may exercise in the use of it.

CHAPTER III

THE REDEMPTION OF THE NATIONAL DEBT

As we have shown, the wisest and safest course for any Government to pursue in liquidating the National Debt and in making provision for the annual cost of Government, is to tax the annual profits of industry and commerce, and the income of capital, these constituting the live wealth of the nation, and the only wealth upon which the Government can safely base its estimates of annual revenue to meet its annual expenditure.

There can be no subject of greater interest to manufacturers, merchants, bankers and organised labour, than the measures of taxation proposed, or that may be contemplated, to cover the ordinary expenditure of the country, to pay the interest charges on the War Debt, and liquidate the War Debt. For the success of our future trading both nationally and internationally will depend in a large degree upon the wisdom and technical ability which the Chancellor of the Exchequer, for the time being, may exercise in the administration of his high office in these respects.

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The productive power of the United Kingdom and of the world in general, is on a vastly superior scale, and more efficient to that which existed prior to the war. It is quite true that many of the producing plants are at present engaged upon non-productive essentials, but it will obviously be to the interests of the owners to reconvert their existing machinery power to productive uses, *i. e.* all non-productive capital expenditure will, in the interests of economy, have to be made productive as far as it is practically possible.

The greatly increased productive power foreshadowed will be far in excess of the world's normal demands; we are speaking now of the period that will ensue after the immediate pressing demands are satisfied; so that the tendency of prices, wages and profits, under our existing system, will be on a declining ratio until such time as the power of consumption again approximates production. In these circumstances, however, it is just possible that a heavy income tax will make all the difference between success and non-success to our manufacturers and merchants in obtaining foreign contracts and orders for merchandise, particularly as against present neutrals. What we have really to determine, therefore, is how far it may be wise to go in taxing the profits of industry and the income of capital.

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It may be argued, of course, that without a heavy income tax it would be impossible to redeem the National Debt. But as it will be impossible to continue anything like the present high level of prices and profits for reasons stated, a high income tax would defeat the object for which it was imposed. It would prevent the creation of new wealth on an adequate scale which, as we have already shown, is the live wealth of a country. The point we must ever bear in mind is that we have to keep the wealth of the country in as active a condition as possible; and to make all dead values remunerative wherever possible. We should avoid the adoption of measures which may have a tendency to deaden values, or cease to make them remunerative. In business parlance, "we must not kill the goose that lays the golden egg." We recognise, of course, that the problem is a difficult one, but it has to be dealt with on a high intellectual and intelligent basis if we are to avoid a mediocre existence.

There is, of course, one remedial measure that could be developed to overcome the difficulty mentioned, apart from any remedy we may suggest in connection with the income tax and the division of labour, and that is for the Bank of England to take the lead in providing machinery by which our clearing Banks, other British Banks

and Acceptance Houses may extend more liberal credits than it was possible for them to do before the war to British industry and commerce, the object being to substitute credit against manufactured utilities and commodities, for present war credits, as quickly as prudence and wisdom will permit. It will of necessity be a gradual process, but it should be expedited as much as possible, as a sudden fall in price values would certainly bring about a severe contraction of the war-time issues of paper currency, which of course should be avoided as far as it is practically possible. In other words, the present currency rests upon a highly artificial basis, and if the bubble was once pricked, everything would go, as the currency rests upon no solid basis. On the other hand, a currency based upon gold and bills of exchange, issued against production and commodities, rests upon a solid basis. It should therefore be our aim to arrive at this sound financial position as quickly as circumstances will permit.

There can be no distinction drawn between the credit of the State and the credit of the manufacturers and merchants, or any other individual of the State in the development of national trade, or international finance. One reacts upon the other. If anything, the responsibility for the credit of the State mainly rests upon those

who control the productive power of the State. Thus the redemption of all State obligations can only be facilitated by maintaining the productive power of the State at its highest point, and the productive power of the State can only be maintained at its highest point by an intelligent development of the credit system in industry, agriculture and commerce. But the development of the credit system should not be indiscriminate nor go beyond the point that is consistent with the demands made upon the national productive power such as is indicated.

Another aspect of the problem of taxation to be considered is the effect which the higher rate of income tax is bound to have on those citizens whom Adam Smith described as "citizens of the world," *i. e.* those citizens who are in a position to remove themselves together with their liquid capital to countries not active belligerents in the present war; where living may be cheap, and the rate of direct taxation a negligible quantity as compared with that which must prevail with us at the conclusion of the war. If these citizens of the world can "enjoy their fortune more at their ease" elsewhere, it would be placing a strain on individual liberty to ask them to remain at home under our present system of taxation, if by so doing it became a hardship. Yet by some means or other they

must be offered inducements to remain at home in order that their capital and industry may not be lost to the nation.

The same may also be said of the soldiers and sailors whom it is proposed to send abroad to our colonies should they so desire it. In view of the heavy liabilities of the nation, it would seem to be desirable that an attempt should first be made to settle these men on the land at home, before considering any colonial scheme, since the fruits of their industry in agriculture is required to sustain manufacturing industry in a fair degree of activity. By every possible legitimate means we must strengthen and develop the home market, if for no other reason than to spread the burden of taxation and *ipso facto* reduce costs of production. Unless such a policy as we now indicate is pursued, it will deprive the country of a considerable amount of energy and liquid capital, all of which the country will need in a greater degree, in view of its obligations, than at any period of its history.

Then, again, we have to consider the relative position of the soldiers and sailors who have voluntarily, or by compulsion, sacrificed their businesses, fortune, or other material benefits, in order to fight for their country. These men have made a heavy sacrifice, the greatest that men can be called upon to make, and those of us who have been

forced by circumstances to remain at home, would ill requite the services which these men have rendered to mankind in general, if we were to expect them to shoulder the burden equally with ourselves of liquidating the National Debt; they not having shared in the many material benefits and general prosperity which manufacturers and shareholders in manufacturing companies have enjoyed in a large degree. As matters stand there would be no equality of sacrifice. It would be a false starting-point.

Whatever the method of procedure may be that is adopted to liquidate the National Debt, it is quite clear that there can be no conscription of capital or anything that savours of it, and the State must fulfil all of its obligations to the holders of Government securities, both as to capital and interest. It should not be necessary to restate this fact, but there is still a lingering inclination on the part of some people towards the conscription of capital idea. As the adoption of such a policy, however, would only lead us in the way Russia has gone, it must be avoided at all costs. British credit is the apex of international finance, and it must continue to be so. But the fact nevertheless remains that the National Debt will have to be considerably reduced if manufacturing industry and commerce is not to be unduly burdened

with heavy taxation ; if " citizens of the world " are to be induced to remain at home ; if soldiers and sailors are to find profitable employment ; if the cost of living is to be made bearable to the working and great middle classes ; and last, but by no means least, if the present relations between capital, management and labour are to be broadened and extended. We are all well aware of the bitter and hostile attitude manifested between these forces in the past from one cause or another, and there can surely be no greater object for all loyal subjects than to strive to avoid, by every possible means, a recurrence of past misunderstandings. Our duty to the country is to relegate them to past history. And one of the most effective means we can pursue to this end is to give every consideration to our moral obligations.

Then how is the National Debt to be redeemed ? To begin with, as we have shown, we take the standpoint that State credit, and business or personal credit, are inseparable. If this proposition be accepted, the only logical course for loyal citizens to pursue is to undertake the task of liquidating the National Debt by voluntary effort, in order to establish our future personal and business credit upon a solid basis ; and to facilitate the many reconstructive measures that are proposed. In these circumstances it should

be the duty of every citizen voluntarily to surrender to the Government—

1. Such proportion of their holdings of Government securities as they can conveniently do without ; or, as a second choice,

2. Such proportion of their holdings of Government securities as they can conveniently do without, in exchange for ten or twenty year non-interest paying Exchequer Bonds redeemable with, or without, a premium.

In view of the delicate nature of the task, it is quite clear that no Government could make any suggestion of this character, for reasons which will be obvious to intelligent minds. It is precisely one of those exceptional cases which ought to be taken in hand by an influential association specially formed for the purpose. Time is an important factor, inasmuch as the interest charges on the National Debt, the cost of its administration and the cost of collecting the taxes, are accumulating at a rapid rate, and these might be saved by immediate action.

Some people may assert, of course, that in reducing the amount of liquid capital now held by individuals, the productive capacity of the country might be impaired after the war when it comes to competing for international trade. But, as we have already shown, this fear is groundless, inasmuch as the exigencies of war have placed

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the productive power of the United Kingdom, and its efficiency, far beyond the standard which prevailed in this country before the war. In other words, the creation of wealth mainly rests upon the means of production, and the intelligent manner in which they are controlled and developed by management and labour. As the essential basis of production is therefore assured, it places such proposals as we are now discussing within the realm of practical politics without prejudice to the point at issue.

Then, again, there is the safeguard to be borne in mind which we have already discussed; the country has now, as we have shown, an abundance of up-to-date machinery, experience and technical skill; and if our business men continue to display the same enterprise as heretofore, and use the productive power which they possess in an efficient and intelligent manner, it should be possible for them to obtain a more liberal extension of banking credits against production; and this ought to replace any contraction of credit which might occur by any substantial contribution that may be made on the lines suggested towards liquidating the National Debt. In fact, an expansion of banking credit against utilities produced, or other commodities, would obviously be a more technically sound proposition than the maintenance of the

present inflated credits of the Government, either in the form of War Loans or Treasury Bills.

The theory advocated by a certain gentleman, that a paper currency backed by National Credit is better and much cheaper for all home trade transactions than finance based on a gold standard, is very seductive; but in practice it will not work, for the simple reason that finance based on a gold standard plus productive power gives stability to price values which no exclusive paper currency could maintain.

The suggestion advocated in other quarters of substituting bills of exchange for gold as a basis of credit is a more practical one, providing they are not exclusively used for such purpose, and providing that the bills of exchange used for such purpose are those drawn against exports, as such bills would give us a certain command over the gold reserves of other countries which could be transferred to adjust any adverse balance of trade which might occur in any given direction.

Our ability to export obviously depends very largely upon our ability to import; and experience has shown our ability to import is assisted very much by the confidence placed by foreign bankers in the bill of exchange on London, because in the past they have always been able to rely, if adverse circumstances prevailed, upon being paid in gold on the due date of the bills; and,

naturally, foreign bankers would not be satisfied if they were to be offered a quantity of merchandise in satisfaction of payments that may be due to them. Merchandise is subject to a fluctuating price movement; and to loss by depreciation varying in proportion to the perishable nature of the goods. It will therefore be seen that gold, or any other precious metal that might be substituted for it, is as important to manufacturing industry, as are weights and measures.

It is necessary for a country with a high productive power such as ours to have an adequate gold reserve to give stability to price values—and in modern practice that is the only object for which we require gold. But it is a very important one; especially after the war, when competition for the world's trade will be on a fierce and highly competitive basis. We must be ready to adjust all our adverse trade balances by a gold payment; or by the transfer of gold from one foreign country to another; or by the adjustments of foreign credits. The point really to be determined, then, is the amount of gold we shall require for the purposes mentioned. Careful consideration will have to be given to this question if we are to participate in, and deal adequately with, international trade after the war, and if our National Debt is to be redeemed with facility.

Some economists are concerned with the possibility that those countries with an inconvertible paper currency are likely, after the war, to demand payment in gold and not in goods. This, of course, is a Free Trade hypothesis. But foreign countries can only demand payment in gold if they are allowed to export their manufactures to this country without paying import duties, and as we are faced with the necessity of conserving our gold reserve, that position is not likely to arise. But it reinforces our argument for the abandonment of the policy of *Laissez-faire*. If foreigners, however, in their anxiety to obtain gold for manufactures are made to pay an import duty of 20 per cent. on such manufactures, they would then be paying a premium of that amount for the gold, which is all to our advantage. But even this is assuming that our power to export will be less than our power to import, which, if a proper national system is established, is not at all likely. In this connection, however, we are not taking into consideration our present foreign indebtedness, which is, no doubt, or can be, properly covered by financial credits, pending our ability to liquidate them, by export credits. To arrive at this favourable position, however, we must aim at reducing costs of production by developing our national productive power to its utmost possible extent.

In the purchase of natural materials and the necessaries of life, our ability to export should cover our requirements in these respects providing, of course, our present agricultural policy is maintained.

If, then, the general conception so far advanced be accepted as practicable, it matters little to those who pay income tax, or otherwise, whether the amount they contribute towards the redemption of the National Debt is sacrificed by them now or paid by instalments over a period of years through the medium of the income tax. As the National Debt will ultimately have to be paid by all who pay income tax, it would be more expeditious, and more economical, to give up voluntarily what is necessary for that purpose at once, instead of following the more costly method of annual instalments through the medium of the income tax.

We are aware of the fact, however, that there are a number of individuals who have not subscribed to the various issues of Exchequer Bonds, War Loans, and National War Bonds to the extent of their capabilities. Some have not even subscribed at all. In all such cases the most effective course to follow would be a 15s. income tax. It is essential that we should differentiate between those who have been keenly patriotic and those who have not. In the par-

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ticular case of those who have not subscribed to any of the issues mentioned, a capital levy of 25 per cent. should be imposed, payable in three annual instalments, in addition to the income tax of 15s.

Whatever the future may have in store, or whatever the means may be that is ultimately employed to redeem the National Debt, it is incumbent upon every citizen to lend all he can spare to the State meanwhile and to keep on lending. It is a duty of citizenship; it is even a privilege. And let it be understood that nothing which anyone can do in this respect can ever equal the self-sacrifice that even the most humble soldier has made, or is prepared to make.

Whatever the final decision may be on the field of battle, or even the ultimate settlement, the crowning victory will go to that nation whose programme of reconstruction is the most efficient. The final test of endurance will not reveal itself for at least twenty years after peace has been signed, and the wreckage cleared up. Rich and poor alike will have to dig in, to use a military phrase, within our economic defences, particularly if we are to demonstrate to the people of all nations controlled by autocratic Governments that democracy not only can maintain itself successfully on a field of battle, under wise and beneficent leadership, against the best means

of defence and offence autocracy can employ; but that in the production and distribution of wealth democracy can, also under wise and beneficent leadership, compete with autocracy in like manner. In other words, that wherever freedom and justice prevail, democracy can, out of its own organisation, and out of nature, produce all the wealth and material happiness that a human race is capable of producing.

There is one further observation we desire to make, and it is this, that before the war the general tendency of Governments and municipalities was to increase the national and municipal indebtedness rather than to decrease them. This general principle cannot go on indefinitely without doing infinite harm. Unless the money borrowed is for the purpose of developing public works, the increase of indebtedness becomes a millstone round the necks of the taxpayers by reason of the interest charges which the State and municipalities must pay annually on their permanent and floating debts.

If the money borrowed is for the purpose of developing productive works, it provides a very good reason for the establishment of a sinking fund out of the revenue of such works, for the final redemption of the loans. But it seems to be a general weakness of Governments and County Councils never fully to repay all the money they

borrow; on the contrary, the general principle seems to be to borrow more than is repaid. It is really necessary for our statesmen and county councillors to concentrate their energies upon liberating the public revenues from this perpetual burden. Every first-class business man makes this a cardinal principle in the conduct of his business; and it should apply no less in the conduct of our municipal affairs and affairs of State.

That this principle should be taken to heart may be gathered from the observations made by a labour leader quite recently to this effect, viz. : that if the nation could spend £7,000,000 a day in the prosecution of the war, it would have seriously to consider spending substantial sums of money in social amelioration after the war. Now the task before the nation of redeeming its present obligations is sufficiently onerous, and our statesmen and county councillors should see to it that no additions are made to it unnecessarily. Subject to fulfilling all of their moral obligations to humanity, particularly to those who have been maimed and wounded in the war, the rules of life should be, "Man must work"; "Peace, retrenchment and economy."

In this connection there is another matter which ought to receive attention. The whole system of taxation, its costly and cumbersome

machinery, should be overhauled and re-examined. The dead weight charges of Government are far too heavy compared with the advantages which the taxpayers are supposed to derive therefrom. Take one example. The system of taxing the necessaries of life is wrong in principle, for it is practically a tax upon wages, and every increase in this form of taxation must always force employers to increase wages without any advantage accruing to the workmen. It is possible, for instance, for £4 per week under one system to be a low wage as compared with £2 per week under another system. And although Adam Smith warned us against the evils that would arise therefrom, no attention seems to have been paid to it.

The revenue derived from the taxation of the necessaries of life should be abandoned altogether, and the loss of revenue made good by placing import duties upon all manufactured and partly manufactured goods coming into the country. In the National System import duties are not only imposed for the protection of home labour, but for revenue purposes as well; and import duties which fail to do both at one and the same time are technically unsound. If, for instance, the import duties be high they would, by reason of their prohibitive nature, bring no revenue at all, since they would tend to stop all imports in manufactured goods, and as we must import

to be able to export in order that our merchants may develop an external commerce, this would not be at all desirable. It should always be borne in mind that there are two phases of trade, namely, (1) internal trade; (2) external commerce. But the development of national productive power must ever be our prime consideration.

Import duties for revenue purposes only are immoral, since, to be logical, they must be imposed on the necessaries of life. If they are imposed on what are termed the luxuries of life, and luxuries can only be manufactured utilities, then such duties perform the double function, as we have already mentioned, of protecting labour and creating revenue. But the problem cannot stop here.

In order that foreign imports, and the profits arising out of their distribution, shall contribute their quota of revenue to the Exchequer, every foreign merchant or manufacturer desiring to do business in Great Britain should be compelled to take out a licence and establish an office for the purpose of his trade in this country, in order that his profits may be amenable to our income tax laws. It seems a gross act of injustice to British labour that these foreign merchants and manufacturers should not only be able to share in our home trade without paying import duties, but that they should escape with their full profits

as well, without deduction. If there be any logic in this, then there would be as much sense in theatre managers allowing strangers to our shores to enter their places of amusement without paying for admission.

In failing to place import duties upon foreign merchandise and in permitting foreign merchants to escape with the profits earned on the sale of same, the Government must obviously place British merchants and manufacturers at a decided disadvantage, for the simple reason that foreign merchants can calculate their costs of selling on a finer scale, and every fraction counts in competition. They are not called upon to contribute a proportion of their profit towards the cost of Government which the British trader is bound to do, although they can at all times insist upon the protection of Government. But this paradoxical position is really one of the virtues of *Laissez-faire*, as we are told by its advocates. Every inequality created by that system is justice ! And what more can a British trader desire ?

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It is perhaps desirable that we should enumerate the points we have endeavoured to develop thus far, before proceeding to the next discussion. Let it be understood that our object is simply to point out the technical difficulties of certain theories, the application of which is

not at all impossible, but which if made effective would lead us to a mediocre existence. Our present object is to force the issues involved to the front, that they may be dealt with according to merit. The contentions we have advanced are :—

1. That we cannot have conscription of Capital.
2. That if the Government desire to redeem the National Debt with facility, it can only do so by taxing the annual profits of Industry, Agriculture and Commerce, and the income of Capital.
3. That there is a certain point in the scale of income tax beyond which it would be unwise for any Government to go ; that a high income tax will defeat the object for which it is imposed in normal conditions.
4. That the only real solution is for the public voluntarily to redeem the major portion of the National Debt as a matter of honour and personal credit.
5. That the costly and cumbersome method of Government requires to be overhauled and re-examined ; particularly the Income Tax and Revenue laws.

