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THE PRINCIPLES OF BUSINESS ECONOMICS

BY

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PREFACE

In this work I have endeavoured to set forth the modern development and the present structure of business in so far as it is based upon economic principles. Throughout emphasis has been placed upon the economic significance of the individual business as the cell of the social organism, and at the same time regard has been paid to the fact that a particular business house may also be regarded from the still wider point of view—as a branch of National Economics.

It is hoped that the work will help all who are engaged in earning a living to take a keener interest in the economic unit in which they are employed, and that it will lead to a more vivid realization of the place occupied by a particular undertaking in the sphere of industry as a whole. Candidates for the Bachelor of Commerce and other degrees will find here a useful framework around which to build a more detailed study of industry and commerce. It will also be found useful by those preparing for Civil Service and other examinations in the subjects of Economics and Business Organization.

In conclusion, I should like to express my gratitude to my friend, Mr. Walter Thomas, B.Sc., for his valuable assistance in reading the manuscript, and also to my wife who rendered much help in a variety of ways in the preparation of the book.

J. S.

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PRINCIPLES OF BUSINESS ECONOMICS

SECTION I

GENERAL PRINCIPLES

CHAPTER I

INTRODUCTION

NATURE OF THE SUBJECT. The study of the economic system from the standpoint of the business man may be described as "Business Economics." The first and most significant consideration for the business man is the welfare of the particular business undertaking with the management of which he is entrusted; secondly, he will naturally take some interest in the particular branch of industry to which his own undertaking is closely allied; and thirdly, he will also desire to understand the relations which exist between his own undertaking and other branches of the economic system. Thus in Business Economics the primary emphasis is placed upon the *business undertaking* as the unit of study, in contrast to the "nation" which is generally taken as the unit of study in national or general economics.

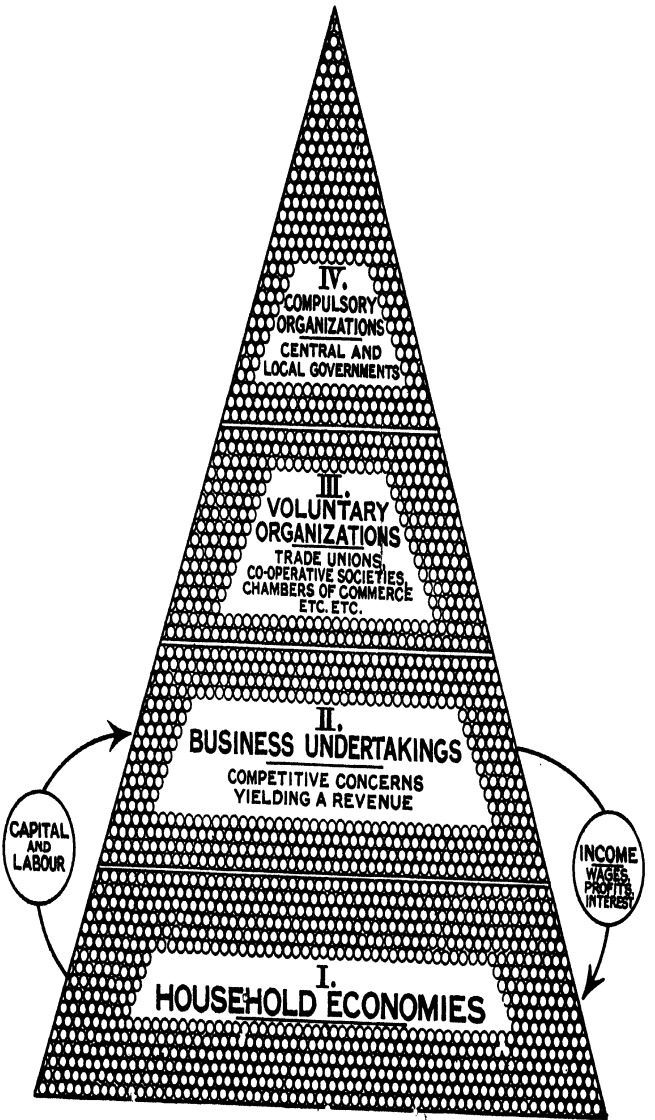
Writers on Economics are beginning to devote more attention to the economy of the individual business. The study of the individual business unit, which may be regarded as the cell of the national economic organism, constitutes a suitable starting point for the student of Business Economics. Hitherto the economist has tended to view the sphere of economics merely from the national standpoint, whilst the business man prefers to regard it from the view point of his own business economy. The national economist investigates the laws which regulate the production, distribution, exchange, and consumption of the wealth of the nation as a whole, whereas the function of the business economist is to show how the individual business, by the expenditure of capital and labour,

2—(1410H)

puts commodities into circulation in such a manner as to yield a profit. There is no clear line of demarcation, however, between the sphere covered by National Economics and that embraced by the term Business Economics. As the biological cell represents an independent formation in a restricted sense only, and as its functions of life are absorbed in the organism, so also is limited the independence of the individual business, for it is dependent both on other businesses and on the community as a whole. Again, as the scientific investigation of cell life must look for its natural complement in the study of the organism, so also the scientific study of the individual business or Business Economics, as it is here called, is organically connected with the study of National Economics. This is seen especially in the sphere of commerce, the function of which is to link together producer and consumer and to equate demand and supply. Hence the scientific study of commerce can be prosecuted efficiently only when it passes beyond the sphere of the individual business and thus brings the function of the cell or individual business into harmony with the remaining parts of the economic system.

Of course the general principles of Business Economics cannot be deduced from the study of a single business, but it is necessary to compare and examine critically as many businesses as possible so as to understand their interaction or behaviour. A careful study of the various branches of Business Economics, such as the business of the manufacturer, the departmental stores, the multiple shop system, and similar business undertakings, soon leads to the conviction that such organizations must be viewed both from the standpoint of the practical business man and also from that of the national economist.

