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POLITICAL ECONOMY IN A NUTSHELL

BY

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Testimony is like the shot of a long bow, which owes its efficacy to the force of the shooter; argument is like the shot of the cross bow, equally forcible whether discharged by a giant or a dwarf.—BOYLE.



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PREFATORY NOTE

THERE is not much waste matter in this book. True it contains only one idea. But there are only two ideas applicable to the subject and the other is a wrong one. The object throughout is to indicate where the wrong idea is perpetually turning up to do mischief, and how much better the right one is at all times, in all respects, and to the fullest extent. Of set purpose the same thing has been said in as many ways as reasonably possible : because that was the right thing and was necessary to be set in diametrical opposition to the wrong thing said by others in quite as many ways ; always under the impression of its advocate that it was something new and superior. Words have been used not

for their own sake, but to express ideas, or rather the one idea in various forms according to varying circumstances. For this cause it will be wise after reading the book to peruse the contents pages which summarize the whole in different form. Then the book itself can be read again. After which the author will be pleased to give respectful attention to the readers' denunciations of him accompanied by references to his pages.

PROLOGUE

THE following chapters were written in the winter of 1904-5. It is necessary to mention this in explanation of the references to passing events used as illustrations and still more in justification of the proportions of the essay. The Russo-Japanese War was proceeding, and the fall of Port Arthur was expected with a feeling of certainty created by the mechanical precision with which the Japanese seemed to move. It was confidently anticipated that the war would end with the fall of Port Arthur. Then with the increased gold production of South Africa, it seemed likely ~~there would be a plethora~~ of gold. France already had more than enough for her needs. And reviving trade would probably lead to strikes. Political economy as regards these two points obtained, therefore, an outstanding share of attention in the brief limits prescribed for the work. To have seen that the war would last until August would have required clairvoyancy or second

sight rather than the clearest vision of cause and effect.

When the President of the Economic Section of the British Association's Meeting at York this year pleaded for increased compilation of statistics, with a view to solving the problem of the unemployed, he showed that he belonged indisputably to the academic variety of impossible theorists. What sort of statistics, for instance, would be used to measure the cruelty and folly of a government which makes war unnecessarily or continues a useless struggle. Yet the conclusions of the soundest reasoning as to the future trend of economic events, deduced from the most elaborate statistics, would be blown to the winds by the first shot of a devastating war. The statistician who would then attempt to reconstruct a theory from the mass of figures, so easy to compile yet so difficult to understand in their true import, must needs watch the newspapers day by day in order to make his daily revisions in the light of passing events. If he could accurately gauge the fortunes of war beforehand and determine not only the result but also the duration of the operations, he might be able to give some useful forecast with the aid of his statistics. How useful he might have been as we entered the year 1905. But such a man should be able to manage quite well without statistics or any other

such aids to omniscience. Without the omniscience, however, his effort must end in failure. Governments and their doings could at the whim of a single potentate or his minister upset all the calculation.

Political economy is not helped by crutches or stilts of this sort. It is not a case of arithmetic and long tots, but of higher mathematics, albeit simple enough to him whose vision is cleared of confusing prejudices. Nor is it a science for teaching each individual how to manage his own business. Primarily its purpose is to enable the community, as a community, to manage its affairs with some notion of cause and effect, and with some regard to the welfare of the people who in the mass form the community. It exists, so far as it exists at all, for the guidance of governments in their duty as rulers. And sorely do they need it.

It is not only as a corrective to the extreme selfishness and overweening pride by which arrogant rulers so often lose their real power and destroy the prosperity of their people that political economy has a place in the advancement of the race. For the fact that poverty and kindred evils are talked of as if they could be cured by sentimental gush or heroic balderdash does not make it possible so to deal with them. The remedy must be something in a real sense scientific : depending on a know-

ledge of the natural facts and forces involved in the problem. This sort of knowledge is what used to be called political economy, or economics, before contempt was hurled at the "dismal science"; though it is the same knowledge if it suits the reader's taste to call it sociology, or even by some name larger, more social, or more aggressively humane. Obviously it must be accurate if it is to be serviceable.

The following pages are a brief summary of what political economy has to say whenever it sets about to say something. For its small talk, its talk without saying anything, there is no space in the compass of the book. Here is, however, enough for practical purposes by way of beginning. Indeed, it contains the whole foundation, though it does not attempt to indicate the heights, of human progress. The supply of material wants lies at the foundation of society and of the individual. Without solid foundation we waste our strength and risk ourselves. We hear much of the problem in these days, though it is usually in the third person. Few address themselves to it, and fewer still attempt to grasp it. Most of those who talk of the problem are content to notice a few details or isolated phenomena without facing the problem as a whole, or even defining what the broad general question is. Yet without that no solution is possible. Moreover,

it is easier to look at the facts as they are and argue logically and consistently what is desirable to be attained than to collate the almost infinite mass of second-hand information or suggestion, and reduce it to any sort of order. And it is perhaps more creditable. Let not the solution here offered, therefore, be called an eclectic panacea. Such a name would not be new, or true, and the compliment it would pay to the writer would be at once too great and too small.

That the arguments proceed *à priori* must be admitted—with becoming humility in view of present fashions : yet without shame. No sound thinking was ever done that did not consciously or unconsciously include both inductive and deductive methods—from cause to effect as well as from effect to cause. But if one must defend the deductive or *à priori* method it is no unwelcome task. That is the only side which finds people to flout and jeer at it, and we are forced to the conclusion that they are extreme advocates of the *à posteriori* method. The difference is, briefly, on this wise. By the *à priori* method on seeing a standing train or other obstruction in front of an express tearing away at sixty miles an hour one concludes there will be a crash involving damage and possibly loss of life. That is arguing from cause to effect. It partakes of the nature of prediction and requires care in

drawing the conclusion. The *à posteriori* method is easier and more certain. For one goes to the scene of the disaster when it has actually taken place, observes and probably photographs the scene and enumerates the dead and wounded. It is perhaps pure induction by which we conclude that there has been a collision, though it would involve deduction to enable us to know that similar circumstances would produce a similar catastrophe. The counting of the fragments would be left to the *à posteriori* method.

Thus the *à priori* line of thought postulates that human beings have certain material wants and inquires how they may be met, concluding beforehand that such and such hindrances will result in starvation and want. The *à posteriori* doctrine scorns such abstractions. It revels in figures and, finding the distress, proceeds to count and classify the victims. If in India it finds thousands suffering, and many dying, from starvation, it concludes, with due chronicling of the deaths and relief operations, that there has been a famine. In England with its wealth; in London with its luxury; such a term would scarcely be applicable. Yet numerous deaths from starvation, and still more suicides to avoid such a fate, are found almost side by side with the plenty and luxury. The inductive method has not yet agreed upon any satisfactory

name by which to call this phenomenon, but it is very busy indeed ascertaining the facts before it ventures to argue from the effects to the cause. Treated in that direction the facts are certainly very complicated, and although the *à posteriori* advocates have been ascertaining the facts a generation or two, we must give them a few generations more before we expect them to draw any conclusions by their methods. We must endure the facts meantime as well as we can.

In all seriousness, this dread of *à priori* deductoins is largely responsible for the failure to seize the essential facts. We cannot do without *à posteriori* induction. We need it before we begin our deduction. That involves comprehension of the facts that matter. But we can get no conclusion from the statistics of poverty and percentages of crime ; tables of figures and descriptions of distress ; which are submitted to us, except that a problem exists unsolved, and that humanity awaits in pain its solution. The tabulated facts to which so many people pin their faith are mere effects of disorganization, the causes of which must be searched for amongst anterior and more generally applicable facts. Dealing with these effects without ascertaining their causes is as safe a way to make bad worse as could well be found.

When these inductive statisticians come to us

with tables showing that of observed human beings a certain percentage had stomachs and required food whilst the remaining percentage were free from this tendency, we may begin to have more respect for the statistics and percentages by which confusion is so often rendered worse confounded. So far as at present appears the proportion of human beings who can continue to live and move without foodstuffs of some description, is so small as to be a quantity quite negligible for this science. It is hoped that this will not be deemed a rash overstatement, and that it will indicate the sort of facts with which the science must deal. The facts we need to ascertain at the outset are the universal facts affecting all mankind, whether they apply to the needs of mankind or the means of supplying those needs.

To come to us with a statement of the numbers of people who lack indispensable subsistence and are unable to find a place of profitable occupation is only to tell us something is amiss. But what is amiss? That is the question we require to have answered. "Thou entire blockhead," the shade of Carlyle might well say to an economist who brought such a statement, "That is proof thou hast not learnt thine own lesson. Get back to thy desk and grapple with the problem; bring me not thy paltry ciphers. These figures only show the

errors. These unemployed are a remainder where there should be no remainder. Sit down again and betake thyself seriously to the discovery of thy mistakes. And mark this well! keep silence until thou hast found them. Thy prating will be soon enough when thy task is finished, and thou hast a solution without inconsistencies."

December 31, 1906.

CHAPTER I

Loose him and let him go

THE principles with which political economy has to deal should be cut out clearly from other questions. It essentially deals with material objects : to lose sight for an instant of that solid ground involves confusion. But it deals only with social relations as affecting those material objects. And discussions as to, for instance, the amount of corn possible to be grown per acre under the most favourable conditions are outside its strict province. Such and similar subjects are often introduced in economic inquiries to the confusion of the issue. It may occasionally be worth while for a moment to pass the boundary. But whenever this is done the fact should be clearly noted, and the stay beyond the border line made as brief as possible.

It is not essential to a right understanding

of the subject that the mind should be burdened with elaborate definitions. Such definitions frequently make it more difficult to understand what is meant, while it not seldom occurs that we understand perfectly the meaning of a term without being able to define it. But we must grasp clearly the essential significance of the factors we use and hold closely to the same meaning for the same term in all our discussions. And we must also know what it is we seek as the result of our investigation. Failure on either of these points is fatal.

Amid many minor and contributive issues, the problem is how to secure regular and abundant feeding, clothing, housing and other material comforts for every member of the community. But we must assume (as with absolute safety we may) that the materials are producible given the social conditions which are most favourable to their production and distribution amongst consumers. We may venture to leave the question of the food supply of the future until at least we have found how to feed the people in the present with the food now awaiting purchasers. And

before getting alarmed at the possible failure of supplies hereafter we had better consider how to make profitable use of the economic resources which now force themselves on our attention by their very idleness.

In this problem of current supply regularity is even more important than plenty. Alternate fasting and feasting is bad, physically and morally, for the individual and for the nation. Moreover, regular abundance is the best safeguard against demoralizing excesses of consumers. Those who usually lack the necessities of life, or get them in insufficient quantities, are in the greatest danger of gluttony or drunkenness whenever for a time excess is possible to them, and are very apt to take such kinds of food or drink as do not conduce to their physical and other well-being.

The problem is unsolved if the superabundance which some enjoy is found side by side with the unsupplied needs of others. Such superabundance and lack do not in any real sense counterbalance each other. On the contrary, a condition of this kind is the clearest possible proof that political

economy is misunderstood or not applied.

Such physical or mental incapacity to work as is not provided for by parental rights and responsibilities must be met by the care and assistance of the well disposed or by the provision of the whole community, but in either case with proper safeguards against increase or perpetuation of that condition. And in the safeguards referred to regard must be had to the responsibility of parents for the children whose need of subsistence they have added to the community's total requirements. Incalculable mischief is likely to result from adding, unduly, to the burden which the thrifty and industrious find in the care and maintenance of their own children, the additional burden of the care and maintenance of children whose parentage renders it probable that their cost will be heavy and their usefulness undiscoverable.

The solution of the problem may be stated in a phrase. This conclusion may not be obvious or even acceptable to readers whose views are already dominated by the doctrines and sentiments which were generally held at

the end of the nineteenth century. But to the student of unbiassed mind the reasoning will be simple and conclusive, that if the earth affords subsistence and by the application of labour can be made to produce more of food, clothing and shelter (the objects required for supplying the need admitted to exist), then the solution of the problem is to secure for those who need this subsistence freedom to exert this labour and to let them work. This *laissez faire*, permit to do or work, is the phrase which expresses the solution of the problem. But care must be taken to avoid the common error as to its meaning. It does not mean at all necessarily leave everything as it is. Nor is it mere selfishness. Though it does not consist of, or with, the elaborate schemes for interference and control on the part of government which are so persistently offered as means of social regeneration by those who adopt a lofty disregard of the springs of human conduct, and whose ignorance of its import and overweening self-confidence enable them to sneer at *laissez faire* with pharisaic scorn.

“ *Laissez faire, laissez passer* ” means free-

dom to work and trade. This great principle of freedom or liberty has a claim for its own sake on wellwishers of society. But it is also the natural and obvious solution of the economic problem before us and the onus lies on its opponents to disprove its validity.

Various prejudices prevent its realization as an admitted theory or accomplished fact. These prejudices can, however, be easily answered, and their very consideration affords further *primâ facie* evidence of the truth of this solution. Further examination of the subject only tends to establish its truth more firmly.

Observe some of these prejudices—

(a) “This means unrestricted competition which is deadly and damnable.” Those who say this fail to realize that this competition is the effort to supply the human need for material wealth, and that the free exercise of this competition makes easier, not more difficult, the struggle for existence which is inevitable while the human race lasts. Competition is the attempt to supply, the struggle for existence is the effort to demand and consume. Restriction does not diminish the

pain of the struggle, but gives less result for more pain. Laissez faire opposes nothing except what artificially hinders free and natural effort to produce that which humanity requires.

(b) "Laisser faire has been tried and failed." This is the remark of one who would call cycling foolish or impossible because he did not progress satisfactorily on a bicycle with the brakes on, the steering gear locked, and one or both wheels elliptical. Modern civilization has never known freedom of trade save under various hindrances, and such freedom as has been enjoyed has been entirely beneficial.

(c) "Competition may be good for consumers, but the producers must have consideration." This is unspeakably mischievous nonsense. The fact is that every human producer is such because (for the very reason that) he is a consumer and (usually) has other consumers dependent on him. Consequently his interest as a producer

(1) is entirely subservient to his interest as a consumer;

(2) is only one interest as against several

interests which he has on the consuming side;

(3) depends on meeting the desires and circumstances of the consumer for whom he produces; and his interest must therefore be damaged by anything which restricts (even ostensibly for his benefit) the free and abundant purchasing of these consumers.

The restrictions imposed on employment of women and children (and in respect of dangerous trades on adult males also) depend on quite other principles, and are in no way antagonistic to the previous remarks. These restrictions are not intended to increase or diminish the rewards of labour, and it cannot be accurately ascertained what is their effect on these rewards. It is, however, possible to carry them so far that the restrictions cause mischief by interfering with the production of what constitutes the virtual reward. Though there are not wanting those who hold the doctrine that the less is produced the more there will be to divide: expressed it need hardly be said in other and perhaps less clear language. To justify these restrictions human beings have to be regarded in an aspect higher and more important than

that of either producers or consumers : that is as persons having a life, towards the enjoyment of which both production and consumption of commodities are only a means and not an end. Such regard must take account of the possibility which each life contains of suffering arising from other causes than the scanty supply of wealth. But if the livelihood of the poor is reduced below comfort in order to provide salaries for officials to superintend the conditions of their work, the restriction becomes very mischievous however good its intentions.

(d) "This allows the strong to oppress the weak." There is an ancient fable to the effect that two vessels were being carried down a stream in a flood, one of iron the other of earthenware. Said the iron vessel to that of earthenware, "You keep near me and I will protect you." "The greatest kindness you can do for me," replied the frailer vessel, "is to keep as far away from me as you can." And the very best help that the strong can give to the weaker is room to breathe and work. Now the essence of the doctrine of laissez faire is that it endeav-

ours to secure "a fair field and no favour." The opposite doctrine palpably gives an increase of power to the rulers, who surely are the strong (capable, therefore, of oppressing the weak) whether their strength consists of ancient lineage or the temporary favour of the multitude. And this extension of government sway has only to be carried far enough to become a despotism. It is true the advocates of the doctrine assume that the despotism will be unspeakably benevolent. But even at its best the only interpretation that can be applied is that the strongest who rule should compel the weaker who work to support the weakest who only groan, who are indeed prevented from doing more than that. Incidentally, this involves the maintenance of an excess of rulers as well as the support of a poor who have become additionally burdensome by reason of the conditions imposed.

But to leave the realm of parable and return to the suggested oppression of the weak by the strong under a condition of economic freedom, or *laissez faire*, let us consider how this oppression is supposed to be probable. The strongest in the economic sense is the

man who produces most. He will be likely (all things considered) to sell cheapest, and thus enlarge his trade. His oppression therefore consists of the excessive production of those desirable commodities on which the community subsists. Can any one seriously regard it as oppression to make the good things of life more abundant? If so, what becomes of the doctrine that he is a benefactor of his species who makes two blades of grass grow where one grew before.

Certainly, the usual cry is that we get overproduction by this means. But more recently we have been told that it is underconsumption, and not overproduction which produces the evil. Some term had to be invented more apparently to agree with the facts. When people are starving for want of food it is poor consolation to be told that overproduction is the evil. But while the cry of overproduction was very mischievous in that it induced people of narrow minds to attempt to stop production in their own trades where they saw the unsold stock, the explanation by the term underconsumption adds no light and suggests no remedy. And

yet having gone so far a very little consideration as to why there is underconsumption would have put us on the track of a solution of the problem. The sellers who cannot sell may be willing to believe with equal readiness in overproduction or underconsumption as the explanation of their difficulties. But the would-be buyer, who cannot buy, is in no way benefited by being told that the evil is underconsumption. He would consume more if he were allowed ; but, to state it briefly, prices put it out of his reach.

Note clearly the word prices. It is not merely the price of what he would himself consume. That through failing demand may have become very cheap, but meantime he is himself entirely out of work, and therefore out of money. He is out of work, however, because at the price of his productions his employers cannot find sufficient sale and cannot keep him in work without loss to themselves. The sale price may be low, or the cost of production may be high, but until natural forces have succeeded in asserting themselves (by methods we shall consider) the trade is comparatively stagnant. This

causes such inability to buy and consume as is obviously temporary and is seen in trade depression. Beyond this, moreover, there is a permanent poverty from similar causes which renders its victims unable to buy what they would gladly consume were it not beyond their power to purchase. This may be underconsumption in the sense just discussed, though no one would talk of overproduction in connexion with it. A freer and more plentiful production continuously offered seems the only way to put more commodities within the reach of such victims. The possibility of the strong oppressing the weak by increased freedom to produce or exchange seems more difficult to find the more we search for it.

One thing is obvious, however, not merely in the case of temporary gluts, but in that of more permanent poverty. If we had reached the limit of the earth's productivity, we might say poverty was inevitable. But we have to find some other explanation when there exists deficient demand, compared with what is desired to be consumed, at the same time as inadequate supply compared with what is easily possible to be produced. And

what is obvious is that in one form or another an influence must be at work interfering with production or exchange, thus preventing the prices of buyer and seller meeting each other. Its exact effect on prices will be better explained hereafter. It may not always be to raise them or make living more costly in money. The falling off in demand must be considered when we consider those natural tendencies we call the laws of supply and demand. But the interference, at one or more points, renders it impossible to put the commodities within reach of those who need them. These needy ones may be weak, but are yet not incapable of doing as much work as their need for subsistence involves, were it not for the hindrance which keeps them out of the sphere where they might find work to do at all.

This interference is usually the work of those who have a personal object to attain or selfish interest to serve, though occasionally it is the doing of the well meaning fool. However that may be, whether the hindrance is an unjust, tyrannical or extravagant government, a monopolising landed class, a bad

system of taxation in the interest of land-owners or huge trade amalgamations, a fussy meddling with the contracts of labourers engaged in production or exchange, or any other interference, the principle of laissez faire is diametrically opposed to it. This is what has given it the signification of "hands off" "leave alone," though its real meaning is "permit to work."

Oppression takes place when those who would eat, and must eat to live, are debarred the use of the land on which to grow food, or forbidden to exchange their other productions for food. There is no oppression in offering a larger loaf for a penny than the people have previously had offered to them, or in otherwise rendering living cheaper and more accessible. This latter is the work of the strong under the system of laissez faire. The other belongs to the opposite policy. It is not by securing to all the greatest freedom to produce that the strong are enabled to oppress the weak. It is by giving the strong (whether in wealth or influence) the power to restrict production that such oppression can be brought about. Every restriction on pro-

duction or exchange will add to the evil and oppression because the richest will be indifferent to it, the poorer only will be injured by it, and the poorest will suffer most of all; while this very advantage which the better off enjoy will bring the poorer and poorest still more under the domination of the richest. When the poor are suffering the deepest distress, the rich are enabled to enjoy the greatest luxury. There is little wonder, when we allow for human selfishness, that the richest are so ready to support any scheme of restriction which offers itself.