We may be asked what are the most effective means by which the public might with facility redeem the National Debt. We suggest that the Government should cancel the excess profits duty and impose an income tax, consistent with

the actual requirements of the revenue. After the income tax rate has been accurately determined, the Treasury should then offer to compound the tax, *i. e.* reduce it to *2s. 6d.*, conditional on a payment being made equal to a twelve years' purchase. *Pro rata* amounts to be accepted. An example of what we mean may be cited as follows :—

Suppose an individual, firm, or company paid to the surveyor of taxes the sum of £100 annually as income tax at 10s. in the £. In twelve years this would amount to £1200. By paying this £1200 immediately the tax-payer would be entitled to receive a certificate entitling him in future to a maximum income tax rate of *2s. 6d.* in the £. A similar arrangement could probably be effected as regards the super tax and death duties.

In so far as the above suggestion may impair the working capital of an individual, firm, or company, a further arrangement might be effected by which approved borrowers may obtain a credit from a State Bank (to be established for the purpose) or from the Bank of England under a discount of $3\frac{1}{2}$ per cent., up to three-fourths of the sum paid to the State to compound the income tax, super tax, or death duty. This might be known as an income tax credit. Such credit to be reduced by a twelfth part in each subsequent year, and to be totally extinguished in twelve

years' time. The scheme is sound, inasmuch as the State Bank, or the Bank of England, will have been covered by (1) the cash or securities advanced in the first instance to compound the tax, and (2) the discount profits made should be sufficient to cover possible losses and the general expense of the scheme. It may even show a substantial profit.

The above proposals are comprehensive and fair, as they will involve personal capital as well as fixed and liquid capital; and whilst it may be regarded as a voluntary scheme, yet it will punish those individuals who may not fulfil their duty to the State, since they must continue to pay the full rate of income tax at 10s. in the £ indefinitely. The scheme of compounding the income tax has also this further advantage, that it will enable contributors, should they so desire it, to obtain an income tax credit in the manner shown which will enable them to maintain their productive power, not only with profit to themselves, but to the State as well. It will also prevent an undue contraction of the present war-time currency, pending the gradual substitution of a peace-time currency, the latter of which should be, as we have already suggested, based on natural materials and manufactured utilities for which there is a demand to be satisfied.

Provision could also be made by which con-

tributors may compound their income tax by instalments, if this course proved to be the most convenient.

The basis of calculation to be the average income or profits assessable for income tax in the years 1916, 1917, 1918, the amounts paid as excess profit to be excluded, but to be included in arriving at the average amount assessable. Exceptions should, of course, be made in favour of widows, orphans, and aged or invalid persons whose maintenance is entirely dependent upon the income from invested capital, and to the men of our Army and Navy. In these particular cases a maximum income tax rate of *2s. 6d.* in the £ only should be imposed up to £350 of income.

Further, individuals who desire to become "citizens of the world" should not be allowed to export capital abroad until they had compounded the income tax payable on the basis above mentioned. In this case no exceptions should be allowed.

For such proportion of the National Debt as may remain unredeemed a compulsory loan should be issued bearing interest at $2\frac{1}{2}$ per cent. tax free to redeem it. The loan to be supported by an adequate sinking fund.¹

¹ This would necessitate the Bank rate being retained at a lower figure than 5 per cent. until such time as the operation was made completely effective.

It is to be understood, of course, that we are here discussing principles only, and that as we cannot foresee the amount of National Debt to be redeemed, we cannot accurately determine the income tax rates that will ultimately have to be imposed. But these can be adjusted by those in authority as soon as the facts can be ascertained with accuracy.

From the arguments advanced it is therefore seen that the advantage, if anything, is with an immediate voluntary redemption of the National Debt; and if we may summarise the reasons they are as follows:—

1. It would maintain the standard of British financial credit throughout the world, as the world has come to appreciate and understand it.

2. It would save the nation millions of pounds sterling per annum now paid in the form of interest, and to that extent would assist the State in redeeming its obligations with facility.

3. It would assist in bringing about a reduction of the non-productive expenditure of the country, since the cost of collecting in the form of income tax the money required for the redemption of the Debt would be saved, which further saving would be in favour of the taxpayer.

There is one final observation to be made, and it is this, that when the Government conscripts

men for the Army, it nevertheless undertakes to pay them for their services. The advocates of the conscription of capital ignore this principle in respect of the services of capital, and seem also to forget the adverse effects which a sudden and drastic reduction of the currency would have upon the stability of prices and employment. We cannot destroy £6,000,000 of debt without leaving a big hole somewhere. In the scheme we propose this difficulty is, we believe, to a very large extent overcome. It is, in fact, a conscription of the new wealth to be annually created, without in any way impairing the national power to create it. But there is a vast difference between this suggestion and the conscription of existing capital, which, in its multifarious forms, is but an instrument at the service of the nation in the development of its national productive power and foreign trade.

In order, however, that the full significance of the subjects under discussion may be comprehended we propose to develop a treatise on the division of labour and exchangeable values. We have shown how a substantial part of the National Debt can be redeemed; we now propose to indicate how the remainder can be made to look after

CHAPTER IV

THE DIVISION OF LABOUR; AND EXCHANGEABLE VALUES

WE have stated that there can be no two sciences upon the same subject, and we have also observed that by far the greatest thinkers in economic science were Smith, Say, List and Colwell. In studying the works of the first three, one is struck by the similarity of ideas which seem to permeate their doctrines; and in regard to Say and List in particular, the impression is distinctly formed that they built their systems upon the foundation laid by Smith. List of course attempts to deny this.

Economists may quarrel over the merits of their respective systems, but we contend that there is only one true economic science and that is the National System. Smith, Say, List and Colwell discussed four economic systems, but close observation reveals the fact that they were developing—each in their own way—one system only, namely, the National System. And it will be our business to reduce their apparent differences

of opinion to the narrowest possible limits. We classify the systems discussed as follows :—

1. The Mercantile or Exclusive System (based on High Tariffs or Prohibitions).
2. The Agricultural System (based on restraint and monopoly).
3. The National System (based on Low Tariffs on manufactures only).
4. The Laissez-faire or Free Trade System.

(For a clear interpretation the chart at the beginning of the book should be studied.)

Smith and Say in their writings set out to destroy the Mercantile and Agricultural Systems and to develop a National System. But the public mistook the National System for Laissez-faire, popularly known as Free Trade. List clearly saw what Smith and Say intended but, for reasons which we shall explain later, feigned to be ignorant of it.

Smith in our view was the founder of the system of National Economy; and in making this assertion we clearly disagree with List. The latter asserts "that the doctrine of Adam Smith in regard to international trade is but a continuation of that of the physiocrats. Like the latter, it disregards nationality, it excludes almost entirely politics and government; it supposes the existence of perpetual peace and universal

association; it depreciates the advantages of national manufacturing industry as well as the means of acquiring it; it demands absolute free trade.”¹

Now if Smith is read from the standpoint of National Economy, it will clearly be seen that he was in no way impressed with the teachings of the physiocrats—in fact, he actually condemned them, as will be seen from the quotations we give later on—nor did he advocate any doctrine that savoured of absolute free trade. The underlying principle of his whole work in the *Wealth of Nations* is, “Defence is of more importance than opulence.”

List’s object in classifying Smith with the physiocrats is somewhat mystifying; it points to a deliberate intention of destroying the rights which Smith clearly established, and, which evidently no one at that time observed but List, of being the founder of National Economy. List evidently hoped by this subterfuge to claim the whole credit for the supposed originality of his system. On page 421 of his work List makes the following observation, which is worth noting: “The intelligent biographer of Adam Smith, Dugald Stewart, informs us that twenty-one years before the publication of his book in 1755 in a literary society, Smith pronounced the

¹ *N.S.P.E.*, p. 420.

following words, which appear to give him the priority of the idea of free trade (note the word appear—there seems to be a doubt about it): ‘Men are ordinarily considered by statesmen and projectors, as the material for a kind of political industry. Their projectors disturb the operations of nature in human affairs, whilst they should be let alone and be permitted to act freely for the purpose of working out their end. To elevate a nation from the lowest degree of barbarism needs but three things: peace, moderate taxes, and a tolerable administration of justice. All the rest comes in the natural course of things. Every government which opposes itself to this natural current, or which attempts to give to Capital a different direction, or to arrest society in its progress, revolts against nature, and in maintaining this policy becomes a tyrant and an oppressor.’”

List then goes on to say that that fundamental thought was Adam Smith’s starting-point, and his later words had no other end than to establish and to demonstrate it. “He was confirmed in it by Quesnay, Turgot and other leaders of the physiocratic school with whom he became acquainted on his visit to France, in 1765.”

Now List is very unfair in endeavouring to confirm Smith as the founder of absolute free trade from opinions formed by other people, and

not from what Smith himself wrote on the subject. This is quite contrary to the rules of evidence. But the fact is quite clear that List could not convict Smith by his own writing, but only from what other people said that it "appeared to give him the priority of the idea of free trade."

The famous formula, *Laissez-faire et Laissez-passer*, which in these few words contains the main dogma of the free trade school, is attributable to Gournay, a friend and disciple of Quesnay. List confirms this in his work, yet he would have us believe that Adam Smith must be the founder of the system, knowing full well that the phrase was French in origin. No; Colwell tells us the truth when he writes: "It is a striking fact that the modern school has adopted two great errors from their predecessors of the mercantile theory and the physiocrats. From the former they derive their devotion to foreign trade as the highest interest of a nation, and from the second their idea of free trade as the great means of promoting national wealth and rewarding industry. These points are main dogmas of the modern school, but are not, of course, original. They were main dogmas of two exploded schools, whose doctrines are thus taken and pressed again upon the acceptance of the world."¹

If List had been honest, or had read more

¹ Stephen Colwell, *N.S.P.E.*, p. 343.

carefully, he should have arrived at the same conclusion.

As we have already stated in a previous work, Smith set himself out to destroy the Mercantile System, which was the economic system prevailing in the country at the time, the essence of which, as we all know, was the granting of monopolies and bounties to privileged companies. He held that in this particular respect it was not necessary for Governments to interfere in Industry and Commerce; on the contrary, that every man and every firm should be left alone to trade each in its own way. In other words, he held that there should be no monopoly, and that, in modern parlance, competition was the life of trade. But nearly every writer has misconstrued Smith's simple doctrine, some in ignorance, and some, as in the case of List, to suit their own ends.¹

¹ I admit that without the chart published in my last book and republished in this one Smith is difficult to follow. It was after I invented the chart that I found the key to Smith's system. In my search to find if I had been anticipated I was disappointed in one sense but pleased in another, in finding it fully developed in Smith's *Wealth of Nations*. Smith's chief fault was that he did not appreciate the significance of developing the system by compartments, *i. e.* in sequence, hence it appears to lie throughout the book like a plate broken in fragments. But a complete National System is there nevertheless. It was perhaps for this reason that Francis Horner wrote as follows: "Smith did not judge amiss in his premature attempt to form a sort of system upon the wealth of nations instead of presenting his valuable speculations to the world

Our interpretation of Smith is confirmed by the many quotations we have given from his work, but particularly from the following which we quote here for the first time.

In his criticism of Colbert, the famous minister of Louis XIV, Smith observes:—

“The industry and commerce of a great country he endeavoured to regulate upon the same model as the departments of a public office; and instead of allowing every man to pursue his own interest in his own way, upon the liberal plan of equality, liberty and justice, he bestowed upon certain branches of industry extraordinary privileges, while he laid others under as extraordinary restraints.

“The French philosophers, *i. e.* the physiocrats, who have proposed the system which represents agriculture as the sole source of the revenue and wealth of every country, seem to have adopted this proverbial maxim; and, as in the plan of M. Colbert, the industry of the towns was certainly over-valued in comparison with that of the country, so in their system it seems to be as certainly under-valued.”¹

under the form of separate dissertations. As a system, his work is evidently imperfect, and yet it has so much the air of a system, that we are apt to adopt his erroneous opinions, because they figure in the same fabric with approved and important truths” (*N.S.P.E.*, p. 229).

¹ *Wealth of Nations*, p. 526.

“The greatest and most important branch of the commerce of every nation, it has already been observed, is that which is carried on between the inhabitants of the town and those of the country.

“Whatever, besides, tends to diminish in any country the number of artificers and manufacturers, tends to diminish the home market, the most important of all markets for the rude produce of the land, and thereby to still further discourage agriculture.

“Those systems, therefore, which, preferring agriculture to all other employments, in order to promote it, impose restraints upon manufactures and foreign trade, act contrarily to the very end which they propose, and indirectly discourage that very species of industry which they mean to promote. They are so far, perhaps, more inconsistent than even the mercantile system.”¹

“The taxes which at present subsist upon foreign manufactures, if you except those upon the few contained in the foregoing enumeration, have the greater part of them been imposed for the purpose, *not of revenue, but of monopoly*, or to give our own merchants an advantage in the home market. By removing all prohibitions, and by subjecting all foreign manufactures *to such moderate taxes*, as it was found, *from experience*,

¹ *Wealth of Nations*, p. 544.

afforded upon each article the greatest revenue to the public, our own workmen might still have *a considerable advantage in the home market*, and many articles, some of which at present afford no revenue to the Government, and others a very inconsiderable one, might afford a very great one.

“High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to the Government than what might be drawn from *more moderate taxes*.”¹

“If by such a change of system the public revenue suffers no loss, the trade and manufactures of the country would certainly gain a very considerable advantage. The trade in the commodities not taxed, by far the greatest number, would be perfectly free, and might be carried on to and from all parts of the world with every possible advantage. Among those commodities would be comprehended *all the necessaries of life* and *all the materials of manufacture*.”²

And the following thrust might very well be taken to heart by the Internationalists and Bolshevists:—

“Man . . . must not expose himself to the

¹ *Wealth of Nations*, pp. 703-4.

² *Ibid.*, p. 705.

charge which Avidius Cassius is said to have brought, perhaps unjustly, against Marcus Antoninus, that while he employed himself in philosophical speculations, and contemplated the prosperity of the universe, he neglected that of the Roman Empire.”¹

Even the great Frederick List himself could not write a clearer exposition of the principles of National Economy than that quoted from Smith. Smith consistently writes, throughout his great work, in favour of moderate taxes upon foreign manufactures, as it was found from experience that they afforded the greatest revenue to the public, and with this gave the greatest security to home labour, and of the importation of natural materials and the necessaries of life free of all taxes whatsoever. In view of these facts, how could an intelligent mind like Frederick List's, if we may use his own phraseology, classify Smith as an absolute free trader ?

In the following observation List rather overstrains his objective: “It is easy to see that Adam Smith perfectly understood that the welfare of nations depends chiefly on the amount of their productive power. But it appears not to be in the order of nature that a science shall come forth complete from the head of any single philosopher.”² In view of this admission, how

¹ *Theory of Moral Sentiments*, Vol. II, p. 102.

² *N.S.P.E.*, p. 240.

was it possible for Smith to advocate absolute free trade and national productive power at one and the same time? The absurdity of the suggestion is too manifest. But List must have his "place in the sun."

It is also quite clear that on such questions as moderate import duties and national productive power J. B. Say was an active supporter of Smith. No one can read J. B. Say without feeling the intense admiration which he had for Smith. Yet we find that List also endeavours to confirm Say as an absolute free trader. List records that Say before writing his work hesitated whether he should declare for the Mercantile System or for Free Trade. Now we are disposed to try and give List the benefit of the doubt; but the conviction is clearly impressed on our mind that he deliberately intended to mislead the public as to his correct interpretation of the writings of Smith and Say; or else he misunderstood the term "Freedom of Trade," like so many others have done since, but which, as we have previously shown, is an entirely different system from the one we know as Free Trade.

But in order to demonstrate that it is most difficult to give List the benefit of the doubt, we now intend to place the observations of List and Say side by side for comparison. The first is that made by List:—

“From the extreme principle that the State can and must regulate everything, Say’s system passed to the opposite extreme, that the State cannot and must not do anything; that the individual is everything and that the State is nothing. The omnipotence of individuals and the impotence of the State become in Say’s hands exaggerations absolutely ridiculous.”¹

That this observation is not an accurate one may be gathered from the following quotations from Say:—

“Nothing can permanently increase population, except the encouragement and advance of production; and nothing can increase its permanent diminution, but such circumstances as attack production at its sources.”²

“Commerce in general, and maritime commerce in particular, facilitates the interchange of products, even with the most remote countries, and thus renders it practicable to import articles of subsistence, in return for several other kinds of produce; but too great a dependence on this resource leaves the nation at the mercy of every natural or political occurrence, which may happen to intercept or derange the intercourse with foreign countries.”³

¹ *N.S.P.E.*, pp. 430-1.

² *A Treatise on Political Economy*, Vol. II, p. 149 (J. B. Say).

³ *Ibid.*, pp. 206.

“But England has suffered severely, whenever foreign markets have been shut against her produce; and she has sometimes been obliged to resort to violent means to preserve her external intercourse. She would act wisely, perhaps, in discontinuing those encouragements, that impel fresh capital into the channels of manufacture and external commerce, and directing it rather towards that of agricultural industry.”¹

In the foregoing one would imagine that Say had our present war with Germany in view. Is it a sort of prophetic vision?

“Great Britain would thereby create for herself a domestic consumption, which is always the surest and the most advantageous.”²

“National population is uniformly proportionate to the quantum of National production.”

“All travellers agree, that protestant are both richer and more populous than catholic countries; and the reason is because the habits of the former are more conducive to production.”³ Is this a direct hit at Ireland?

“Strictly speaking there is no act of government but what has some influence upon production. . . . The grand mischiefs of authoritative interference proceed, not from occasional excep-

¹ *A Treatise on Political Economy*, Vol. II, p. 207 (J. B. Say).

² *Ibid.*, p. 208.

³ *Ibid.*, p. 211.

tions to established maxims, but the false maxims built upon them. It is then that mischief is done by wholesale, and evil pursued upon system; for it is well to be aware, that no set of men are more bigotted to system, than those who boast they go upon none.”¹

“I can hardly suppose any Government will be bold enough to object, that it is indifferent about the profit which might be derived from a more advantageous production, because it would fall to the lot of individuals.”²

It is here obvious that Say, like Smith, is combating the evils of the old Mercantile, or monopolistic, system, and is agitating for freedom of trade, *i. e.* competition, as may be gathered from the following:—

“But personal interest is no longer a safe criterion, if individual interests are not left to counteract and control each other. If one individual or one class can call in the aid of authority to ward off the effects of competition, it acquires a privilege to the prejudice and at the cost of the whole community; it can then make sure of profits not altogether due to the productive services rendered, but composed in part of an actual tax upon consumers for its private profit; which tax it commonly shares

¹ *A Treatise on Political Economy*, Vol. I, pp. 188–9 (J. B. Say).

² *Ibid.*, p. 194.

with the authority that thus unjustly lends its support.”¹

“These bad consequences have resulted from a general system distinguished by the name of the exclusive or commercial system.”²

“Who, then, are the classes of the community so importunate for prohibitions or heavy import duties? The producers of the particular commodity that applies for protection from competition.”³

“Indeed, it is impossible to find any reasonable ground for exempting the production of values by the channel of external commerce from the same pressure of taxation that weighs upon the production effected in those of agriculture and manufacture . . . when once a given amount of taxation is admitted to be necessary, it is but common justice to lay it equally upon all three branches of industry,”⁴ *i. e.* external commerce, manufactures and agriculture. In fact, Say goes so far as to say that he entirely supports Smith in this contention.