SCOPE OF THE SUBJECT. In the following pages an attempt will be made to analyse the modern economic system from the standpoint of the business man. As shown in the diagram inset, the basis of the national economic system is the family or household economy; from the household economy is derived the capital and labour which in combination constitute business undertakings; for the protection of their common interests both household economies and business undertakings frequently unite into voluntary associations, whilst the task of regulating the interests of these various economies among themselves and also their relations with economies



THE CELLULAR STRUCTURE OF THE ECONOMIC SYSTEM

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abroad devolves upon compulsory organizations in the form of the local and central governments.

In Section I, therefore, we shall begin by examining some of the fundamental terms and principles which are essential to a proper comprehension of the existing economic system ; in Section II the rise of the business undertaking will be considered together with the leading characteristics of those undertakings which are engaged in the main branches of production and distribution. From a perusal of these first two sections, it will be seen that our modern exchange economy is based upon money ; that this money plays a decisive rôle in all stages of the economic process ; and that upon it is based the whole edifice of modern capitalism. For this reason Section III is devoted to " Money and the Money Market," which describes the main source from which the business man derives his capital. To render possible the production of goods, however, capital must be combined with labour, so that in Section IV we shall enter into a discussion of " Labour and the Labour Market." Sections V and VI are concerned with the co-operation of capital and labour in the form of undertakings engaged in the production and distribution of goods, the object of which is to realize a profit. In other words, these are the purely competitive undertakings which are the outstanding features of the modern economic system. Section VII deals with those types of voluntary organizations which have arisen in the course of time without any assistance from the State and which are usually free from all governmental restrictions or control. Such organizations aim, for the most part, at the protection of the interests of those engaged in household economies or in business undertakings, and seldom aim at profit-making. Finally, Sections VIII and IX deal with compulsory organizations in the nature of the Municipality and the State.

CHAPTER II

FUNDAMENTAL CONCEPTIONS

THE HOUSEHOLD ECONOMY. The cell of the whole economic organism, as it is represented, for instance, within the framework of Great Britain, is formed by the private economy such as is embodied in the household. According to the Census of 1921 there are in England and Wales 37,885,242 inhabitants who live in rather more than 8,000,000 families. For Census purposes a family consists of a private household, occupying the whole of a house or flat, the inmates collectively of a boarding house, hotel, club, barrack, or other institution. The typical form of domestic economy, however, is the family household in which as a rule several persons, i.e. man, woman, and children, live together. Each household is managed by itself and forms a separate economy.

When we speak of an economy, we think immediately of a subject who is responsible for the economy, and who presides over and manages it. Usually this subject is the person who provides the means for the maintenance of the economy. The economy itself has two functions—first, the finding of the income which has to be expended in the satisfaction of human wants ; and secondly, the actual satisfaction of those wants by means of the utilities existing at any given time. The activity which is directed to the provision of the means for the satisfaction of human wants is a resultant of the second aspect of the economy ; certain wants must be satisfied under all circumstances if man is to survive, but he does not stop at this lowest stage of civilization. The general desire of man is to increase his satisfaction and to render as varied and abundant as possible the satiation of his wants. In order to achieve this end, he strives to procure the greatest possible number of utilities, i.e. things capable of satisfying his wants. The obtaining of capital and its employment by one or more persons in the production of utilities is called an *undertaking*. The reason for the establishment of undertakings is to be found in the existence of human wants.

Of course, there still exist economies which draw a portion of their utilities from their own households, but these are no longer

typical of the modern method of production. Nowadays the provision of utilities implies the possession of an income which is expressed in terms of money.

Money. It may therefore be said that every economy must have revenue if it is to survive. The measure of its survival is more or less determined by this revenue. The larger the amount of revenue, the better will be the standard of comfort; *vice versa*, the less the revenue, the lower will be the standard of comfort. Money is the medium which connects the individual economies with each other and which keeps them in mutual dependence; it is the link which binds the individual economy with other economies. For the purpose of acquiring utilities the private household must enter into relations with other economies, whose aim it is to obtain *money*. Nowadays the possibility of conducting an economy depends on the proprietor of the economy getting possession of money, with which to procure the necessary means of subsistence. The general medium of exchange recognized in the whole system of world economy is money, which ensures the connection and interlacing of the immense number of private economies. The aim of the head of each economy is to possess the largest possible amount of money. Guided by this aim each economy enters into relations with other economies. Thus an immense network is created between the private economies, each of which strives for the same end but with unequal success. The possibility of satisfying the wants of persons who constitute an economy is bound up with the possession of money; and in order to obtain this valid medium of exchange the individual economy must have something to offer to the other economies for which, in turn, money is paid. Every economy confronts the other economies in a dual position: it offers something—for which it receives money from the other economies, and with the money thus obtained, it procures the things which are necessary for the satisfaction of its own wants. It is the result of human nature which leads every economy to give as little as possible to other economies and in turn to receive as much as possible in exchange.

HUMAN WANTS. There is a close connection between human wants and human needs. We want a thing, the lack of which would entail a feeling of hardship. The idea of hardship, however, is relative and subjective. A pampered person suffers a hardship

under conditions which to a poor man would signify well-being. In any case, there are certain fundamental wants which all men have to satisfy if they are to live and propagate their species. The primary wants in human economy are the desire for food, and the desire for affection: the satisfaction of these desires has at all times engaged the attention of mankind in the highest degree, and it is still true that "Hunger and love keep the world a-moving." Human wants may be classified in a variety of ways, but according to their urgency they may be arranged as follows—

"Respiration, a certain temperature, excretion, food, light, mental activity, affection, protection and housing, defense and aggression, mobility, rest and recreation, adornment, clothing from a feeling of decency, religion, the desire for power and influence, the desire for personal distinction and cleanliness."