(e) "Freedom is useless or bad unless we have freedom all round." This is the remark of the man who, finding himself with his hands tied behind him, would persuade some one to bind his feet together in furtherance of his liberty. It takes various forms, and is not confined to those who clamour for retaliation in order to secure concord and peace. There is the man who wishes to sell his goods abroad, and finding that the people abroad can only buy from him conditionally on paying an import tax, he straightway demands that his own government shall forbid

him to buy what he needs from abroad without paying a similar tax in this country. There is also the man who ; being denied by absurd or wicked land laws and methods of taxation from having access to the land and reasonable freedom to work thereon to his own advantage ; thinks that he will compensate himself by binding himself and his like-conditioned fellows not to engage save under self-imposed restrictions in the profitable occupations which are open to them. That such people exist will not in these times be controverted, though their reality might be doubted in a more enlightened age. But it is not necessary to labour the argument that doubling the barriers does not facilitate progress.

There is, however, always the danger of imagining that to hinder another will help oneself. This in economic questions is partly the result of those variations in price which act as a gauge, and which people imagine they can regulate by altering the gauge. As though, for instance, they could change the weather by moving the hand of the barometer. They thus set up artificial interferences with prices which can only have a deleterious effect, if

any at all, on economic conditions. Changes in economic conditions can, it is true, be effected artificially by means operating on the natural causes of such change. But this merely corresponds with the power of an engine driver whose physical strength need not be more than that of a child to control an engine of which the physical power exceeds that of a hundred strong men. The engine driver must have more sense than to get in front of the locomotive and imagine he can stop it by pushing or talking to it.

The sentences quoted contain in substance the whole of the objections raised in innumerable forms to the doctrine of *laissez faire*. It should be emphasized once more that *laissez faire* does not mean leave everything as it is. The arguments against the doctrine based on this conception of its meaning are therefore not worth consideration, but they are the groundwork of a luxurious crop of words and a plentiful flow of rhetoric. *Laissez faire* means permission to work : *laissez passer* (in effect) freedom to trade. In this direction lies economic salvation. In hindrances and restrictions are to be found economic damnation. Such hindrances and restrictions are too abundant now for any sensible man to imagine

that laissez faire means leave things as they are. As has been seen it is only necessary to grasp thoroughly the meaning of the very objections raised against the doctrine of freedom and at that instant it will be realized that the freedom of each is beneficial in the matter of wealth production and tends to the wellbeing of others even apart from its being good in itself.

Those who raise the objections we have noticed fail to realize the dual nature of all exchange which is the subject of economics. The producer when he works does so for a consumer somewhere, as he hopes, existing in the world. He is himself a consumer, and if he were producing for his own consumption he would require much more persuasion than he does at present that he could benefit himself by hindering production or making it more costly and difficult. But he produces for others that they or still others may produce for him.

There are two sets of prices to be allowed for, those of buyers and those of sellers. There is a competition of buyers which raises prices. But no one seems to find that at all objectionable. It is the competition of sellers to lower prices which alone gets known as competition. This view arises because people of a trade find it so easy to get into touch with each other and because they have only one species of labour or commodity to consider which

they find is reduced in price by their competition to sell. We shall see later the nature of the error into which they fall in thinking the highest prices however brought about the best for them. Their capacity does not extend to the realization that this competition is the effort to reach the consumers for whom they produce, and that unless they do reach these consumers their producing must be unprofitable and vain. Being blinded by thinking of themselves as only producers, they do not see that all their producing is impelled by their own desire to consume the productions of others, who in like manner are trying to reach them by offering at a price at which there is ability and willingness to buy.

There is no danger whatever of their overdoing the effort to meet each other. When all are being well provided for, the whole object is attained. The unemployed will be the holiday makers, which means something altogether different. It is the lack of food and comfort which the unemployed find irksome, not the lack of work. People work for the result not for the pleasure of it. They may be trusted on the whole not to persist in working after enough has been earned to provide for their wants. They will then cease to lower prices by their competition to sell. They would not maliciously engage in irksome tasks merely to injure others. And if they did persist in the creation of excessive comfort,

those who could not work at all would be the gainers. The real danger is that, by one means or another, hindrances may be caused to the competition to produce and competition to sell. The competition to consume (not generally referred to as a competition at all) may be fully relied on to operate perpetually, and that involves the competition to buy, which therefore will avoid the cheapness so terribly feared and so often brought about by the efforts to avoid it. But this competition to buy must be supported by the necessary cash in exchange in order to sustain the prices, and that involves freedom to work and produce as a means of obtaining this necessary cash—which is an indication among so many of the folly of hindering that production on the plea of enforcing higher prices, an impossible task if cash is not being circulated.

In truth, as the older economists from James Mill realized, gluts are not the result of oversupply but of undersupply of something essential to exchange : underdemand or underconsumption is merely an inferior way of stating the problem of that undersupply and no way at all of solving it. Those economists were not however familiar with the nature and causes of the condition we know as bad trade. And we must not digress from the present point ; which is that, impelled by the love of life which sustains the struggle for existence, those who produce

compete to sell their labour or productions ; that with what they get in exchange they may satisfy their own wants. To deter their competing in this fashion not only prevents their satisfying their own wants and leaves them time or produce on their hands which they did not want (save as something to dispose of to others) but also hinders those for whose consumption they were anxious to produce from being able to buy the productions intended for them. At the enhanced prices these intended buyers lack the full amount needful for the exchange.

Every artificial hindrance or restraint on competition places a double difficulty in the way of the necessary trade. The goods lying idle, or the time wasted in the one case (beyond what the producer wished to keep for himself) have involved a diminution of his full purchasing power (not having sold he could not buy) and stopped his consuming to the full extent he would have desired. The other producer at the end of a long vista of exchanges would have had to give an increased amount of his own productions to effect the exchange. But to do so quickly enough and immediately change his trade is a practical impossibility. A great number of people would have to adjust their prices, all in a direction they do not like. Hence the adjustment is not made until after a long interval, during which the modification is forced by a lack of demand, which clearly

involves idle goods or wasted time for other producers, and thus doubles the evil.

The economic world is held together, as it were, by elastic threads of prices, which keep up connexion so long as they are not strained overmuch, but if by artificial hindrances some are strained to breaking point, an additional strain will be thrown on others, and they also will snap. The process of reconnexion is long and painful, as every period of slack trade and scarcity of employment testifies.

The foregoing explanations require most careful realization before proceeding further. And those who after careful reading and consideration at several different times find themselves unable to grasp the two sides of the infinitely repeated balancing of exchange should turn their attention to poetry, literature, or the fine arts, in which they will doubtless better succeed. But they should be careful to confine their attention to those subjects and not return to set themselves up as authorities on a subject for which they have not the appropriate mental capacity. Mischief beyond calculation or expression has been done by those for whose superiority in other directions we cannot refuse respect, but who have failed to understand the very nature of the problem of economics. They have by their powerful pens created a prejudice against the essential and beneficial processes of nature which has supported frantic at-

tempts to stop those processes, resulting in pain and death to an extent which would have grieved no one more than themselves had they but understood what they were doing. Competition, let us repeat, is the effort (impelled by the producer's desire to consume) to produce and supply those things which must be had if life is to continue and for which in the struggle for existence there must ever be striving. The more free the competition, the more successful and pleasant will be the strife, the less painful and exhausting the struggle for existence. All may then succeed, for it is not a question of being first or last, but of obtaining the wherewithal to sustain life in comfort. And the vigorous competition is what does most to make the attainment of this object easier for others. Surely this dual nature, these inseparably connected two sides of the subject, must now be clear enough to those who have sufficiently mathematical minds to grasp it

CHAPTER II

Ye shall know the truth and the truth shall
make you free

WE have hitherto devoted ourselves to—

(1) A statement of the problem which (however much elaborated and wide as the subject may become) constitutes the final object to be attained by economic investigation, though not the sum of human ambition—the *provision of food, clothing, housing, and material comfort for all.*

(2) An indication simply expressed of the natural and obvious solution of that problem which rightly applied should clear it of difficulties and secure the prosperity of the nation applying it, not less than the well-being of its people—the *utmost freedom to use means which nature has provided for producing the necessary material objects, and*

(3) An examination of some of the prejudices which prevent an unbiased judgment on,

or even adequate understanding of, the solution suggested.

But we have so far seen, as it were, only the outside of the subject. There are other considerations tending to prove the truth of the solution. Besides which it is important to know the main outlines at least of the whole subject, and to examine with some care the departments into which it may be divided for the very purpose of both testing this solution and applying it to the various departments. It is no solution at all if when applied it breaks down at any point. But it has not failed or said its last word until it has been applied at every point.

To say that restriction in one department will not remedy the evils in another department, but increase the error, is only part of the truth. There may be freedom in part of which the community reaps the advantage while mischief is being done by restriction in another department. And there are certain to be those who will attribute to the freedom the evil that is being done by the restriction. Such indeed is 'the chaos of thought on the subject that advocates of

freedom in one respect are strong supporters of restriction in another application. An advocate of free trade in commodities will give a qualified assent to free trade in land (and a system of taxation securing the freedom) but an absolute denial of the wisdom of free trade in labour. And there are other equally inconsistent combinations of opinion held by other minds. The question of currency is only saved from being the subject of similar confusions by being too difficult to afford to most persons any opinion at all, although it is simple enough were it not for preconceived errors.

There are four main departments which, taken together, cover the whole ground of economic science.

In the first place the whole question concerns itself with exchange, and that in advanced civilization involves a medium of exchange which we know as money. Each person sets upon what he has or what he wishes to acquire, a value which can best be expressed in terms of the medium of exchange to which he is accustomed. Value thus expressed is known as price. This question

of money, or the medium of exchange, with its necessary connexions of value and price, forms one main division of the whole science, having ramifications into all the other three main divisions.

The second main division may be regarded as the material universe from which every object dealt with by the science must be taken. This includes the land with its possibilities of adding to human comfort, affording the place of human residence, the air to be breathed and the material from which food and clothing must be drawn. This main division is usually known as land, but the significance of the ordinary word land must be widened to cover the earth's whole natural provision.

The third main section of the subject may be found in the labour which human beings are capable of performing, tending directly or indirectly to increase nature's provision for human subsistence and comfort. Again, it is important to remember that the term must be made wide enough. It must, in fact, include every human exertion towards the production of wealth, whether direct

or indirect. So far as the individual is concerned the test is whether it will bring him material reward, or he must find the reward in the mere exertion. It is true that much which is profitable to the individual does nothing for the nation. Possibly this is to some extent inevitable. But much labour is wasted by being misapplied. And the most pregnant cause of misapplication is the lack of knowledge of economic science and the consequent interference with what would be better left alone on the one hand, in addition to the failure to remedy abuses and injustice which create wasteful luxury on the other hand. None the less the term must include all the exertion devoted by the person engaged in it towards wealth-production, or acquirement : or in other words all that is directed otherwise than to mere amusement.

The final section of the subject is the wealth produced ; from land ; by means of labour ; for human consumption ; which when it is rendering assistance towards further production is in that aspect known as capital. This should be kept clear in dealing with economic questions from money, which is

merely the medium of exchange. John Stuart Mill's discussions concerning "£10,000 worth of capital," were confused by the introduction of that method of measuring the capital. A nation's capital consists of its present supply of food and clothing ; its roads, railways, canals, and means of locomotion ; its mills, works, houses, and other buildings, in which its work is carried on, and its shelter found ; and the preparations made towards further supplies of all these beneficial conditions of nature's material. And it must never be forgotten that only the value added to the land as nature gave it is to be regarded as capital. The foundation of it all is land.

It will be sufficient to have referred to these four main sections of the subject. The problem is found in the first section, which is the centre of the subject, and in its ramifications through the other three departments. Human need is a necessary cause of demand. It only fails itself to be the demand from the fact that a demand not backed by a supply of something in exchange is ineffective. Effective demand, where money is in common

use, means demand by persons prepared to pay the price. The whole problem is found in this question of price. There is practically no limit to supply if the price is forthcoming and supply is, after all, the desideratum despite the notion of restrictionists that demand is what they want.

Briefly expressed here are the laws of supply and demand.

Increased demand raises prices.

• **Higher prices induce supply.**

Increased supply lowers prices.

Lower prices induce demand.

These form a set of laws which operate in a condition of freedom. Those who will, without the prejudices so prevalent, carefully consider these laws will realize that of themselves they prove the sufficiency of natural tendencies, if left unrestricted, to provide abundantly for every healthy person. The sick and infirm have been sufficiently referred to.

These are not, however, the only laws. There are four corresponding laws working the other way and operating as a check on the first set.

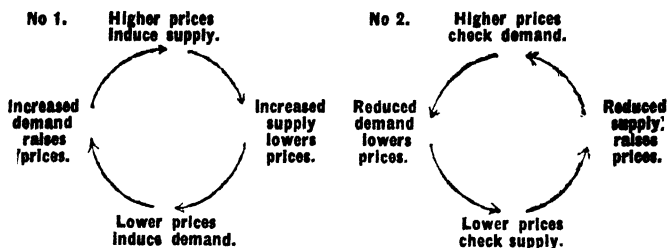
Reduced demand lowers prices.

Lower prices reduce supply.

Reduced supply raises prices.

Higher prices reduce demand.

These latter laws also have their use in conditions which are free and not artificial : or to express it otherwise, in such conditions as are consistent with a due regard to the science of things. They show how whenever there is a surplus of a particular commodity nature itself finds a means of diverting the labour hitherto given to the production of that commodity into more useful channels. But they also show how a restriction injuriously operates. For its effect is to check the production not of what is comparatively less needed, as in a condition of liberty, but actually to hinder the production of what is greatly needed. This process may, and frequently does, go on even to the extent of the positive starvation of the poorest in the community. The diverse effects of freedom and restriction can be better seen and compared by setting these laws out in two diagrams as follows :



Care should be taken to notice the direction of the arrows. In the one case the motion is forward, the right hand turn, in the other case the motion is backward, the left hand turn, which obviously can only operate within limits. The forward motion is the progressive one, for the nation or community concerned. This is what happens under the free and unrestricted operation of the natural laws which foster human endeavour. Let any one who knows anything of markets or business, examine it very carefully and see whether he can find a flaw in the whole circle. A science which could produce such a diagram; such an indication of the adaptation of natural causes to the fulfilment of rational desires; ought never to have been called dismal or dreary.

Let those who are not familiar with markets

and with business at first hand study it very carefully for their own instruction and not merely read it over. If perchance one of such has read much on political economy he may be tempted to suggest a weakness in the circle. He has read in his books that increased demand lowers prices by justifying more extensive and economical methods of production. But if he will think twice, he will observe that the circle is still perfect, for the lower price comes about from the increased supply, which has been induced by the better price obtainable, which in its turn, of course, arose from the increased demand.

Nothing is more disastrous in this science than taking flying leaps instead of firm and careful steps. This danger does not assume the same form in actual business life, because there it is each man's business to regard what affects himself, and looking at the two sides he is careful to choose that on which "his bread is buttered." But the mere student, cloistered away from the world's commerce, if he wishes to attain accurate results, must use more care than is usually the case to follow each step by which prices are affected.

There is scarcely a department of the whole subject which does not furnish important and far-reaching instances of errors of theory producing disaster in practice through the neglect of this precaution.

Perhaps the most common example is the assumption so frequently adopted that to make a commodity dearer will necessarily increase the wages of those who are engaged in its production. A glaring case of this error was recently seen in a resolution adopted by an organization claiming to be a political party, which set out that the meeting did not regard a particular fraction of a penny added to the wages of farm labourers as sufficient improvement in their lot. The fraction of a penny was evidently the amount which those ignorant though noisy agitators calculated would be the exact share of this class of producers arising from an anticipated increase in the price of wheat as the result of a proposed tax on imports.

It is not desirable to dwell further on this point at present, but the student will find useful exercise in considering carefully how it comes about that abundant harvests and

cheap food raise wages not merely in quantity of commodities obtainable for the wages, but in the money received. The question whether a tax on corn would actually raise prices is not to be answered at once or with certainty, though as to its effect on the community there need be no doubt. And these are only an instance or two out of hundreds that would illustrate the same point of need for careful steps.

Lest this exercise should deter some from further study of the subject as too difficult and uncertain, it may be well to indicate for their benefit the solution of the exercise. One influence on the prices of labour is that increased supplies require increased labour for harvesting and marketing (an increased demand for labour), but the greater, though less obvious, influence is that labourers work for a living (something consumable to live on), and the more easily the living is obtained the less anxious they are to offer their labour—a decreased supply of labour operating in the same direction as the increased demand—both to raise money wages.

The causes and effects of ever changing prices are various and exceedingly compli-

cated. But one and all come under the classifications set out in the diagrams. The scorn of abstract generalizations which some assume (and possibly lack of facility in using such generalizations) is responsible for many deductions in which such rules are ignored if not contradicted. But this does not happen in the case of those who discuss the movements in price of a particular commodity with which they are familiar. These rules have become so habitual to such writers that the consequences are tacitly assumed. It is only in the wider and more general inferences made by those who attempt to discuss the affairs of the whole community that the concrete generalizations occur. And however contradictory in its terms the phrase "concrete generalizations" may be, it not inaptly expresses the methods of many who argue from the particular to the general or taking facts and figures, which let us generously assume are correct, ignore their cause and effect but superciliously guess from them a theory previously held, and proceed to calculate in exact figures all the damage done by our not adopting that

theory. Such people seem incapable of comprehending the fact that when one side of a balance is weighted it is apt to go down and the other side to go up. They argue on the assumption that you may continue to put an indefinite number of weights into a scale and it will still continue to rise : that is, they argue thus if it suits their case. It is impossible to be sure of the particular that will happen : there are too many uncertainties to be accurately calculated : but of the general tendencies we may know enough of human nature and motives to have no shadow of a doubt.

It must not be assumed, however, that either of the circles can be regarded as setting out by itself alone all the influences operating at any one time ; although attention has been called to No. 1 as showing what happens in a condition of freedom. As a matter of fact the influences set out in No. 2, like those in No. 1, are always at work. And the two circles should be combined to show how such equilibrium as we observe is maintained.

The diagram, which will face the next page, though only a combination of the

two previous ones, introduces us to something of the actual complexity of industrial and mercantile life. We have only to imagine it applied to each article in each stage of production, and each kind of labour in each grade of employment. Fortunately for us we are not seeking a realization of the complicated condition but a simplification of the forces at work in it. And this diagram, which may well be studied (or even described) at great length, assists the simplification.

Careful study on the reader's part and a full description of the diagram written by himself will be more useful to him than pages of description printed here. He may trace the two previous sets of laws one in red, the other in black, guided by arrows of corresponding colours. Certain words contain both colours and are to be read in both circuits. The conceptions expressed by the terms thus emphasized should be carefully realized and their positions noted. Observation and consideration should be given to the effect of each tendency in each circuit, according as the condition which led to it has

been produced naturally or artificially. It will be seen that the black circuit forcibly followed by artificial means, that is by acts of government or combination, would tend rapidly to the kind of beatitude we understand as *nirvana* or nothingness. But even that happiness, if in western minds it can be so regarded, is denied to the advocates of restriction. For each effect of these unnatural contrivances sets up a counteracting natural tendency and produces only something "like a troubled sea when it cannot rest, whose waters cast up mire and dirt."

Exactly the same forces may, however, operate as the natural result of natural circumstances. Each stated tendency may be considered in that aspect. The only difference between any influence set up naturally and the same force put into operation artificially is that naturally caused it is beneficial, artificially brought about it is injurious. Nor is it merely a question of following the two circuits in the two aspects of each statement; considering each as a natural force naturally set in operation and as a natural force put into motion by arti-

ficially altering the indicators. The red circuit, which is a simple chain of consequences, indicates a progressive cycle—a self-acting screw which connects the vast machine of trade and commerce up to the needs of mankind and enables the human race to advance in civilization and well-being through the ever-increasing supply placed within the reach of its members. We begin reading that circuit from the point of demand at the left hand of the diagram. The black circuit should be read from the other side. It can only begin when the supply already exists, and if we follow its course as an independent chain of consequences it is always dragging us back. This is all that is possible by interference.