“It is hardly necessary to caution the reader, that I have throughout been considering maritime industry solely in its relation to National wealth.”⁵

¹ *A Treatise on Political Economy*, Vol. I, p. 196 (J. B. Say).

² *Ibid.*, p. 199.

³ *Ibid.*, p. 227.

⁴ *Ibid.*, p. 241.

⁵ *Ibid.*, p. 101.

Now it is quite clear from these observations by Say that List, and we give him credit for being exceedingly intelligent, deliberately laid himself out to misrepresent Say. Far from recommending that the State "cannot and must not do anything," Say lays down a clear line of national policy for the guidance of Government which in our view List merely expands from the experience he gained as a man of business; a natural process of evolution.

The chief points to be noted from these observations by Say is that he recommends the nation to be self-supporting, and that in developing his doctrines he clearly gives no countenance to the principle of Laissez-faire, notwithstanding anything List has said to the contrary. Be this as it may, however, reasonable men will agree that our immediate concern is to be guided, in the application of known and demonstrated truths, by our immediate experience of the effect of things; and to employ that system of commerce which we know will produce the greatest and most beneficial effect. No rational being can oppose this very healthy national sentiment whatever his political or doctrinaire views may be.

But it is interesting to follow this subtle mind of List who seeks to discredit his authorities that he may take to himself all the glory of

having first conceived the National System. It was a most unfriendly and ungenerous action, but it is evidently typical. And whatever his supporters may have to say on this point, it is, at any rate, perfectly clear that List had a strong desire to disassociate his own methodical arrangement from any suspicion of having been founded on the works of Smith and Say, particularly the former.

Now our real object in inquiring into the views expressed by Smith, Say, List and Colwell is to prove that there is, in reality, very little difference between their respective systems, that in any case Smith and Say were not, as the majority of people suppose, and as List attempted to prove, absolute free traders, but that they were national economists. This in our view is important, inasmuch as it helps us to establish that there can be no two sciences upon the same subject.

The point of departure in their respective views is to be found in the development of the theory of the division of labour and exchangeable values, and we trust we shall be able to throw further light upon this subject. If our view be widely accepted it will go far to reconcile the views of Smith, Say, List and Colwell, and of their followers.

The one redeeming feature about List is that he gave recognition to Smith as being the "illus-

trious founder of the division of labour," but he qualifies this somewhat by proceeding to say that "Smith, nor any of his successors, have perceived the full scope of that law, nor pursued it to its most important consequences," that "the very expression 'division of labour' is inadequate, and necessarily gives a false, or at least an incomplete idea." Now our answer to List is this, that everything must have a beginning and it was his business to develop that law if he saw fit to do so, and not to presume to say that it gave a false idea. It might have been an incomplete idea, but it was never a false one.

In order to demonstrate that there was, in reality, very little difference between Smith, Say, List and Colwell on the theory of the division of labour and exchangeable values, we propose to give quotations from their works on the subject for comparison.¹

The well-known doctrines of Smith are as follows:—

"The greatest improvement in the productive powers of labour, and the greater skill, dexterity and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.

¹ I hesitated before deciding to do this extensively, but it was the only convenient method of proving the point I desire to establish.

“The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour. The separation of different trades and employments from one another seems to have taken place in consequence of this advantage. This separation, too, is generally carried furthest in those countries which enjoy the highest degree of industry and improvement; what is the work of one man in a rude state of society, being generally that of several in an improved one.

“This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances: first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

“The improvement of the dexterity of the workman necessarily increases the quantity of the work he can perform; and the division of labour, by reducing every man’s business to some one simple operation, and by making this operation the sole employment of his life, necessarily

increases very much the dexterity of the workman. A common smith, who, though accustomed to handle the hammer, has never been used to make nails, if upon some particular occasion he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred in a day, and those, too, very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom with his utmost diligence make more than eight hundred or a thousand nails in a day. I have seen several boys under twenty years of age who had never exercised any other trade but that of making nails, and who, when they exerted themselves, could make, each of them, upwards of two thousand three hundred nails in a day. The making of a nail, however, is by no means one of the simplest operations. The same person blows the bellows, stirs or mends the fire as there is occasion, heats the iron, and forges every part of the nail. In forging the head too he is obliged to change his tools. The different operations into which the making of a pin, or of a metal button, is subdivided, are all of them much more simple, and the dexterity of the person, of whose life it has been the sole business to perform them, is usually much greater. The rapidity with which some of the operations of those manufactures are performed, exceeds

what the human hand could, by those who had never seen them, be supposed capable of acquiring.

“The advantage which is gained by saving the time commonly lost in passing from one sort of work to another, is much greater than we should at first view be apt to imagine it. It is impossible to pass very quickly from one kind of work to another, that is carried on in a different place, and with quite different tools. A country weaver, who cultivates a small farm, must lose a good deal of time in passing from his loom to the field, and from the field to his loom. When the two trades can be carried on in the same work-house, the loss of time is no doubt much less. It is even in this case, however, very considerable. A man commonly saunters a little in turning his hand from one sort of employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent careless application, which is naturally, or rather necessarily, acquired by every country workman who is obliged to change his work and his tools every half-hour, and to apply his hand in twenty different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions. Independent, there-

fore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing.

“Everybody must be sensible how much labour is facilitated and abridged by the application of proper machinery. It is unnecessary to give any example. I shall only observe, therefore, that the invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour. Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things. But in consequence of the division of labour, the whole of every man’s attention comes naturally to be directed towards some one very simple object. It is naturally to be expected, therefore, that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, wherever the nature of it admits of such improvement. A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who being each of them employed in some very simple operation, naturally turned their

thoughts towards finding out easier and readier methods of performing it. Whoever has been much accustomed to visit such manufacturers, must frequently have been shown very pretty machines, which were the inventions of such workmen, in order to facilitate and quicken their own particular part of the work. In the first steam-engines, a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve which opened this communication, to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty to divert himself with his playfellows. One of the greatest improvements that has been made upon this machine, since it was first invented, was in this manner the discovery of a boy who wanted to save his own labour.

“ All the improvements in machinery, however, have by no means been the inventions of those who had occasion to use the machines. Many improvements have been made by the ingenuity of the makers of the machines, when to make them became the business of a peculiar trade; and some by that of those who are called philo-

sophers or men of speculation, whose trade it is not to do anything, but to observe everything; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects. In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens. Like every other employment, too, it is subdivided into a great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers; and this subdivision of employment in philosophy, as well as in every other business, improves dexterity and saves time. Each individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerably increased by it.

“This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.

“Whether this propensity be one of those original principles in human nature, of which no

further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire. It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts.

“As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour. In a tribe of hunters or shepherds a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions, and he finds at last that he can in this manner get more cattle and venison than if he himself went to the field to catch them. From a regard to his own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armourer.

“The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of the divi-

sion of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.

“As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such part of the produce of other men’s labour as he has occasion for.

“As, by means of water-carriage, a more extensive market is open to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself, and it is frequently not till a long time after that those improvements extend themselves to the inland parts of the country.

“Since such, therefore, are the advantages of water-carriage, it is natural that the first improvements of art and industry should be made where this conveniency opens the whole world for a

market to the produce of every sort of labour, and that they should always be much later in extending themselves into the inland parts of the country. The inland parts of the country can for a long time have no other market for the greater part of their goods, but the country which lies round about them, and separates them from the sea-coast, and the great navigable rivers. The extent of their market, therefore, must for a long time be in proportion to the riches and populousness of that country, and consequently their improvement must always be posterior to the improvement of that country.

“When the division of labour has been once thoroughly established, it is but a very small part of a man’s wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men’s labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.

“But, when the division of labour first begun to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations, One man, we shall

suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But, if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange, except the different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. No exchange can, in this case, be made between them. He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry.

“But, when barter ceases, and money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity. The butcher seldom carries his beef or his mutton to the baker or the brewer, in order to exchange them for bread or for beer; but he carries them to the market, where he exchanges them for money, and afterwards exchanges that money for bread and for beer. The quantity of money which he gets for them regulates too the quantity of bread and beer which he can afterwards purchase. It is more natural and obvious to him, therefore, to estimate their value by the quantity of money, the commodity for which he immediately exchanges them, than by that of bread and beer, the commodities for which he can exchange them only by the intervention of another commodity: and rather to say that his butcher’s meat is worth threepence or fourpence a pound, than that it is worth three or four pounds of bread, or three or four quarts of small beer. Hence it comes to pass, that the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity either of labour or of any other commodity which can be had in exchange for it.”¹

Say’s arguments are based very much upon those

¹ *Wealth of Nations*, pp. 19–39.

of Smith, but he carries them a step further as follows :—

“The celebrated Adam Smith was the first to point out the immense increase of production, and the superior perfection of products referable to this division of labour. He has cited, among other examples, the manufacture of pins. The workmen occupied in this manufacture execute each but one part of a pin. One draws the wire, another cuts it, a third sharpens the points. The head of the pin alone requires two or three distinct operations, each performed by a different individual. By means of this division, an ill-appointed establishment, with but ten labourers employed, could make 48,000 pins per day, by Smith’s account. Whereas if each person were obliged to finish off the pins one by one, going through every operation successively from first to last, each would probably make but 20 per day, and the ten workmen would produce in the whole but 200, in lieu of 48,000.

“The division of labour cheapens products, by raising a greater quantity at the same or a less charge of production. Competition soon obliges the producer to lower the price to the whole amount of the saving effected ; so that he derives much less benefit than the consumer ; and every obstacle the latter throws in the way of that division is an injury to himself.

“ Should a tailor try to make his own shoes as well as his coat, he would infallibly ruin himself. We see very day people acting as their own merchants, to avoid paying a regular trader the ordinary profit of his business ; to use their own expression, with the view of pocketing that profit themselves. But this is an erroneous calculation ; for this division of labour enables the regular dealer to execute the business for them much cheaper than they can do it themselves. Let them reckon up the trouble it costs them, the loss of time, the money thrown away in extra charges, which is always proportionally more in small than in large operations, and see if all these together do not amount to more than the two or three per cent. that might be saved on every paltry item of consumption ; even supposing them not to be deprived of what little advantage they might expect, by the avarice of the cultivator or manufacturer they would have to deal directly with, who will of course impose, if he can, upon their inexperience.

“ It is no advantage even to the cultivator or manufacturer himself, except under very particular circumstances, to intrude upon the province of the merchant, and endeavour to deal directly with the consumer without his intervention. He would only divert his attention from his ordinary occupation, and lose time that might

be far better employed in his own peculiar line ; besides being under the necessity of keeping up an establishment of people, horses, carriages, etc., the expenses of which would far exceed the merchant's profit, reduced as it always must be by competition.

“The advantages accruing from division of labour can be enjoyed in respect of particular kinds of products only ; and not in them, until their consumption has exceeded a certain point of extension. Ten workmen can make 48,000 pins in a day ; but would hardly do so, unless where there was a daily consumption of pins to that amount ; for, to arrive at this degree of division of labour, one workman must be wholly and exclusively occupied in sharpening the points, while the rest are severally engaged, each in a different part of the process. If there be a daily demand for no more than 24,000 he must needs lose half his day's work, or change his occupation ; in which case, the division of labour will be less extensive and complete.

“For this reason, division of labour cannot be carried to the extreme limit, except in products capable of distant transport and the consequent increase of consumption ; or where manufacture is carried on amidst a dense population, offering an extensive local consumption. For the same reason, too, many kinds of work, the products of

which are destined to instantaneous consumption, are executed by the same individual, in places where the population is limited. In a small town or village the same person is often barber, surgeon, doctor, and apothecary; while in a populous city, and there only, these are not merely separate and distinct occupations, but some of them are again subdivided into several branches; that of the surgeon, for instance, is split into the several occupations of dentist, oculist, accoucheur, etc., each of which practitioners, by confining his practice to a single branch of this extensive art, acquires a degree of skill which, but for this division, he could never attain.

“ Thus, in a rich and populous country, the carrier, the wholesale, the intermediate, and the retail dealer conduct each a separate branch of commercial industry, and conduct it with greater perfection as well as greater economy. Yet they all benefit by this economy; and that they do so, if the explanations already given are not convincing, experience bears irrefragable testimony; for consumers always buy cheapest where commercial industry is the most subdivided. *Ceteris paribus*, a commodity brought from the same distance is sold cheaper at a large town or fair than in a village or hamlet.

“ From the necessity of the existence of a very extended consumption, before division of labour

can be carried to its extreme point, it follows, that such division can never be introduced in the manufacture of products which, from their high price, are placed within reach of few purchasers. In jewellery, especially of the better kinds, it is practised in a very limited degree; and such division being, as we have seen, one cause of the invention and application of ingenious processes, it is not surprising, that such processes are least often met with in the preparation of products of highly finished workmanship. In visiting the workshop of a lapidary, one is often dazzled with the costliness of the materials, and the skill and patience of the workmen; but it is only in the grand manufactories of articles of universal consumption, that one is astonished with the display of ingenuity employed to give additional expedition and perfection to the product.

“Having detailed the advantages of the subdivision of the various occupations of industry, and the extent to which it may be carried, the view of the subject would be incomplete, were we to omit noticing, on the other hand, the inconveniences that inseparably attend it.

“A man, whose whole life is devoted to the execution of a single operation, will most assuredly acquire the faculty of executing it better and quicker than others; but he will, at the same time, be rendered less fit for every other occupa-

tion, corporeal or intellectual; his other faculties will be gradually blunted or extinguished; and the man, as an individual, will degenerate in consequence. To have never done anything but make the eighteenth part of a pin, is a sorry account for a human being to give of his existence. Nor is it to be imagined, that this degeneracy from the dignity of human nature is confined to the labourer that plies all his life at the file or the hammer; men, whose professional duties call into play the finest faculties of the mind, are subject to similar degradation.

“On the whole, we may conclude that division of labour is a skilful mode of employing human agency; that it consequently multiplies the productions of society, in other words, the powers and the enjoyments of mankind; but that it in some degree degrades the faculties of man in his individual capacity.

“The external commerce of all countries is inconsiderable, compared with the internal. To convince ourselves of the truth of this position, it will be sufficient to take note at all numerous or even sumptuous entertainments, how very small is the proportion of values of foreign growth, in comparison with those of home production; especially, if we take into the account, as we ought to do, the value of buildings and habitations, which is necessarily of home production.

“The internal commerce of a country, though, from its minute ramification, it is less obvious and striking, besides being the most considerable, is likewise the most advantageous. For both the remittances and returns of this commerce are necessarily home products. It sets in motion a double production, and the profits of it are not participated with foreigners. For this reason, roads, canals, bridges, the abolition of internal duties, tolls, duties on transit, which are in effect tolls, every measure, in short, which promotes internal circulation, is favourable to national wealth.”¹

And now we come to the views of List, who advances the theory of the division of labour very considerably.

“There is a division of labour when, in the same day, a savage hunts, fishes, cuts wood, repairs his hut, makes arrows, nets and clothing. But there is also a division of labour in the case quoted by Adam Smith, when ten persons divide among themselves the various operations necessary to the manufacture of a pin. The former is an objective division, the latter a subjective division; the latter is favourable to production, the former prejudicial. The essential difference between them is, that in the one case a single person divides his labour to produce different objects,

¹ *A Treatise on Political Economy*, Vol. I, pp. 73-97.

and in the other several persons divide among themselves, or unite in, the production of a single object. The two facts might just as well be designated by the term, association of labour; the savage unites in his person different labours, and in the fabrication of a pin several persons unite their labour upon one object.

“The productive power of these operations belongs not merely to *division*, it essentially depends upon *association*. Adam Smith himself understood this; he says, that the objects necessary to the life of the most humble member of society are the product of joint labour, and the co-operation of a multitude of individuals. It is to be regretted that he did not pursue this idea of joint labour, so clearly announced.

“We pause upon this example of a pin manufactory, proposed by Adam Smith, as an explanation of the advantages of division of labour; and if we investigate the causes of the fact, that ten persons produce many more pins united in one manufacture, than if each one worked separately, we shall find that a division of the operations, without the association of productive powers for a common end, would be very little help in the production. That a favourable result may be obtained, it is necessary that the different individuals be united and co-operate in the work intellectually and bodily. He who makes the

heads of pins must count upon the labours of him who makes the points, so that he may not lose his labour by manufacturing heads which would be useless. A suitable proportion ought to be preserved in the different branches; the workmen ought to be arranged in proper proximity to secure the utmost advantage from their co-operation, and this arrangement should be secured to the labourers. Suppose, for instance, that each one of ten workmen lived in a different country; how often would their co-operation be interrupted, by wars, by difficulty of transportation, commercial revulsions, etc.? How much would the product, thus enhanced in price, and by consequence the benefit of the division of operations, be diminished? Would not the withdrawal of a single workman from the association bring to a stop the labour of all the rest?

“As the manufacture of pins can prosper only by the combination of the productive power of individuals, every manufacture, of whatever kind, can flourish only by the combination of its productive power with those of all other manufacturers. To make a manufactory of machinery prosperous, it is necessary that mines and metallic works furnish the material which it uses, and that hundreds of manufactories employ or use the machinery it manufactures. Without shops for the construction of machines, a nation in time

of war would be in danger of losing the greatest part of its manufacturing power. Manufacturing industry and agriculture, being regarded as a whole, prosper in the proportion of their proximity, and in proportion as they are less disturbed in the reciprocal influence which they exercise upon each other. The advantages of their association under one political authority are, in case of war, of national quarrels, bad crops, etc., not less striking than those of the union under one roof of workmen employed in a pin manufactory.

“The manufacture of machinery furnishes in aid of this idea a very striking illustration. The construction of machines can never attain a high degree of perfection, where one shop is obliged to manufacture a great variety of machines. To attain excellence, each establishment should apply itself to the construction of a small number of kindred machines or instruments, that these may be made at as low a price and as perfect as possible; for instance, one may manufacture machinery for cotton and woollen factories; another may make steam-engines, etc. For only in this way can the constructor afford to provide himself with such perfect tools and apparatus as will enable him to turn off good and cheap machines with the latest improvements, and employ at moderate wages the most skilful workmen and the best artists. The want of this division

of labour explains why, in Germany, the machine-shops have not attained the perfection of those of England. But the reason why this division of labour is not yet established in Germany, is because the different kinds of spinning which would create a demand for the various machines are not yet introduced there. The importation of cotton-yarn, then, prevents the manufacture of machinery for spinning cotton—it stops the manufactory of factories.

“The division of labour is not less important in other branches of manufacturing industry. Spinning, weaving, and printing upon cotton, woollen, or silk goods, for instance, cannot attain a high degree of perfection, and at cheap rates, except where the demand is sufficient to enable every manufactory to confine itself exclusively to the production of one kind of thread, cloths or prints.

“Smith maintains that the division of labour is less applicable to agriculture than to manufacturing industry; he has, however, in his view, but one manufactory, or but a single farm. He failed to extend his principle to entire districts or to whole provinces. In no place has the division of labour and the combination of productive power more influence than when each region, each province, is able to devote itself exclusively, or at least chiefly, to any special branch of agri-

cultural production for which it is particularly fitted by nature. In one place, wheat and hops succeed specially; in another, wine and fruit; in another, timber and pasturage for cattle.