The soundness of this classification is immaterial; it is given here in order to show that human wants may at any rate be classified in accordance with their intensity. A glance at our list shows that various wants may be satisfied without the employment of any special means; that is, they may be satisfied *gratis* and without expense, as in the case of respiration and excretion. Of course, there may be exceptions to this rule. For instance, under certain circumstances expense may be involved in procuring a certain kind of atmosphere. Wants which can be satisfied *gratis* play but a minor rôle in the economic system as compared with other wants, although they are of vital importance in the existence of man himself. Individual wants may be and are satisfied by the various economies, in a very different manner. A consideration of the economy of the individual household shows that none of us can procure the means for the satisfaction of wants other than by the payment of money. In other words, the economy tries to obtain as much money as possible, but in expending its money, it aims at satisfying its wants in the best possible manner; this means that the utilities demanded must be obtained as cheaply as possible. This dual relationship of the individual households towards the other economies leads us to the discussion of some further fundamental conceptions of Economics. The economies procure with *money* the utilities for the direct satisfaction of their wants. What are these *Utilities*?

UTILITIES. Every want is satisfied by a utility which is rendered

either by a service or by a good. Hitherto, economic science has concerned itself much more with goods than with services. In contrast with the *free goods* which nature offers to man without the expenditure of effort, these goods are known as *economic goods.* In general, neither the goods nor the services rendered us by persons for the satisfaction of human wants are to be had *gratis* and for nothing, but they are at our disposal only if, in some way, we can lay a claim to them. In the satisfaction of our wants by the utilities of goods and services we occupy the position of *consumers* for whom goods and services have a certain value-in-use.

Value-in-Use. The value-in-use, however, is only realized by us if we possess the goods, or if the services are at our command. Under modern conditions the goods or services have to be acquired by means of money, that is, we have to exchange money for them or exchange them for money. Where, as buyers, we enter into relations with other economies in order to acquire a good, the good assumes an exchange value, which, when expressed in terms of money, represents its price. Hence the good or the service becomes a *commodity.* On the other hand, if the need for money forces us to sell goods or services, these goods or services do not possess a *value-in-use* for our own economy, although they must have such a value for other economies. They have a *cost-value* to us; that is, the production of the goods or the rendering possible of the service expressed in money has cost us a certain amount. In the case of sale we want to obtain not merely the cost of production, but something in excess; whilst the purchaser measures the value-in-exchange of the commodity by the utility which the value-in-use of the goods has for him. The seller demands the highest possible price for his commodity, whilst the purchaser wants to buy as cheaply as possible. Every economy, therefore, endeavours to procure the highest return in *money* for the goods or services which it provides, whilst it endeavours to pay as little as possible for the goods and services which it obtains from other economies.

LABOUR AND CAPITAL. It is not our aim here to enumerate the goods and services which the household economy offers to other economies, but rather to determine the two factors responsible for the total number of services which the household economies are able to render. The chief point to note is that the household economy always offers to the other economies either labour-power

or goods, or a combination of the two. In consequence of the course of development of human society household economies as they exist to-day show a marked difference in the nature of their possessions. Alongside the large number of households which possess little if any wealth, there is a considerable group whose possessions are considerably above the average. Superimposed upon these two classes is a thin stratum of economies which possess great wealth and are said to live in luxury. In view of the nature of our economic system the wealth of an economy is expressed in money; and the wealth in goods and the claims on services, which we do not need immediately for our personal existence, is lent to other economies in the form of capital. The private household whose members have nothing to lend but labour-power is in a less favourable economic position than the economy which, in addition to labour-power, has wealth also at its disposal. Those economies are most favourably situated whose wealth is so great that the mere loan of their possessions secures for them a large income. The employment of labour-power produces income, as also does the loan of capital. This may be illustrated by the following simple examples—

An artisan's family procure their income in such a manner that husband and wife lend their labour-power to an employer. In return they receive a consideration in the form of wages which constitutes their income. Again, a farmer's family possess land, buildings, live-stock, and implements, which constitute their capital. These goods, however, are not lent because the return from the loan would not be sufficient for the maintenance of the family. The members of the family prefer to employ their labour-power to pr[illegible]by the use of their existing capital new goods which th[illegible] the other economies. The income of the farmer's [illegible]us obtained from the sale of their products. Finally, [illegible] family with a capital of £50,000 lend their wealth to a bank. [illegible]om this loan the household derives an annual income of £2,000 in consequence of which there is no need for any of its members to engage in any economic process.

THE SHARING OF WEALTH. It is important to inquire into the causes of this diversity of economic conditions which exists among household economies. This difference is by no means a phenomenon of modern economic development, for it made its

appearance simultaneously with the introduction of private property, and was formerly even more outstanding than it is to-day. Before the introduction of a *money economy*, land was the chief form of property and was in the hands of a comparatively small number of persons. With the development of a money economy, other goods were accepted as representing claims on other economies, and these goods took the form of money. With the rise of money the old form of land ownership began to take a secondary place, since it was only one form of capital ownership. The cause of the diversity in the ownership of private property is not due chiefly to the difference of natural ability among men, but rather to the power possessed by the economically stronger over the economically weaker, and this remark applies particularly to the period preceding the development of our large-scale system of industry. It is probably true that the wealth of individual households is based upon the personal ability of individuals, but personal ability alone could never have created the great and enduring differences in the distribution of wealth. Even the wealth of those households which are believed to owe their possessions to one or more persons is only possible within the structure of an economic system which ascribes to wealth the power to raise claims on the goods and services of other economies. Further, it will be seen that the wealth of an economy endures after the death of a capable person to whom it owes its origin. Under the existing law this wealth is inherited often by incapable persons. Thus, the explanation of the great differences in the distribution of wealth is only partly accounted for by the personal qualities of individuals. The cause will be found mainly in the fact that from the beginning the right of the stronger has laid the foundations for the widest differences and that money economy merely supplied a pliable form in which these inherited differences could be preserved and by which new possibilities for a still greater differentiation in the distribution of wealth could be created.