But while the interference against natural tendencies results in irregularity, the natural operation of the same laws tends to regularity. Higher prices, for instance, check demand as well as induce supply. This is a steadying influence if it is natural. If it results from interference, it is a force pent up until sufficient to sweep away the obstruction. We have to assume a freedom of operation and

an absence of meddling which at present we are denied to see the beauty of this natural self-driving machine. Even under present circumstances, however, there is much to admire in the comparative constancy of trade, steadied as it is by natural forces.

Any point in the diagram may be taken, and if the two statements there found be considered, it will be seen that the combination of the two influences tends to an equilibrium : keeping the flow of trade at a constant level. Violent fluctuations are unusual, resulting in most cases from artificial interference. In a free, which is a natural, condition, price, which is a gauge, is also a safety valve. Or perhaps a better illustration would be that it acts like the governors of a steam engine : shutting off the steam (demand) when the power gets too much for the work required to be done (the supply which is available) and allowing (or inducing) a freer inlet of demand when there is more supply on offer. The motive power in the economic engine is the demand or desire to consume. It constantly tends to raise prices, but those prices are the governors which,

driven by itself, shut off the demand when the material is not there to meet it. But unlike the steam engine the governors of the economic engine, when shutting off the demand, also bring in the supply to keep the operations more uniform and steady.

The demand which is the prime mover of the whole mechanism of industry, by its increase or falling off, raises or allows depression of the prices, whether it be of a particular commodity or of commodities in general. The higher prices both induce supply and check demand, each influence tending therefore to bring prices back to the same level. On the other hand if supply is by any means seriously affected, whether in the way of increase or reduction, a corresponding though inverse effect is seen in the prices, a reduced supply raising prices and an increased supply lowering them. But whenever either of these effects on the prices is felt the counteracting influence immediately sets in and the higher price arising from scarcity tempts the needed supply at the same time as it checks the demand, now insufficiently provided for : or the lower price which indicates a glut in

the markets checks the supply at the same time as it tempts the demand which the producers desire.

All these unquestionably beneficial effects naturally result from the much-reviled self-interest which business men usually have from the first, but failing that must to a greater or less extent acquire or go out of business. Having entered into business for the purpose of making a profit which constitutes the wages of their labour; they are compelled by the nature of their avocation to seek out the superabundant supply, which will be indicated by a correspondingly low price; and, as merchants or manufacturers, to meet the demand (which they must also seek out, or if need be cultivate) by such modification in price or other artifice as will tempt an indifferent market.

So much, however, applies to economic society in its free and natural condition. It will readily be seen that there is always danger of variation in both supply and demand. But the more freely every factor in the modification of prices is allowed to work and the greater the tendency to uniform-

ity. For instance, a bad harvest over a small area may cause a famine with its even prohibitive prices. But the risk of famine is greatly reduced by the freest possible intercourse with the whole world and access to the production of the most distant lands. For a failure of crops is less probable on the average of a large area than it is likely to be felt over a small one.

Similar reasoning may be seen to apply to a largely enhanced supply of any commodity. The wider its market and the greater will be the likelihood of its price remaining if not constant, yet nearly so. And though there must ever be changes of taste and fashion, new wants must arise and old habits be abandoned, yet the more freely these causes are allowed to operate on prices the less severely will their effects be felt. For whether the prices advance or decline, the movement will in that case be seen the earlier and the natural tendency set in to supply the visible want, or to lessen the needless production.

This consideration is specially applicable to those processes of manufacture in which

new or improved machinery has greatly reduced the cost as compared with previous hand labour or primitive contrivances, and has thrown out of employment those accustomed to the older methods. A certain amount of acquired skill might, perhaps, under any circumstances have been wasted. But the real hardships have arisen from the fact that lack of freedom, in one department or another (the particular departments must have consideration later) has left a margin of unemployed and thus has provided cheap and comparatively unskilled labour to tend machines. Meantime, in all probability, the skilled men in the trade who might with greater success have taken charge of the new methods or found enough work for their life-time on the old lines, instead of recognizing the inevitable have fought against it to their own hurt and that of their employers or customers.

We have not yet given any consideration to those social conditions which are directly antagonistic to the free play of the economic influences described as operating in a condition of liberty. It perhaps ought to be said

that in the main these natural tendencies or laws are always at work and that successfully. They are always at work : but it sometimes happens that their operations are disastrous because they have been interfered with. While the express train is allowed free course it is a marvel of natural force skilfully applied. But it is “ a bad job for the coo ” that would stay its progress.

The contrivances applied by the ignorant, whether holding high offices in the State, or men of lesser degree, for regulating (as they thought) the prices of commodities, or of labour, have only been effective at all by force of the very laws they sought to set at defiance. It is palpably true that prices may be raised by limiting supply. But even an elementary knowledge of economics would indicate that prices thus artificially raised must tend also to check demand. And the natural consequence of that would be again to lower prices. So that the contrivance attaining its apparent effect by means of the power it denied or defied, was very quickly shown to have failed of its effect altogether so far as regarded any permanent advantage

to its promoters. Farmers and farm labourers were not well off during the period of the Corn Laws in England for the simple reason that the prices were too high for demand. It might well have happened that prices would have been actually higher and thus better for them, so far as related to money to be had, if there had been no restriction on imports whatever. But it would have been entirely owing to the greater effective demand and not to the diminished supply. And that makes all the difference to the happiness of consumer and producer alike—money ready and no anxiety.

A high price freely offered to obtain the commodity is nature's own way of inducing the supply : and the producer of that commodity who finds such demand for his labour and wares may properly rejoice. A high price obtained by any sort of force, be it Government interference or a combination of producers, shows utter ignorance of the laws of supply and demand which lie at the very root and centre of all economic science and action. Only those who understand such laws should attempt to interfere, and they

can be trusted not to interfere except to take away the existing hindrances.

A doctor of medicine either does, or ought to, study the natural operation of the human system with which he has to deal. His aim will always be to secure the most natural (which is the most healthy) operation of the organs of the body, and not force them to work in a fashion of his own devising. But in social science the evils which have been artificially created, and are continuously sustained by artificial means (sometimes indeed intended as medicines) constitute the most urgent need for a better knowledge of the subject.

It may be interesting to know how the various events and facts around us affect the course of prices, just as it is interesting to know how and why the earth moves through space, and what its relation is to the various heavenly bodies. This can be said of a thousand and one wonderful facts which science reveals to us, useful or curious. But political economy could never have been the life and death matter that it is to-day were it not for the unfortunate interference with

which from time to time paltry meddlers have sought to control ; and the indifferent ignorance with which incompetent statesmen have disregarded ; those mental forces in society which are as absolute in their domain and as powerful for good or evil as the force of gravity is in nature. That economic evil is serious cannot be denied when we find men in thousands unable to find employment or people able and willing to work dying of starvation in the midst of plenty which they may not touch. And that it is the result of this meddling or interference we must further proceed to show.

Not that it is possible entirely to annul the beneficial operations of natural desires. As we have said, the operations indicated in our circles as belonging to a condition of freedom, have the greater effect. And this cannot be better expressed than in the words of Adam Smith himself when he says—

“ The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle that it is alone, and without any assistance, not only capable of

carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations ; though the effect of these obstructions is always more or less either to encroach upon its freedom or to diminish its security.”

Yet an illness resulting from some mischievous treatment of the body may be very serious, despite the fact that none of the organs have absolutely ceased their functions. And a society which carries on its trade with pain and disturbance can only be compared to a patient of whom it may be said that he is still alive. Recurrent periods of insufficient trade and lack of employment are sicknesses which it is our business to show arise solely through unskilled and untaught or dishonest treatment by persons of influence and control, contrary to the proper course of nature.

We have seen sufficiently the influences which immediately affect prices. But we have not yet attempted to trace beyond the sphere of the market where those prices obtain, the facts which produce such influences.

A falling demand, for instance, may result from a failure in supply of the material of which money is made. For though the desire may exist for commodities it is not called a demand unless it is backed by an offer of the medium of exchange by which payment is made for the goods desired.

It is perfectly true that money is only a circulating medium passing from hand to hand ; but if there is insufficient in sight to justify the hope that business will continue good and due payment will be made there will be discouragement of purchasers and timidity of vendors in selling. Failure to pay at the proper time may prevent the possibility of purchase in the future. It is unnecessary to enlarge further on this point. An insufficiency of yardsticks in a draper's shop may materially interfere with the delivery of goods and cause an undesirable stagnation in trade, though no customers desired to take the yardsticks away.

With the possibility of a surplus of money material we will deal presently. It is not necessary that every yardstick in the shop should always be in use, though that is a

consideration which (applied by analogy to currency systems at present obtaining) statesmen have not yet realized.

On the other hand, numerous influences which will be discussed more fully in the next chapter, may interfere with supply. A land system which enables the owners of land to keep it idle with impunity while its productions are required ; a system of taxation which penalizes industry by taxing every exhibition of it ; a notion common among important sections of producers that they can with advantage to themselves put artificial restrictions on production in their trade so as to raise the prices of their labour ; may each and all tend to diminish supply. The ultimate effect of these hindrances requires very careful tracing.

But before dealing with these influences either on demand or supply we must observe somewhat more carefully the nature of prices as an expression of values. Let the reader once more satisfy himself that the operations of supply and demand on prices, and of prices on supply and demand, are as set out in our diagrams. If observing them carefully he

is satisfied that such is and must be their operation : that an increased supply must tend to make goods cheaper though an increased demand may on the other hand make them dearer and thus nullify the apparent influence : he will be apt to ask why then is there ever irregularity and stoppage. Various influences are possible to account for this, and there are more influences than one requiring removal. We shall deal with one in this chapter.

The foregoing considerations have assumed that prices were measured by an unvarying standard of value. But the assumption itself needs much explanation. It also needs qualification as a statement of fact. That in no way diminishes the accuracy of the preceding statement of the influences operating on prices so far as they go. But it introduces the possibility of a new factor which, if disregarded, may be the source of great if not incalculable error.

It ought scarcely to be necessary (though it unspeakably is so) to emphasize the fact that prices are but the statement of relative and not absolute quantities. It appears diffi-

cult to some people to realize that a high price is not the same thing as a large sum of money. A price, however high, produces nothing until a sale is effected, and a lower price may produce much more money by reason of the largely increased quantity sold. This applies to everything which is the subject of economic science, acres or square yards of land, yards of cloth, or pounds of goods, hours of labour, or quantities of work done.

•The wisdom or otherwise of selling at a particular price can only be determined by reference to the quantity for which a sale is desired and the need for the money to be thus obtained. Yet all through the nineteenth century immeasurable distress was caused to humanity by various contrivances to artificially raise prices, thereby, as we have seen, diminishing the quantity possible to be sold. And the civilized world in the twentieth century continues the same proceeding, standing nevertheless in fatuous wonder at the fact that there are unemployed labourers and comparatively stagnant trade.

Nor is this the whole truth. Even if the higher price did really produce more money

(which is only to be relied on when it is naturally caused by increased demand) it must be still borne in mind that the money is only useful so far as it will buy what is required. The larger sum of money when realized is worth no more unless it will buy more. In other words, the attempt to raise prices artificially, by any means, neglects the possibility of self-injury on both sides: by getting less money through decreased sale: and by further reduction of the enjoyable results through higher prices of what is desired to be bought.

To answer which the advocates of restriction set up the plea that if prices were left to find their own level competition would reduce them below a living minimum. They ignore the fact, on which we dealt in the first chapter, that each person's competition to produce is sustained only by his desire to consume: which tends to raise prices as his inclination to produce tends to lower them: and that the individual is better able to judge when he has enough to eat or enough to do than any one else can judge for him.

Understanding that price tells us how

much money is to be given for a certain length, weight, period, or other measurement, we still must consider how much in length, weight, etc., we can sell in order to ascertain the quantity of money we can get. And it may be necessary to reduce our price in order to sell more; and thus get an advantage to ourselves by reducing our sale price; just as it may and does occur that a higher price is wisely given by a buyer who might purchase at a lower price if he could take at that price a larger quantity. These are matters of every-day occurrence in the course of trade, the force of which is recognized in the particular instances. But those who arrogate to themselves the duty of fixing prices for whole trades usually overlook these considerations as trifles unworthy of notice. Hence arises the importance of better knowledge of economics on the part of those who control the minds of producers without themselves taking part in the production.

We must, however, return to the nature of price, from which this was a digression. Now price is not the same thing as value, and must be mentally distinguished, though

economists seldom realize the necessity. Certainly price is merely value expressed in terms of money. But the fact that value and price are not the same thing is very important. For economists frequently speak of value as a mere ratio which is in their sense untrue, though it is true that price is the ratio between the value of a certain object and that measure of value which money affords. Value on the other hand is a reality and not a mere ratio. It is the quality which an object possesses when it is desired and is so limited in quantity as not to be attainable without at least some trouble or sacrifice.

The possibility of discussing the ratio between supply and demand, which has been what some have meant by value being a ratio, scarcely exists apart from price, conceived in one form or another. For even if we say that the ratio between supply and demand means the ratio between the quantity offered and the quantity desired, we have to bear in mind that the quantity desired depends on the price at which it can be had, and that supply and demand always refer to what is in the market and not to the whole

quantity existing. But value exists in an object whenever it is useful or gratifying to human beings and is not in supply excessive beyond their wants. In other words, value consists of utility and scarcity.

Jevons, finding in his time an erroneous idea handed down from Adam Smith that value consisted in the amount of labour necessary to produce an object, went to the extreme of making value consist of utility only, stating that when a certain condition of supply was reached no further supply had utility. The importance of realizing that an object cannot have value unless it is wanted cannot be overestimated, and Jevons' work in this connexion gives him a place in the history of economic science. But he naturally made much of the side he had most clearly seen, and we must not forget that the other side exists.

The foundation of value is the desire to possess the object. But whilst we must not say that fresh air has no utility because we can usually have it gratis, we may, nevertheless, for that reason, say it has no value in the economic sense. It is a question

of terms. But utility may well express the potentiality of ministering to human needs or desires : value standing for that, with the further qualification that the supply is sensibly limited. The point is possibly abstruse, but it is important to realize value as a substantive quality, not a mere ratio. The reason for this will appear presently.

Whatever word we select for it, there is thinkable a quality which we may describe as capable of satisfying human desires. The word value is not inappropriate to it. For ever since Smith struggled with the terms value in use and value in exchange (on which we need not dwell), we have never quite been able to separate the notion of value from those indispensable objects which are too plentiful or impalpable to be bought and sold. But this arises from the fact that we are apt to think a little more than the thought on which we try to concentrate our minds, as, for instance, what would happen if we were deprived altogether of the object in question. Then we realize the possible value, and it is desirable to restrict utility to the objective view of the matter and apply value to what

may perhaps be termed the subjective view. "Is the thing wanted?" is then an important question in discussing value.

On no ground, however, is labour a determinant of value. It may be that the work has been wasted; or a valuable thing may have cost no labour. Adaptation to human requirements and limitation of supply give value. Though it should be remembered that what is desired and cannot be had without labour will not be without value because the supply will be limited.

Of those desirable material objects, however, which are capable of ownership and transfer, there is great possibility of indefinite increase. The price in proportion to that of labour may thereby be reduced. And yet it may be that the value of the object in the gratification of human desires is as great as before, although more easily attainable. More people enjoy it and to some its importance is as great as ever; though many other things besides it are now more possible than was the case previously, within the same quantity of human endeavour. This simply means that the sum of human happiness has been

increased. More value is created and consumed. In speaking of such reduction in price we are careful to refer to price in proportion to that of labour, because surely labour is capable of becoming increasingly valuable in the progress of civilization whether other prices go up or down. Or labour may be diminished in value by reduced efficiency.

We contend for a careful realization of the nature of value as comprising the sum of the qualities satisfying human desires, with an existing demand for more as only a qualifying condition; bearing in mind the fact that there is absolutely no limit conceivable to the desires which human beings may possess and exhibit as science and industry find ever improving means of satisfying those desires. Scarcity in the ordinary sense may apparently increase values, but in that case the rule by which we measure the values does not stand for as much of human desires fulfilled per unit as it did. On the other hand, plenty may apparently reduce values, but that means the increase of happiness to humanity per unit of the measure of value employed.

Having once seen value in this fashion we

can understand better the measure or standard of value. The confusion on the point is almost beyond comprehension. But let us premise that a standard or measure must be of the nature of the quality measured. The standard of length must be a measure of extension, e.g., a yard. The standard of weight must be a mass, a measure of that capacity of attraction we call weight. The standard of capacity must be a measure of cubic contents. And thus we might continue to multiply instances. The standard of heat, a measure of temperature, etc. Now we have seen that value is in the main a capacity for fulfilling human desires. This obviously means that all values must be measured in the mind. The mind alone contains these desires, and therefore alone can appreciate or measure values. There is no instrument for the purpose. The physical qualities of the object must be considered—length, area, weight, or whatever they may be. But the mind alone can decide whether it prefers a given object or a particular sum of money.

For the physical qualities of length and weight it is possible to keep standard objects

for reference, in a particular and definite place. Thus for instance the extension known as a yard is shown on certain pieces of gun metal (deposited at the Mint, Royal Observatory, and elsewhere) by two lines across gold studs, the lines being a yard apart. The standard or measure is indicated by thousands of other objects of the same length, but these particular pieces of metal are preserved with great care as a means of testing all the other measures.

Nothing of the sort is possible with regard to the standard of value. For even those who through long continued habit of mind imagine that people desire sovereigns for the sake of the gold they contain (and not as is the fact for the sake of what they will buy) will readily admit that when there are more sovereigns on offer for goods the prices of goods go up. Speaking comparatively, that is equal to saying that the value of sovereigns goes down. It is not easy to decide which has moved, but it is impossible to conceive the value of a sovereign, except by reference to the minds of all the people having command of sovereigns.

A piece of platinum weighing a pound is carefully preserved by means of which it is possible to test other weights, and thus keep the standard uniform throughout the country. But the measure of value which a person has in his mind as constituting a monetary pound can only be tested by his trying whether his sovereign or shilling or £5 note will buy what he thinks it will, or whether he can sell what he wishes to dispose of for the number of shillings or pounds he thinks it is worth. In a word, value only exists in minds, and therefore can only be measured there.

What in view of all this can be the meaning of the phrase gold standard? The phrase in fact has no essential meaning, though it carries to those who know its use an indication of certain conditions. The conditions indicated by it are that in the country referred to there is free and unlimited coinage of gold but of no other metal.¹ That, however, does

¹ From the occasional use of the phrase it might seem that the conditions included convertibility into gold of recognized paper money. But if the so-called gold standard of Russia were to break down, as the expression goes, and as it has been feared might happen, it would not be said that Russia had adopted a paper standard. It would be said that Russia had an inconvertible paper currency which would, nevertheless, be

not make sense of the phrase gold standard. We might as well talk of the standard of length in England as gun metal, and the standard of weight as platinum. From that we might pass to a pewter standard of capacity, and a copper standard of electric energy and a mercurys standard of temperature.

There would, indeed, be more fitness in these phrases than in the phrase gold standard of value. For there is a visible object of gun metal indicating the standard of length. The standard, however, is the distance between the two lines carefully marked on it. And there is a platinum weight of one pound, though the standard is not the lump of metal but the weight which that carefully preserved mass indicates. This will serve by means of a balance to test any other piece of metal of any sort, and that may then be used for

regarded as based on a gold standard, and the aim would be to resume payment in specie. So that the condition mentioned in the text seems all that is included in the phrase gold standard.

In the early part of last century Sir Archibald Alison spoke of the pound as "an abstract measure of value." "During the war," he says, "the pound was a Bank of England pound note—the standard was the paper—for gold was worth 28s. the pound." But such phraseology would not now be useful, and the language gives no clear indication of the distinction between standard and medium which is so essential.

weighing other pieces. The measure or standard is the weight of the mass, and every grocer has what ought strictly to be as good a measure as the mass of platinum so carefully preserved.

We cannot have every pound weight as carefully prepared as the few kept in certain places for records and accurate tests. But every pound of sugar or tea should be as near as possible the exact weight of the platinum mass. The pound, however, i.e. the weight, is the standard whatever the material. And what an absurdity a Government officer would seem if he heard that a certain grocer had, contrary to law adopted a system of weights and measures of his own, and therefore stepped into the grocer's shop with the remark, "I hear you are not using the platinum standard of weight. I only warn you at present that the law requires it, but you will be summoned if you are caught using any other." That phrase contains exactly the amount of meaning that is contained in the phrase gold standard of value, no more and no less.