“Let it be noted that the increase of productive power consequent upon division of labour, and upon the combination of individual power, begins in the private manufactory, and extends, finally, even to national associations; manufacturing industry prospers in proportion as its labour is more divided, as its labourers are more closely united, and as the co-operation of the whole is better secured. The productive power of each manufactory is greater in proportion as the whole manufacturing industry of the country is more developed in its ramifications, and as it is itself more strictly connected with the other branches of manufacture. Agricultural power is productive likewise in proportion as agriculture is more strictly united by relations at once local, commercial, and political, with a manufacturing industry complete in its various branches. In proportion as general industry is developed, the separation of the labour of agriculture, and the combination of its productive powers, take the proper form and arrangement, and by these advantages it is carried to its highest degree of perfection. The richest nation being that which possesses the greatest productive power, will be

of course that which, upon its own territory, has carried its manufactures of every kind to the highest degree of productiveness, and the agriculture of which furnishes its population of manufacturers with the chief part of the food and raw materials requisite for their wants and business.

“ Let us now change the argument. A nation pursuing only agriculture and a few of the more necessary mechanical arts, is without the first and principal division of labour among its citizens, and loses the most important half of its productive power ; it even wants that division of labour which is so needful in the operations of special branches of agriculture. A nation with an industry so incomplete is less productive by half, than one of well-arranged industry ; with a territory of equal extent, or even of much greater extent, with an equal, or even greater, population, its productive power will yield perhaps scarcely a fifth, or even a tenth part of the material wealth which a country of well-adjusted industry can produce, and that for the same reason that in a complicated manufacture ten persons can produce not only ten times more, but perhaps thirty times more than *one* alone, just as the labour of a man who has but *one* arm will not merely be one-half less, but perhaps an hundred-fold less than that of the man who has *two* arms.

“ The loss of productive power must be the

more sensibly felt as machinery is better adapted to aid manufacturing labour, and less applicable to agricultural labour. A part of the productive power thus lost by an agricultural people will go to the profit of the nation from which they derive manufactured articles in exchange for their crude products. Beyond this, however, there will be no further loss until the agricultural nation shall have reached that degree of civilisation and political development necessary for the establishment of manufacturing industry.

“By domestic industry alone can a nation protect itself against the fluctuations which war, foreign restrictions or commercial revulsions produce; by it is saved the chief part of the burden of freight and commercial profits which the export of raw materials and the import of manufactured goods involve; from the improved communications which manufacturing industry calls into existence, it derives the immense advantage of awakening into activity a vast amount of personal and natural power hitherto dormant; finally, the reciprocal action of manufacturing industry and agriculture upon each other is great in proportion as the farmer and manufacturer are in proximity to each other, and as their exchanges are less exposed to accidental interruptions.

“In the letters which I addressed in 1828 to Charles J. Ingersoll, President of the Society for

the Encouragement of the Fine Arts and Domestic Industry in Philadelphia—*Outlines of a New System of Political Economy*—I attempted, in the following words, to show the advantages of the union of manufacturing industry and agriculture in the same territory and under the same political authority: ‘Suppose that you were ignorant of the art of converting grain into flour—and in its time it must have been regarded as a great art; suppose further that the art of baking bread was unknown in the United States, as the proper processes of salting herring were unknown in England until the seventeenth century; suppose in consequence, that you were obliged to send your wheat to England to be converted into flour and bread, what quantity of your flour would England keep as the price of grinding and baking? How much of it would be consumed in the cost of carting, shipping, and by the merchants employed in exporting the grain and importing the bread! What proportion would return to the hands of him who gathered the crop? It cannot be doubted that such a process would cause great activity in the channels of foreign commerce; but it can scarcely be pretended that such a business could be favourable to the prosperity and the independence of a country. In case of war between Great Britain and the United States, what would be the condition of those who produce

grain for British mills and bakeries, and what the condition of those who relied upon England for bread? It is then clearly the interest of the grower of wheat that he should have easy access to the miller, as it is the interest of agriculture in general that the manufacturer should dwell in the vicinity of the farmer, as it is the interest of a valley that a rich and prosperous town should grow up in it; and of the entire agriculture of a country that a great and prosperous manufacturing industry should be developed within it.'

“The social economy of a nation in general must be appreciated according to the principle of the division of labour and of the combination of productive powers. Public prosperity, in the association which we call a nation, may be compared to the manufacture of pins. To ensure it the largest scope and success requires the combination of many different productive powers in close proximity and under one regular administration. The main division of labour in the nation is that of intellectual labour and material labour. These are strictly dependent upon each other. The more successfully the intellectual division extends and develops morality, religious sentiment, knowledge, liberty, and good government, the safety of persons and property at home, and the independence and power of the nation abroad, the larger will be the material production,

the greater the sum of national wealth produced, and the greater, too, will be the progress and energy of the intellectual power.

“The highest division of labour, the highest combination of powers in material production, is that of agriculture and manufacturing industry. It has been already shown that these two industries, properly regarded, make but one entire interest.

“Division of labour and association of productive powers exist also between the different nations of the world, just as between the various parts of a country. Instead of an interior or national commerce, it is international commerce which serves as the intermediate agency. But international association of productive powers is very imperfect, being frequently interrupted by wars, by restrictions, commercial revulsions, etc. Though it may in some aspects claim the highest dignity, as it connects together the different nations of the world, yet if regard be had to the particular prosperity of nations already advanced in civilisation, international association and commerce are of far the least importance, and this is what the school concedes in the maxim that the interior trade of a nation is incomparably more important than its foreign trade. It follows thence that it is the policy of a great nation to make the national or internal association of pro-

ductive powers the principal object of its study and its efforts, and to keep international association in a subordinate position as a secondary interest.

“The international division of labour as well as the national division depends mainly on climate and nature. Tea cannot be produced in all countries, as it is in China ; spices, as in Java ; cotton, as in Louisiana ; wheat, wool, fruit, manufactured articles, as in the countries of the temperate zone. It would be very unwise in a nation to attempt obtaining by national division of labour or by indigenous production, articles for which nature had not furnished the requisite power of facility, and which can be procured from climates more favourable to their production at a much cheaper rate and of better quality by means of foreign trade ; but it would imply a want of intelligence and enterprise if a nation should neglect or refuse to employ all its disposable powers in ministering to its own wants and in obtaining by its own industry such a surplus of production as will purchase all such commodities as nature refuses to its climate or soil.

“The countries most favoured by nature for both the national and international division of labour are obviously those, the soil of which produces articles of the first necessity, of the best quality, and at the least cost, and the climate of

which most favours labour of mind and body; such are the countries of the temperate zone. In these, especially, manufacturing industry flourishes, and nations attain the highest degree of intellectual and social development and political power, though they remain in some degree tributary to tropical countries and to nations of a lower culture. The countries of the temperate zone are under obligations, above all others, to carry national or domestic division of labour to its highest degree of perfection, and only to resort to the international or foreign trade for such augmentation of wealth and comfort as it is properly fitted to afford.”¹

Now we contend, and we are certain our readers will agree, that from the arguments advanced there is really no difference of view between Smith, Say and List. All that has happened is that the science has gone through a successful process of evolution, and that had it not been for List's extreme jealousy, this point might have been recognised sooner.

But List has missed the real point. Although he wisely contended that national economics extends and develops morality, religious sentiment, knowledge, real liberty, and good government, he has not advanced any argument to show how poverty can be abolished. Smith and Say cer-

¹ *N.S.P.E.*, pp. 229-243.

tainly failed to do so because they developed the theory of the division of labour from the individual standpoint or the individual manufacturer or merchant. List comes nearer to the truth in developing it from the standpoint of the association of individuals or of industries.

Our present experience has shown that in the course of time there arises great fluctuations of trade; at one time there is great depression of trade, and at another prosperity. The poorest paid workmen in a period of depression, although the prices of commodities are always then at their lowest, are literally starving, for the simple reason that they have not the wherewithal to buy the necessary sustenance. We recognise, however, that we must always have the poor with us, but we contend it is not necessary always to have abject poverty.

This particular point was quite clear to Smith and Say but not to List. But the latter evidently assumed that in the development of national productive power the matter would adjust itself.

Then, again, there is the other phenomenon, namely, the steady rise all round in the price of the necessaries of life. Some economists seem to attribute the rise in the price of commodities to an inflation of the currency. A moment's reflection will show this to be an absurd contention. To begin with, the tendency of price values in

so far as manufactured articles of utility are concerned, has always been, in normal trading conditions, on a declining scale. This favourable factor is due to large-scale production and efficient means of production. On the other hand, the prices of food and food products have been on a rising scale, and this, we contend, is due to low-scale production. If an inflated currency necessarily raises prices, it would do so in manufactured utilities equally as much as in the necessaries of life. But it has not done so, nor can it do so, provided the national credit is of a high moral order. If, of course, we were to be controlled by a Bolshevik Government, this rule would not apply.

The currency that was in existence prior to the war in this country, could by no means be regarded as an inflated currency.¹ It was based upon the national productive power, *i. e.* the needs of industry and commerce. The present war currency is not inflated, but it is based for the most part upon non-productive wealth. It is, therefore, a constantly depreciating currency, which can only be restored whenever the production of real wealth again becomes the chief end of man.

The continuous rise which has occurred in the

¹ I do not like the expression "inflation of currency." It has an immoral tone about it. A "depreciated currency," in my view, is a much better expression.

prices of the necessaries of life is due to shortage, as we shall show. In all of the commercial transactions which occur daily throughout the kingdom, the first element which enters into them is that of bargain; and as soon as an agreement has been reached as to the price to be paid, treasury notes, bank bills, or the cheque are the instruments employed to give effect to them. This fact cannot be disputed.

It must necessarily follow, therefore, that the rise in price occurs long before the currency becomes in any way affected. In other words, if shrewd merchants raise their prices because of a possible large demand and a possible shortage, additional currency must be issued to cope with, or equalise, the higher values given to utilities and commodities. From this it is clear that price values and the currency are regulated entirely by the productive power of national industry and commerce; nothing else matters. The proposition is therefore this, that if we raise prices we raise the currency; if we reduce prices we reduce the currency. If we increase production we increase the currency; if we reduce production we reduce the currency. But, as we have already shown, high-scale production tends to reduce prices, so that it will not always follow that an increase of production will necessitate an increase of the currency. It is simply a question for

intelligent minds to secure a proper analysis and to guide their course of conduct accordingly, choosing the rational course and not the irrational.

The distribution of wealth through high wages becomes absurd if the wages that are paid decrease in purchasing value. But, on the other hand, when we discuss high wages, we do not necessarily mean that workmen should reduce the theory to one of extortion. That would be a tyranny ; and we are sorry to see that this practice is often indulged in, in certain directions. High wages are not determined by the amount of money a workman may receive, but by the amount of sustenance and comfort he can purchase with the wages he does receive. In other words, by reducing costs of production in agriculture and in developing this industry very much on the lines of ordinary manufacture we can increase the purchasing value of wages without conceding an increase in the money value of wages. But the problem does not remain there.

As we have shown, the defects we point out were not fully considered by List. Indeed, he could hardly have been expected to do so. They only reveal themselves in the working out of his system in modern industry, which proves once more that it is only in the effect of things we find the defects. Now we claim that poverty and unemployment can be abolished

altogether if the division of labour and the theory of exchangeable values are scientifically dealt with. Up to the present the theory of exchangeable values has always been developed on the basis of a barter between individuals, or individual merchants or manufacturers. In detail this is correct, but it is wrong in the collective sense. The present system is conducive to violent fluctuations in price values.

Everything that is produced should be proportionate to the demands of national consumption. In that lies the whole secret. And the size of the national organisation necessary depends entirely upon the size of the population, and the amount of productive capital and credit the nation possesses. Unemployment and poverty are created simply because national productive power is ill balanced. As it is with individuals, so it must be with industries and nations.

Let us take an example. Supposing a firm of motor-car manufacturers has orders in hand for 1000 motor-cars of a standard type. The first thing a capable manager does is to estimate the amount of material he will require, the number of workmen he must employ, the wages he must pay, study the general lay, and efficiency, of his plant, etc., in order to arrive at his probable costs, which he has accurately to determine if he is to remain successfully in business. After this problem

is considered, and to ensure its success, he must time well the progress of the work throughout the workshops, his labour is so divided that one section automatically feeds the other, and no particular section contains more men than is absolutely essential to balance the productive capacity of the other sections. The material is taken from the stores, it goes to the forge department, then to the machine-shops, then to the inspection department; then possibly back to the finished stores, or to the erection department.

If, however, it should happen that a strike occurs in any one of these specialised sections, or that from any other cause the work of a section is held up, then the whole process of manufacture is paralysed for the time being. Unemployment is then created.

We may apply a parallel simile to national industry. Suppose, by way of example, we adopt the numerals 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, to represent ten spheres of national industrial enterprise. These are maintained in full employment, each meeting the full demands of each, *i. e.* exchanging the products of one for the other, no more and no less. But suppose the Government were to allow the sphere of industrial enterprise in Germany corresponding to No. 5 to dump down in this country all that that particular industry in this country could produce, then the whole system of

the scientific division of labour and exchangeable values would be thrown out of gear. We are then bound to have unemployment and poverty and a reduction of large-scale production; and *ipso facto* an increase in costs of production which only accentuates the problem of unemployment and poverty. Any intelligent business man will confirm this if he carries the simile back to that developed in the case of the motor-car manufacturer.

If a nation desires to secure prosperity, to procure all the wealth its population is capable of producing, it should as far as possible be self-contained. It is not necessary for that nation to sacrifice a national industry in favour of a foreign country; to buy manufactured utilities cheaply abroad in order to sell them dearer in the home market. Buying cheaply can only concern individuals in the satisfaction of their domestic requirements. Producing cheaply is the concern of national productive power, and the working conditions essential to maintain it at its highest point is the concern of Government.

The extent of the nation's shipping should be sufficient to deal with the importation of all natural materials required by the nation's industries and with the external commerce of its merchants and manufacturers. The internal

means of transportation should also be regulated in like manner.

The cotton and woollen, engineering, banking and agricultural industries should be of a size to meet all internal demands, and the surplus, or all that is left over after all internal demands are satisfied, may be exported to pay for such luxuries and other necessaries of life which the community as a whole may demand; and which, from its geographical situation and temperature, the country itself is unable to produce. If this general principle be scientifically developed, there need be no such thing as unemployment or poverty. It is for the Government's department of Industry and Commerce to study well the general conditions of industry, to see that any particular sphere of activity that is lagging behind is brought up to the efficient standard required and maintained by the leading ones, not by direct interference, but by the creation of favourable working conditions. If this problem receives the attention it deserves, then the nation need not worry itself seriously about the redemption of the National Debt. It will gradually redeem itself.

Every industrial sphere of activity must go in for large-scale production, consistent, as we have said, with the size of the population and the extent of its export trade. And this applies more par-

ticularly to those engaged in the production of the essentials of life, viz. the agricultural and allied industries; and it is in this direction that Ireland could render us the greatest service, and *vice versa*.

The cost of manufactured articles of utility, as we have more than once stated, has always been on a declining scale, but the cost of food and food products has been on an upward scale, hence the reason for the general demand for an increase of wages. But the demand for increased wages would not be necessary if we had large-scale production in agriculture which the farm tractor and modern fertilisers now make possible, for the first time. A farmer can now go in for intensive cultivation; he can increase the productivity of his land with the same amount of labour, resulting, of course, in a decrease of costs of production which must prove beneficial to those employed in other spheres of activity.

In other words, a reduction in costs of production makes possible what in other circumstances is impossible. Here again is demonstrated that scientific production is liable at any moment to destroy theory constructed *à priori*, and that the only safe guide to pursue is the knowledge we gain from the effect of things.

It must be taken as an accepted maxim that the inefficient producer will have to give way to the efficient if there is to be a distribution of wealth

through high wages. The aim of society must be directed towards reducing costs of production wherever possible if the harmonious relations between capital, management and labour are to be strengthened and maintained in future, if the necessary margins are to be created and shorter working hours made possible, if the existence which God intended man to have is to be realised.

From the arguments we have advanced, then, it will be obvious that if individuals, or associations of individuals, are left to trade to the best of their own personal effort only, and without the full advantages which national productive power can procure, the exchangeable value of their wealth, or personal services, will correspond only to the price which sheer necessity alone dictates.

It is the business of Government to indicate to all concerned the arts and crafts in which men may earn their living, and which the country from its geographical position and climate is best able to develop, just as any manufacturing concern would do in regard to its employees. If an employer wishes to engage a tool-maker, it is because he has a tool-room in which the tool-maker can find a prospect of fairly constant employment. The concern of every Government should likewise be directed to this same end in a national sense, *i. e.* to create for the employer a prospect of fairly constant employment. If it is

in the interests of national productive power, if the country is suited and capable of developing any particular manufacturing industry, and there are few that it is not, it is the business of Government to create the most favourable conditions, and to protect those conditions, for the employment of management, labour and capital. It is only then that the theory of the division of labour and exchangeable values can have any meaning.

Under the scheme we propose, *i. e.* a well-proportioned division of labour, there need be no limit set to production, provided every sphere of activity loyally accepts the principle of high-scale production. For it is obvious that if ten men, each following a different occupation, agree to supply each other's wants, such wants can be great or small, according to the amount of work they are prepared to devote to the satisfaction of them. This principle can be extended as far as the sustenance of life will allow; it is the only determining factor. The key to social welfare is cheap production. In first "Principles of Production" we took as an illustration the case of a sewing-machine. If the costs of production are high, only the better-class families may buy such a machine; but if the costs be low, then every family may buy one. The workman can help to make his wages "high wages" by encouraging high-scale production, for the actual wages he

receives can then buy more. Cheap production increases the purchasing value of the currency, and to bring this about should be the true aim of labour.

The extent, therefore, to which individual welfare may prosper and progress, depends upon a properly balanced division of labour; upon the favourable opportunities afforded therein; upon the laws and regulations which the State in its wisdom decrees in favour of the development of national industry, agriculture, and all of the natural materials which it may control. But, subject to this, as we have previously stated, on no account should the State restrict, participate in, grant monopolies, or interfere with, the natural freedom of trade.¹

We conclude, then, by saying that political science and economic science are inseparable. Every statesman should be made to learn this and something more. He should know how to make all dead values remunerative. He should learn, as List so ably contended, "how the productive powers of a whole nation are awakened, increased and protected; how they are diminished, checked or even destroyed; how by means of the productive powers of a country its resources can be most efficiently employed in prolonging national exist-

¹ See also *National System of Economics* (Peddie), pp. 284-288.

ence, and in securing independence, prosperity, power, civilisation, and the future well-being of a nation."

The people have the power of selecting their own Government, and they should make certain of selecting ministers who can lead the country according to its needs. And what better service could any Government render to the community it serves than to balance and provide favourable conditions of employment for all, with favour to none?

We take stand with Colwell that there can be no other basis for the science of national economics than the one of human advantage and prosperity, taking man as a moral, intellectual and labouring being. The labour, the production, the wealth, treated heretofore independently, are but means to an end. In future they must be regarded more comprehensively. To seek to develop the science from secondary elements without keeping in view the original and primary elements of consideration is the great error of the free trade school.