DIVISION OF LABOUR. It is scarcely possible for us to assume that early man carried on the struggle for existence under conditions of equality, for the further back we go into history, the more does the physical superiority of one man over another assert itself. Division of labour is nothing else but a product of the separation of the stronger from the weaker. It is to the women, children, and

old men that the stronger members of early society delegate tasks among the subjugated tribes, and during a campaign the slaves and the peasants remain at home. Thus there arises a compulsion to work on the part of a certain section of the people and this is accompanied by division of labour, in which the stronger take over the direction of the work, and the supervision and maintenance of a certain order. Even to-day, the same phenomenon is everywhere observable; that is, the desire to delegate the onerous tasks to others. Work is not the result of human desire but a necessity which nature has imposed upon mankind. Owing to the prevailing inequitable distribution of wealth one portion of mankind has always been in a position to escape the onus of work whilst the great majority of the population are unable to do so. Thus labour is divided into executory and supervisory, and the desire exists to render executive work as remunerative as possible. The organization into callings, and the progressive specialization of economic activities take place with the separation of directing from executive labour. The more remunerative and the more economic the labour, *prima facie* the greater are the claims which can be raised and enforced by the owners of land and of capital. The wants of all increase, individual wants become more varied and complicated, and this leads to an increasing division and specialization in the forms of labour. Moreover, this desire is also communicated to the labouring classes, for owing to the increase of production they derive benefit in their own private households. Thus the endeavours of the possessing as well as of the labouring classes co-operate in order to develop the principle of the division of labour to its modern extent.

Callings. In order to produce an income the private household must have something to offer to the other economies in the shape of goods or of services. The majority of economies can do this only by the members of the economy exercising a particular calling.

There are also economies, no member of which is occupied in any kind of vocation. These we shall ignore in the present connection. In most households the members are engaged in some sort of calling, and the less the possibility of a member to obtain an adequate income for the maintenance of all the persons composing the economy, the more other members of the household, i.e. the wife and children, are forced into industrial activity.

Economic status differs according to the possession of wealth, which is manifest in the possession of capital. On the lowest rung of the ladder stands the manual labourer who is dependent solely on his labour-power. At a higher stage we find the employee who is possessed of a suitable education and good mental qualities, and has therefore better prospects of improvement. The highest stage is occupied by independent persons whose possessions of wealth guarantees them a superior position over the dependent ones, that is, over employees. This classification of households according to professional status, into wage-earners, salaried officials, and independent persons, is open to the objection that under certain circumstances the salaried official often ranks higher, socially and economically, than the independent person. This may be carried so far that in certain cases a mere wage-earner may be in a better position than some persons of independent means. At all events, this division is mentioned here simply because it is so general in practice.

BUSINESS UNDERTAKINGS. At the present time, the majority of private economies no longer carry on their vocational activity in their own household, but in outside undertakings. Of course, there are still large classes, chiefly in the country districts, where the calling is carried on in the homes of the workers; in this class may be included farmers and a large number of small tradesmen. In the case of other economies, however, the vocational activity is carried on away from the private household. Outside the sphere of private economy places have developed in which the members and head of the family obtain their income, and then subsequently employ it in the satisfaction of their wants. These places are called *business undertakings*, and in them, by the combination of certain factors, commodities are produced. These undertakings, however, are the property of the individuals or of associations of individuals who have found the necessary capital, or who are the present owners. From the standpoint of ownership, the term "undertaking" is ascribed to a combination of factors for the achievement of a certain economic result, from which it follows that an undertaking may embrace several businesses. For example, an undertaking engaged in the manufacture of cloth may include a number of separate businesses such as spinning, weaving, bleaching, dyeing, etc. Thus, an undertaking represents an economy though in an extended sense.

The private household obtains income in order to satisfy the wants of its members, and any excess of this is used in the accumulation of capital. The undertaking which is an economy in the extended sense, does not serve directly the satisfaction of wants, but is engaged in the production of goods or the rendering of services which are to be sold at as high a profit as possible. The undertaking has therefore no direct relation to consumption. Thus, alongside private household economies there exists another group of economies which is typical of our industrial system, the majority of which fall more or less under the heading of *undertakings*. In order to survive, the private or household economy strives to obtain an income, whilst the undertaking offers to its members the chance of converting its labour-power or its capital into money in order to obtain such income. The undertaking which produces goods, however, does not sell these goods to the persons engaged in their production, but it sells them at a price as much as possible in excess of the expenses of production.

MARKETS. The place in which buyers and sellers congregate in order to deal in goods is known as the *market*. In this market goods are exchanged for money. Of especial economic significance is the size of the market, and its dependence on other markets. For historical, geographical, and economic reasons, private households combine into communities, the size of which differs greatly. In agricultural districts the village is the typical unit, whilst for commerce and manufactures it is the town. In the main this localization is a consequence of the division of employments; for the concentration of certain employments in a certain district or districts is now found in all countries with a high industrial development.