Certain gold pieces containing a number

of grains of gold eleven-twelfths fine are used as the chief current coin. For the number of grains (123·27) I must refresh my memory or calculate for myself from remembering that £3 17*s.* 10½*d.* per oz. of 480 grains is the price of the gold of standard fineness in sovereigns of accurate weight. And most people who use sovereigns have not the faintest idea of these figures, though they know a sovereign when they see it. That fact in itself should clearly show that it is not at all the gold in the sovereign they strive after. They want a sovereign or sovereigns to spend or to lend or to pay their debts. Anything else that will answer these purposes will do equally well : a banknote, or a good cheque for the amount required. And it is nothing to them whether these papers will ever be exchanged for sovereigns or be simply passed about until they are paid to somebody's credit at the bank on which they are issued. The great point to consider is, whether they will transfer value.

The essential notion of money is that of something received, not for its own sake, but for the sake of what it will buy. The intrinsic

value of a coin, that is, its value for melting, is not at all necessarily its value as a coin. As a coin it is a token of a known amount of value. As a piece of metal it must be analysed and weighed and the price per unit of weight found in the market. If it happens to be gold, we know its price will not be less than £3 17s. 9*d.* per oz., when alloyed by one-twelfth, because the Bank of England is compelled by law to allow so much : though it may be a little more than that, for the price at the time this is being written is £3 17s. 10*d.* per oz. It cannot get much beyond that because it is kept down by the possibility of melting sovereigns. For which purpose it need hardly be said the bullion dealers take care to have the newest and best full weight sovereigns. The old and worn ones will do for the currency, but will not pay to melt. Which is an instance of what is known as Gresham's law that bad money will drive out good.

If you want gold to melt or export, and bar gold is dearer than good sovereigns, you take good sovereigns, assuming you have command of them, without which, however,

you cannot buy bar gold. If the currency were mere paper notes and there was no place willing or compelled, and able, to give the sovereigns in exchange, more notes might have to be given for the gold than represented the gold received. That means a premium on gold, and the gold is apt to go out fast under those circumstances: whereupon the notes constitute the whole actual currency, which is then called inconvertible. An inconvertible currency is exactly the reverse of the ideal condition. Metal is invariably at a premium under this condition, and the premium gets very high. Whereas under a system of convertible currency a penny an oz. premium on gold is extraordinary because the coins can be taken bodily out of the currency. But in the ideal system bar gold would usually be well under the price of gold coined for internal use.

In saying this we anticipate and must recall ourselves to the point that a sovereign is a piece of gold of definite weight, fineness and shape and bearing distinctive marks, which by law passes current, or is legal tender, in payment for commodities or of accounts or

debts. There are other coins for fractions of its value.

This coined metal is the basal part of the country's currency or medium of exchange. To act as a medium of exchange is one of the functions of money, the nature of money being that of something received for the purpose of being paid away again. A second function is to furnish a measure of value. The usual doctrine that money is a measure of value and a medium of exchange lacks accuracy. Because it is the medium of exchange it furnishes the measure of value. The medium of exchange is visible, but the measure of value is in the mind only, and a transaction in terms of the medium may take place in the entire absence of the visible medium itself. The medium is never paid over until the transaction has been measured and agreed on. The other functions which economists have tried to set up as distinct are only variations of the two already mentioned.

From what has been said it will be seen that the standard or measure of value is that quantity of value by which the people are

accustomed to mentally estimate their transactions or exchanges, and is always in terms of the currency in common use among them. In England the standard of value is a pound (fortunately a distinct word from the coin of that value) divided for fractional purposes into twenty shillings of twelve pence each. The pound is represented by one sovereign or two half sovereigns in gold, by four crown pieces, and various other ways, in silver, and (particularly in larger sums) by various documents passing current, in paper.

But when a person finds that the measure of value he has in his mind stands for more or less than it has previously stood for : in other words when a sovereign buys more or less than it did : it may be that the pound has changed its value, and not that the other objects have changed theirs. Indeed, it is more likely that the value of the measure has changed than that the values of all other objects, including labour, should have changed : when we see, as we do, that in recurring periods all prices rise and fall together, or practically together. This is not absolutely certain, as we might show were it not that

we have already laboured this point and carried abstruseness to its fullest limits consistently with the limits of the work. But it is manifestly the more probable assumption.

It is of the utmost importance, however, to realize the true nature of the standard of value as of any other standard. The standard of length is not a yard stick or any other visible object for measuring the distance. The standard is the extent of length we call a yard, whether we stride it or guess it, or measure it by a tape or any other means. And the standard of value in the same way is not a weight of gold, or even a visible sum of money in any form whatever, but the measure in our minds which we call a pound denoting to us a value in comfort or work which we are thus enabled to express by a name. How it is represented in coin, or other currency, matters little or nothing to the millions who use the standard provided the money can be spent. And this was very necessary to be understood before we ventured to discuss certain mischievous arrangements by which the standard of value is made to stand now for more and now for

less of "things in general," as though the standard of length were the length for the time being of a piece of elastic cord varying with the condition of the weather.

Avoiding, therefore, the discussion for the moment, of influences acting on the prices of "things in general" observe the general currency conditions of the more important civilized nations of to-day. The days are gone by in which merchants weighed their money out on making their purchases. And we must not digress into the history of money, interesting as the subject may be. The money now used for internal circulation is not the raw uncoined material, but certain metal coins the right to coin which belongs to the Government of the particular country, and certain papers indicating that the possession thereof constitutes a claim for a specified number of coins.

This is not a definition of money. To define is to fix the bounds or limits of a thing: and the precise bounds or limits of what is money and what is something else have never been agreed upon. There are definitions extant, but they are difficult to master and

worth nothing when mastered. The money of a country is the medium of exchange: that which passes current from hand to hand in the transfer of value from one to another and is well called currency, although one distinguished professor of economics, when he had abandoned the use of so expressive a word, thought of himself as of the Ancient Mariner after the dead body of the albatross had dropped from that worthy into the sea.

The monetary currency, therefore, may be said to consist of the bills of exchange, cheques, banknotes, and other paper passing from hand to hand, and metal coins. The complicated questions of title to paper money passed from hand to hand need not vex us. Goods are undoubtedly paid for and debts are settled by cheques and bills of exchange, although such papers are not money which vendors and creditors can be compelled to take. And there are some purposes for which banknotes are not serviceable in the amounts for which they are issued, even if the banknotes could be had.

For the smallest payments (taking British coinage as an example) copper or bronze

coins are provided. But the Mint authorities only coin as many as they deem convenient for the country's needs, and the coins when issued would not, if melted, be worth as much as they are in their coined condition. They are only legal tender to the extent of a shilling, but few people, for their own convenience, care to pay a shilling in coppers, and fewer still would refuse two shillings because paid in coppers. For larger sums silver coins are provided, and here again there is no compulsion on the Mint authorities to coin more than they think advisable, while silver can only legally be offered to the extent of £2. The real check on its use, however, is that those who wish to pay so much, prefer not to carry about even as much as £2 for small payments, choosing rather to carry the more valuable gold and trust to getting silver change as they need it. For still larger payments gold coins are provided, and these are legal tender to any extent. In practice, however, a person receiving £50, or even less, prefers to receive his money in paper, which is much more convenient to count and carry.

Gold, however, for some occult reason (which is only explicable in the aberrant light of the error we have been discussing) is accepted and coined at the public expense to any extent the holders or producers of gold may choose to bring it for coinage. Need we have further argument of a disputative character as to how and why the standard of value is continually changing in actual measure of value? If the standard of value referred to a quantity of corn and for currency purposes we used paper promises to pay corn, an exceptional crop of corn would possibly reduce the standard a little, but not much. For the corn would be eaten the more readily. Though doubtless a failure of crops would tend to reduce the prices of other objects. The standard in that case would stand for more of other objects. But gold has not even the virtue of being eatable. Any exceptionally abundant supply is only carried off into the arts of the goldsmith, after an interval in which the excessive supply of metal (which is treated as money the moment it reaches the coining authority) has driven all the prices up. Even corn would not

be so readily eaten if some authority were compelled to give a fixed minimum price for it, as is at present the case with gold. It is the fixing of that minimum price which is so entirely opposed to the freedom which these pages advocate. Some may suggest that the system here advocated is restrictive because not all the gold that comes need, under it, be accepted as money. But nowhere will favour be shown to a plan of a section ruling the Government or the imposition of a minimum price. The present method makes the Government slave to gold producers and the people slaves to an error.

Let it be understood quite clearly that the gold is indestructible, and it is easy to see that it will act as a hammer driving up the prices by constantly repeated blows. It is no sooner paid out to one than he pays it out to another, who possibly pays it to still others, but by one or many channels it quickly gets back into the coffers of the bank, and still seeks employment, as if it had hitherto lain idle.

All this would matter little were there no such thing as credit. But unfortunately

that is not the case. And an elaborated system of banking builds upon the base of a comparatively small quantity of metal a colossal structure, of what is called credit, which might under a better system of currency be a blessing, but which, under the present systems becomes an unspeakable curse. This is not the fault of the banking system, but of the currency system.

For some purposes, as it has been said, metal is a necessity. The weekly wages of labourers must be paid in coin. Banknotes and cheques are useless for the purpose. When, therefore, prices have been going up and the available stock of metal coins has been dispersed amongst the people through the abundant employment offered, if by any chance there is a failure of the continued supply of the metal in proportion to the need for it, the metal base becomes too narrow for the superstructure reared upon it, and some of the superstructure topples over.

Or, to vary the simile, credit is a huge globe of paper and air (credit pure and simple) held up by a framework of metal, and any lack of the metal necessary to keep up the

size involves collapse to a greater or less extent. It is true that the same size might be kept up by reducing the strength of the metal framework. In other words if the sovereign were reduced in weight or fineness when gold became scarcer the volume of credit might be kept up, provided no one knew the change had been made. But if the change became known, a nameless and otherwise baseless fear of consequences might destroy the credit.

It must be borne in mind that the volume of credit operates for many purposes as money and consequently "shortens" the standard, because the greater the quantity of money and the less per pound it is worth. In this, as in other things, abundance reduces the value in exchange. But it is more certainly so here than in other things, for with respect to food its value may continue constant, since it is absolutely essential to life. If its price goes down, human happiness is increased by an addition of other means of enjoying life beyond mere eatables. But if money is superabundant, as it does nothing to make life enjoyable except as it is spent,

its value per unit is palpably reduced since the unit buys less of comfort : as is the case when prices go up. But to suddenly diminish the quantity of virtual money by destroying credit checks production, and inflicts hardship of unknown extent on those who have made themselves responsible for operations and payments now rendered difficult or impossible, besides creating distress amongst consumers. This happens in falling prices and "lengthening" standard.

In all which considerations it must be clearly realized that we have cut ourselves adrift from the notion that gold is of constant value, a reliable standard to measure by, or that all other things, and only they, change their value. The tides indicate a rise and fall of the liquid sea, not of the solid land. And any one who has made even the most cursory study of the gold market will realize how liquid it is compared with that of "things in general."

We are concerned to find a standard of as near as may be constant value. The reason for which concern is that a varying standard has a most deleterious effect upon regular

and constant production of the nation's necessary subsistence.

One way in which it has been suggested the necessary supply of metal might be made available to avoid this variation in the standard is that there should be free and unlimited coinage of silver as well as of gold. This is the theory known as bimetallism. The system has been actually used in the past, but that is no proof of its superiority. And the sole result of re-adopting it would be to continue the enlargement of the volume of money and credit (and the consequent reduction of the value-standard) until comparative failure of the supply of both metals was experienced. This is not so impossible as might be imagined by those who only see that silver in its uncoined state is now at less than half the value per oz. at which it issues from the Mint authoritatively coined. But it does involve still further diminution in the value of the pound, and in the end it only modifies the method, perhaps not even the extent, of the fluctuation in value which acts so mischievously. And yet a University which had an important chair of political

economy to offer a few years ago, was unable to find a person competent to fill the chair (in compliance with the usual exclusive conditions of such places) who was not a bimetal-list.

The simple remedy which long continued word-prejudice prevents our seeing is that when the supply of gold is over-abundant it should cease to be taken into the country's currency, as is done already in the case of silver. But what would become of the gold standard if that plan were adopted ? asks one. The answer to which question is, that the senseless expression having already no meaning consonant with its words would probably vanish altogether for time and for eternity—a consummation devoutly to be wished. The standard of value, a measure existing in the minds of men and women working and trading, would then have a chance of becoming and remaining a constant quantity—a quantity of value be it noted : not a quantity of metal, for the value of metal necessarily changes as with other commodities by the condition of supply and demand. The value and weight of the coined metal

would remain constant, but the bar gold would be left to fluctuate freely in price without trailing the value of the standard up and down after it.

At the risk of reiteration let us notice the objection that gold is what we measure by and coining merely authenticates the weight and fineness. This has a surface plausibility and considerable authority to sustain it. It only lacks the support of facts to make it true. It is not the gold in the sovereign that a man works to obtain, but the means of buying what he requires, and paper or silver is equally acceptable to him provided it will buy him goods and pay his debts—and taxes not to be by any means forgotten. It is only in the mists of imagination and theory that the authentication of weight and fineness finds itself the sole aim and accomplishment of coinage. In actual life free and unlimited coinage fixes a minimum price for gold and from time to time brings down the value of the pound because there happens to be an excess of gold out of which sovereigns can be made. Undesirable consequences follow somewhat later, and it is then that the

mischief appears and the greatest pain is suffered.

The reduction in value of the pound is produced through the interest or discount rate. Whilst the interest rate for some classes of security moves up or down very slowly that which obtains in the London Money Market moves with greater rapidity and is never constant for many days together. The quantity of gold visible has much to do with this rate, and even when throughout the country money actually invested in working capital is producing a high rate of interest, a superabundant supply of gold in London will bring the discount rate there very low. The result of that is to tempt the banks through the country to lend with excessive freedom, with the further consequence that prices of all classes of property rise: it is easy to get money with which to buy what seems to afford such prospect of profit. This process goes on until the limit of expansion is reached, with the collapse before indicated. Then follows bad trade and labourers experience want of employment.

We referred just now to a minimum price

for gold. The minimum in England is £3 17s. 9d. per oz., at which price the Bank of England is compelled to accept gold of eleven-twelfths fine. It is clear that gold cannot get below this price. Excessive production of gold can make sovereigns more plentiful and thus reduce their real value, but the value of the standard is reduced and not the price of gold. This really involves a depreciation of the currency. There is nothing, however, to prevent the price of gold exceeding £3 17s. 9d. per oz., except the fact that the Bank of England must give gold for its notes and some of the sovereigns will be of full weight. This makes it difficult for gold to reach £3 18s. per oz. But £3 17s. 11d. has been frequently seen during the last year or two. This means that the gold in a full weight sovereign is worth more than the sovereign, though only by a fractional amount. This is a clear indication that the value standard is appreciating or getting "longer"—a cause of unspeakable hardship.

It has been suggested that a greater reserve of gold should be held than is held at present, and particularly that it should be distinct from

that of the Bank of England. The suggestion lacks virility. If in addition to the Bank of England holding bullion worth say £30,000,000 another authority held a similar amount, there would, it is true, be a somewhat extended elasticity. But neither authority would be disposed to increase or diminish its amount by more than about £5,000,000 worth of bullion each way, which would mean at the outside an elasticity of £20,000,000 instead of £10,000,000.

It would be something, one must admit, and the accumulation of the second store in a time of surplus would to that extent be beneficial in preventing the metal depreciating the standard. But to accumulate the store at any other time would be mischievous and possibly cause great hardship in the country. Moreover the probability is that the second reserve would be held the tightest just at the period of tension, when it should be let go freely, and so fail of its object altogether. A reserve, it should be noted, is no reserve at all unless it can be called on in case of need. •

Nor can this comparatively paltry sum

in gold be regarded as the country's purchasing power, as has been suggested. To say that the country's purchasing power is limited by the 'ability of the banks to discount bills, is to forget that the discounting of bills is a sign that the holder of them is not sufficiently well provided with money of his own to give the credit his customers desire. Abundance of money and easy discount does indeed help trade along. But admitting all that, it is nevertheless not the money that remains in the bank as a reserve which does the good but the money that goes out. It is the money which circulates that affords the means of carrying on the trade. That alone is useful purchasing power.

The extra £5,000,000 which is seeking employment is what keeps the discount down, just as it is the margin of unemployed labourers who pull down the price of labour. But in neither case can we say that the unemployed, money or labour, does the work. Nor can it be regarded as purchasing power or labouring power any more, because it is idle, than it could be if it were at work. In both cases it is better at work. In the case

of labour, we neither require nor desire an idle reserve, for that involves feeding human beings without their doing their share of production.

In the case of gold, as that eats nothing it is worth while to have a reservoir, as we have of water to store up for a dry time. But the amount which could not be relied on to go out under any conceivable circumstances is of no conceivable use. It is only the amount above the minimum always and inevitably retained that is of service, though it must be noted that every suspension of the Bank Charter Act makes the whole stock of gold of the Bank of England available, and the suspension brings ease. But to make a new reservoir from which the gold could not get out would not add to purchasing power or regularity at all. Nor is it merely the gold which goes out on loan, or in the discounting of bills, that stands for purchasing power. That which is in no way borrowed is equally useful for the purpose. Hence the power of banks to grant loans is not in any way identical with the country's purchasing power. The older economists

knew better than that when they taught us that the real purchasing power of the country consisted of its saleable productions. The medium of exchange has its uses, but in all its forms it is only a token of the value of something really consumable or enjoyable for its own sake. The saleableness of the commodities for the medium is an essential point. But there is no direct connexion between that and the quantity of gold not at present in use, nor will even the ability of the Banks to grant loans be increased by locking up a larger amount as reserve. It cannot even steady the supply of currency to an extent sufficient to justify the sacrifice involved.

The bolder and only effective course is to enact that when the Bank of England has a sufficient stock of bullion, say £35,000,000 worth, and a reserve deemed to be ample, say 50 per cent. of its liabilities, the compulsion to accept bullion for the currency should cease. Gold would then find its own place and be the more readily carried off into the arts, leaving the standard of value the more stable.

Nor could the Bank abuse its privileges even were it so desirous. For apart from the fact that it would certainly issue notes against the bullion ostensibly held, it issues over £11,000,000 against a Government debt, and a further sum on other securities. The notes thus issued it is bound to take in exchange for coin, and consequently the needs of the country for wage-paying purposes would perforce be supplied. Having taken in these notes and cancelled them, its own self-interest would impel it to issue others against the Government debt and the gold it held. It would doubtless acquire a store of gold at a lower price in a time of excess and retain it for a time of scarcity. Perhaps in return for the profit it would thus make, it might have put upon it the burden of seeing that the country's currency was in a proper condition, not worn and light.

One disadvantage of the present protection for gold producers is that it is nobody's business to take out of circulation the gold coin which was issued at full weight, but has become light by general wear. The Bank of England takes it in by weight, so that such

loss as there is falls on the person who has the inconvenience of handling it last when gold coin is not required for circulation. The loss may not be serious, but the principle is bad. Under a better system the gold coins worn light would be taken in for the Mint Authorities at full price as silver coins are at present, and for similar reasons.

Against the possible contingency of special temporary need for banknotes for large payments, the German plan of allowing additional issue of notes on payment of 5 per cent. to the Government is entirely desirable. A need for an exceptional quantity of metal money would only occur at special seasons, such as Christmas, which are already known and reckoned for. To meet these periods the Bank might be relied on to accumulate a store in due time, so as to avoid the compulsion of taking gold which they really did not require for currency purposes.

The advantage, briefly expressed, of this system would be to avoid the depreciation of the standard by an over-supply of gold taken into the currency when production of the metal was plentiful and to prevent the appre-

ciation of the standard through lack of gold when scarcity had set in. The former result would be produced by the refusal to take in more than was wanted or useful, thus freeing gold to be sold at its natural price in money : and the latter by the purchase of the metal for currency purposes, perhaps in secret before the emergency, but even in the emergency by advancing the price of gold to a point beyond what the arts would give, and yet probably below the Mint price. Supply and demand would thus act directly on the price of gold instead of on the discount rate, thereby avoiding the present difficulty and possibility of disaster.