From the general observations we have made, in our previous work and in this one, our theory of the division of labour and exchangeable values may therefore be summarised as follows:—

1. In order that exchangeable values may be placed on a true and equitable basis, every

man employed in industry should be guaranteed a minimum wage of 25s. per week. It is only by that means that we can obtain a true starting-point.

2. That the theory of developing exchangeable values as an operation between individuals is a false one; that a workman's occupation is part of an industry, as his prosperity depends upon the favourable opportunities he may find therein. No man can live unto himself.
3. Consequently exchangeable values can only be determined as an operation taking place between industries.
4. And that such an operation, to be effective, depends upon the existence of a properly balanced division, and subdivision, of labour.
5. That the National System is the only science that can properly maintain a properly balanced division, or subdivision, of labour.
6. That the efficiency of national productive power depends upon the maintenance of a properly balanced division, or subdivision, of labour.
7. That the abolition of poverty depends upon the efficiency of national productive power, *i. e.* upon the combined efforts of united endeavour.

In order, however, to approximately achieve the ideal of a properly balanced division and subdivision of labour, it is not necessary, nor is it desirable, for a Government to actively direct, or ration, industry as a whole. All that is necessary for a Government to do in this respect is to create favourable working conditions for any industry that may prove to be in a backward condition. The ideal of a properly balanced division of labour can never be effectively achieved, but it can be approximately attained, provided the nation works harmoniously and in unison to that end.

CHAPTER V

ON EQUALITY

THE more we study the ideals of the Maximalists, the more utopian do we find them, and it is quite obvious what the end of the whole movement is bound to lead to—abject poverty and misery. The leaders of this movement attempted to distribute all existing wealth in Russia among the peasants and the proletariat (this is their definition of equality), but they seem to have forgotten, if they ever knew, that all existing wealth is relative and not actual.

Confidence and credit constitute the basis of all existing values. Take these away and what remains to the Maximalists for distribution? Nothing but the material value of property and land, because the principles governing exchange and stability of prices cease to operate. If this be so, it is obvious that the policy of the Maximalists could result only in driving the Russian people back to a primitive condition of life wherein each man would be a law unto himself.

It is through sheer misunderstanding of the issues involved that all the trouble has arisen, and in playing lightly with that will-o'-the-wisp, "Equality," from the historic aspiration, "Liberty, Equality, Fraternity," which, if pursued literally, as ignorant and passionate minds are apt to do, must inevitably lead to revolution and counter-revolution.

Now what is meant by "Equality" in the sense in which revolutionary Socialists use the word, *i. e.* as applied to human existence? It is impossible to apply the principles involved in it to the conditions of human society for the simple reason that they would run counter to all natural laws. We have weak men and strong men, we have weak men with strong intellects and strong men with weak intellects. We have also wild animals and tame animals, coarse plants and fine plants. The bees have their queen bee, and the primitive races have their kings. It may be taken for granted that the so-called capitalists did not create the natural world. On the contrary the natural world evolved the capitalists. In view of these facts where can equality come in, or how is it possible to enforce it without mankind becoming the poorer? Bearing in mind that mankind always strives after ideals, and that it will endeavour to rise to the level of its creative genius, obviously

mankind would be the poorer if creative genius ceased to exist ; assuming we are all agreed upon the process of levelling up instead of levelling down.

The salvation of Democracy lies in its choice of leaders of exceptional ability ; leaders who understand its sentiments and outlook upon life, and are able by their own personal gifts to raise Democracy to their own high level. In Russia we see what great issues depend upon leadership. The Bolsheviks have chosen Trotsky and Lenin to lead them, but their intellectual and moral standards clearly indicate that they are entirely unsuited to lead the Russian nation through a rational and progressive reformation. In a word, they are unable to impose their personal leadership upon the Russian nation because the principles for which they stand lack all moral consideration ; in fact they level down instead of levelling up ; they are destructive and not constructive. Democracy should remember the very true saying that a nation divided against itself must fall ; that it can only advance the cause of human well-being through a rational and progressive development with the assent of the nation as a whole ; and that to this end it must consent to wise personal leadership by election, and oppose by every means in its power the policy of influencing Government by strikes and mob rule. History

has always been made by individuals, never by committees; and it need not be beyond the power of Democracy to find leaders who can continue to do so. But in accepting this most salutary doctrine it must abandon the theory of equality; for the simple reason that if it forces all men to an equal station in life it destroys Liberty.

Wise leaders, the men who do most for mankind, are those who impress their conception of life, and of things that matter, upon the age in which they live; and pass on their influence to the generation which succeeds. From the economic point of view they justify their life by helping to raise mankind to a higher plane of development, stimulating it to follow orderly Government.

They impress their interpretation of life on their fellow-men, harmonise intellectual thought, convert the ugly into the beautiful, selfishness into unselfishness, by the great wisdom, exceptional ability and moral consciousness which they exercise. These are the virtues which mankind understands and which it is at all times prepared to follow in leadership wherever they are discernible. But is it possible to find these virtues in the Ramsay Macdonalds, Snowdens, Trotskys, Lenins and Hendersons? Democracy should remember that average men possess only average intelligence and that they cannot give to the people more than

they already possess. Ideals are merely conceptions, but it requires the wisdom and strong will of genius, acting with the consent of the governed, to give them actual life.

The gentlemen we mention are endeavouring to lure their less instructed fellow-men on to self-destruction and revolution by their insidious propaganda against the stability of Society. The Russian nation has been led astray because full 80 per cent. of her people could not read or write. They are now in the stupor of false ideals, but when they recover their moral consciousness, and it will require the work of a creative genius to enable them to do so, they will find themselves in the midst of ruin and devastation. As Ben Tillett has truly said, "Anarchy has completed what Hun barbarism has failed to do."

Democracy can be judged only by the success it achieves in pursuing a rational form of development; in reaching an exalted form of life; and in producing leaders of a noble and exalted type who can by their example and work give it articulation. Government for the people, of the people, by the people, there must be, but unless Democracy is in this matter guided by sane and salutary principles, humanity must suffer.

Every unfettered Democracy has brought about its own destruction; and history repeats itself in the twentieth century in the case of Russia.

Under the misguided influence of Trotsky and Lenin the Bolsheviki have destroyed all that was good with all that was bad, without any rational aim or purpose. They have deprived some of liberty and freedom without conceding them to others. They have let loose the baser instincts, and baser passions, upon life and art. They have debased the cause of humanity and its symbol, "Liberty, Freedom and Justice." They have forgotten that before the revolution of moral consciousness, which is the only one that matters, can gain full force, they must begin with self, that to impose their will and principles, if they can be justified by that name, upon the community, against the conviction of the majority of their fellow-men, is not Democracy, but Autocracy in disguise.

The symbol "Liberty, Freedom and Justice" is a much more sensible and attractive formula to use than "Liberty, Equality, Fraternity"; the former is possible of accomplishment in the literal sense, but the latter is not. It is like the "symbol of King Khephren's social organisation—the Pyramid, which in its form embodies all the highest qualities of great art, and all the highest principles of a healthy society—the greatest artistic achievement that has been discovered hitherto," a token of the highest product of art and the noblest teaching of life. As Mr.

Ludovici states in a passage of extreme simplicity in his book, *Nietzsche and Art*: "Nothing has ever excelled it, in its mystic utterance of the conditions of the ideal state in which every member takes his place and ultimately succeeds in holding highest man uppermost and nearest the sun."

The Pyramid is the "symbolic wedlock of Art and Sociology, standing with all its six thousand years of age, on the threshold of the desert, that is to say, on the threshold of chaos and disorder, where none but the wind attempts to shape and to form; and reminds us of a master will that once existed and set its eternal stamp upon the face of the world in Egypt, so that posterity might learn whether mankind had risen or declined." The Pyramid admonishes us that stability must be the foundation of the social system. It reminds us that only creative genius can raise life upwards to a higher plane which it alone can perceive. "Progress is the strengthening of the type, the ability to exercise great will power: everything else is a misunderstanding and a danger."

Equality could only have virtue if men were equally endowed in all respects and then kept equal in their positions and opportunities. But if all men were equal both as regards physical endurance and moral qualities, this world would

be a most uninteresting place to live in; most people would be bored to tears and probably die from sheer ennui. It is the present-day struggle for existence and perfection which continues to drive men onwards and upwards and keeps life interesting. But take away the incentive created by competition, whereby one man strives to excel another, and all human progress would cease. We have experience of this fact in the present war. Nowhere does the glamour of a name count for so little as on the field of battle. The men desire to be led by leaders who have demonstrated their capacity to lead, irrespective of their station in civil life. Genius, character and will power is what they seek, desire and are anxious to follow. Genius is held "uppermost and nearest the sun," and if this be a guiding principle in the Art of War, it should be so no less in the Arts of Peace and National Government.

"For opinions are a matter of will; they are always, or ought to be always, travelling tickets implying a certain definite aim and destination, and the opinions we hold concerning Life must point to a certain object we see in Life; hence there is just as great a market for opinions, and just as great a demand for fixed values to-day as there ever was, and the jealous love with which men will quote well-established views, or begin to believe when they hear that a view is well

established—a fact which is at the root of all the fruits of modern popularity—shows what a need and what a craving there is for authority, for authoritative information, and for unimpeachable coiners of opinion.”

What Democracy really means when it discusses equality is that all men shall have equal opportunities, to which no man can have any possible objection; but to attempt to make all men equal is to run contrary to the laws of Nature. In the world as we find it strong men, like strong nations, will always make, or secure advantages, which the weaker men cannot. In the race of life the men of talent, skill, energy and genius, soon get far in advance of the rest.

But they are the artists who give shape and form to our economic life; who help the weak in their struggle for existence; who impress their character upon the national will. A striking example of what men can do in this respect is afforded in the person of Mr. Woodrow Wilson, President of the United States of America, a noble type of manhood. His whole character and policy have been impressed upon the people of the United States; but the great strength of his position is mainly due to the concern he exercises in only using his fine position and authority to advance the welfare of the people from whom he derives his power, nationally and internation-

ally. He is the apex of the United States Pyramid.

“ He is the great legislator who discovered what sacrifices his people can afford to make, what things they will be able for ever to discard in order to reap the advantages of a certain mode of life. His teaching must include restraint. It is the renunciation of some things and the careful cultivation of others that builds up a noble type.

“ It cannot be said too often, therefore, that the Egyptians were a happy and contented people, and this they were because there was some power abroad in their world, and because he who wielded that power could make them believe that the human race was as high as a pyramid, although but one man perhaps could ever represent the apex.¹

“ Upwards life striveth to build itself with columns and stairs; into remote distances it longeth to gaze: and outwards after blissful beauties—therefore it needeth height!

“ And because it needeth height, it needeth stairs and contradiction between stairs, and those who can climb! to rise striveth life, and in rising to surpass itself!

“ Verily, he who here towered aloft his thought in stone knew as well as the wisest ones about the secret of life!

¹ *Nietzsche and Art* (Ludovici).

“That there is struggle and inequality even in beauty and war for power and supremacy: that doth he here teach us in the plainest parable.

“Thus spake Zarathustra.”¹

¹ Z., II. xxix.

CHAPTER VI

ART, ECONOMICS AND WORLD POLITICS

CREATIVE genius is considered by certain people to be incapable of definition, as they believe it to be something that is elusive and not positive. Now if we start from the belief that conception and truth are synonymous, we can only come to the conclusion that genius is positive and not elusive. For to be a genius in the intellectual sphere, a man must be able to give effect to some ideal which is out of the ordinary. He must be capable of intelligently anticipating events in accordance with some predetermined idea; as in the realm of pure art he must be able to impart to a canvas, or a cast, a conception that is distinctive with the impress of his personality.

Creative genius conceives a state of things far above anything which exists; but to be rational it should conform itself to a system with a direction, a goal and a purpose. A creative genius, therefore, is nothing more or less than a super-artist, a rational optimist—one who desires to give effect to some ideal which may improve the lot of man-

kind or give to human existence a more exalted organisation than it at present possesses.

But to be capable of intelligently anticipating events requires great experience and knowledge; and considerable courage and conviction is required to shape matters accordingly. To execute predetermined ideas is difficult because most people are slow to change existing habits. Even after this, success is only achieved by the ability, wisdom and discretion that is exercised in the control and development of the changed conditions. In modern business practice genius of this kind is often mistaken for business organisation; but every organisation, sooner or later, reflects the brain power, personality and character, of the individuals who control it, either for better or worse.

It can be seen, therefore, that art and economics are in essentials alike, and that if we are to solve successfully the many social problems which now require solution, we must do so through methods of art. All our economic problems are in a state of chaos and anarchy. It is the system which controls our every-day life that is inhuman; the system that considers economic science to be one of exchange and not of human well-being, and we need, as it were, the super-artist to give the system a softer and more articulate expression.

As we have previously stated, it should not be

beyond the capacity of Democracy to find a great man to lead it to greater heights than it has yet conceived, a great artist who can give to the people more than it already possesses. Some people might regard this as a form of dictatorship, but what does it matter so long as the result is beneficent? There is no greater dictator in the world to-day than President Wilson; his power is greater than that of any autocratic ruler in Europe, but it is beneficently exercised, and that same power returns to the people who gave it to him at the end of his period of office. He is elected to the Presidency for the purpose of endeavouring to give to the people more than they already possess. Should he fail in this high object, it is within the power of the people to replace him; and this is real Democracy.

“The artist, then, as the highest manifestation of any human community, justifies his existence merely by living his life, and by imparting some of his magnificence to the things about him. To use a metaphor of George Meredith’s, he gilds his retainers as the sun gilds, with its livery, the small clouds that gather round it. This is the artist’s power and it is also his bliss. From a lower and more economical standpoint he justifies his life by raising the community to its highest power; by binding it to Life with the glories which he alone can see, and by luring it up to

heights which he is the first to scale and to explore.”¹

“An instinctive character belongs also to the highest functions of human life, as in art and virtue. Wisdom proper, says Schopenhauer, is something intuitive, and not something pertaining to the intellect. It does not consist in principles and thoughts, which are carried about ready in the mind, as the result of research, but it is the whole manner in which the world presents itself intuitively to the mind. In real life the scholar is far surpassed by the man of the world, for the strength of the latter consists in perfect intuitive knowledge. The true view of life proceeds from the way in which the world is known and understood, not from abstract knowledge. The heart of all knowledge is intuition. Upon this depends the infinite superiority of genius to learning and scholarship. They stand to each other as the text of a classic to its commentary. . . .

“One of the most valuable contributions which Schopenhauer made to the history of thought, was his insistence on the view that philosophy must be brought back to the recognition of the richness of an immediate and direct knowledge of reality. It must learn that the meaning of things is to be realised more by living than by thinking. The philosopher, therefore, must be

¹ *Nietzsche and Art* (Ludovici).

before all things 'a real man,' a guide to fine living. Schopenhauer brought philosophy into relation with life, he drew it down from the icy heights, where abstract conceptions alone can flourish, to the sunny plains below, where art, with 'a spark of the divine fire,' warms and lightens the ways of man. The intuitive insight of the genius, which divines the truth through art, is a far higher form of knowledge than that of the abstract thinker."^{1,2}

The tendency of Republics and modern Democracies is towards disintegration, and if Democracy is to succeed in the attainment of its high ideals, in whatever sphere of life it may be, it can only do so by precision in Government, by selection in accordance with a predetermined National System; and the centralisation of power in a great leader. But no Democracy should concede power that is not returnable in due course.

Whilst the conception which maintains autocratic kings in power is somewhat similar to the one we are now discussing, yet there is a vast difference between the two. According to

¹ *Arthur Schopenhauer* (M. Beer, M.A.), pp. 79-80.

² I may amplify this by saying that mediocrity is controlled by instinct and will, and genius by perception and will. The objects we see in life are largely the result of our knowledge of life, and the strength of our perception and will. The characteristic of genius is therefore the exceptional power which it manifests in these respects.—J. T. P.

ancient history, kingly power was always acquired by particularly strong men either for scrupulous or unscrupulous purposes. It became a conflict of genius for power. But in this advanced age that is no reason for their offspring claiming as a right, absolute hereditary autocratic power. If ruling power is absolute, it has a tendency to become unreasonable and selfish ; apart from which no single man is capable of giving personal consideration, or a reasoned decision in regard to all the great questions which concern the happiness and welfare of humanity.

But in stating this it is not to be assumed that we are criticising the British Monarchical system, which is an evolution from the Autocratic system just referred to. British Kingly power is benevolent and has come to be recognised as the symbol of authority and orderly Government. "The King is dead. Long live the King." The King has for that very reason acquired a reverence for his person from all his subjects of every race within the Empire, and it is the system which holds us all together. But take the system away, *i.e.* the conception, and the process of disintegration will commence.

The difference between the British form of Government and the American is very slight, although one is known as Monarchical and the other Republican. For in both cases absolute

power rests solely with the people, and ruling power in both cases can only be maintained provided it is benevolent. But as we have already said, in view of the various subject races included in the British Empire, the British system is by far the best for its influence in binding all together.

But when we come to consider the relative values as applied to legislative procedure, then the American system is far superior. During his term of office, the President of the United States is not subject to petty intrigues and political combinations whose objects, more often than not, are to secure advantages which the majority of the people are not prepared to concede. The British Party system is corrupt. And so also is the French for that matter.

The British House of Commons is the apex of the British political system ; but the President of the United States is the apex of the American political system. The former system encourages the formation of small party groups which are prepared to pool or sell their votes to secure privileges which they cannot otherwise obtain ; and the Premier for the time being has often to make concessions, sometimes against public opinion as in the case of the late Home Rule Bill, in order to carry through other conceptions and ideals for which alone he has secured a mandate from the people.

It is quite clear, therefore, that no Premier of the House of Commons should be exposed to these vicious customs, nor should he have to tolerate them. It should not be permissible for any small political group—and they are usually Anti-National—to hold the balance of power, or to secure a greater influence in our legislation than their proportion of votes to the total entitle them to. There should only be two parties allowable in the House of Commons, *i. e.* the Government and the Opposition, for only then can public opinion be independently, honestly and correctly interpreted. It is only then that Democracy can hope to justify its existence and combat the reactionary force of Autocracy and Militarism. It is only then that love of country and desire to serve her will become our nearest and dearest possessions. And let it be understood that all of these considerations vitally affect economic welfare; hence our reason for discussing them.

The causes which intensify the conflict of intellectual thought in our country between classes and masses are mainly of an economic and moral character. And the principles upon which our political science is based do not stand on solid ground or on a sound faith. "All our road is slippery and dangerous."

"If we really wished, if we actually dared, to devise a style of architecture which corre-

sponded to the state of our souls, a labyrinth would be the building we should erect. But we are too cowardly to construct anything which would be such a complete revelation of our hearts.”¹

All nature is beautiful and regular ; and so is time. The regularity of time and nature is wonderful. Yet human existence by comparison is chaotic. The working conditions in which we live run at cross purposes. We have no National and International Policy, except the Christian faith, by which men can regulate their every-day life for the glory of man and finally of God. Some people are prone to criticise the Christian religion as a consequence, claiming that it does not conform to or fulfil present-day needs. But they forget that the Christian religion is an ancient one and that living existence is modern, and that it is the fault of modern society if the ancient faith and principles do not sufficiently permeate its working. God made man in His own image. Mankind should make earthly existence Godlike, or as God would wish it. It is an obligation of existence.