The private households and undertakings of a particular place require certain goods and services, although these may vary within limits, and through them a demand is manifested for these goods. They also possess a certain supply of goods and services, however, which they desire to convert into money. There is need, therefore, not only for a market in which these economies can buy, but also for one in which they can sell. Provision is made for the goods or services which are required for their private consumption by the establishment of a *local market*. There are many such local market areas, all independent of each other. For the comprehension of

modern industry, however, we must realize the mutual dependence of these markets and other places of exchange. The modern system of intercourse—the post, the telegraph, and the telephone, and above all, the spread of the system of newspaper intelligence—has provided a means for the speedy transmission of all the important events in the world's markets. The individual business is most sensitively affected by the existence of this system of world markets. For example, let us take a very small village in which a baker sells his bread at a fixed price to the private householder. Without any change having occurred in the conditions of the local market, he suddenly raises his prices, and the customers are annoyed at the increase. The baker explains to them, however, that owing to an unfavourable harvest in Canada the price of wheat has risen, so that the price of flour has increased, although in the immediate vicinity of his shop the wheat crop has been very good. The result of the increased price on the *world market* is that the wheat cultivators in the small local market not only wish to benefit by the rise which has taken place, but they actually do benefit, and this alteration in the price extends to the most remote regions.

The World Market. In modern industry there are therefore no longer isolated markets, for all markets are now inter-dependent —a mutual dependence which cannot be destroyed by physical barriers or the political separation of states. Thus, to-day, the whole of the populated world tends to form a single market area in which price fluctuations follow the same uniform course. Hence we are compelled to revert to the consideration of the price of goods and services. It has already been seen that the modern household gives labour and capital in order to obtain other goods and services. It is the aim of every household to obtain in return for what it gives at least an equally high counter-value. To-day the private household gives either labour or capital or both, frequently in the shape of goods and services, in return for which it is able to buy goods for its own personal use. The prices of these finished goods are determined by forces operating on the world-market, whereas the costs of production of the domestic goods and services, as also the productivity of nature, are still unequal in the various regions of the world. This exercises a bad influence upon the private household which does not receive an equivalent for what

it gives to other economies. The private household naturally strives to obtain more than it gives.

PRODUCTIVITY. The greatest errors prevail in regard to the nature of productivity. In so far as plants, animals, and human beings multiply, nature is said to be productive. Naturally, such productivity is the basis of human existence. Neither labour nor capital, not even a combination of the two, is capable of producing utilities, in spite of the fact that this view is often asserted. These factors may increase or diminish nature's productivity, but as yet they cannot dispense with the productive power of nature itself. For the present, natural fecundity constitutes the basis on which alone it is possible for mankind to subsist and to multiply. On account of this fecundity nature supplies us with all the raw materials necessary for human existence. Man, by his progressive insight into the laws of nature, can materially increase this fecundity, although he is unable to create the raw materials by the exercise of his own unaided activity. It is owing to this misconception of the nature of fecundity that the expression "productivity" is frequently misused. Of course, it is possible to obtain an increase of cotton, but only by utilizing the natural fecundity of the soil which we select for the cultivation of cotton. Man is productive only in so far as he multiplies his species, but, beyond this, he can only build up his economy on nature's productivity. The possibility of the multiplication of the human species, however, is based on the productivity of nature, and this latter is amenable to human influence. Furthermore, man can change raw materials in order to adapt them to his use. Looked at from this standpoint, capital and labour are said to co-operate in the production of utilities.

Production of Goods. We have seen that it has become typical of the modern economic system to produce goods in special undertakings outside of the private household. In agriculture and in small handicrafts, however, the domestic system of production still prevails. The aim of the business undertaking is the production and the distribution of goods. For this production it is necessary that the undertaker or *entrepreneur*, as he is usually called, should furnish all the preliminary conditions, and the means which make possible this working process. In the main, these preliminary conditions consist of a certain combination of goods which is

necessary for the production of other goods. For instance, let us consider a cotton spinning mill. Here we have as preliminary conditions buildings, machinery, tools, raw materials, and working materials, before there can be any thought of spinning. In other words, the means of production which are known as capital, must be in existence. Capital is, therefore a requisite of production, although such capital-goods are useless until they are worked upon by the labour of man. Hence the second requisite of production is labour, which varies in value from unskilled to the most highly skilled. Capital and labour must unite in order to produce goods. This production is effected within the business undertaking. The *entrepreneur* buys the capital-goods and the labour-power, both of which are necessary for the carrying on of the working process.

Efficiency. Although man unaided by other factors is unable to perform the act of production, yet, as we have seen, he possesses the faculty of being able to influence the productivity of nature. His aim is directed to the production of a continual increase of crops from the soil, with an expenditure of capital and labour which must be smaller than the value of the crops. This is one of the cases in which man can influence nature's productivity to his own advantage. He can also manifest his economic foresight in the working up of the raw materials obtained from nature. The working up of raw materials into consumption-goods takes place under the co-operation of capital and labour. Up to a point the more capital-goods are expended in the working process, the more rapidly will natural productivity tend to increase. The more economically capital and labour are employed, the greater will be the return of the natural wealth. Man therefore strives to increase the productivity of nature by keeping as low as possible the expenditure on these factors of production. The more cheaply he succeeds in carrying the goods to the consumer the more economic will be the process of production and distribution. Private economy, in its own way, endeavours to attain the same end—that is, to obtain the greatest possible claim on the goods and services of other economies by the least possible expenditure of its own services.