One other remark may be made before leaving this subject. The system here advocated is practically that already adopted for India. But such a statement needs explanation. The system adopted for India is said to be "gold standard with a silver currency." Now whatever economists may have said in moments of absent-mindedness such a thing is an utter impossibility. Apart from what has been said as to the meaning of gold standard it is very certain that the

standard of value and medium of exchange in any country must be in corresponding terms. If the people of India are accustomed to pay and receive in rupees they are also accustomed to measure their value in rupees. That is their standard of value. The gold standard is a mere fiction.

Admittedly, no one with any knowledge of the history of English laws and institutions will despise mere fictions usefully employed. And the fiction of a " gold standard " in India has the advantage of separating, in some fashion, the concept of standard of value from that of visible medium of exchange. The value of the rupee is no longer bound to go down or up, even approximately, with the production of silver. But it would be much better if the Indian Council could realize the true nature of the phenomenon. That would deter them from appreciating the value of the rupee as compared with that of the sovereign at the same time as that of the sovereign is also being appreciated by the scarcity of gold. This unfortunately they have been doing in the year of grace 1904, now just expired, doubtless not wil-

fully, but obviously in some ignorance. For it seems I can add in the first week of 1905 that they are so far disregarding the market as to be having to send gold from India past Egypt to England, while sovereigns are being sent from Egypt to India.

We must now assume that enough has been said to indicate the possibility of currency arrangements which would leave the standard of value practically constant despite irregularity in supply of the precious metals of which coins are made. If this plan were adopted, the rise and fall would be shown in the price of gold as of silver. At present it is hidden from casual observers in the fluctuation of the standard by which measurement is made. To the few who can see it is made the more painfully evident by the disastrous rise and fall of prices from which so much irregularity and distress is produced.

Some reference must be made to the trade in bullion between different nations. Nothing so clearly shows under examination the benefits arising from the free play of natural tendencies as the foreign exchanges to which at least some slight attention must now be given. We premise, however, that the

more natural system of admitting into the currency only so much metal as is wanted there would tend to even greater freedom of movement.

There is nothing inconceivable about a variable price of gold per ounce at less than £3 17s. 9d., when supply is in excess, any more than there is about the actually experienced variation above that price when supply is deficient. But it is safe to assume that it would fall in price much more than there is possibility for it now to rise except in those places where the paper currency is inconvertible. At present it is always possible to get sovereigns for Bank of England notes, and it is not unusual for bullion dealers to convert their notes into sovereigns and pick out those of full weight for melting or export. This prevents any considerable rise in the price of gold. It would palpably be easier to be sure that gold would go to the place where its price per ounce stood highest than under the present complicated though effective method.

At present we must note the standard currency (that is to say the coins which correspond with the acknowledged standard of value) contains in all the so-called gold standard countries a definite weight of gold of a known fineness. It is therefore easy to calculate the relation of the value of one country's chief coin to that of another's currency. For instance, an English pound is equal to 25·22½ French francs.

But if for any reason the demand for English money is greater than that for French money, it may be possible that an English pound may become worth let us say 25·30 francs. On the other hand, under opposite conditions it may become worth only 25·15 francs. Similar reasoning applies to all other ratios between the currencies of different countries. But it is evident that a change of values may make it worth while to send gold from one country to another. For an ounce of gold is worth much money proportionately to its bulk ; and bullion merchants find it profitable to export or import gold for small differences in the ratio of the coin of one country to that of another.

The causes affecting the exchanges (or ratios between the currencies of different countries) are various and not always easy to discern. In the first place the merchants or producers of one country may have sold to another country more than those of the latter have sold to the former. Assuming for simplicity's sake that each person selling has sold in terms of his own currency (and he would certainly wish to convert into that currency), this would mean that the money of the former place would be more valuable because more had to be paid in that currency. The difference might be made up in metal, if the difference were such as to justify the carriage.

But on the other hand, bankers and bill brokers in the former country might choose to send money

for investment to the country which happened to be in debt to the other country. That would depend on the rate of interest obtainable on satisfactory security. Such action would be equivalent for the purposes of the exchanges to the sending of further goods by the country which had overbought. They do not send the goods but postpone for the time paying for what they have had. But it would involve payment of interest by that country. And that interest even without payment of the principal would eventually necessitate sending extra goods or further remittance in payment.

The notion (which even yet occasionally appears in the effusions of those who are superior to learning) that foreign trade is pure and simple barter is quite erroneous. A most delicate and complex system of currency, consisting like that of individual countries of metal and paper, is always at work. It may be, and is, true, that payment must eventually be made in goods or services. But that also applies to internal trade. For if I am a farmer, dealing with a merchant who habitually sells to me more than I pay him for, he may indeed leave my indebtedness to him out at interest, but I must then pay him even more than previously. If I still go on taking more than I pay him, and, let us assume, allowing my interest to get into arrear, I shall eventually find myself losing my territory and substance or owing it to him under

mortgage and therefore compelled to serve him for my living.

Thus it is between nations. The exchanges may be bought to parity by the purchase of either goods or securities. But the country which supplies securities instead of consumable goods will find itself having to supply still more goods because of the interest it owes, or else get more rapidly into debt. But it is all done by means of the monetary currency obtaining between nations as between individuals—bills of exchange and metal by weight in the one case, and cheques, notes and coin in the other case.

The fact, however, that the balance owing from one country to another for goods sold or interest is often met by the purchase of securities (of longer or shorter duration) barely introduces to us the advantages of natural freedom. For clearly the moneyed people of the creditor nation will not send their money for securities abroad if they can be equally well satisfied at home. Consequently the rates of interest in the two countries proportionate to other considerations influencing the minds of the owners will determine in which place they will invest their money. And unless part of the price of the goods sold can be spared for investment the metal must come to make up the payment. For otherwise there will be such a demand for money in the creditor country that the moneyed people

will invest at home. With the result that the difference in the exchange will afford the profit to another set of people (the bullion dealers) requisite to induce them to export gold from the debtor to the creditor country, and that as we have seen would tend to lower the discount or interest rate in the creditor country receiving the gold.

Nor is this all. For we have already noticed that the tendency of a low discount rate is to raise the prices by affording a supply of money on easy terms to buy what is believed can be profitably purchased. Now the creditor country just noticed as having sold more than it has bought and taken payment in gold would thereby tend to raise its own prices. And following our circles the result of this must be to encourage supply and discourage demand from elsewhere. This tendency would be felt all round. But confining our attention to the relations of the other country just considered in connexion with it we see again the same natural process of finding a level of equilibrium. For in the country having lost metal, prices will tend to be lowered, whilst in the country having gained it, the prices will tend to be raised ; thereby enabling the country which previously overbought now the better to compete with lower prices, to the disadvantage in that sense at least of the country which was previously becoming creditor by excess of sale.

All this shows the benefits of a condition of freedom. A closer examination would reveal its beauties still more clearly. And all that one would ask for is more freedom. For the fact that nature finds a way of overcoming troublesome obstructions does not make those obstructions in themselves beneficial. And the unnatural system of fixing a price at which all that comes of a particular metal must be admitted into the currency is only rectified by a comparatively painful process, albeit sufficiently remarkable as being nature's remedy for our folly.

The process, as we have just seen, is that of lifting or depressing prices through the discount rate in successive countries to smooth down inequalities and keep the trade from stagnation. The liquid, current, running quality of money or currency enables it to water the otherwise arid wastes of districts from which trade has been driven by human folly. But it would be as much better for being dammed back from the currency when not required that the supply might be more reliable in time of less abundance, as it is in the case of the water supply of any

modern city. The constancy of prices is the point to keep in view. The present plan produces untold injustice by ever rising or falling prices. Some economists have laid stress on the advantages of rising prices in the way of increasing trade. There is possibly some confusion here between cause and effect. But leaving that aside, let us illustrate this so-called advantage of rising prices. Take a wheel, of which the shape is not round but elliptical or oval. When it is on one end it will move more rapidly to one side than if it were round. But it will not move from the side to the other end so rapidly and easily as to make the oval shape at all comparable to the round shape for rapid and easy movement.

So it is with currency and trade. And the best plan would be to allow prices to remain as constant in all countries as disturbances quite outside currency questions will permit, and gold to follow (unobserved and less necessary to be observed) wherever it might be required. There would still remain the variation in the exchanges arising from the temporary excess of one class of paper over

that in the denomination of the other country. But the price of gold in all countries adopting the more natural system would cease to be a disturbing quantity save in the case of a great scarcity of gold, in which case the present condition would recur. The carrying off into the arts of the surplus in time of excess through the reduced price of gold would so steady prices as to render the danger of scarcity sufficiently remote. And if one country alone were to adopt the plan, it would have the tremendous advantage of compelling other countries to take the surplus gold, to the raising of their own prices ; whilst the country refusing to admit the plethora of gold as money would find itself busy manufacturing and exporting goods to the higher-priced districts until the latter either discovered their folly or became too poor to buy more. This would not, however, prevent French bankers using profitably their money in English trade (if England happened to adopt the wiser plan first), nor would it save any country from the results of other economic follies. A foolish government by other means might still possibly, though

to that extent less probably, injure its people.

NOTE.—An incident occurred early in 1906 throwing light on present conditions and the suggestion here made. The French invest very largely outside their own country. But the troublesome times through which we have been and still are passing have interfered with investment, so that there has been a great accumulation of money in Paris. Moreover the conditions of France and the denomination of notes issued favour the use of notes as against gold coins. The consequence has been that as the issue of notes was limited, the Bank of France found itself compelled to charge a discount on its purchase of gold by way of discouraging further import. If this could have been continued, gold would to that extent have been driven to places where it was much more needed. France would not have suffered, for the discount was and long had been uniformly low. She would even have benefited by making money more plentiful elsewhere, as all countries with any foreign trade, import or export, benefit under such circumstances. But it appears that the accumulation of 1,000 tons of gold in one cellar is regarded in some sense as a part of French national ambition. And a law was passed to increase the possible note issue so that still more gold could be accumulated by the Bank of France at a considerable loss to themselves and no gain to anybody. This accumulation of gold did not prevent strike riots.

In England the stock of gold is so much lower that £35,000,000 seems something to wish for. But if the Bank knew that a given figure would afford them the requisite control they would soon reach it out of present production by means of an effective discount rate. It is useless, however, to aim at a large stock with no prospect for the future except the perpetual see-saw of the past. The control suggested would not correspond to that of the Bank of France. It would rather free the market than the reverse.

CHAPTER III

Let us lay aside every weight

WHAT now remains possible to us within our limits is a mere summary and application of what might well be expanded and may at some future time receive such treatment.

We began with the consideration of a people of ever recurrent hunger, thirst, and nakedness, requiring and demanding with such power as is possible to them food and clothing: needing also shelter and other material aids to their comfort. It is no answer to say "This is not all." Let us admit so much forthwith and quickly. This much is nevertheless essential, and nothing else worthy of striving after is likely to be attained by denying facilities for attaining this. Unless indeed a condition of crime, ignorance, immorality, irreligion, insanity, dirt, poverty, drunkenness, deformity, de-

generacy, and such like be worth striving after. Luxury and want ; idleness from too much riches or lack of opportunity for toil ; the loss of incentive to labour, or lack of the reward which should follow it ; all lead to the devil, if one may so express the tendency to race decadence inevitable in bad economic conditions. And though the doctrine of *laissez faire* has been described as that of letting every man go to the devil in his own way, it requires little courage to take one's stand on that view preferably to devices for driving people thither against their inclinations.

Noting this need for material commodities, we observed also humanity's power to increase the supply available for the purpose by means of work, which we described as competition. Now, were it echoed on every page the time of writing and reading would be well expended in making clear and mastering the nature of this competition. If human subsistence fell like manna from heaven without labour to human beings, but in limited quantities, then it might be allowable to hold back the strong that the weak might partake more freely. But human subsistence

is the result of a wrestle with nature which yields the more freely in response to the wrestling. It can be indefinitely multiplied, and the strong wrestlers who compete and lower prices by offering increased supplies are the people to do it. Until the evil of restricting this competition to produce is more generally known there must be poverty and distress for want of what men stand waiting to produce.

Those who visibly wait thus are not the particular individuals who would take the initiative, and avail themselves of the greater freedom which might be afforded. The unemployed we see, as such, are the weak ones who have been crowded out by the stronger because those stronger did not find the freedom they wanted. But give the stronger their needed liberty and they will go forward leaving, and finding, places for those now outside the circle of happy toil. A writer who doubtless thought it a brilliant thing to say, referred some time ago in sneering terms to the men who thought to benefit their class by getting¹ out of it. Precisely, my friend, the way to do it, leave the others more

breathing space and elbow room. By staying there when you might go higher you may compel some of them to go lower.

It would be difficult to believe it possible (were there not all too palpable evidence of the fact) that any one could contend a people could be better fed or in any way richer for being hindered in acquiring in the manner easiest to them what they need for their life and comfort. Not until competition is allowed full and continuing freedom to supply at prices within reach of the poorest can any nation hope to be wholly happy or as near thereto as is humanly possible. But short sight and narrow-mindedness are naturally fearful through limited vision. We have therefore noticed more particularly the method by which competition attains beneficial ends, and must go further.

Adam Smith spoke of prices being fixed by the higgling of the market. The phrase refers apparently to the open argument in which the best bargainer will win. But beyond that is the condition of supply and demand which will ultimately rule the price. We have noticed these tendencies in some detail as

the central feature of the science ; with the related question of money, the medium of exchange which furnishes by its constant use a measure of value to the minds of those who use it. We observed, and need not further discuss, the hindrance to regular and abundant supply to be found in bad currency arrangements causing variation in the standard of value and consequent disorganization. But this is by no means the only hindrance. The mere catalogue of other hindrances will detain us longer than is pleasant.

The elements of production we noticed as land, labour and capital. Money already noticed is only a factor as connexion between producer and consumer.

We begin with land : nature's free gift. We cannot increase it, neither can we diminish it. But it is possible to devise a plan by which one man shall hold it in idleness while another starves for want of its productions. And the legislatures of this and other countries have most successfully devised such a plan. Or perhaps we should say that it is the outcome of various modifications of systems which had their virtues,

by subsequent enactments which have only vices. To discuss the history of these systems and modifications is beyond our immediate purpose. It must suffice for the present to point out that assuming the law allows in practice (whether in theory or not) absolute and unqualified ownership of land, the land-owners for the time being of a country can, if so minded, determine that no person other than themselves shall have standing room unless indeed it be on the public highway, over which the public have full right to pass and repass, but even there must not unduly stand still.

Now private ownership of land, absolute or otherwise, is a very necessary condition to the best use being made of the land. For even in the case of cultivation of the surface the liability to be dispossessed deters the occupier from making improvements. Such improvements would certainly be beneficial in the matter of wealth production. But he naturally considers that neither he nor any one towards whom he has goodwill might in case of his dispossession reap the benefit. This is owing to the nature of man. His

inherent regard for his own interest is not to be despised as a factor in the progress of the species. And the deterrent effect of such a danger would be greater in the case of land required for the production of minerals, the erection of buildings, or the carrying on of works where the outlay of capital in improvements must be greater.

A discussion as to who should own the land, those who get there first, those who follow and are strong enough to oust them, those who improve and cultivate it, or others than any of these would take us out of our way. Nor will we indulge in speculations on the subject of natural rights or heaven-made justice. Let us assume that the existing ownership of land has come about by the most righteous and benevolent of all possible methods, title, and proceedings. Let us also assume against ourselves that no person should under any circumstances be called upon to sell his land against his inclinations, which is more than the present laws allow him. This only implies that if one man happens to own a county or so, all the inhabitants must pay him rent for the land

they require. Such a man becomes a king with a suite of retainers. But if there happens to be another king who demands taxes from that district, to whom shall he go for his taxes? That is the present question. Tributary kings used to pay their own tribute. In modern days the owner of the land from which tribute is payable merely remarks (or saves himself the trouble of even saying the thing) that his duties end with receiving what can be collected for him and spending as he chooses: the superior king may go over the land and collect his taxes for himself. This at any rate is a similitude or picture of the thing. Is the thing right?

But we have to face the fact that taxes must be collected from some source. And payment can only be made by persons who reside on land (though the exclusive occupation of some persons may not extend to 100 square feet), and their subsistence, howsoever scanty or luxurious, must be drawn from land. On what basis shall the taxes be assessed? Shall the owner of land pay taxes only on that portion (be it great or small) of his total holding which he occupies and

uses and be exempt with regard to the remainder, or shall he pay on the whole of his ownership? Possibilities almost infinite depend on the answer to that question. If he pays only on his occupation and is exempt on his ownership, a direct discouragement is given to production and an absolute inducement offered to keep idle all that he does not really need for himself whatever may be the needs of others.

The contention that he will let the remainder beyond what he occupies and some one else or others will pay on the occupation of that, is unworthy of the smallest respect. For (1) his letting to them for a period will not give them the inducement to improvement and the best use of it which would result from his absolute sale of his unused land. (2) The taxes which prospective occupiers must expect to pay because of their occupation would (as they now do) act as a similar discouragement to their occupation and use of the land for productive purposes: (3) while his retention of the land he does not use for himself involves a loss of capital to the nation. If he sold his surplus land, he might

use the proceeds to enhance the value and productiveness of what he retained. He would thereby compensate himself for the loss of income which he had hitherto obtained from letting the surplus land, while furthering beyond measure the interests of the nation.

With brief treatment we must leave the subject of land. All the difference between poverty and plenty depends on whether taxation is assessed on occupation and use or on ownership. If cultivation and improvements involve additional burdens for the good of the State (disregarding the good its people get from the very cultivation itself), then the possible cultivator hesitates long before taking upon himself the care and responsibility of it. More particularly is this so if that burden is in addition to a rent he must pay to the owner of the land. The rent and taxes are certain, the return is uncertain.

The attempt to remedy such a condition of affairs by the State itself acquiring, perhaps even with borrowed money, portions of land intended to be let out to others is obviously to make bad worse. For if this cannot be

brought about without loss to the State, higher taxation must result and the evil be increased. And if no loss is involved (a very improbable contingency, for at least more officials are necessary for the work), then private individuals would find it profitable for themselves, without State assistance, to do what is required.

This will be unconvincing to many whose faith in the omnipotence of the State or Government is inflexible. Even they, however, may be disposed to consider whether a more just and expedient method of taxation had not better be adopted by the State (that being admittedly part of its business), before it concerns itself to any greater extent with the private doings and dealings of its subjects, which many aver is not part of its business.

Almost unawares the word just has inserted itself into the preceding paragraph. And whilst we must not demean ourselves by a too great regard for mere equity, as we conceive it might be established by an all-wise and beneficent legislature, we may be allowed to suggest a question on the point. Would it not be more just to base the whole

of the country's taxation on the value of the land owned by the persons taxed? Their land is palpably that of which they have made themselves responsible for the good management, and part of that from which the wealth of the country must all be drawn. A tax on the value of it seems preferable to the present variety of considerations; the value of the land and its improvements, merely occupied; the total income made by one's industry thereon; the quantity of various commodities consumed in such industry or in the subsistence necessary for the work performed therein. All these, with other not simple considerations, are made a ground for avoiding the imposition of taxes on those who take and hold that from which the means of paying taxes must be drawn.

It is assumed that the inequality in value of different pieces of land of the same area has been evident to the reader all along, and that in assessing taxes regard would be had to the value of each person's ownership and not to its area. Indeed, the very existence of rent in the economic sense implies this inequality in value. If we include sporting

and sheep grazing as methods of cultivation, it would be difficult to find in England any land which is below the margin of cultivation and therefore non-productive of rent. But there is still land in British colonies awaiting owners and occupiers. And for absolute cultivation much land in this country would produce no rent at all. Rent would only be paid for such land as was so much superior as to make it worth while to pay a rent for its use. The rent would only be paid to the extent of its superiority (in the mind of the tenant) over that which could be had for nothing : for which latter, as already said, he might have to go abroad.

To find or define the margin of cultivation is no easy task. But the nature of economic rent is sufficiently indicated without the effort. Cultivation here represents not merely ploughing, and sowing, but every possible use of the land. For some uses and in some situations it is valued on sale at so many pounds sterling per square foot. The taxes on such land would be proportionately heavy. And the single tax just suggested in our question about justice might on full adoption

exhaust half the income arising from the value of such land apart from its buildings and improvements. But the owner could make no complaint of injustice, if before such a condition were reached he had ample time and favourable conditions to resell his ownership and improvements without loss. All of which, with an intelligent application of the tax, might be afforded him. And it would be an unjust tax indeed which could work the mischief and injustice which existing taxes, local and imperial, have wrought in Great Britain during the first four years of the twentieth century.