“ ‘ And God blessed them, and God said unto them, Be fruitful and multiply, and replenish the earth, and subdue it : and have dominion over the fish of the sea, and over the fowl of the

¹ *Nietzsche and Art* (Ludovici).

air, and over every living thing that moveth upon the earth.'

"A million times more sensitive to changes in interpretation than the column of mercury is to changes in the atmosphere, the soul of man rises or falls according to the nobility or the baseness of the meaning which he himself puts into things; and, just as, in this matter, he may be his own regenerator, so, also, he may be his own assassin.

"For, in the beginning, the world was 'without form and void,' things surrounded man; but they had no meaning. His senses received probably the same number of impressions as they do now—and perhaps more—but these impressions had no co-ordination and no order. He could neither calculate them, reckon with them, nor communicate them to his fellows.

"Before he could thus calculate, reckon with, and communicate the things of this world, a vast process of simplification, co-ordination, organisation and ordering had to be undertaken, and this process, however arbitrarily it may have been begun, was one of the first needs of thinking man.

"Everything had to be given some meaning, some interpretation, and some place; and in every case, of course, this interpretation was in the terms of man, this meaning was a human meaning, and this place was a position relative to humanity.

“ Perhaps no object is adequately defined until the relation to it of every creature and thing in the universe has been duly discovered and recorded. But no such transcendental meaning of a thing preoccupied primeval man. All he wished was to understand the world, in order that he might have power over it, reckon with it, and communicate his impressions concerning it. And, to this end, the only relation of a thing that he was concerned with was its relation to himself. It must be given a name, a place, an order, a meaning—however arbitrary, however fanciful, however euphemistic. Facts were useless, chaotic, bewildering, meaningless, before they had been adjusted, organised, classified, and interpreted in accordance with the desires, hopes, aims and needs of a particular kind of man.

“ Thus interpretation was the first activity of all to thinking humanity, and it was human needs that interpreted the world.

“ And thus all humanity began to cry out for a meaning, for an interpretation, for a scheme, which would make all these distant and uncontrollable facts their property, their spiritual possessions. This was not a cry for science, or for a scientific explanation, as we understand it; nor was it a cry for truth in the Christian sense. For the bare truth, the bare fact, the bald reality of the thing was obvious to everybody. All who

had eyes to see could see it. All who had ears to hear could hear it. And all who had nerves to feel could feel it. If ever there was a time when there was a truth for all, this was the time; and it was ugly, bare and unsatisfying. What was wanted was a scheme of life, a picture of life, in which all these naked facts and truths could be given some place and some human significance—in fact, some order and arrangement, whereby they would become the chattels of the human spirit, and no longer subjects of independent existence and awful strangeness. Only thus could the dignity and pride of humanity begin to breathe with freedom. Only thus could life be made possible, where existence alone was not the single aim and desire.

“‘Culture . . . has a very important function to fulfil for mankind,’ said Matthew Arnold. ‘And this function is particularly important in our modern world, of which the whole civilisation is, to a much greater degree than the civilisation of Greece and Rome, mechanical and external, and tends constantly to become more so. But, above all, in our own country has culture a weighty part to perform, because, here, that mechanical character, which civilisation tends to take everywhere, is shown in the most eminent degree. . . . The idea of perfection as an inward condition of the mind and spirit is at variance with the mechanical

and material civilisation in esteem with us, and nowhere, as I have said, so much in esteem as with us.' ”¹

The point we have to determine, then, is whether we shall have Government by selection in accordance with a predetermined National System or whether we shall have Government by mob rule in accordance with the present system of *Laissez-faire*, *Laissez-passer*. By the former we are assured of orderly Government, but by the latter, as experience has shown, we have chaos, anarchy and mob rule. Conditions could not be worse if a change were made, and the experiment would surely be worth while.

The working conditions which surround human existence are like a field of clay, they can be moulded, if we so wish, into a more noble and exalted form by genius. All that is required is the conception and the power to realise it.

“ Now, having reached this point, and having established—First : that it is our artists who value and interpret things for us, and who put a meaning into reality which, without them, it would never possess ; and, secondly : that it is their will to power that urges them thus to appropriate Nature in concepts, and their will to prevail which gives them the ardour to impose their valuation with authority upon their fellows,

¹ *Nietzsche and Art* (Ludovici).

thus forming a people; the thought which naturally arises is this: The power that artists can exercise, and the prerogative they possess, is one which might prove exceedingly dangerous; for while it may work for good, it may also work very potently for evil. Does it matter who interprets the world? who gives a meaning to things? who adjusts and systematises Nature? and who imposes order upon chaos?

“Most certainly it matters. For a thousand meanings are possible, and men may have a thousand shots at the target of life, before striking precisely that valuation which is most in harmony with a lofty and noble existence. And though they have been aiming for years, other interpretations are still possible.

“What is so important in the artist is, that disorder and confusion are the loadstones that attract him. Though, in stating this, I should ask you to remember that he sees disorder and confusion where, very often, the ordinary person imagines everything to be admirably arranged. Still, the fact remains that he finds his greatest proof of power only where his ordering and simplifying mind meets with something whereon it may stamp its two strongest features: Order and Simplicity; and where he is strong, relative disorder is his element, and the arrangement of this disorder is his product. Stimulated by

disorder, which he despises, he is driven to his work ; spurred by the sight of anarchy, his inspiration is government ; fertilised by rudeness and ruggedness, his will to power gives birth to culture and refinement. He gives of himself—his business is to make things reflect him.”¹

A creative genius is a rational optimist : he must necessarily be one in view of the nature of his work, which is always of a strenuous and heart-breaking order. But it is the optimism, the firm faith, and belief in high ideals, which enables genius to pursue its course with steadfastness and consistency. And to possess the qualifications essential to this work is to possess virtues far in excess of the average man. Let no man, therefore, be discouraged if he be called an optimist provided he pursue his work rationally.

There are, of course, many foolish optimists, but as there must be some good in the work they do—all of their work cannot be waste. As the old proverb says, “ ’Tis better to have tried and lost than never to have tried at all.” But these remarks can only apply to speculative thought or invention. It would be unwise to place the foolish optimist in any position of responsibility where the interests of others may be placed in hazard.

The pessimist, on the other hand, is usually a

¹ *Nietzsche and Art* (Ludovici).

cynic—a person who never can have ideals except perhaps selfish ones. He is usually a materialist who hates to do anything out of the common in case it may lose him his position or money. The pessimist is never a person who would be willing to sacrifice anything for the common good or for a friend. The pessimist always seems to forget that he cannot take his earthly goods beyond the grave. The joy of life, and of seeing unseen things is unknown to him. The pessimist has his uses, however. He is useful in carrying on the existing state of things—but he must always be the servant of circumstances—never their master. Let genius then pursue its way joyfully.

As Mr. Ludovici states, “However elementary our technical knowledge of the matter may be, we, as simple inquirers, have but to look about our streets to-day in order to convince ourselves of the ignominious muddle of modern architecture.” And the same thing may be said of the architecture of modern society.

Now our main reason for touching upon this phase of the subject is this, that we believe the National System of Economics conforms and lends itself to true art, that it affords a rich field for the activities of creative genius, and that it is only through the National System which has a definite aim and purpose that Democracy can the most readily attain to its ideals.

It is the science of Laissez-faire, Laissez-passer, which has sown the seeds of chaos and anarchy. In America, where the National System has obtained its greatest development, patriotism is aflame in the ranks of organised labour. What a contrast as compared with this country! It is clearly not the fault of the people, but of the working conditions, and the system, which surrounds their every-day existence.

CHAPTER VII

IRELAND AND THE NATIONAL SYSTEM

I

It is characteristic of the British race to be conservatively inclined towards those political institutions, and economic systems, which, for various reasons, have served it well, either in an individual or collective capacity. But history has demonstrated on more than one occasion that this same virtue has hindered the development of rational progressive movements; that it has been responsible for the failure to recognise in time the need for changes political and social. Most people are apt to forget that just as modern society has been constituted by human hands, the result of infinite effort, sacrifice and compromise, sometimes with creative genius and sometimes without, so if wise reforms are not introduced in time it can be destroyed by human hands in one hour of passion; and no more striking example is to be found than that which Russia provides to-day.

There is a large section of our population

which honestly believes that it is no longer served by the present structure of society; and it must be admitted there are justifiable grounds for this contention. Fortunately the vast majority recognise it and are most willing to modify the existing order of things to meet all just claims. But whilst they aim at rendering services for the greatest good of society, the measures that are proposed to this end do not conform to a rational system of development. Modifications are proposed which at their best are mere palliatives and do not cure. The result is that all the devotion which is given to the task does not bear fruit, and the gulf which separates the classes and masses continues to widen instead of closing, for men are being driven into extremer movements.

Just and wise modifications of the existing order of things are necessary if society is to make a rational and progressive development. But in order that this great object may be successfully achieved, all prejudices, which, in most cases, are merely the inheritance of birth, must be honestly discarded in order to clear the way for a broad and sympathetic consideration of measures which may tend to remedy the evils that exist.

It is generally recognised that the main trouble lies in the economic sphere of activity; it is in this direction that we must seek for a solution of the perplexing problems which have arisen.

As we have stated on more than one occasion, of all the great sciences none have been so backward in development as the Economic; in no other is there to be found such a conflict of intellectual thought as to method and procedure which leads us to the conclusion that a science so divided must fall.¹ The chief criticism that may be directed against our professorial economists in the school of Laissez-faire, Laissez-passer, is this, that they have developed the science of political economy, from the point of view that its main object is the production of material wealth, and that the soul of man is a mere incident in the general scheme of things. As Senator Reed has bluntly pointed out: "The great blunder of the Herr Professor of Political Economy has been that he treats human beings as if every man were so many foot-pounds—such and such a fraction of a horse power."

The fact is that our conception of the science of Government has always been based on a false idea. The welfare of the masses who labour has at all times been of secondary importance in legislation, never of primary importance, with the result that measures have been enacted in

¹ The same may be said of all existing religious faiths. Until they confine themselves to pure religious teaching, abandon the desire for supremacy over mind and body, the inclination to mix politics with religion, no forward religious movement can take place,

Parliament which, while originally intended to be of benefit to the people as a whole, have had an entirely contrary effect in practice. The whole course of our social legislation and methods of taxation is simply due to the prevailing theory of the school that a time would come in the history of the world when free trade would be accepted as the policy of all civilised nations. Even the great Frederick List fell into this error.

And whilst this fatal policy was being pursued, and we agree with Colwell that it could never be a philosophical truth, the people of Great Britain and Ireland had to allow their material prosperity to be sacrificed pending the arrival of the millennium. But the promised time of universal peace, prosperity and contentment has not yet come and never will come through free trade.

There is but one true economic science. There can be many false ones. And undoubtedly the sound one is that which can extend its application to all nationalities. But the starting-point of the science must always be Nationality; after which its general application for the conduct and guidance of nations can be considered. This would then be known as the International System—a natural development of the National. The main consideration of any Government must always be to study the welfare and interests of its citizens of all classes. The stronger nations,

like individuals, must always secure advantages which the weaker cannot ; therefore the welfare of the people must be consulted according to the conditions as they exist within the country and the geographical conditions without.

If free trade more than any other policy can secure the material prosperity of the masses who labour, the progress of social welfare, then it is the business of Government to accomplish its fullest development in the shortest possible time. Every British Government which has come into existence during the last seventy-five years has in fact endeavoured to pursue such a policy. But what has it all ended in? Nothing but discontent, and, in the case of Ireland, revolution.

In the various proposals which are now under discussion for the reconstruction of Industry after the war, we observe that free traders are strongly advocating the adoption of measures that will increase production for the purpose of export after the war, presumably to enable us to liquidate more freely our foreign indebtedness. With this policy we are in agreement. But these free traders claim that their so-called free trade system is the only one by which such a policy can be effectively achieved. The war, then, has taught these gentlemen nothing ; but a rude awakening will come.

If the great reconciliation between manage-

ment, labour and capital after the war is to be accomplished, and also between the people of Great Britain and Ireland, it must be clearly understood that the primary object of the measures that may receive parliamentary sanction is to safeguard and advance the material prosperity and well-being of those who earn their living by labour alone, and to secure that they can never at any time be subordinate to the development of foreign trade. In making this statement we are, of course, having regard to the fundamental principle and not the policy.

The necessity which prompts us to draw attention to this aspect of the question is this, that the power of a Government cannot reach beyond the interests and welfare of the people of its own nationality, or of others for whose care it is responsible. As Colwell states, "Each separate people must take care of themselves; their power reaches no further and the comprehension of their own interests must be more full than that of others." And if we build up our future national system from this basis, our science of Government and methods of direct and indirect taxation must always be technically sound. "Upward life striveth to build itself with columns and stairs," and it is only by building solidly that we can reach our ultimate destination.

"When we remember that the welfare of the

masses has no place in the theory of the free trade school, we may well apprehend that the development of their system will not be directed to that object nor be found to subserve it. The truth is, the care of men in social life is a task so complicated, so changing, requiring such faithful guardianship and finally such kindly and charitable regard, that it can never be left to a system of political economy which does not even profess to have it in view.

“The system has no provision for any inquiry whether any one man or any class of men, is happy or miserable, well or ill fed, or clothed, or lodged, or educated; it gives men the privilege of free trade whose lot in life is nothing but labour.”¹

“What is it but the mind which animates individuals? What is it but social order which makes their activity fruitful and their natural powers efficient? The better a man comprehends what he owes to the future, the more his ideas and feelings lead him to secure a favourable position in life for those nearest to him, and to make them happy; the more he is accustomed from childhood to reflection and activity—the more his generous instincts have been cultivated, and his body and mind exercised—the more advantage he had in early life of fine examples—the more occasion he had to employ his intellectual

¹ Stephen Colwell, *N.S.P.E.*, p. 185.

and physical powers for the amelioration of his lot, the less is he checked in his proper sphere of activity, the happier are his efforts, and the more assured are the results; the more order and activity give him a title to public respect and consideration, the less is his mind a prey to prejudices, superstition, error and ignorance; finally, the more he applies his mind and members to production, the more will he be able to produce, and the more assuredly will he reap the reward of his labour.

“In all these respects the principal thing is the condition of society in which the individual has been brought up and in which he moves. It is important to know if science and art flourish in them; if institutions and laws favour religious sentiment, morality and intelligence, security for person and property, liberty and justice. If in the country all the elements of material prosperity, agriculture, manufacturing industry and commerce are equally and harmoniously developed. If National power is strong enough to secure to individuals the transmission of material and moral progress from one generation to another, and to enable them, not only to employ the whole national power of a country, but also, by means of external commerce and Colonies, to employ the national power of foreign countries.”¹

¹ Frederick List, *N.S.P.E.*, pp. 211-12.

The point that List here seeks to emphasise is this, that the successful development of a nation wholly depends upon the favourable conditions which Governments may create within it for productive industry ; wherein men can use their minds, body, health and intelligence with every freedom, each individual rising to his maximum power in the accomplishment of which he will derive his greatest happiness. The test we have to put to ourselves, then, in the case of Ireland is whether the economic and political system by which she is governed has afforded her people the favourable conditions thus enunciated. We contend that the Irish people have had no such favourable conditions.

II

The Irish question, or rather the future form of Irish Government and its relation to a British National Economic System, has become the most interesting of all the political and economic problems that has arisen for consideration in the present day.

It is said that a people obtains the Government it deserves, but paradoxical though it may seem, this proposition cannot be applied in the case of the Irish people, for they have never had the power of choosing their Government. We control

Ireland by the rule of *Laissez-faire*, *i. e.* we say in effect to the Irish people, "Our economic system prevents us from doing anything which may in any way improve your economic position, or the well-being of your people as a whole. Our professors of *Laissez-faire* advise us to let everything alone to grow up like wild weeds, although some of you may try to grow roses if you can." That is in practice the effect of the system.

We have not endeavoured to govern Ireland by Art rule or by any system based on moral considerations. We have not endeavoured to give her a share in the actual prosperity of Great Britain. In a word, we have not endeavoured to give her more than she already possesses in advanced civilisation, education, and material prosperity. Ireland is mediocre, a mere reflex of the system by which she is governed. But she is capable of greater things.

In the whole history of nations we do not believe there is to be found a parallel to compare with the situation such as exists in Ireland. That country has had to bear all the disadvantages accruing from the economic policy pursued by the predominant partner, namely Great Britain, without any compensating advantages. Ireland is a purely agricultural country, and her geographical position and the lack of natural material

resources precludes her from ever becoming a great manufacturing country. Yet her agricultural industry could have been placed on a more scientific and efficient basis, if we had provided her with the necessary transportation and shipping facilities and the markets in which to dispose of her commodities in a profitable way. Not only that, but there were numerous industries which could have been usefully established in Ireland, notably in the agricultural and chemical spheres, to which the objection that there was a lack of natural materials could not have applied. All of these considerations are now not only of importance to Ireland, but to Great Britain as well, in view of the enormous war costs that have to be liquidated after the war is over.

It will therefore be seen that Ireland has received very scant consideration from the political school which forced the policy of *Laissez-faire*, *Laissez-passer*, through Parliament as the economic policy of the United Kingdom. And paradoxical though it may seem, although the Irish people have suffered more than any other section of the British population from the doctrinaire policy of *Laissez-faire*, *Laissez-passer*, the leading Irish Party have, to all intents and purposes, formed an alliance with the political force which brought it into existence, and which, more than any other, has been responsible for the downfall of

the material prosperity of the Irish nation. The motive which has brought about this combination of opposite interests is well known, namely, the anxiety of the leading Irish Party to secure by legislation absolute Home Rule for Ireland. The main object is to effect a complete detachment of the political and economic life of the Irish people from the political and economic life of the people of Great Britain; and all other interests that may tend to conflict with this are considered irrelevant by those in authority in Irish Nationalist circles.¹

The obsession which leads the Irish Nationalist Party in the pursuit of this object seems to make them overlook the future economic welfare of the Irish people; and to have made them abandon all prudence and wisdom in the consideration of matters intimately connected therewith.

Some people may assert, of course, that this curious position can be directly attributable to Irish character and temperament; but as we have a very much higher opinion of the Irish race and a considerable amount of sympathy for all that they have suffered, we do not for one moment

¹ The free trade group are naturally anxious that Ireland should have absolute Home Rule. There is no alternative remedy free traders can suggest that will improve the economic welfare of Ireland. It is a living thorn in their flesh. Hence their desire to get rid of the perplexing problems which the Irish situation presents to them for solution.

countenance any such assertion. To do so would indicate a lack of knowledge of Irish history. The downfall of the Irish nation and the estrangement of the people of Ireland from the people of Great Britain may have been influenced, as some people believe, by religious bigotry, traces of which may still be found; but the greatest factor in accentuating the downward course of the economic life of Ireland, and which is the root of all the trouble which at present exists, was the imposition of the mercantile system, and its various restraints of trade, in the seventeenth and eighteenth centuries by the British Government upon the trade of Ireland, and in the eighteenth and nineteenth centuries the imposition of Laissez-faire, Laissez-passer, adopted and maintained by successive British Governments since the year 1850. About this particular period of time it should be noted that the population of Ireland aggregated 8,000,000 souls, whereas to-day its population is slightly over 4,000,000. All reasonable men will surely agree that the system which has produced these results stands condemned. Ireland has been the shuttlecock of British economic policy. We have in two successive periods of time imposed upon her commerce the two extremes, (1) restraint of trade, (2) absolute free trade. If ever a nation has suffered for the faults of others, that nation is Ireland.