WAGES AND INTEREST. In the production of goods, capital and labour combine. The undertaking must make full use of labour-power and of capital. Before labour-power can be employed

a certain amount of wealth must be saved to form the capital upon which, and by means of which, the labour may be applied. The workers receive a certain amount of wages for the work done. On the other hand, the capitalists receive a certain reward for the use of their wealth as capital, a compensation for the loan which is called *interest.* We may also describe wages as the workman's reward for the loan of his services to the employer for a certain period of time. We have seen that capital in all its forms assumes the character of money, but in reality it is still the sum total of the existing goods which do not serve directly the purpose of human consumption, but which offer the preliminary conditions for the production and distribution of goods. These capital-goods in turn are the products of capital and labour. Labour-power alone is not in a position to produce goods. Where the land is still free and not yet appropriated as private property, the worker may, with the aid of suitable implements, come into possession of wealth which may be used as capital. Where, however, the land is appropriated, he must either employ his labour-power in the service of the owner or he must pay to the owner a certain sum for being allowed to work a portion of the land which, in this case, is called the *rent.* Since the means of production in highly developed countries are for the most part in private ownership, a very large number of private households are obliged to work in the service of those who possess the means of production. These persons demand for the loan of their capital a compensation, which is known as *interest.*

PRICES. In the business undertakings capital and labour co-operate in order to produce goods for use as capital, or for the consumption of the large number of private household economies. The *entrepreneur* sells these goods in the market for money. The goods become merchandise which command a certain price, according to the conditions of supply and demand. The *entrepreneurs* who manufacture certain goods will not wish to sell them at a price which is below the expenses of production, but rather at a price which exceeds these expenses as much as possible. In the expenses of production, however, there is a whole series of differences, the reason for which cannot here be discussed. They have already been hinted at previously. This entails the fact that the *entrepreneurs* who have lower expenses of production than others, can

sell at a lower price and still earn a profit. On the other hand, the others do not earn anything at this price or they may even lose under certain circumstances, for owing to the market conditions they cannot enforce a higher price. In the case of some *entrepreneurs* the exchange price of the goods is above, and in others below the expenses of production. In the price of the goods there must be included a share which is due to labour expended thereon, and another share which is due to capital. In regard to the production of any single commodity it would be possible to ascertain, upon an actuarial basis, the amount of these shares. At the point where the goods leave the place of production, they have a value which is composed of the expenditure on labour and on capital. This expenditure is made by the *entrepreneur*. In the market, the sale entails a certain risk to the *entrepreneur*, for he might either gain or lose on them.

THE DISTRIBUTION OF GOODS. Hitherto mention has been made only of the production of goods, with only casual reference to their distribution. At the moment when the goods leave the place of production they become commodities or merchandise. They are not handed over directly to the final consumers, i.e. the private households, but in some cases they have to pass through many hands before they reach them. Just as the modern production of goods is in most cases separated from the private household and is carried on in special undertakings, the same may be said of the distribution of goods. Under the term "distribution" is to be included not only the purchase and sale of the goods but the transportation of the goods from the place of production to that of consumption; and the whole of the activities which must be exercised in order to equalize as far as possible the forces of demand and supply in all markets. This is the proper function of commerce which is carried on by a large number of undertakings. From the place of production down to the large number of individual households, the price of the goods undergoes various additions which are brought about by the costs which have to be incurred for labour and capital but which are also determined in a greater or lesser degree by the risk inherent in all commercial undertakings. As with the *entrepreneur* in the production of goods, so also in commerce the *entrepreneur* can buy the goods, the distribution of which he has undertaken, at a price which he cannot obtain subsequently from

the sale of the goods. This risk again is due to the nature of exchange economy. On the other hand, of course, he may obtain a very much higher price.

SERVICES. Although hitherto we have devoted ourselves principally to the consideration of the production and distribution of material goods, yet there are in addition to these other goods which play an important rôle in economic life. In the undertakings labour and capital co-operate in order to produce and exchange goods. Here labour likewise manifests itself in a service, but this service is incorporated with the material product of labour, i.e. in the goods. There are, however, services which do not reach us as material commodities but in the shape of pure services. For example, we may mention the services of a medical practitioner. His services are required for the safeguarding of our health. We consult such a person and pay him a certain sum for his services which, according to linguistic usage, is known as a *fee*. In this connection we pay for *services*. In the economic process there are undoubtedly a whole range of expenses embodied in the production of services such as in art and science, literature, and in general education of the mind; also in the services connected with the State and other professional organizations. Moreover, services are to be included amongst commodities, for every service, if closely examined, involves an effort or, in some cases, a passive attitude or an abstention, which has to be valued as an effort. Efforts, passive attitudes and abstentions have not been treated upon by economists to any great extent, yet they play an important part in economic life, not only in the sphere of production and distribution but in the fact that they constitute a category of utilities to the persons who own them. This remark is of greatest cogency in the case of states which have attained a high degree of civilization.

CONSUMPTION. Undertakings devoting themselves to production or distribution, pass on the commodities until they finally reach the markets which are engaged in selling directly to the individual consumer. Here the goods realize their price, after the payment of which they lose their character as commodities and assume a certain value-in-use. Under a system of exchange economy the individual private household has to render services in the shape of labour or capital to the undertakings engaged in

production or distribution, and in return for these services they receive payment in the shape of money, which might be called income: that is, wages or interest or possibly both. With this income, according to its purchasing power, they may obtain the goods which they require for the satisfaction of their wants. The wants of a household must naturally adapt themselves to the amount of income which may be forthcoming. The smaller the income, the fewer will be the wants which may be satisfied. In a number of households the income is such that it cannot be employed wholly in the direct satisfaction of wants but a portion is set aside as capital. Without such savings it would be impossible to extend the system of production and distribution. This newly created capital, along with the newly rising labour-power, constitutes the means for the creation of goods destined for consumption in the increasing number of private households. Finally, consumption consists in the use of the goods by the satisfaction of the demand for which they were produced. In this connection economy may play an important rôle.