By which reference we are brought to a second weight to be laid aside from the burden now oppressing producers and hindering trade ; hindering, that is to say, production and enjoyment of necessary subsistence. This is the burden of taxation which hinders, as distinct from untaxed monopoly, which permits hindrance. How far it would be possible for the single tax on land values to hinder trade we need not discuss beyond saying that until it took all the income arising from mere ownership of the unimproved land and began

to take part of the income or produce of the improvements or occupation, it could not possibly discourage production. To something approaching that extent it would if intelligently applied actually stimulate production. This would be done by rendering it costly to keep land idle and (other taxes being reduced) more profitable to use land.

The picture which a man keeps hung up is no burden to him, although it produces nothing, since it pays no taxes. It may possibly even be improving in value, which is some slight interest on his outlay, though insufficient to induce any one to encourage art at the risk of depreciation if taxation were added as a burden. But the horse a man keeps in his stable eats, and therefore the maintenance of it is a luxury which he has less inducement to continue than if he could have the luxury without the feeding. Exactly thus the tax on ownership would operate. It would say to the owner of the land, "Your land will cost you for keeping, as though it ate oats and hay: you will however be at liberty to use it or not as you choose." He

would be the more likely to drive it for business or pleasure when it thus thrust itself before him at every tax day than now when he forgets it as lumber, for which some person may hereafter give him more because of his having kept it idle and useless. Or he will equally do well to the State if he sells it to another who has service for it to perform.

But all the other taxes are imposed as if by way of penalty for being industrious and enjoying or producing what industry can produce. Consequently, the higher the taxes the greater the discouragement to industry. Let the reader pause and consider for himself the weight of human folly which proposes to increase employment by making it more difficult for people to buy and consume the objects of their choice. Let him also ponder on the wisdom or otherwise of adding to local and imperial taxation; increasing the expenditure of the State; that occupation may be found for those whose labour cannot be profitably used at the prices at which they now offer it to the only people who are in a position to use it. The advocates of this folly frankly propose that the State shall bear

the loss, obviously, as we said, making bad worse.

To taxation professedly for purposes of protection we will give further observation hereafter. But we are not concerned so much with professions and intentions as with causes and effects. If taxes, imperial or local, are higher they add to the cost of production and of living; and the higher prices thus caused diminish, as we have seen, the demand. That diminution of demand as we also saw lowers prices, and as we further noticed in our circles, checks supply. All this involves throwing labourers out of employment and adding to the cost of maintaining the poor, another burden to be borne by industry before it can afford a profit.

It is not merely that high rates and taxes act on the fears of would-be producers and thus discourage their commencement. So far as that aspect of the matter is concerned, it must be noted that they may commence before there is much apparent danger and find the evil when it is too late for them to avoid it. The reality is the difficulty. For the taxation which must be paid on pro-

duction, exchange, and enjoyment must essentially and inevitably come out of the price at which the actual consumer eventually enjoys his subsistence if the production is to continue. At the best this involves to the community only such wastefulness as is inseparable from the ways of officialism, never a very effective engine for obtaining the maximum of work out of the minimum of steam power. A man in business on his own account is spurred to diligence and economy by his own direct interests. A philanthropic or religious organization in which people engage for the good of others, finds its motive power in the self-sacrifice and devotion to purposes which call forth their loftiest aspirations and utmost fervour and energy. These considerations have no application to the public official. He is there to earn or otherwise get his salary. He may be conscientious. One can say no more.

This we remarked is at the best. Beyond that there is much. The expansion of the sphere of government, the increase of irresponsible expenditure, involves additional irregularity which is another great cause of

waste. For if it happens that a government wants a thing done it takes first claim on all the labour and capital seeking employment, and for the time being other enterprises must take their chance, a secondary one, besides finding calculations upset by the action of the government. Nor must it be forgotten, whether we repeat the words in every sentence or not, that we are discussing principles which apply equally to governments of small and large areas, local or imperial, inferior or superior. And all we have said as to the difficulty of the increased burden of taxation and its discouragement of industry applies to every kind of tax, at present in force.

Speaking generally, the way in which the governmental authorities can best assist in getting the people to work and avoid hindering production and comfort, is to get themselves as far and as quickly as possible out of the way. The people are likely to be better supplied with houses, for instance, if the penalty (in the form of local taxation) on occupying a house is reduced instead of being increased : rather than if the local authority increases that penalty in order to try its

prentice hand at building a few tenements (involving subsidy from public funds), in addition to those with which the people supply themselves. And this is far from being the most mischievous of the ways in which public funds are wasted and officialism maintained.

But this is not all. There is a third weight in the burden which directly oppresses the industry of the whole for the benefit of a class. Not content with levying its taxes on the most oppressive instead of the least oppressive basis, nor even with reckless and extravagant expenditure of the taxation thus year by year obtained, governments have shown a disastrous facility for spending even beyond such income, and building up a public debt. The phraseology is as it fell from the pen, but can one talk of building a hole—a veritable pit which looks bottomless. Adam Smith lost no opportunity of denouncing public debt, but his horror could he be brought to see the fifth year in the twentieth century can scarcely be imagined, much less described. The public debt in this country has reached some fourteen hundred millions sterling as against one tenth of the

amount in Adam Smith's day. Even at that he was much concerned, though he had to see it increased by one hundred millions through a war in progress as he wrote.

The nature of such a debt is that the whole of the people owe to some of them or to others altogether outside the nation a sum of money which, apart from repudiation and national bankruptcy, must take precedence of all else in the country. Repudiation of such a debt (that is a declaration by what is usually a conquering or revolutionary government that it cannot or will not pay or recognize the debt) is an extreme measure, but it is not unknown : payment, which Adam Smith observed had not been known, seems on the whole even more unlikely at this time than in his. And yet payment would be a much easier matter given honest and capable government than he imagined. While justification for incurring such debt does not exist. This latter doctrine will startle some. It is well if the awakening be followed by thought.

Let the project be what it may, requiring admittedly an 'exceptional expenditure, the carrying out of that project still necessitates

just the three elements which are requisite for all production, land, labour and capital. Land clearly exists the same before and after the carrying out of the project. Some capital exists before the inception of the undertaking, and some capital (partly but not wholly the same) will exist on its completion. The labour, every jot and tittle of it, must be performed between the beginning and the end of the enterprise. More labour may have to be applied on this account. And less produce may be enjoyed as the result, because some must be maintained while they carry on this extraordinary work. Yet the establishment of a debt leaves labourers to pay the debt after the enterprise, in which they have done all this, is completed. The money thus crystallized into public indebtedness was only a claim on the then existing assets if a sufficiently wide view of it be taken. It is now converted into a claim on future assets and put in front of every other claim, and yet those whose money was invested in enterprises, or who having no money worked in those enterprises, have really produced all the maintenance and

other capital with which the work has been done. The assets against which the money was a claim have not been diminished.

If some actual buildings or land improvements are destroyed the replacement must be regarded as part of the enterprise. Apart from that, all the capital existing at the beginning will be there at the end, except that the circulating capital of food and clothing will have been replaced by new productions for those consumed. Now what possible justification can there be for leaving a debt owing by the nation, a mortgage on the whole country to those who happened to have money for investment at the time of the extraordinary expenditure. What is the objection to so far increasing the taxes as to pay at once with only such pledging of the country's credit as will bridge over the time necessary to get in the additional revenue ?

The getting in of the money by way of loan is more injurious to the trade of the country than taking it as taxation. It withdraws what would be invested in capital bearing its own revenue, and puts the claim

for the money thus withdrawn in front of all other species of property, thus reducing the value of them all. At the same time it raises the rate of interest without helping production to pay more interest.

The reader may follow the thought for himself. He will see that the demand set up by the extraordinary enterprise, though specially advantageous to special trades, would so have raised all prices and so increased the trade as to justify payment of the taxes. And if the burden had been shouldered at once it would have been much more easily carried and with immeasurably greater justice apportioned among different classes than by means of the now generally approved plan of borrowing. The latter plan takes funds which would otherwise have had to find productive employment in order to earn their owners interest, and for these funds pledges the country—we will hardly say to repay, but to pay perpetual interest on them out of what must then be earned without their aid.

This is one reason why the backwash of a war is so fearful. There would be disturbance at best. But the irrationality of govern-

ments multiplies the evil. And if when the fever is over and the state of comparative exhaustion is on the country some other silly borrowing scheme, even comparatively small, is produced, its ill effects are out of all proportion to its magnitude. Trade and production, livelihood and comfort, are questions of price in modern times. And price is determined not by the total of the wealth but by the relation between what is now in the market, and the money now on offer by would-be purchasers. Take the country's savings (the money intended to be put into capital to help further production and to bring its owners interest) and use that money to finance a war, to blow away in fireworks, or consume in painful marching for the purpose of carrying devastation over a country, and incalculably more mischief is done than if the nation realizes the need at once and devotes to the purpose what would have been used for current expenditure in leisure or pleasure.

The pleasure and leisure might well have been curtailed at that time. As it is you have taken the nation's tools. You had far

better have taken their dinner. They would have got over that, but the tools are wanted for the work by which they earn all the meals for every day. If another demand is made on the tools (i.e., more capital is borrowed), shortly afterwards a small demand is clearly more mischievous than a large one was when the "tool bass" was full. Let the illustration be well weighed before it is abandoned as inapplicable. And remember that it applies to all borrowing, not merely that for purposes of war.

The obverse consideration will show the cowardice of being afraid to pay off the debt. This money is owing to people who have saved, and are likely to save. If the nation or community decides to pay them off rapidly out of current taxation they will seek places for re-investment. And the holders of land and capital of all kinds on which the taxation would be raised, as well as those whose share in production is only their labour, might well petition to be allowed to pay off the debt. They might rely with implicit confidence on the money raising the price of their property and the reward of their labour to at least a

commensurate amount. But as it is, it stands a colossal burden which the patient and long-suffering ass known as the public continues to labour under, not without some groans and occasional kicking, but with no intelligent notion of how to rid itself of the useless and unfair load.

One other weight we will notice. The intimate connexion between land and government will not altogether have escaped attention. But even the government, with its threefold burden of taxation badly (because ignorantly or unjustly) imposed, excessive in amount through needless interference and extravagant expenditure, and public debt whereby interest is raised in favour of a few and to the hindrance of production (not forgetting a currency system in need of improvement), still leaves room for further obstruction to the production and enjoyment by the nation of material livelihood.

We have yet to consider labour and capital as elements of production. We shall treat of them together as labour enters into all capital. Realizè clearly the distinction between land and capital. Much confusion

and mischief has resulted from the inability of more or less influential persons to distinguish between the land which owed nothing of its value to human effort save for the struggle to possess it, and the value of the houses, buildings, or other improvements put upon the land. Some light may now be penetrating their minds, but there are many dark places. It is still difficult for some to understand that to take by force or taxation from those who have it, the value only to be produced by means of labour, will certainly discourage such production and result in greater national poverty.

The doctrine of freedom, of *laissez faire*, inculcates the fullest possible enjoyment by every man in his own person or family, or in those of his own choice, of what he has himself produced ; or what with his own productions he has paid for being produced by others. But quite as obviously it can have no sympathy with the enjoyment by one man or class of men of the labours of another through unequal laws. Such laws are, for instance, those which enable owners of land to enjoy its benefits without labour, whilst

others perform the labour for both owners and tenants and also bear the burden of taxation for both ; or instal the moneyed people of to-day as creditors of the nation for all time leaving the moneyless to maintain another class free from work through perpetual taxation.

While, on the other hand, the mention of work reminds us of the danger twice already hinted at, and not to be more than mentioned here, that a system of poor law relief, which makes life more comfortable for those who live on the poor rate than for those who pay it, not only generates helplessness, but is iniquitous and unjust in the highest degree. That is not a suggestion without foundation in facts and events. Nor can more respect be offered to those who, in the effort to seek and maintain their popularity, raise the wages of the workmen or officials employed by public authorities above the wages earned from private works by those who bear this additional burden for the benefit of the favoured men. It is easy to be a "model employer" with other people's money, if extravagance is the qualification, much easier

in fact than to be a model representative of the public in the fair and economical management of its affairs.

These points, mentioned incidentally, are not without considerable bearing on the question of the hindrances to production and supply which result in poverty and degradation. It is a discouragement of all that is best in a man who would honestly labour, for him to find that his toil brings him less reward for more work, while another finds it easy and profitable to live out of public funds given in a semi-charitable manner to which he, who does not share these benefits, must nevertheless contribute from his hardly won earnings.

Free trade in labour is no new doctrine. But in modern years the opposite doctrine has taken a form and an importance to which the older economists were more or less strangers. Adam Smith inveighed against apprenticeships of the restrictive sort which were used to keep particular trades exclusive and highly paid. That form of restriction though not entirely abolished has lost its relative importance. But closely parallel to

it is the system now upheld by some trade societies of forbidding their members to engage in any but a particular section of a much subdivided class of labour. The engineer whose particular trade is that of a turner must stick to his turning and not on any account engage in fitting. It is to be hoped that humanity will learn in due, or overdue, time that a society which limits its members to a minimum of knowledge and skill must have other objects to justify its existence than the good of its members : the good of its officers possibly supplying the need for such justification.

The conditions now most prevalent opposed to free trade in labour take a form described as collective bargaining. As this has the approval, direct or tacit, of most living professed economists, a few plain sentences are very necessary on the subject. Perhaps a single sentence will suffice for the oft repeated though never supported assertion that had it not been for trades unions, wages must have been lower than they are, and that workmen owe their progress to the unions which have kept up the price of their labour.

It is the man who does more work for the money ; who finds a plan for making work easier ; who invents a machine for increasing product and reducing cost ; who brings food and clothing from abroad cheaper than it can be produced at home ; who eliminates waste ; who cheapens transit ; who floods the market with comforts and luxuries from every clime ; who does something to free the sources of production and bring subsistence within reach of the poorest ; not the man who is perpetually keeping up the prices, always afraid lest too much should be produced, and dreads above everything too much supply, to whom we must attribute such improvement in our lot as has been achieved.

Sorry performance indeed one would call the improvement at present visible if one had to attribute any such improvement to these organizations to keep up prices. The only comfort is that the improvement has been effected in spite of them, and that it will be greater when we are rid of them. Unless, forsooth, one could imagine oneself likely to be the better fed through failure of crops, or

better clothed through destruction of wool and cotton. In the short sight of the moment a man of limited intelligence may be excused the thought that an advance in his sale price, however brought about, will do him good. But the ignorance is too vulgar which permits a person of wider views to attribute to any restriction on production, the increase of the produce which is available to be consumed.

At least, if that is allowable, we had better put an absolute end to foreign trade (which is only possible because it cheapens and increases food and comforts), make our system of taxation more discouraging to production than it is (if such a thing be possible save by further taxing of imports which there being no foreign trade at all would be out of question), increase the number of pensioners and officials to be paid out of taxation, and if any other plan for raising prices and making goods scarcer could be found, adopt that also.

But, says another, "Free trade in labour does not sufficiently recognize the power of the employer and allow for the necessity of the employed." It recognizes the fact that

the employer only carries on business for the profit that he makes out of it. If he is prevented from making profit he is like a day labourer without wages, with the additional disadvantage of having standing expenses to meet. If he makes more than his abilities and labour justify in comparison with those of his fellows who are his equals in those respects the remedy is that another should compete against him, and thus bring down the price of his product and raise the price of the labour he must buy. Nothing but leaving him and his workpeople in absolute freedom will induce the competitive production which is necessary to benefit consumers (whom we must not altogether forget seeing that for them and their needs we take up this problem) and create demand for the labour of more producers.

And the doctrine allows this for the necessity of the employed that he must eat or die, and he had better have what is now available and work on until the competitive employer arrives than refuse that and starve, at the same time discouraging the 'competitive employer from coming at all. It is exactly his

perpetual necessity that the doctrine does recognize.

Much that does duty as argument for treating labour in a manner different from goods is mere eloquence unworthy of notice. It is frequently said that the labourer sells his flesh and blood and must be protected by law or combination. This is harrowing rhetoric but foolish untruth. For the labourer sells his services, nothing whatever but his time and effort which, unless it earns him something or is spent in pleasure, is lost to him. The day spent waiting for a higher price is absolutely wasted to him, and can never come again. He has lost the subsistence it would have brought him, and by rendering himself poorer has destroyed to some extent his equality in bargaining. Nor has he gained anything in pleasure from it. There is no compensation whatever. He who misses the chance of selling his goods still has them for sale at some price, but the labour held back in unenjoyable idleness (not being flesh and blood at all), is not saleable when the time has gone by. What we have to say therefore on the subject of protection as

applicable to both labour and goods, applies if possible with even greater force to labour than to goods : instead of not at all, as most advocates of free trade in goods appear to imagine. For they adhere to protection in labour.

But we still await the few plain sentences on the subject of collective bargaining as approved by the present day orthodox.

1. Despite the sentiment in favour of trades unionists and collective bargaining (not now so much as openly questioned save by a few despised individuals) the number of labourers who adopt this form of combination is only about one-fifth of the whole, even in the country most infested by it.

When the fearful distress from time to time brought about by this method of bargaining is considered it is too horrible to contemplate the possibility of two-fifths of the whole adopting the method, whilst the idea of all wages being fixed by arrangements of the kind so as to include the remaining three-fifths is unthinkable. Observe that we do not say it cannot be talked about. It cannot be thought, which is different and more difficult.

It will surprise many to be told that the collective

bargainers form so small a portion. This class make so much more than their share of noise that it has got imagined no others exist. "But the noble silent men scattered here and there, each in his department, silently thinking, silently working, whom no Morning Newspaper makes mention of, They are the salt of the earth," and the greater part of its substance also. But it is ever the abnormal, unhealthy, and painful, of which we are most conscious. Objection may be raised to the suggestion that collective bargaining produces the distress to which reference has been made. But clearly beyond dispute no strike or lockout would be possible at all were it not for collective bargaining. Whatever else may be said in favour of this method the system must bear the responsibility of all the distress connected with lockouts and strikes. Here is no apportionment of blame between masters and men. For the moment it shall not be said that the benefits arising from the method do not justify the pain and sorrow thus inflicted (though the writer may be permitted meantime to think the only thought possible to him), but by no means shall liberty, freedom, individualism, or the doctrine of *laissez faire*, accept the smallest portion of blame for the indubitable hardships which are experienced while bargains are being made and differences are being settled for whole bodies of workmen in one transaction.

We will take the burdens that belong to us with regard to the units, but these aggregations, these caked masses, are none of our making or approving, and their doings or misdoings none of our concern : save enduring the suffering we did not cause. Their alleged benefits we have had a word or two upon already and will have more. But we wish it first clearly realized that a strike or a lockout is literally and absolutely impossible when every one makes his own individual bargain for the individual good of himself and his dependents. Senseless clamour about the selfishness of this is part of the excessive noise to which reference was made. But the greater selfishness is shown by those who for their own benefit (as they think) would interfere with the bargains of others besides themselves. Certainly the essence of a strike or lockout is that two or more are on the same side in the same dispute, which cannot be individualism or the *laissez faire* method.

2. The adoption of the collective method is not only more possible in some trades than in others but it is practically impossible, save under special conditions.

It involves something of specialization. But it must not be concluded that this specialization is necessarily synonymous with a high degree of skill. Coal mining is not a more highly skilled industry

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are essentially slavish, a
determination, seeking no be
by any one ox who has enough
accept the position."

Readily therefore it will be seen that the
conditions for this collective bargaining are th
considerable number of workmen work together o
in communication, and at a sufficiently identical
class of work, demanding and permitting of little
initiative and free, or nearly so, from personal contact
with their employers. The absence of any of these
conditions would destroy the chance of an organiza
tion running counter to that of the employer and
detering individual workmen from working or
producing more for the money than the trade regard
as sufficient ; or what is identical in meaning accepting

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erance. And it is only
said to point out that
this means involves a
loss under the remarkable
urgent need is unsupplied, and
to produce. A contrivance has
to give the governors faster without
the steam demand to carry any additional
supply. To complete the figure it must be
remembered that the governors (prices) induce
supply as well as discourage demand. On both
sides therefore it will be seen that the prices raised
in this way operate to reduce production. For the
supply is of labour in that particular grade, which is
artificially induced from some other employment and
the higher price brought about in this way does not
correspond to any higher value arising from the
greater satisfaction to human desires. On the con-
trary, apart from possible (indeed probable) encourage-
ment to idleness the diminished demand enforces the
idleness. To this, however, we will return.