In view of these circumstances no keen student of politics can appreciate the reasons, or the motives, which have brought about the sharp division of sentiment such as exists between the people of the north and south of Ireland. Love of country and desire for her prosperity should surely have forced them to co-ordinate their respective views for the better advancement of the material welfare of their country. This aspect of the question ought to have been their guiding consideration.

As we have already indicated, the geographical position of Ireland precludes any possibility of absolute Home Rule ever proving to be a successful form of Government; and in view of this circumstance we believe that the British public ought to take a larger and more intelligent interest in the settlement of the Irish question by other means, having regard to the adversity which the doctrinaire policy of *Laissez-faire*, *Laissez-passer*, has brought upon the Irish nation.

Ireland lacks all the essential natural materials such as are required to develop a really strong nationality, politically and economically; and just as Great Britain has been responsible for the downfall of the Irish nation economically, so must she be made responsible for her recovery, and no better means could be found than the adoption of a complete National System of

Economics within which Ireland may claim her legitimate rights and privileges.

It does not appear to us to be prudent or wise for the Nationalist Party in Ireland to pursue a policy of detachment from Great Britain such as would be involved in the adoption of Home Rule. It would seem to be more desirable that they should rather concern themselves with a policy such as would enable the Irish people to participate in the material well-being and prosperity of the United Kingdom. And these observations also apply to the minority, better known as the Ulster Party. They should abandon their irrational patriotism and introduce more reason into their considerations.

We believe that Irish statesmen could find a satisfactory settlement of their difficulties, political and economic, through the medium of a Federal form of Government, or, more properly speaking, a National System of Economics applicable to the whole of the United Kingdom; and it is to be hoped it will be our good fortune to see it adopted and developed by the Imperial Government on behalf of the United Kingdom.

It may be safely stated that no nationality is complete which does not possess all of the essential economic conditions which go to assure progress and prosperity to a people. The Irish people could not make a success of any

Government which had to rely mainly for its prosperity and well-being upon agricultural pursuits.

Irish statesmen should remember that whatever form of Government is introduced into Ireland in the near future, they must take into consideration the economic conditions that will prevail after the war is over; and also the fact that no material economic progress can possibly be made in Ireland without the assistance of British banking and finance. Ireland has a ready and exclusive market for her produce in Great Britain; all she needs to make it a source of considerable wealth is increased transport facilities, *i. e.* railway and shipping. The transport services are totally inadequate to the needs of the country, and are not half as good as those which exist between any of the Scandinavian countries and Great Britain. Yet there is no material reason whatsoever why Ireland should not supply us with the commodities we now feel we are obliged to purchase in Norway, Sweden, Denmark or Holland, if the British public were so disposed. It is, therefore, necessary for Irish statesmen to exercise the utmost prudence and wisdom in all of the considerations which they may give to their present difficulties, and to the course of action they intend to pursue in respect thereto; for, in our view, the political aspect of the Irish

question is of secondary importance only. If the economic welfare of the Irish nation could be assured, the root of the present disease would be removed. Not only that, but the essential basic conditions would be created by which the people of the North and South of Ireland could unite in the development of the national prosperity and well-being of their common country.

Irish statesmen have a right to expect sympathy and support from leading intellectual thought in Great Britain, particularly from the leaders of Industry and Finance, in the economic development of their country. We are afraid, however, there is not much enthusiasm for the Irish movement, owing to the unhappy drift of current events.

The great weakness of Irish statesmanship and leadership has been its failure to attack the system of political economy under which the United Kingdom has been governed, and under which Ireland has suffered so much. The Nationalist Party have unjustly attacked the good faith and sentiments of the British people, and not the system which has been the source of all their country's troubles, whilst for the most part holding the balance of political power, and therefore the ability to destroy it at any time they chose. They have held the British people in bondage just as much as the school of *Laissez-faire* has held the Irish

people in bondage. Has history ever shown such an extraordinary example of perversity? A great deal of the sympathy and support which would otherwise have gone to Ireland has been lost to it for this very reason. Economics and politics must go hand in hand; they constitute the science of Government, and any system which fails to recognise this all-important fact must fall, as our own, we believe, is about to do.

If Irish statesmen, therefore, have any consideration at all for the future welfare of their country, they will endeavour to co-ordinate their political and economic aspirations in a manner that will attract British enterprise and finance to Ireland in the years to come. They should make up their minds to let bygones be bygones, to cast aside all real and imaginary grievances, in order that the material position may not be prejudiced by political bias. If they will do this we feel sure that the British public will cease to be indifferent and will readily respond to any appeal that is made to them for a satisfactory and lasting settlement of that very old and very vexed "Irish question."

The following passage taken from Adam Smith's *Theory of Moral Sentiments* ought to be pondered over by Irish statesmen. "The man whose public spirit is prompted altogether by humanity and benevolence, will respect the established

powers and privileges even of individuals, and still more of the great orders and societies into which the State is divided. Though he should consider some of them as in some measure abusive, he will content himself with moderating what he often cannot annihilate without great violence. When he cannot conquer the rooted prejudices of the people by reason and persuasion, he will not attempt to subdue them by force; but will religiously observe what, by Cicero, is justly called the divine maxim of Plato, never to use violence to his country no more than to his parents. He will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people, and will remedy, as well as he can, the inconveniences which may flow from the want of those regulations which the people are averse to submit to. When he cannot establish the right, he will not disdain to ameliorate the wrong; but, like Solon, when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear.”¹

And the following passage by Hume bears very much on the same point:—

“In all cases it must be advantageous to know what is most perfect in the kind, that we may be able to bring any real constitution or form of

¹ *Theory of Moral Sentiments*, Book II, p. 94 (Smith).

Government as near it as possible, by such gentle alterations and innovations as may not give too great disturbance to Society.”

And the following passages taken from the memoir of Dugald Stewart on the works of Adam Smith should be of interest :—

“ It was reserved for modern times to investigate those universal principles of justice and of expediency, which ought, under every form of Government, to regulate the social order; and of which the object is to make as equitable a distribution as possible, among all the different members of a community, of the advantages arising from the political union.

“ It is evident, therefore, that the most important branch of political science is that which has now for its object to ascertain the philosophical principles of jurisprudence; or, as Mr. Smith in his theory of moral sentiments expresses it, to ascertain ‘the general principles which ought to run through and be the foundation of the laws of all nations.’ In countries where the prejudices of the people are widely at variance with these principles, the political liberty which the constitution bestows only furnishes them with the means of accomplishing their own ruin. And if it were possible to suppose these principles completely realised in any system of laws, the people would have little reason to complain that

they were not immediately instrumental in their enactment."

The view we hold that the British policy of *Laissez-faire*, *Laissez-passer*, has done more to destroy the economic life of Ireland than the conflicting views on religion, was held by Stephen Colwell even as far back as 1856. Colwell was the most far-seeing and ablest of the nineteenth-century economists; and it is satisfactory to be able to record that the principles advanced by him and others who favoured the National System of Political Economy, have, in peace as in war, proved to be sound in theory as well as in practice. Time and history have proved them to be true and tested doctrines:—

“We cannot agree that free trade with Great Britain has been any advantage to Ireland; on the contrary, it has injured that country, and retarded its progress in wealth, power, and civilisation, beyond all estimate. That some benefit may have accrued with all this injury, need not be disputed; but it certainly cannot readily be appreciated. It is equally true that the evils of Ireland have not all come from free trade, but that a very large proportion have thus had their origin and growth, is plain from the condition of industry and labour. There is no civilised country in which there is less diversity of employment. Ireland is merely an outlying farm

of England, cultivated merely to suit the trade with England, and not with a view to the best interests of the population ; that is, such articles are cultivated as will bear transportation to, and sell in England. The industry of the country is narrowed down to agriculture, and that is narrowed to the consumption of Great Britain. The increasing population being confined to husbandry, agricultural labour increased and cheapened, until it could scarcely live on land producing abundance ; that is, although the land produced sufficient to feed the inhabitants, they could not earn enough at agricultural wages to purchase food ; and when the rot seized the potato, their chief food, a famine ensued which carried off more than a million of souls, and, including those who were driven off by its terror, depopulated Ireland to the extent of two millions. This event is a disgrace to modern civilisation. If the industry of Ireland is not varied, the same causes will produce similar results within a few generations.

“ Society being an association for the best interests of all concerned, whatever be the form of government, the omission of the government to fulfil its duty, and do the good it might do, may be as injurious to the public interests as acts that are wrong or mistaken. The government might determine that a whole population, en-

joying every possible facility and advantage for general industry, must remain agriculturists, and that individuals should have no chance or choice of any other employment, and enforce that determination very effectually by merely allowing other nations unrestrained access to its markets. By thus leaving the door open to the products of others' industry, individuals would be as positively debarred and prevented from engaging in hundreds of employments, as if these employments had been specifically forbidden by the legislature or public authority. What choice have men in Ireland of engaging in the numberless branches of industry which are open to capital and enterprise in England and Scotland? If the United States were resolved to adopt the let-alone policy, they would not need to make any positive enactments, but simply to repeal all laws in regard to shipping, port-duties, and duties on merchandise; and the people might then starve down, as has occurred in Ireland, to what would be the proper population in that case. This negative protection is precisely that which suits the importer of foreign goods. To protect the manufacture of cottons and woollens, and iron, by two hundred per cent. would not favour those manufactures so much as the omission to protect them at all would favour the importers. For such a protection would soon

beget a home industry producing articles at a cost, as has occurred even in the short duration of our protective duties, below the amount of the duty. But competition in importing is never so effective for the benefit of the public, because it tends to raise prices where the goods are purchased. Importation is more apt to be swayed by the power of capital, or by all the uncertainties and mischiefs of speculation and monopoly.

“We say, then, that where industry and capital are to have a choice of pursuits, the government must provide an arena for the exhibition of industry, and protect it from intrusion, so long as may be necessary. And where more regard is paid to the interests of the millions who labour, than to the interests of foreign trade, this industry should continue to be protected from the revulsions and gluts of foreign markets, from the cheaper labour and the insufficiently paid labourers of foreign countries, and from all other foreign causes which might disturb the relations between the home labourer and his daily bread.”

As these observations without modification are pertinent to the Irish problem of to-day, it may be safely assumed that the evils arising out of the doctrine of *Laissez-faire*, *Laissez-passer*, to which Colwell drew attention, are the root cause of the

intense intellectual conflict at present raging on this subject. The lapse of time that has occurred since Colwell wrote the words has not impaired their virtue or relevancy in any degree; in which circumstance we may surely characterise them as known demonstrated truths.

But before we proceed further let every true friend of Ireland contrast the moral and humanitarian views of Colwell with the conclusions of Professor Edwin Cannan, a typical professor of the modern school of Laissez-faire, on the same subject :—

“ I endeavoured to answer this question in the ninth essay, ‘ The Economic Ideal and its Application to Countries or Nations,’ which was written on the windy coast of County Clare, after a week spent in travelling from Larne, by the north coast to Londonderry and thence through Connemara and Galway. A journey better calculated to stimulate the inquiry ‘ What should be the national economic ideal?’ would be difficult to devise. The population of Ireland in 1908 was not much more than half what it was in 1845. Were we to agree with Adam Smith that ‘ the most decisive mark of the prosperity of any country is the increase of the number of its inhabitants,’ and to conclude that Ireland or the Irish nation had moved steadily away from what ought to be the national economic ideal for more

than sixty years? We did not go to the Aran Islands, but one of my most vivid impressions is of certain carefully walled enclosures on the shore of the mainland opposite those islands. I call them enclosures and not fields, because the word 'field' would convey quite a wrong impression, since inside the walls there was nothing to be seen but large boulders. Perhaps we were imposed upon; possibly some particularly valuable plant (or seaweed) is sheltered by the boulders; or conceivably the Nationalists of the neighbourhood put the boulders there when they heard the night before that it was just possible that two cyclists from England might pass that way. But certainly a great part of Ireland is not likely to make a dispassionate observer sigh for a return of the golden age in which 'each rod maintained its man.' *The impression conveyed to my mind was that the smaller population was much more likely to maintain itself in tolerable comfort than the greater, so that the people of Ireland, though less numerous, were better off than they were. But what of those who had been 'driven out'? In a sense, of course, they are lost; but if they had not gone (and of course, if others had not gone or been born in place of them) there would be some ten, twenty, or perhaps thirty million fewer people in the United States and a few other places; and there is not the least reason to suppose that the*

*added millions are worse off than the Irish of 1845, or even than other people in the places in which they are found."*¹

Can we wonder that Irishmen look upon Great Britain as an oppressor of their country, when such principles as those are allowed to dominate the prevailing economic policy of the country? One might just as well argue from the reasoning of Professor Cannan that a parent has a right to turn half of his children out of their home to become children of the gutter, if it suits his convenience. The fact that he brought these children into the world matters not; he can ignore this moral consideration, so long as he gets rid of a liability. In the development of the science of wealth moral considerations have no place. They are swamped by sordid materialism.

National Economics, on the other hand, is a science of production in which man is held to be a moral and intellectual being. Moral consciousness is held "uppermost and nearest the Sun." The science of production is used as a means to an end; and herein lies the difference between the false and the true science. The Professors of Laissez-faire suggest that Irishmen are to be driven out of their home if the industry and trade of their country is insufficient to maintain them in tolerable comfort. But let us assume

¹ *The Economic Outlook*, p. 32 (Edwin Cannan).

that we have universal free trade, what is to happen if every Government pursues the same line of conduct and neglects the care of its citizens? The consequences would be dreadful to contemplate. That a philosophy so callous and cruel could ever have been taught at our universities and colleges in the twentieth century by those who pay lip service to the principles of liberty, freedom, and justice, will one day be regarded as the chief intellectual and moral drawback of the age.

In the following quotation we have another example of the perfect literary style; we wonder what Irish statesmen and the leaders of organised labour think of this brutal doctrine:—

“Labour has not only no natural price, but also no market price, no price at all. It is not purchased or sold; no one buys it, no one sells it, no one would take it as a gift. What is bought and sold is not the labour, but the commodities and services produced by the labour; not the labour, but the work done by the labour.”^{1, 2}

¹ *The Economic Outlook*, p. 75 (Edwin Cannan).

² Since completing this book I came across a review of my last work by Professor Cannan in the *Economic Journal* which I had not previously seen, else I should have replied to it sooner. Evidently this gentleman resented my attacks on the Professors of *Laissez-faire*, as his review wholly consists of a personal attack, chiefly on faults in grammar and literary style. I have replied to him to the effect that business men, in their

We have had the classical work of Gibbon on *The Rise and Fall of the Roman Empire*. We hope that at some future time a historian may be found who will write a similar work on the Fall and Rise of Ireland. He will not forget, we hope, to study the influence Laissez-faire has had on the fall of Ireland. That she has yet to rise goes without saying, but it will only be accomplished by throwing off the shackles of Laissez-faire.

If due regard is to be given to the circumstances that have brought about the decline of Ireland's population, is it possible for us, or is it

search for practical knowledge, look for common sense and not for foolish chatter in the best literary style, and that in the great University of Industry and Commerce in which we are brought up, we recognise early in life that if an opponent indulges in personal abuse it is a certain indication that he has a weak case or a weak head. Professor Cannan did not attempt to reason with my contentions, but that is perhaps due to the fact that his intelligence is not sufficiently developed. However, in view of the personal attention he saw fit to give to my work, it was evidently worthy of it, I took the trouble to get together some of the books he had written, and in the first one I picked up I found within the first seventy-five pages many absurd assumptions, of which the above quotations are perfect examples. I was indeed fortunate in finding it, as it provided me with an excellent illustration of the views held by the school I am opposing. To that extent I am deeply indebted to Professor Cannan. If ever Ireland had a just cause for grievance it is to be found in the inhuman and immoral doctrines imposed upon it by the Professors of Laissez-faire.

even wise, to consider measures which at their best merely compromise the situation and afford no remedy at all? Is it possible for the people of Ireland to pursue or maintain a successful economic policy if they are divided against themselves? if they are compelled to resort to political intrigue instead of concentrating their energies upon economic measures designed to advance the material welfare and prosperity of their population?

“ In the course of ages such circumstances, however, must, at some time or other, happen. But though empires, like all the other works of men, have all hitherto proved mortal, yet every empire aims at immortality. Every constitution, therefore, which it is meant should be as permanent as the empire itself, ought to be convenient, not in certain circumstances only, but in all circumstances; or ought to be suited, not to those circumstances which are transitory, occasional or accidental, but to those which are necessary and therefore always the same.”¹

The patriotism which inspires us all at this time should not seduce us into effecting, or consenting to, settlements, which can have no permanency; such as, for instance, whether the Nationalists or the Ulster Party shall control the

¹ *Wealth of Nations*, p. 657 (Adam Smith).

counties of Tyrone or Fermanagh, or as to whether a clean cut shall be effected between the six north-east counties and the rest of Ireland. There can be no division of association or responsibility in the Government of Ireland by the people of Ireland; they must stand or fall together, and British statesmanship would indeed be barren if it now failed to establish the Federal or National System of Economics, as the only satisfactory alternative to the empirical system which now prevails not only in Ireland, but throughout the United Kingdom.

The real point at issue, then, is whether the people of Ireland desire to create a national division of labour of their own, or whether they will agree to participate in a national system designed for the whole United Kingdom. There can be only one answer to this question. Ireland has not, as we have observed, the essential conditions necessary to create a system of her own. But she has the power to enforce the adoption of one for the United Kingdom out of which she can derive such rights and privileges as are due to her, *i. e.* she can secure that proportion of the division of labour which her climate, geographical position and people, are admirably suited to develop. And it is in this direction that the only true solution of the Irish question can be found.

ON THE FEDERAL SYSTEM

It is now necessary to give consideration to the Federal theory of Government, or, in other words, the policy that is understood to be involved by those who use the phrase. There are many people who favour a Federal form of Government, but they have only a vague notion of the fundamentals that are essential to ensure the success of the system.

The main object which most people have in view in advocating the Federal theory of Government is to devise a system which will relieve the Imperial Parliament of all matters of purely local interest, and hand them over to provincial legislative Assemblies, which are naturally in a much better position rightly to settle them, having regard to their greater knowledge of local circumstances.

The main idea is technically sound and there can be no argument levelled against it from this standpoint, but the guiding principle which ought to run through the scheme is that of an organisation within an organisation. In other words, the Provincial Assemblies should arise out of and be subordinate to the House of Commons.

As the chief function of every Government is, or ought to be, the welfare of the people, the use of the term Federal system or Federalism is

to be deprecated unless it is the intention fully to enforce all the principles which run through and constitute the system. As we aim at economic security and prosperity, and we owe Ireland a great deal in this respect, Federalism to be effective must embody a "National System of Economics," or, to those who may object to the use of a scientific expression, a "National System of Commerce" as used by List.