COMPETITION. If we thus survey the sphere of human economy it will be found that all private households are linked up with each other by means of money; but it will also be seen that in modern exchange economy there exists an increasing competition for the realization of the most favourable results. The aim of everyone is to value his services as high as possible and those of the other economies as low as possible. From this desire or aim there arises a mutual rivalry in which the economically stronger is superior to the economically weaker. This struggle is to be found in all possible degrees. It is to be found not only between capital and labour but also between capital and capital, between labour and labour, between one private household and another, between one business undertaking and another. In short, it is inseparably connected with exchange. Man fights a two-fold battle, one against nature to wrest from nature the products necessary for existence—a task which is rendered possible only by the co-operation of mankind. This necessity knits men together. Furthermore, man also carries on a hard struggle for his share in the products of nature in the production of which he has co-operated. This struggle, which in former times was waged in a much more brutal and barbaric fashion, has created a basis of inequality which still

remains with us and is felt more acutely in modern times owing to our more sensitive organization. The private household economies of the present day are theoretically on a fair basis of equality, although actually, the differences under which they are managed are so great, that birth into a certain family affects considerably a person's economic and social prospects.

ORGANIZATIONS. In addition to the private household and the business undertaking, mention has still to be made of another form of economy which exerts a great influence upon economic life. This is embraced under the name of " organization " although it must be pointed out that, strictly speaking, the majority of private households and business undertakings may be looked upon as organizations. In separating the terms, however, we wish to understand by organizations, those formations which arise from the voluntary or compulsory combination of private households or undertakings, or of both, for the purpose of attaining and pursuing economic ends. A distinction must be drawn between voluntary and compulsory organizations. In modern times the former have assumed increasing importance. Still more important, however, are those of a compulsory nature such as the various local authorities and the State. Likewise these organizations have their own economy with its own particular characteristics. From this standpoint the economy of the compulsory organizations is known as *public economy*. Whereas the private household adjusts its expenditure to its income, and the business undertaking has from the outset to face an approximately definite amount of expenditure, the economy of the organizations is based on the fact that the income can be regulated in accordance with the expenditure. This peculiarity manifests itself very strongly in the case of those local or central public economies which have been formed in the interest of private households. The public economy levies compulsory contributions upon the individual households from which the expenses of the public economy are paid. In emphasizing this typical difference, it must not be overlooked that public economy can and indeed does adopt the method of drawing income from its own undertakings, which are described as *public undertakings*. Originally, however, public economies did not base their existence on such a revenue, but rather on their power to compel the various households under their authority to furnish contributions from their

income. It is beyond the scope of this work to discuss in detail the activities of these organizations, but we must certainly pay some attention to them, since they encroach upon the sphere of private and business economy and to a great extent influence the whole of our economic life.

CHAPTER III

THE INDUSTRIAL CONFLICT

THE NATURE OF THE INDUSTRIAL CONFLICT. Industry may be regarded as a dual conflict, waged in the first place against nature and in the second place against mankind. " The metaphors most usually applied now to business are military metaphors," writes D. H. Macgregor in his *Evolution of Industry*. " We speak in England of the captains of industry," of the " fight for markets," and of the " industrial reserve." Among foreign writers similar phrases occur. In France the competition of the market is *la lutte*, in Germany it is *Konkurrenz-kampf*. We speak everywhere of " the strategy and tactics of trade." Hence industry is warfare. War, sometimes overt and violent, sometimes concealed and even unconscious—but war nevertheless.

Although it is true to a certain extent that men must co-operate with each other if they are to wrest from nature her mineral treasures, the crops from the soil, the products of stock-rearing, the raw materials of manufacture and the general means of modern existence, yet immediately it is a question of sharing these goods, antagonism begins. In the course of centuries, forms of industrial strife have arisen which for the most part exclude the employment of brutal force and physical superiority, but these have gained general acceptance only after the development of strong individual differences in regard to the preliminary conditions for the industrial conflict. Naturally men are and always will be unequal in regard to race, natural ability, and education. The continuance of individual differences is not open to dispute. But we cannot attribute to this personal difference the extreme inequality of equipment with which individual economies—especially private households—now enter upon the industrial conflict—otherwise, it would be easy to prove that this difference has been attained by means and methods of a dubious nature. On the one hand, man wages a struggle against nature, and only by bringing her into subjection can he appropriate her gifts and thus render possible his existence. Nature does not yield her gifts freely, however, but calls for a counter-service in the form of work, and for this reason the land has been

appropriated by a section of mankind. It is the result of the institution of private property which enables the land, including everything above and below it as far as it is the basis for the satisfaction of human wants, to be withdrawn from the free access of man. If man is to live and continue his conflict with nature, he must have access to the land. Owing to the fact that the ownership of property has taken such a course, and that the great majority of private households are excluded from participation in the ownership of land, which constitutes one of the pre-requisites for human existence, there has arisen an essential difference in the household economies characterized by the degree of power they possess for the industrial conflict. A minority of these household economies—and a very considerable one—is the owner of the land, which is required by man for the production of his means of subsistence. This fact alone is sufficient to show that the industrial conflict has been rendered unequal. Land yields nothing of economic value, however, unless it is wrested from her by human effort. Landowners would be unable to develop their land to its present extent were they unable to command the labour-power of those men who have been deprived of a share of this natural gift. With the distribution of nature's gifts through the institution of private property, the conflict against nature has created a potential conflict among mankind.