Meantime it should be clearly realized that the raising of prices for labour in the combined trades is unjust to those in the trades where combination for such a purpose is impossible, and as to the trade itself merely attracts some of the outsiders by the artificially raised prices. It increases the supply of the labour concerning which the price gauge has been tampered with. It reduces the demand for it. And it sets an excess of men hanging round one employment to the reduction of those occupied where the real demand is greater. Which we may repeat all tends to reduce production. To propose, as some have done, that the outsiders shall be forcibly kept out of such trades where the prices have been artificially raised is to propose that they shall be left unemployed and unfed, or working at an artificially reduced wage that some may have an artificially raised one. This happens. This is one great cause of sweating. For it is only to a comparatively small extent that the change can take place from one trade to another.

3. This method reduces the profits of employers, thus reducing their inducement to be employers.

The bald statement thus made refers only to the primary effect. What happens after that would carry us far. It drives some of the employers out

of business, which has other effects, notably the unemployed. If it does not reduce the profits of employers, however, we look in vain for anything it does at all. For the contention which dies hardest in an argument is that the employer makes too much profit if left to deal with each workman separately, and it is necessary for the men to combine to obtain their fair share of the produce. If, however, the method directly reduces the profits of employers it will discourage their demand for labour. For the employer's profit is the price of his labour, and the return on the capital he uses, just as in the case of a carter who lets out himself and his horse and cart. But reduced prices discourage supply, and he will be less likely to supply his particular services if his profits are reduced. Those therefore who wish to see increased demand (and consequent higher prices) for the labour of the employed will be careful to avoid reducing the price of the employer's services, save by the method of competing against him to sell goods at lower prices, and to buy labour at higher prices. Co-operative production would answer this purpose, and it is a curious instance of mental fog that it should be regarded as akin to collective bargaining, which operates in the reverse direction.

It is as incomprehensible as it is deplorable that amid all the clamour we have recently heard for more education no one has come forward with a

proposal for teaching us to think straight. Large curvilinear language we have had in abundance printed and well sold or declaimed in harangue and flashed to the limits of the land. But for something straight and meaningful we wait in vain. We said incomprehensible, and ought not. For the times are always just such as they are. When there is most need for simplicity or any other good quality there is least to be found ; which is self-explanatory.

When all the world had forgotten man and gone abegging to the State each for his own craft, it was nothing to be wondered at that educationists turned from educating themselves and their pupils and betook themselves to crying out for more education, meaning thereby largess which indeed they named in large sums.

A digression (for which apology is offered) has led us away from the subject of thinking straight and the particular thought before us. What is it which the country most obviously lacks when there are unemployed ? Is it not employers ? Then why are they not forthcoming ? Is it not because there is not the profit to induce them ; because some have gone out of trade downwards, and others would be glad to get out if they could do so otherwise than downwards ? Employers who remain reduce their staffs of workmen and assistants. New ones do not enter as fast as old ones die or weak ones fail. It

is unnecessary to discuss the qualities necessary for employers. Such qualities would be available if the conditions were favourable, but not for such reward only as can be had without responsibility.

It may be the government which by bad or excessive taxation has destroyed the profit ; or has taken the money of moneyed people for its schemes of aggrandizement, and the enlargement of its sphere of operations. In the latter case there is still more to pay in taxation for many reasons. But it may also be that persons to whom adjectives shall not be here applied have deliberately set about the making of the trade of employers less profitable : and this avowedly in the interest of those depending on employment.

Then the unemployed crowd together to make their wail or crowd among the employed for the chance of a job. And the charitably disposed send skilly and blankets or find a gap for one or another unit of the weakly, meantime complaining that the government which has not improbably done the mischief does not bring its meddling fingers in again, trying to mend its bad work and spoiling the more. But what is required is that the much needed employers should be set free with the prospect of profit for themselves. They will then go to the frontiers of trade, leaving their places for others, and making situations for still more in those spheres to which they have taken their own stronger and more self-reliant

energies. The good or evil influence in economics is always a double one. But no trade revival takes place until those in business have begun to find the profitableness returning.

It may be desirable to intimate that the fact of large profits continuing to be made in the best established businesses is not for a moment overlooked. This is indeed part of the evil, and the way in which we may account for the favour with which the owners of such businesses regard collective bargaining. It does not hurt them particularly, for the reason that they are above its operations. It is the smaller and weaker who are crushed out of the industry. And this is an advantage to the larger concerns in keeping them free from competition. Similar reasons make these owners protectionists. But it is bad for the workman in keeping them at the mercy of the larger concern. And it is bad for those who venture to become employers and are not strong enough for the additional strain the method involves. Besides which it keeps many from commencing on their own account, although otherwise their commencing would be to the benefit of themselves, of other workmen and of consumers.

4. Collective bargaining when trade is good tends to carry prices more rapidly upwards than would naturally be the case as to the

labour itself, but as to its productions the price rises both more rapidly and to a much greater height proportionately.

This results in inducing members of other trades to make haste into those trades where the prices have risen most rapidly (the inducing of supply) at the same time as it checks the demand for their productions. In this way natural tendencies inevitably operate on both sides to restore the same level of prices for all. But this transit brings irregularity, and the irregularity extends to other trades. It checks the supply of what the other trades produce, on account of increased cost in production. This results from both the higher price of the commodity bought by them as, relatively, raw material, and the shortage of the men. The men lost to these other trades have gone to work where they were not really wanted, though the prices after the interference indicated that they were. Moved by their own interests they went to do what nobody required of them because the others by their collective bargaining had put up their prices above the normal. All this involves the loss of producing power, discouragement of production of the material wealth necessary for national consumption, with the irregularity which is itself bad trade and want of employment. Those in the trade where the index was most altered will

probably on the whole suffer most, for the conditions have often to get bad enough to drive the surplus out before revival can take place. Though it must never be forgotten that the weakest of the community inevitably drift to the bottom, and the more turbulent the strong the more quickly the weak fall.

Perhaps we might now say "Gentlemen of the jury, that is my case." But we will very briefly take one more point. This is the suggestion that this organization of trades (shall we say counter organization or disorganization) has, would, or will, raise the prices and wages of all workmen. In referring to this we will deal as far as seems necessary (in view of all that is implied in what has already been said) with the doctrine of protection ; only repeating that collective bargaining is of the same nature though different in form.

Protection is the term adopted for restrictions (usually on import of goods) "for the protection of industry." The standing cry is that it is necessary to secure employment. If one answers in his simplicity that the employment is not what we seek but the wages, and even then not so much the money but the power of obtaining the consumable commodities, the answer given by the extra clever is, that we cannot have the

wages without the employment. To which with modesty we may submit; opining, nevertheless, that we might get the employment without the wages, which is what we are especially anxious to avoid.

Now this is the crux of the question. Do we wish for employment or for productions? If it is merely employment, then it matters little what the economic conditions are. We can always find means of wasting time. But if it is consumable wages we desire, then the conditions must be of the *laissez faire* sort, freedom to buy in the cheapest market and sell in the dearest. There is no need to advocate that such a thing shall be done: human nature will decide that point if the liberty is given; it is merely that there must exist the freedom to do it, because thereby the real wages will be attained in the easiest possible manner. The extended view of the matter is, that every desirable commodity will tend to be produced in the place and manner most suitable for it. There is a sense in which work or employment may be increased by protection. For by interfering with the freedom to buy in the cheapest

market more work may be necessitated for the same result. This is finding work, but to the extent of the excess in price, work without wages. Nothing could well be more absurd than the notion that in any other sense than just mentioned, protection can increase employment or improve trade. All trade is exchange of what one has and does not wish to keep, for what one has not and wishes to acquire. A tax levied on each such transaction must in the nature of things discourage the transaction. All protection, whether in respect of goods or labour, proceeds on the assumption that I shall benefit myself if I can by any means whatever keep my competitor out of the market.

In saying this we leave out of account those people who realize that individually they benefit by the country's poverty. Those living in wealth and security may be well aware that as all must live the poorest are brought more nearly into a condition of slavery and dependence by anything which interferes with their freedom to attain the means of living.* Such wealthy people may desire to have it so for their own benefit or

aggrandizement. For them we have no remarks that would be sufficiently polite to be inserted here. We are discussing the view of the producer, who sees only another producer underselling him and tries to stop the competition.

The effort to stop the competition may be an agitation to "tax the foreigner." This is how the producer expresses himself when he means that a tax should be placed on importation from abroad, of the class of goods he himself wishes to sell, in order that he may, by selling freely without the tax, get a better price for his own productions : the foreigners' goods having to be increased in price to the consumer in order to include the import tax. Or it may be a law, written or unwritten, that no workman of a particular craft shall do more than a given quantity of work per day or hour : the policy of *ca'canny* : or that as much difficulty as possible shall be put in the way of any person entering a particular craft at all ; or that members of a craft shall stand idle altogether (subsisting on funds supplied by those 'who are at work) rather than go to work at a lower price than

the authorized scale of the craft. In all these cases the object is to stop competition : in other words, to diminish supply : with exactly the same results to the community as the untaxed monopoly of land, but with the difference in intention that the object in view is to make work or keep up prices for the protected producer.

It is small tribute to the writer's perspicacity or the reader's discernment, if we have got so far and it is not at once clear that the protection just described is the most effective way of destroying trade. Now truth is a straight road, and therefore the easiest of all to find, for those whose minds are simple and unbiassed. But it is unfenced, so that there are infinite possibilities of getting astray from it. And unfortunately it is more difficult to unlearn error than to learn truth. The prevalent discussions on free trade indicate, however, that in the multitude of minds there are at least as many ways of coming back to truth as of getting away from it. The persistence of advocates of restriction with a very scanty stock of ideas in overlooking the numerous ways in which

their wanderings are met by insuperable objections is matter for wonder. But their doctrines thrive largely because of the mental ground prepared for them by the unquestioned advocacy of protection in the form of collective bargaining. The extent to which this policy is advocated may be judged by the fact that there are those who deliberately advocate dearness or high prices as the object to be aimed at, and the means of social salvation.

The usual argument, it is true, against restriction by taxes is the additional cost involved, and that bread and necessities would inevitably be dearer. The argument is sound on abstract grounds, for clearly any additional cost must be found in the price to the consumer, together with additional profit for all who have had transactions in the commodity since the price was first raised by the tax. But it neglects half the truth. For high prices increase supply. That is a reason which should give pause to the producer by enabling him to realize that if he gets his prices raised against the home consumer, by a tax on foreign importation, he

must expect increased competition in his own land from those who should have been his customers : but who, by the excessive profits artificially secured have been induced to become his competitors. This applies to both goods and labour. And high prices discourage demand. Which equally with the inducement of supply tends to lower prices. So that the protection may not actually raise the prices at all. There may be lack of the necessary demand, or of cash to sustain the prices. The probable events would be first enhanced prices : then falling trade ; lower prices ; and stagnation, with want of employment. Which considerations should explain the statistics frequently brought forth to prove errors by giving half truths. Restricted supply may possibly be more than counterbalanced by failure of demand : the prices may not be raised : it may merely result in the people's starvation : that in fact is what usually does happen to a greater or less extent. So that we must not let even statistics blind us to facts. Statistics are very dangerous in the hands of those who have not the ability or the honesty to use them correctly.

It need hardly be said that the same process of seeking the best employment would eventually drive some from the protected trade, thus made bad by increased supply and decreased demand. But meantime there is distress and waste. Nature supplies a remedy but not until mischievous interference has done much damage. It will be seen on very little consideration how closely allied are the two methods of protection, taxation of imports, and combination to raise the price of producers' labour, and how in both cases the purpose is more than defeated.

CHAPTER IV

So speak ye and so do ye as they that shall be judged by
the law of liberty

FROM the preceding pages have issued forth no uncertain sound, if any sound at all considerable can be spoken of from them. Wherein we may discern contrast to much economic literature. For in the latter, and in kindred philosophic and pseudo-philosophic writings, one has known much sound, and some fury, with very little meaning or articulation. We are dealing within our limits with a social or mental science which has a place in the seats of learning sufficient to merit a chair of its own in all the universities claiming to be of the first class. To suggest confusion of tongues might argue defect in one's own powers of apprehension. But a hint of such possibility was found in our

second chapter. And certain it is that the nations cry loudly in pain for which the doctors who sit in the specially provided chairs aforesaid prescribe no specific remedy or remedies—save the sorry one of patient endurance. In indicating this lack of remedy reference is made to a remedy on which there is agreement; such, for instance, at least as there is on the point of patient endurance, which usually seems an easy matter to those who only sit near while others suffer.

Now, while this book is not exactly and merely intended as a child's text book, an attempt has been made to focus the more important truths on which there is agreement. Unfortunately for humanity, however, these important truths relate to the principles which run through the whole science, but in the application of which to its various departments there is possibility of so overturning the subject as to offer black for white. This chapter is therefore added by way of tracing once more, and briefly, the main features of the subject so as to make sure that nothing has been presented in an inverted position to the destruction of its whole utility, or the

working of mischief. Specific remedies should emerge the more clearly into view.

The problem of poverty is, perhaps, the most important problem of our time. The divine right of kings, and all that is involved in that doctrine, is of less moment, since England and France have each beheaded a king for unfitness, and France has managed so long altogether without a king : not alone in that deprived condition. An aristocracy of birth holds its position with much the same assurance and limitation as the privileges of royal birth are held ; some little striving to deserve being in both cases a better title deed than much assertion of claim. The Church as a visible organization (apart from the spiritual truth and power which it professes to represent) is distinctly felt under the heavy hand in Russia, and survives as a dead weight in Spain, but in other Western countries its position, though not negligible, justifies us in putting the problem of poverty as the most urgent of solution.

The temptation to dwell on the connexion between religious and economic liberty must be resisted, retaining as need be, the longing

to dwell on it at some future time. We may venture the assertion that neither political nor religious liberty is fostered by national poverty, and if the fact is, as we have been concluding, that economic liberty is the best antidote, there is fitness in our conclusions. For it would be dismal knowledge to learn that liberty was inconsistent with itself and to gain it in one aspect of life would destroy it for us in another. That, having ascertained the place and condition of my birth, a sovereign or state ruler should therefore tell me how, at what work, and for what reward I must labour ; and Whom, or what, under what conditions, and how, I must worship, and what believe ; such a doctrine carries the conviction of consistency : or some other thought or feeling not essentially unreasonable. But it is essentially unreasonable that I should be asked to give up economic and industrial freedom to secure the means of obtaining political and religious liberty, and requires a curiously constituted mind to think the plan a feasible one.

This problem of poverty has been with us for some time. At periods it has grown

exceedingly acute, and had historic results of which the French Revolution is an instance, and another is being furnished in Russia as I write. A solution is not only due but overdue. Let us consider the progress made towards it.

Unfortunately, the offer of a good solution is no guarantee of its acceptance and adoption. A wise and strong King of France might have saved both himself and his country from the French Revolution. For the King who then reigned actually had offered to him a solution which, if not complete, would have met his needs abundantly ; but in his weakness he dismissed Turgot, the Minister who understood and was prepared to carry through the reform. And with so much reference to it we dismiss the solution, or part solution, of the Physiocrats, which we will notice anon in the hands of Henry George.

We pass accordingly to Adam Smith, the most commanding figure in the science, and known as its father, who followed the Physiocrats and succeeded in his country almost as definitely as they failed in theirs. Adam Smith was a powerful advocate of freedom,

and despite his exceptions went far in his doctrines considering his times. His liberal views extended to questions of trade with foreign countries, and of labour, as to both of which he held doctrines of freedom, though the support of the contrary view in collective bargaining has assumed different forms since then. But on the subject of land and taxation, he had not even realized the law of rent which was formulated after his time. His maxims of taxation so far disregard that law, and the considerations briefly indicated in the preceding chapter, that not having scope for criticizing them we have ventured to omit them altogether, though they are repeated in every handbook of the subject. His ideas of value and the currency are to the effect that the price of commodities is the relation between the labour involved in getting the gold and that of producing the commodities. These crude ideas now no longer need refutation.

David Ricardo has credit for establishing the law of rent and for some enlightenment of his country as to its currency. For this he deserves mention, though by the elaborate

form he gave to certain lapses of Smith's he helped to confuse others, with very serious results.

The law of rent is chiefly important for its utility as a means to more practical doctrines. For in view of it Henry George revived the teaching of the Physiocrats as to a single tax based on land values ; putting such teaching into a form more worthy of, and likely to gain, acceptance. His maxims of taxation differ materially from those of Smith, but we are not compelled to have four maxims of taxation of any persons' whomsoever, merely because the first voluminous writer on the specialized subject set us that fashion. The thing desirable is, that we should understand the incidence and effect of taxation and so impose it that as little injustice as possible will be done and that the nation will not be impoverished thereby more than is unavoidable. That desirable thing is impossible without a better grasp of the elements and conditions of production and exchange than Smith had or could be expected to have.

Now Henry George had this grasp. He

understood and clearly distinguished between land, labour, and capital.

That is saying a great deal, even now that he is dead and his writings are being almost scattered broadcast. It was more when he first wrote. And he understood the law of rent. No man has written more clearly (let us say brilliantly) than he in favour of free trade between different countries, though he lived among protectionists. But his credit is that of having disclosed to mankind a plan of taxation more favourable to freedom, justice, and the more plentiful production which is necessary to do away with poverty. He claimed more for his plan, no doubt, than alone it could do. But the man who sees and points out what, till then, others cannot see should be forgiven if his imagination somewhat enlarges it.

Smith's success in the advocacy of freedom of trade had been rapid : he was in a favourable position for being heard. But the work had to be done over again. The French Revolution and the war which followed led to protection of the most extreme kind, and in the struggle to wrest some political power

from the landed aristocracy, who had abused their position, many years were spent. It was only after experiencing the direst distress that restrictions were relaxed and freedom once more definitely adopted. This was accomplished under the influence of an enlightened Prime Minister (who had the patriotism and courage to admit that he was capable of being taught) and the prospect of practical famine. For some time the principle was increasingly applied.

The economist to whom the British people were indebted for this was Richard Cobden, whose place in history must be that of an economist, although his advocacy was chiefly in Parliament and to popular audiences. His appointment to a chair of political economy is perhaps not imaginable, but if such a thing had been possible he would have been the most brilliant lecturer who had ever occupied such a chair. And it should be remembered to his credit that he so well understood free trade as to desire no help from trades unions, whose principles, when understood, were directly contrary to those he was advocating with regard to foreign

trade. There is at present some disposition to forget this, as though it were a drawback to his fame. That, however, is the result of the confusion of mind to which reference has been made more than once.

Only one other name need be mentioned in attempting to state the progress up to the present. For anything that John Stuart Mill added to our knowledge, that was new, he can be left out of a review of this brief character. But W. Stanley Jevons must have a word, and it is difficult to believe that he would not have done more had it not been for his early death, though his early success gave him many years at the subject.

To Jevons we are indebted for combating Smith's error that labour was the sole cause of value, and helping the world to understand that it was the fact of an article being wanted, not the fact of its having cost much to procure, which gave its value: though it might often occur that the two influences would operate on the same object at the same time. In addition to this he tried to solve the problem of trade depressions. He was severely mathematical in his methods,

in which he has been somewhat followed. But this science is peculiar in being both mental and mathematical. And he failed to solve the problem which it is to his credit that he saw. It need hardly be said that the effects of trade depressions were patent to all. But he saw the regular up and down movement of prices about every ten years and compared this movement with another movement he had in his time to witness. And he struggled in vain with the secret of it.

But Jevons, who had been Master of a Mint, was the economist of all others who could not get away from the notion that the standard of value was a weight of something. He might as well have said the standard of weight was a length. Let us admit that he meant (though he did not say) that the standard was the value of a certain weight of a certain substance. He himself showed by laboriously compiled statistics that the standard he defended had shifted its value; as a matter of fact in more ways than one, but in one way as he admitted. It declined about every ten years (prices rising) and rose again with a painful crisis (prices

falling) which was familiar to him ; and in his time it was also gradually falling from decade to decade. After his time it rose again (prices falling) with long continued pain and distress. He could not, therefore, deny the shifting standard. If he could have realized the mental nature of the standard he might have seen a plan for making it more constant, if not absolutely so.