In the case of Ireland, for instance, there is very little use in discussing the application of the Federal system to that country if it is not the intention to apply it as a general measure throughout the United Kingdom; because the advantages hoped for from such an organisation could not otherwise be secured, and if we were to create the impression that it was not our intention to apply the system to the United Kingdom as a whole, no settlement of the Irish question on Federal lines could be considered permanent or have any prospect of success.

The main objective which the political factions in Ireland have in view, each in its own way, is political and economic security. And if credit is to be given to their honesty of purpose, which we can see no reason to doubt, this can be their only objective. But it is quite clear that each of these factions recognises that the existing political system of *Laissez-faire* is not able to

give the security that is needed. Hence the reason of the misapprehension, fear and distrust, which exists between them ; but which, for the most part, could be avoided if these same factions would only take to heart the great national principle involved in the following lines by Macaulay :—

“ As we wax hot in faction,
 In battle we wax cold ;
 Wherefore men fight not as they fought
 In the brave days of old.
 Then none were for the party,
 Then all were for the State ;
 Then the great man loved the poor
 And the poor man loved the great.”

Our existing political and economic systems do not afford scope for any political faction, they are not capable of being used by any leader, no matter how brilliant he may be, for the attainment of great ideals. Democracy, in fact, has yet to find that system of Government which can, in reality, give liberty, freedom and justice to all citizens. A free democracy imbued with the doctrines of Laissez-faire and the theories of Carl Marx, can impose worse tyrannies than any autocracy ever dreamed of.

As Montesquieu has said, “ A nation in a state of servitude labours rather to preserve than to acquire. A free nation labours rather to acquire than to preserve.” He further adds, “ It is in

free countries that men of trade encounter innumerable obstacles; they are never less hampered than in countries not free."

British democracy has given freedom to Ireland, but as it has denied to Ireland the right to develop its agricultural and industrial capabilities to the utmost possible extent, the freedom it has given is a sham. Can anyone suppose that if real freedom had been given to the Irish people to develop its agricultural and industrial prosperity we should have had the antagonisms which now exist?

"To offer the individuals of a whole nation the largest industrial liberty, is neither boon nor advantage; it is mere mockery. It is worse; it is a liberty which inures only to those who already enjoy immense advantages over the mass of society; to prey upon those less gifted, upon the bone and sinew, the real producers, at their pleasure.

"The idea of promoting human happiness or advantage by regarding all the individuals of the world as free from any national care or restraint in what concerns trade, is too absurd ever to have been adopted, but under some urgent motive."¹

We can quite understand, of course, the feelings of the Ulster people, who are intensely

¹ Stephen Colwell, *N.S.P.E.*, p. 255.

loyal to the Union with Great Britain, but we can equally understand the feelings of the people on the other side, many of whom are prejudiced against the Union because of the many wrongs Ireland has suffered economically from it. Yet it is quite clear that both factions are aiming for the same ideals, but each in its own way. The Ulster group desires to maintain the Union because it believes that its material welfare and prosperity is best secured by the closest connection with Great Britain. The Nationalist group maintains the contrary; it believes that Ireland's greatest prosperity, judging from its past experience, can best be promoted by dissolving the Union. Yet if we were asked which of the two views we should favour, in the present condition of our State organisation, we should have difficulty in coming to a decision. We are, therefore, reluctantly forced to the conclusion that until the people of Great Britain themselves have a clearer conception of the function of Government, we shall not be able, nor can we reasonably expect, to arrive at that stage at which all can be for the State; at which there would be a fair prospect of harmony and perpetual peace at long last dawning upon this land.

Federalism, then, will not overcome the present dissensions unless the constitution or organisation which it provides has regard to the well-being

and prosperity of all citizens. We have political union with Ireland, but there is no real commercial union; and herein lies the root of the whole problem. We cannot expect to maintain the one without the other. What is most needed is a Government which will provide for both, a system of wise laws and regulations, and if this could be established, we should then be able to offer such working conditions and security as are necessary to overcome the fears and prejudices of the factions in Ireland. It is only after this necessary reconstruction has been effected that the full advantages of the Union will accrue to Ireland and Great Britain alike.

Federalism, as commonly understood, presupposes a system; and every nation must have a political and economic system framed to suit its own requirements. The United Kingdom is an association "designed to obtain and realise all the advantages which united power and wisdom can secure for a people. However this object may be modified or limited by forms of Government, or ancient customs and legislation, the same great motive remains. The legislation of civilised countries, the skill, knowledge and experience of statesmen are, or should be, chiefly directed to this point."¹

Whatever system of Federalism our statesmen

¹ See *A National System of Economics* (Peddie), p. 269.

in their wisdom may decree for these Islands should be wide and comprehensive. But no national Government can afford to allow itself to be restricted in its powers as regards the present and future social interests of the United Kingdom. For instance, no Central Government can afford to surrender its legislative control over the customs and excise, railways and shipping, post office, telephone and telegraph systems, naval and military forces—the main arteries in the constitution of the nation. But similarly no Central Government should neglect their development to the utmost efficiency possible if by so doing it may advance the material welfare and prosperity of its people. And there can be no higher interest for the concern of any Government than this. It is in the pursuit of this high ideal only that our Government may hope to evolve harmony and peace from the present strife and ill-feeling which prevail in Great Britain and disturb the relations between Great Britain and Ireland.

“Does not every government repress all improper movements of the working classes to gain undue advantages? Does it not regulate the rate of interest and check the efforts of speculators? Does it not watch over the weights and measures of sellers? Does it not prescribe the rates of tolls, ferriages, and the freights on rail-

ways and canals; the inspection of many articles of trade, and the manner in which they must be prepared for market; the registry and sale of vessels, with many restraints and many requirements; the inspection of steamers, with their engines; regulate the trade in powder and spirituous liquors; grant or refuse licences to brokers and traders in particular ways and places; regulate the coinage of money; the whole business of banking, the form of promissory notes and the liabilities of parties to them; the business of insurance; the whole proceedings in cases of insolvency?

“But why attempt to enumerate the cases in which government intervenes necessarily in the business of individuals; restraining, directing, forbidding, guiding, assisting and protecting? No government could exist one year in which such powers were not exercised. Now it is true enough that the school may not contemplate the withdrawal from government of such powers; but the school has never drawn the line showing where the government may go, and beyond which it must not pass, in regulating the industry of individuals. It cannot draw any such line, because its own logic sweeps away all intervention. It has attempted to avoid the difficulty by simply severing all connection between politics and political economy. It requires governments to

confine themselves to politics, which it does not define, and not to violate any of the laws of political economy, which it does define. It permits governments to exercise such powers as are left to it, the domain of political economy not being entered nor invaded.”¹

If we turn to Adam Smith and study his observations on the trade of Ireland, further guidance may be obtained:—

“Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government.”

“The extension of the custom-house laws of Great Britain to Ireland and the plantations, provided it was accompanied, as in justice it ought to be, with an extension of the freedom of trade, would be in the highest degree advantageous to both.”

“Without a union with Great Britain, the inhabitants of Ireland are not likely for many ages to consider themselves as one people. . . . It would, at least, deliver them from those rancorous and virulent factions which are inseparable from small democracies, and which have so frequently divided the affections of their people, and disturbed the tranquillity of their governments, in their form so nearly democratical. In the case

¹ Stephen Colwell, *N.S.P.E.*, p. 261.

of a total separation from Great Britain, which, unless prevented by a union of this kind, seems very likely to take place, those factions would be ten times more virulent than ever.”¹

In these shrewd thrusts Smith is remarkably prophetic. Yet there are many people who still fondly cling to the notion that he was an advocate of free trade. No one saw more clearly than he the working conditions essential to the prosperity and success of the Union.

Federalism to be technically sound and to have any hope of success should provide for a National System of Economics, a system of principles which in the words of Adam Smith “can run through and be the foundation of the laws of the nation.” A system of principles which will, in reality, give freedom, justice and security to all in the pursuit of their material welfare with favour to none. But successful organisation is essential. And no Government should ignore the fact that the greatest business of the country is the Government of the Country; in the conduct of which sound business principles and efficient management should at all times apply.²

As a race, the British people comprehend the science of politics better than any other people, but they have failed to perceive that political

¹ *Wealth of Nations*, pp. 728, 749, 758.

² See *A National System of Economics* (Peddie), p. 264.

science and economic science go hand in hand and are inseparable; that in reality they constitute national power, and that, therefore, they should be the instruments which our representatives in Parliament, and the Government, should employ with such wisdom and discretion as they may possess in advancing the higher interests and civilisation of the race.¹

In the *Sunday Times*, May 19, 1918, Mr. Harold Cox states that "the Nationalists demand Home Rule because in their conception Ireland is a nation alien to Great Britain and fundamentally at enmity with England. Therefore, though it may be wise, even in the time of war, to consider the question of framing a new Federal constitution for the United Kingdom, it is a foolish thing to undertake such a task with the idea that it has any relation whatever to the Irish question." We do not for one moment agree with Mr. Cox provided the Federal constitution is framed on the lines we suggest. But if it is to be combined with Laissez-faire then we agree that it had best be left alone. Separation would then be the only solution of the difficulty. On the other hand, we would remind Mr. Cox of Dugald Stewart's dictum already quoted: "In countries where the prejudices of the people are widely at variance with these principles, *i. e.* the principles

¹ See *A National System of Economics* (Peddie), p. 272.

which ought to run through and be the foundation of the laws of all nations, the political liberty which the constitution bestows only furnishes them with the means of accomplishing their own ruin. And if it were possible to suppose these principles completely realised in any system of laws, the people would have little reason to complain that they were not immediately instrumental in their enactment." This is sound philosophy, but what is needed more than anything else for its realisation is wise personal leadership.

The only question in doubt is whether the Government possess the requisite leadership and courage to frame a constitution free from any party bias, and designed for one purpose only, namely, the best interests of the people. No greater opportunity ever presented itself to any Government than that which now exists to bring about this great consummation, so devoutly to be wished. Will the present Government have the wisdom to avail of it?

The considerations we have advanced, then, lead us to the conclusion that the only powers which can legitimately be exercised by any Irish Government in a Federal or national system of economics are such as are vested in an organisation within an organisation. The minor one must conform to the principles and policy laid down by the major one under sound business manage-

ment; but, as we have said, such management must at all times have the best interests of the Irish people in view. It cannot be sufficiently emphasised that the success of the whole system would depend entirely upon the wisdom and leadership exercised by the central Government; in other words, upon the form of Art rule it would develop.

In 1778 Edmund Burke wrote a letter to a merchant by name Samuel Span, master of the Society of Merchant Adventurers at Bristol, on certain Bills that were under consideration by the House of Commons relating to the trade of Ireland; and another one shortly thereafter to another merchant in the same city upon the same subject. A perusal of the remarks made by Burke creates a clear conviction that England has always failed to measure the Irish political and economic situation at its true value; and we might also add that Irish statesmen have, in like manner, evidently failed to present their actual requirements in an intelligible and practical form to the House of Commons. But as we propose to let Burke speak for himself, we give some of his remarks to the merchants in question by way of conclusion. They are clearly pertinent to the situation as it exists to-day, showing, as they do, that the same cause is still producing the same effect, again demonstrating, if demonstration

is needed, that in building up our economic system upon theoretical reasonings *à priori* we render an injustice to the people who are bound to regulate their lives in accordance therewith. In parts Burke wrote as follows:—

“The fault I find in the scheme is—that it falls extremely short of that liberality in the commercial system, which, I trust, will one day be adopted. If I had not considered the present resolutions, merely as preparatory to better things, and as a means of showing experimentally that justice to others is not always folly to ourselves, I should have contented myself with receiving them in a cold and silent acquiescence. Separately considered, they are matters of no very great importance. But they aim, however imperfectly, at a right principle. I submit to the restraint to appease prejudice; I accept the enlargement, so far as it goes, as the result of reason and of sound policy.

“We cannot be insensible of the calamities which have been brought upon this nation by an obstinate adherence to narrow and restrictive plans of government. I confess, I cannot prevail on myself to take them up, precisely at a time, when the most decisive experience has taught the rest of the world to lay them down. The propositions in question did not originate from me, or from my particular friends.

“Perhaps gentlemen are not yet fully aware of the situation of their country, and what its exigencies absolutely require. I find that we are still disposed to talk at our ease, and as if all things were to be regulated by our good pleasure. I should consider it as a fatal symptom, if, in our present distressed and adverse circumstances, we should persist in the errors which are natural only to prosperity. One cannot indeed sufficiently lament the continuance of that spirit of delusion, by which, for a long time past, we have thought fit to measure our necessities by our inclinations. Moderation, prudence, and equity, are far more suitable to our condition, than loftiness, and confidence, and rigour. We are threatened by enemies of no small magnitude, whom, if we think fit, we may despise, as we have despised others; but they are enemies who can only cease to be truly formidable, by our entertaining a due respect for their power. Our danger will not be lessened by our shutting our eyes to it, nor will our force abroad be increased by rendering ourselves feeble, and divided at home.

“There is a dreadful schism in the British nation. Since we are not able to reunite the empire, it is our business to give all possible vigour, and soundness to those parts of it which are still content to be governed by our councils. Sir, it is

proper to inform you, that our measures must be healing. Such a degree of strength must be communicated to all the members of the state, as may enable them to defend themselves, and to co-operate in the defence of the whole. Their temper too must be managed, and their good affections cultivated. *They may then be disposed to bear the load with cheerfulness, as a contribution towards what may be called with truth and propriety, and not by an empty form of words, a common cause. Too little dependence cannot be had, at this time of day, on names and prejudices. The eyes of mankind are opened, and communities must be held together by an evident and solid interest.* God forbid, that our conduct should demonstrate to the world, that Great Britain can, in no instance whatever, be brought to a sense of rational and equitable policy, but by coercion and force of arms!

“After all, what are the matters we dispute with so much warmth? Do we in these resolutions bestow anything upon Ireland? Not a shilling. We only consent to leave to them, in two or three instances, the use of the natural facilities which God has given to them and to all mankind. *Is Ireland united to the crown of Great Britain for no other purpose, than that we should counteract the bounty of Providence in her favour?* And in proportion as that bounty has been liberal, that we

are to regard it as an evil, which is to be met with in every sort of corrective? To say that Ireland interferes with us, and therefore must be checked, is, in my opinion, a very mistaken, and a very dangerous principle. *I must beg leave to repeat, what I took the liberty of suggesting to you in my last letter, that Ireland is a country, in the same climate, and of the same natural qualities and productions with this ; and has consequently no other means of growing wealthy in herself, or, in other words, of being useful to us, but by doing the very same things which we do, for the same purposes.* I hope that in Great Britain we shall always pursue, without exception, every means of prosperity; and of course, that Ireland will interfere with us in something or other; for either, in order to limit her, we must restrain ourselves, or we must fall into that shocking conclusion, that we are to keep our yet remaining dependency, under a general and discriminate restraint, for the mere purpose of oppression. *Indeed, Sir, England and Ireland may flourish together. The world is large enough for us both. Let it be our care, not to make ourselves too little for it.*

“It is hard to persuade us, that every thing which is got by another is not taken from ourselves. But it is fit, that we should get the better of these suggestions, which come from what is not the best and soundest part of our nature, and that

we should form to ourselves a way of thinking, more national, more just, and more religious. Trade is not a limited thing; as if the objects of mutual demand and consumption could not stretch beyond the bounds of our jealousies. God has given the earth to the children of men, and He has undoubtedly in giving it to them, given them what is abundantly sufficient for all their exigencies; not a scanty, but a most liberal provision for them all. The Author of our nature has written it strongly in that nature, and has promulgated the same law in His written word, that man shall eat his bread by his labour; and I am persuaded that no man, and no combination of men, for their own ideas of their particular profit, can, without great impiety, undertake to say, that he shall not do so; that they have no sort of right, either to prevent the labour, or to withhold the bread. *Ireland having received no compensation, directly or indirectly, for any restraints on their trade, ought not, in justice or common honesty, be made subject to such restraints. I do not mean to impeach the right of the Parliament of Great Britain, to make laws for the trade of Ireland. I only speak of what laws it is right for Parliament to make.*

“ It is nothing to an oppressed people, to say that in part they are protected at our charge. The military force which shall be kept up in

order to cramp the natural faculties of a people, and to prevent their arrival to their utmost prosperity, is the instrument of their servitude, not the means of their protection. To protect men, is to forward and not to restrain their improvement. Else, what is it more, than to avow to them, and to the world, that you guard them from others only to make them a prey to yourself. This fundamental nature of protection does not belong to free, but to all governments, and is as valid in Turkey as in Great Britain. *No government ought to own that it exists for the purpose of checking the prosperity of its people, or that there is such a principle involved in its policy.*

“Far enough she is still from having arrived even at an ordinary state of perfection; and if our jealousies were to be converted into politics, as systematically as some would have them, the trade of Ireland would vanish out of the system of commerce. But, believe me, if Ireland is beneficial to you, it is so not from the parts in which it is restrained, but from those in which it is left free, though not left unrivalled. The greater its freedom, the greater must be your advantage. If you should lose in one way, you will gain in twenty.

“You obligingly lament, that you are not to have me for your advocate; but if I had been capable of acting as an advocate in opposition to

a plan so perfectly consonant to my known principles, and to the opinions I had publicly declared on an hundred occasions, I should only disgrace myself, without supporting with the smallest degree of credit or effect, the cause you wished me to undertake. I should have lost the only thing which can make such abilities as mine of any use to the world now or hereafter, I mean that authority which is derived from an opinion, that a member speaks the language of truth and sincerity, and that he is not ready to take up or lay down a great political system for the convenience of the hour; that he is in Parliament to support his opinion of the public good, and does not form his opinion in order to get into parliament, or to continue in it. It is in a great measure for your sake, that I wish to preserve this character. Without it, I am sure, I should be ill able to discharge, by any service, the smallest part of that debt of gratitude and affection which I owe you for the great and honourable trust you have reposed in me."

We have placed the important points in italics, as it is evident that Burke had in mind a National System of Commerce from which the people of Great Britain and Ireland could derive mutual benefit : from the advantages of which they could flourish together.

If we go by the rules of evidence the position

of Ireland clearly demonstrates that what is best for a community in trade and industry cannot be laid down *à priori*. Free trade does not, in point of fact, give any freedom to individuals in the choice of their employments. What it professes to give with one hand it destroys with the other. The trade of the country is consigned to the care of the merchants. Free traders love to see large figures in imports and exports, forgetting all the while that the internal trade of a country is of more value than the external: that it is necessary, first of all, to build up a strong national division of labour as a base upon which to build an external trade. Free trade does not leave men free to choose their employments; on the contrary, it deprives them of that privilege. It subjects man to the competition, the changes, and the chances, of foreign trade: in fact, to every industry in foreign countries possessing a highly developed national productive power.

Is it too much to expect that our modern politicians may take to heart Burke's simple doctrine; that they will not go to the House of Commons and regard politics as a great game, nor look upon the lives and welfare of their constituents as pawns in the game? The economic welfare of the citizens they represent should ever be their first consideration. Political science, which we contend embraces the economic as well,

is designed for the good it can do to society; and, for this reason, it must ever be regarded as a means to an end. To look upon human beings as being mere fractions of a horse-power, as constituent elements in a process for the development of a science of wealth, and to use them as such, is, in our view, one of the greatest crimes that has ever been perpetrated upon humanity. And Ireland is one of the most glaring examples of this policy—a standing disgrace to British civilisation.

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