One other reference ; this time not to a name (for there is no person to whom we can offer the credit of discovery in connexion with it), and we will then try to sum up the position. After the establishment of free trade in the British Isles about the middle of the nineteenth century, there was the usual, if we may not say the inevitable, reaction. It is seen now, but it went on for long entirely unseen. And even yet very few realize how far back its roots extend. Nor must we here enlarge upon its cause and progress. It is mentioned for the opportunity of indicating the connexion with it of the doctrine called socialism.

This socialism is a shifting intangible doctrine ; but perhaps the extreme theory is

that all the means of production should be owned and managed by the state. That seems sufficiently near to be spoken of as communism, but the question of whether it is, or is not, is unimportant. The result of the prevalence of the theory has been a large extension of the sphere of government and of the taxes and public debt we have had to discuss. Perhaps without going more into the details and principles involved, it may be allowable to say that the doctrine pervaded the whole realm of political and economic thought at the end of the nineteenth century. There were differences of method, but differences of principle were not visible, the few holding other doctrines being insignificant in public questions or discussions.

That the individual should sacrifice himself or be sacrificed to the state is in these days not questioned as a theory, though in practice the majority have regard to the benefit they would individually get from the state. But whether the individual should be sacrificed to the state's imperialism, foreign conquest, and enlargement of the empire's boundaries of one section; or whether he

should be sacrificed to the schemes for social regeneration (through official and state management) of another section, are questions on which the dominating forces in the British Parliament and political discussion are divided into two or more parties. The division at the present time is of the most undefined description, and there are many who feel that it is difficult to know exactly where they stand. These, however, are the two chief views of the subject; personal interests and long-held prejudices being not without their influence.

This discussion of socialism would, however, be altogether a digression but for the fact that socialism was advocated in the trade depression which occurred in the last decade of the nineteenth century, and in some forms is still advocated, as the means of taking care that all the people should be well fed and cared for. Seeing that Russia, judged by the theories we have mentioned, is the most socialistic country of these times, and the peasants "often do not get bread without admixture of grass," and seeing that the places of the greatest poverty and distress in this country are where socialism of

the nature indicated has been most freely adopted, we need hardly discuss the doctrine's claim on this point.¹ But the one subject on which socialism had something to say was that the people needed food, clothing, shelter and comfort.

The knowledge that one is hungry is very elementary knowledge, and this was all the knowledge socialism had about the people and their problem. It did not indicate to them the importance of considering consumers. They were under the impression that the working men and their families, despite their hunger and other desires, were all merely producers and not consumers at all. The consumers, they thought, were the wealthy people who consumed without producing. That these wealthy people were dependent for their income on payment made to them for their share in producing by the loan of land, or property, or money : that they must be paid first and only the surplus be left for labourers, and therefore the more

¹ In 1906, following the General Election in which many Socialists have entered Parliament, there seems to be a distinct revival of socialism.

plentiful the production and the greater the surplus the better the lot of the labourers : such a revelation, if it had been made to them by the economists would have been too dazzling for the eyesight of these socialists.

But they had somehow got hold of the fact of the people's hunger, a trifle which the orthodox much overlooked, and even so much knowledge, though perhaps less profitable to print, is more important to be known than any imaginative speculation can be. Nay, even the statistics with which we have been overwhelmed, although undoubtedly solid knowledge, seem quite unconvincing against the physical feeling of hunger and cold from which the people persist they suffer.

Now let us see our progress. The socialists, we will say, have taught us that the people are recurrently (and some of them perpetually) hungry and need to be clothed and housed. Their teaching itself as to a remedy was of the very worst. But their cry told us something hurt them : they had lack, and pain arising from their need. This surely we must put at the forefront. It should come before taxes and grandeur of every sort, empire and

education, prestige and proud cities. These latter will come the more easily from putting the former first.

We are therefore concerned for consumers above all else.

Adam Smith taught us for this need the advantage of freedom of trade. And he realized that the enrichment of the State in all respects would be enhanced by the freedom. Cobden and his helpers re-enforced the doctrine when the re-enforcement had become a dire necessity. Henry George (whose clearness is worthy of mention) and a host of others have driven it home to us since then ; not excepting the statistics which we do not despise though the people seem unable to live on them.

If we are anxious that the people should consume let them all obtain the necessary commodities where production is easiest and cheapest, giving in exchange those things which they can best produce here. In other words, let them follow their own inclinations to buy where the goods they want are least costly and sell where they can get most for what they have made with their labour.

Henry George revived the doctrine of the Physiocrats of France that taxation should all be based and collected on land values. He ought not to have said tax all the value out of the land, for that sounded like confiscation. But it is, nevertheless, true that we require some of the alleged value driving some-whither out of it for the feeding of the people.

The evil at present is that landholders having no taxes to pay on ownership can (unless they are in need) afford to hold land unproductive or indifferently used, regardless of the needs of others, and will only part with it at a price which is above its value. If there be an exception to this it is in the especially prosperous periods when it is less important to have it than at the periods when the people are starving for its productions, and the land is held for the better prices. But the doctrine seems sound and of the utmost importance that taxes should be based on the ownership of land. That alone is the control of the means of production which nature has given us ; in which alone the nation can claim to have a share.

What an individual has himself made it is scarcely fair to take from him.

But as room to live and breathe, and space wherein to work, and produce varying with the class of production, is absolutely essential to every individual, no person should be permitted to monopolize or own more land than that for which he pays taxes according to its unimproved value, the object being to prevent his holding out of use any land necessary for production of subsistence as well as to obtain on a just and equitable basis the taxation necessary for duly upholding reasonable and proper government.

There is little more that we can say we have been taught. For we are only dealing with the main outlines, the mountain ranges, as it were, of the subject. There is much on the dead level of the plains which it will be time enough to observe when we know more generally the principal features and prominent landmarks. And we are anxious to avoid the too common error of imagining we are surveying a mountain, or range of mountains, when in truth our vision is limited by a molehill or series of such elevations.

W. Stanley Jevons taught us better notions of the nature of value. We are not compelled

to accept his word utility in the sense he used it unless we so choose. Indeed, we are often too much the slaves of words, and for that reason fail to master the ideas. The essential notion is, that it is the demand which gives an article value ; in other words a thing, a piece of land, a commodity, a quantity of labour, is worth something because it is wanted, and only if it is wanted ; in still other words, prices cannot get above what human beings are both able and willing to give for the object in question rather than go without it ; in other words, the desire to possess must exist on the part of those who have the means to buy or there will be no exchange ; in still other words no production will be sold unless those who are without it prefer it to what they have ; making it more scarce and costly will not compel them to prefer it. Perhaps these few ways of expressing the doctrine will suffice for the present.

What a crash such a doctrine ought to make amongst the frail crockery in which economic views and pictures of to-day are presented. But we are hasty : we must

apply the doctrine. If it were as Adam Smith taught that "labour is the real measure of the exchange value of all commodities," there might be some sort of justification for "making work," and thus rendering commodities more costly, though he intended no such thing. But not so in view of the doctrine we have just described. That says in tones of thunder (if those tones are more likely to make us think than other tones), "What if nobody wants the thing at the price?" It says indeed (when well understood) that the demand will fix the price; not, it is true, without regard to the supply, but utterly regardless of what the commodity may have cost though not without consideration of the cost of getting more if need be.

What becomes of protection in all its ways when once this explanation of value is understood? To find work by making more costly the things we would get by our work; to pretend to us our customers will buy more because we make it harder for them to buy at all. In the words of the sage, "Take our thanks and—thyself away."

If this theory is as true as the learned

admit it to be, then much else is true which they have never made clear to us. It means that value depends on consumers. Human beings are all consumers. If we omit the animals which we more or less pay for their labour by food and shelter all consumers are "human beings." But not all producers are human beings at all. Land and climate, sunshine and rain, coal and iron, the breeze on the plain, and the stream from the hills, producing our food and turning our machinery, are all producers. It is not these producers or any producers who require any consideration, but the human beings who must consume. This desire to consume raises the prices of commodities. And desire to consume on the part of the labourer reduces the price of labour whenever the supply of commodities is by any artificial means checked.

Such a check is what comes of collective bargaining by which the profits of the master who buys the labour are reduced or the price of what he sells is increased. In either case there is less temptation or ability to buy the labour of the collective bargainers or the commodities produced by their labour.

They put up the prices : but by that means pull down the demand. It comes to the same in the end whether they hurt the master or the consumer. It leads straight on to the outcrop of unemployed. That necessarily involves pulling down the price of labour by those who are out of work and yet must consume, and who therefore offer their labour for lower prices.

Increased supply or diminished demand for labour lowers prices as the collective bargaining raised them. Moreover, meantime, they cannot buy commodities, and reduced demand lowers prices. This involves diminished purchasing power to their customers with less demand again. But we cannot enumerate all the cumulative effects of the bad trade which follows interference. Exactly the same result is produced by the system of taxation which allows ownership of land kept idle to be free of taxation, but imposes taxes the moment it is occupied—as if for the very purpose of deterring production and causing scarcity and starvation. If to keep the nation poor and the price of labour low is the object, these are excellent

ways : taxation on industry, and plenty of taxation ; collective bargaining for high prices and as little as possible done : with strikes and lockouts to vary the monotony.

If all this is not sufficiently effective to hinder the natural desire to consume and the natural inclination for that purpose to produce, then create and perpetually increase a public debt. This will enable many to live on the interest paid on that debt without themselves producing anything, and also to maintain servants to attend to their wants, still without producing anything. The remainder must then produce the more ; and must so do it without the assistance of what might have been built or constructed in the way of works and machinery, had not the money been spent in the luxury of warfare and magnificent roadways.

All this is only the application of the doctrine that the value of anything is what it is worth to those who need it or can use it. Much more follows, on which we may not dwell further. Think in view of this doctrine (one of the very few doctrines which no one of any standing now ventures to

gainsay) of the proposal already mentioned to find employment at the public cost for those who are unemployed. It is one other case of making work. It begins at the wrong end. It aims at the wrong mark. It ignores the fact that the value of labour is its utility to the buyers of labour. To begin by putting a value on labour, and to proceed in the determination that such value must be paid for it ; that either consumers or taxpayers must pay it, would, it is true, carry a nation into bankruptcy : but it could carry them nowhere else.

If by a bad system of currency or any other folly of governments or others there has been dislocation of the economic connexions of industry, there is no way for it but that producers should bring their prices to the demand ; unless, indeed, some chance of nature such as the now probable great increase in gold production will rescue them for a time from the result of such folly by raising prices to their conception of fairness. Parenthetically let us observe that this latter is merely measuring by a standard which stands for less, but as the producers do not see that

their minds are not disturbed. They flatter themselves they have obtained their desires by waiting and have avoided the catastrophe (as they think) of lowering their prices and their standard of living.

The great body of error connected with this last phrase which lingers in newspapers, for instance, we must pass by unnoticed, interesting as its history has been. We can only remark that a high price does not ensure or imply a high standard of living, or a low price a low standard. Without dwelling at all on the fact that a combination to keep up prices and prevent sale below those prices is not likely to bring in more on which to live, let it suffice to say that the standard of living can only be maintained by a continuous supply of the actual commodities required for such living. To produce and sell those commodities at lower prices tends to raise the standard of living. To waste a day (not spent as enjoyable holiday) unproductive of commodities rather than accept a lower price for producing commodities tends to lower the standard of living. The reader of English newspapers in 1904 may remember

aliens in this connexion, and the denunciation of them for producing and selling their wares too cheap.

The foregoing application of the Jevonian theory of value would all have followed from the doctrine we have insisted on from the beginning, that production exists for the purposes of consumers. But the theory of value had received more scientific treatment and acceptance, and involved more learning, which ought to commend the results to the reader.

We have anticipated all that need be said more. With Adam Smith standing for free trade in commodities, and Henry George following many others, not unmindful of that, but seeing the importance of free trade in land also and a system of taxation to ensure it, we have dealt sufficiently to answer for two of the four main departments. But these alone will not suffice, and our application of the theory of value involves much more. It involves, however, no new principle than that of freedom. The evil has always been that that principle has not been applied throughout. Free trade in commodities has

been sufficiently adopted in Great Britain and Ireland. But what a pitiful condition that still leaves possible can only be known to those who are in it. It is not that free trade is at fault, but that it has not been applied throughout every department.

In saying this let us not be understood to mean that we have any concern to manage the affairs of other countries as to their trade relations with ours. Freedom of trade is good : just so far as it goes it is good : the further it goes the better, but one is tempted to use Carlyle's stronger language about those who ask us to give up our freedom to trade that they may have " freedom to negotiate." It is the freedom of us, the subjects, that we are not willing to hand over to the Government any more than they already take it, and we submit to that with much bitterness. They may have as much freedom as they choose provided they refrain from interfering with ours. But our present measure of freedom has cost us too much to permit us to hand it to the child as a plaything. Resume your freedom forsooth ! Was it not our freedom you proposed to resume ?

It is not enough, however, that we have freedom to trade with other countries if we have organizations or counter organizations amongst us interfering with our internal freedom of trade at home, from time to time raising the prices of commodities essential to our trade by creating, or threatening to create, artificial scarcity. This actually happens, and it would not be possible but for collective bargaining. Nor can a satisfactory condition be expected while a thickly populated country is under such land laws and conditions of taxation as we endure : putting it into the power of the wealthy to monopolize without payment of taxes large tracts of land which when occupied by others to whom it is let out must then bear all the taxation.

It is an error to regard this as the only hindrance. New Zealand does itself as much harm by protection, trades unionism, and government meddling, as it does itself good by taxation of land values. Very few realize how absolutely individualistic the single tax on land values really is : and we may not belabour the question now. Nor will we add more on the evils of collective bargaining ;

its keeping men idle waiting for better prices ; its dislocation of trade, and the irregularity caused by its combinations to raise prices simultaneously ; its rendering less profitable the grades of employment which are supposed (or pretended) to oppress the lower grades, its consequent reduction of demand for labour by driving some of the employers out of business and reducing the operations of others : and its disregard of the fact that demand is the real means of raising and maintaining prices ; a demand which inevitably falls off when prices are artificially raised, and falls off still more as its own votaries are thereby thrown out of work and have less ability to consume.

Let us draw to a conclusion with a remark the probable truth of which may be best inferred under existing circumstances from the fact that it will be most strongly disbelieved ; namely, that in this country (and in others) the doings of governments have been most to blame for the suffering and distress recently witnessed, and still not altogether passed. Taxation' on industry tends to distress : the heavier the taxation

the greater the distress. To borrow the money of those who have money for investment and use it in employments which do not produce the interest on it is to take away not so much the livelihood we have produced and might produce again, but the very means of producing it. It is to increase the burden of taxation required both to pay the interest on the debt and the enlarged operations of the authority. And it does this when the authority has first taken away by its controlling influence the money (scarcely yet accumulated) the investment of which should have furnished the means of paying the taxation. It doubles the burden and halves the strength. Let the governments of city and nation reduce their expenditure and pay off some of their debt, and the people will manage to meet their own needs, much more easily than the state in any of its forms will or can assist them.

Since the purpose of all production is to provide for those who must consume and the value of any object is what it is worth to those who need or desire it and can pay for it, it is important that every producer should be free to seek that employment which offers to him in-

dividually the best prospect of reward, without hindrance, legal or moral, forcible or persuasive, from any person whatever ; the real value of his services as a producer is exactly the price the market offers without any artificial attempt by collective action to raise prices in one or other class and grade of employment : such collective action must inevitably reduce the temptation to enter another class or grade of employment, and must thereby create irregularity and scarcity to greater or less extent.

Government is a burden at best, even so far as it is necessary : to enlarge its sphere and cost by a spirited policy abroad, unnecessary interference at home, or extravagance in either case : particularly to allow it to spend beyond its income and involve the whole nation or section of a nation in debt to its wealthier members or to others outside itself : not only involves the danger of doing thereby deeds in themselves tending to evil through human incapacity to handle great questions as easily as the smaller details of their own life, but increases the burden of those whose labour in various grades of employment is essential to the payment of taxes, and inevitably retards true progress, impoverishing the weaker, diminishing production and comfort, and reducing the rewards of all whose income results from their own personal efforts. A consideration of human motives readily reveals the reason why increased prevalence of Government activity is apt to advance the persons in authority rather than the nation and does not tend to greater efficiency. But at least such enlightenment might well be expected as would establish a

system of currency furnishing a constant measure of value.

A strong desire to see the removal of the terrible weight to which the burden of government in its various forms has now grown, produced in the foregoing statement some mention of revolution and such sentiments. It was, perhaps wisely, struck out. What we really need in this country is simply revolution of thought. And if anybody could be got to think at all, if any stir whatever could be made in the inner thinking apparatus, such a revolution would be assured.

At the least it must be conceded that in various ways government has within the last hundred years done or assisted everything which in the preceding pages has been pointed out as bad. To say they must be blind who cannot see the evil effects savours of abuse. Many see, or claim to see, the beneficent operations of what has been done by their particular party, and especially what their particular party proposes to do, but denounce in unmeasured terms what has been done by the opposite section, and what is likely to be done by that section. They do

not realize that economically the results of their overmuch doing are the same in both cases—evil and that continually. Consequently, they clamour for more of the poison which has made the nation sick. Each section, however, insists on its own colour of the poison.

Political economy has never in recent years had due justice. Possibly, its exponents have never been sufficiently thorough. The science itself only awaits investigation and clear vision to render it effective of untold benefit. But clear vision is difficult through glass that is coloured and distorted. And no science is so difficult to approach without prejudice. It nevertheless remains a science dealing with things as they are, limited only by our capacity to see and understand these things in their true colour and perspective. In its department its authority must be paramount ; its title to decide what is good and what is evil is indefeasible : but the authority rests on the facts of life and human nature, and not on the imperfect vision of its expositors. Needless to say in dealing with these facts it is necessary to distinguish clearly between

what is permanent in human nature and what is fleeting and temporary. We must not confuse what is, with what in the nature of things must be : nor countenance the error that the laws or proceedings of a state and its government can for a moment counteract the deeper written laws of humanity which we call the laws of supply and demand. These latter laws tell us of human need and human effort to supply that need : facts which are more nearly eternal than any man-made laws have been or can be. Man-made laws may interfere and hinder, but cannot help, either the demand or supply ; the desire for the best advancement or the energy to attain it. Progress is the outcome of freedom.

The subject we are dealing with is not the art of government. It is only the science which explains the mental workings of the government's subjects on their material or economic side. But the government¹ which neglects its explanations and persists in its neglect, will sooner or later cease to be a government. The time and manner of its death will vary with the particular circumstances.

Political economy, though it has much to say about the struggle for existence and how that struggle can be made most successful and pleasant, has little to say about the survival of the fittest amongst individuals. That is a question for biology, which is another subject. But about the survival of the fittest amongst classes of people it has much to say which we may not even touch here. And it has everything to say about the survival of nations, states, races of men, and governments. We are apt, in speaking of the downfall of nations and the decay of races, to talk of the luxury which enervated them. But by the side of excessive luxury will always be found, if we look for 'it, a grinding or degrading poverty. All this spells bad economics.

Often it has to be confessed that a nation which has been conquered by a more powerful neighbour, has brought on its own fate by social conditions, which even those who sympathize most with the conquered race cannot help deploring. It may occasionally happen that inherent qualities of race determine the victory. But usually, and in the

long run, economic conditions will settle the question of pre-eminence and power. This need not be so in name, for a conquered nation may provide the real rulers in the future without change of dynasty. But history has written in bold and legible characters the truth, not only that the fittest will survive but that the most free are the fittest. Liberty is the condition on which strength and permanence are given to human societies. Economic liberty lies at the root of all liberty, though neither liberty nor its opposite can long remain describable by one epithet alone. Wherever it begins it soon touches other phases of life. In race endurance economic liberty is perhaps the most prominent factor : certainly it is an essential one.

We have only drawn a line across the subject to see what it would touch, making good our steps as we travelled. There is unlimited room for development in the subject itself. Beyond that, moreover, the principles so clearly provable in this science are applicable to social relations outside its strict province. But the elementary truths of economics must be applied to any society which

strives for higher achievements. No nation can hope to build up or retain physical strength, mental superiority, moral excellence, or religious vitality, under conditions opposed to sound political economy. Adopt rational economic institutions, give freedom to industry, and secure enjoyment of its result to the industrious, then all things are possible.

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