The owner of land and the goods resulting therefrom require labour-power to enable them, with the assistance of capital, to carry on the industrial conflict against nature; the mass of household economies however, which are excluded from the possession of land and of its products, must consent to give to the landowners a portion of the results of the conflict before they are allowed to procure the means of subsistence from the land. This, however, does not completely characterize the industrial conflict which is taking place among mankind. It is not only the owners of labour-power who fight against the owners of capital, but likewise the owners of capital compete with each other in lending out their capital-goods to the owners of labour-power; the owners of labour-power also compete among themselves in lending out their labour to the owners of capital-goods. From the competition of the owners of capital on the one hand, and that of the owners of labour-power on the other, there results the hiring rate for the capital

placed at the disposal of labour, and also *vice versa* that for the labour-power placed at the disposal of the owners of capital. Much greater differences are shown in the latter as compared with the former in the different industrial areas.

REGULATION OF THE CONFLICT. The community of economic interests confronting nature brings men together for the purpose of common action and keeps them together, although this co-operation takes place under conditions which assume a great differentiation of economic forces. For the stronger endeavours not only to shift his conflict against nature on to the weaker, but he also tries to appropriate the largest possible share of the resulting products. The development of human economy has so arranged it that the stronger seek to safeguard their privileges for themselves as well as for their descendants. Through special organizations, especially through the State, they have forced the economically weaker classes to the legal recognition of certain rights which amounts to an expression of the political influence of the economically stronger classes. Within the sphere of the private household, the undertaking and the organization, economic power manifests itself in a certain domination which forces its will upon those who are economically weaker. In the household the bread-winner is the holder of this power, and he lays down the rules according to which the members of the family must be regulated. He also exercises a great influence on the distribution of the income. Hence the weapons of conflict are forged, and in this way restrictions are placed on the complete freedom of action of the private households, the undertakings, and the organizations. In the conflict of man against man, however, common interests again arise. Thus there comes into existence the political association, the association of the strong for the suppression of the weak, and for the maintenance of their power. In like manner there also arises the association of the weak for the opposition of the strong, and for securing economic advantages and influence which in turn are manifested in an increase of political influence and power. Thus the conflict centres around the sharing out of work on the one hand, but still more around the sharing of the product resulting from such work. Morally, it is quite impossible to justify or condemn the nature and form of the industrial conflict. The primary object of science is to explain this conflict and to show whether it is an indispensable phenomenon,

whether the present economic and social differences are the product of an accident or the consequence of many thousand years of development which in the last resort must be explained from the personal dissimilarity in man. If to-day there exists a strong superiority on the part of a large number of private households over the remainder, it is certain that in the early stages of human economy there was no such thing as human equality in economic affairs. With the development of this inequality, it became impossible to counteract the tendency towards increasingly marked contrasts. Even to-day, assuming perfectly equal conditions, the conflict among individuals would rapidly lead to a differentiation of economic results, but this need not prevent the attempt to bring about a different sharing out of work and a more equitable distribution of its proceeds. The industrial conflict, however, by no means debars the possibility of a truce between competing economies and organizations, but the conflict virtually renders such intervals indispensable. On the one hand the common strife against nature necessitates periods of inactivity, and on the other hand strong contrasts must be overcome by weak contrasts. Under certain circumstances opponents, who are usually in conflict, unite for a time in order to fight a common third adversary. Common interests lead in a large measure to mutual understanding and the mitigation of opposing views. Transactions on the various markets are executed according to rules which ensure a peaceful settlement of business. But it must not be overlooked that, even in this harmonious settlement, the economies in question will be of differing degrees of strength and that the stronger, when confronted by the weaker, will always remain the stronger.

RISE OF AN ECONOMIC POLICY. Economic activity is thus a conflict which every business is obliged to wage, although the strife may be conducted with very different and unequal weapons. This conflict is carried on by every private household, every undertaking, and every public economy; but also the special organizations which are formed to increase the conflict between private households, undertakings, and public economies participate directly or indirectly in this struggle, in which either nature stands as the opponent, or the owners of labour are opposed to the owners of capital, or *vice versa*. Every economy carries on this conflict, some consciously, others unconsciously. The ways and means which are

employed in this conflict by the individual household economies, the various kinds of undertakings or the special organizations are summed up in the expression " economic policy." The linguistic use of the word " policy " has long been accepted in this sense. We speak of the policy of a syndicate, or the discount policy of a bank. In this sense the term may be used generally so that we can also speak of the economic policy of the private households and undertakings, or the economic policy of the State or of the municipality. Economic policy is two-sided, corresponding to the two-fold nature of every economy; one aspect is concerned with the external relations of one economy to other economies; the second aspect concerns the internal organization of its own business. Both parts are complementary, and are interdependent and together constitute the policy of the particular economy.

Private Households in Relation to Economic Policy. Economic policy in all its manifestations and phases can be traced to the private households. The policy of the private household aims primarily at the formation of public institutions and at the establishment of undertakings and voluntary organizations. The distribution of the larger economic undertakings among private householders, on the basis of private ownership, constitutes the starting point for the present-day economic and social organization. The policy of individual private householders leads to great differences between the numerous private households, and conduces ultimately to far-reaching division of labour. It also tends to the establishment of common organizations through which the interests of their members can be safeguarded or furthered. Overwhelming as are to-day the large public organizations, such as the State, yet in the last resort they are traceable to the initiative of the private households and their economic policy by which they are enabled to obtain privileges and predominant positions which must be to the disadvantage of the remaining householders. Even in the early stages of private ownership the dynamic force of the individual households was by no means equal, but of varying degrees. The progressive ones were soon the superior, then the unscrupulous, and finally came the ruling class with whom the remainder tried to find protection. As is still the case to-day, the formation of common institutions and organizations arose from the initiative of private households which were superior to the average. For this reason,

the policy of the private households is still the foundation of all economic policy, irrespective of the fact that the activity of the great majority of households constitutes a force over which ultimately the strength of all other economies and organizations is unable to prevail.

The economic conflict is waged primarily by private households and undertakings; they are the standard-bearers of the struggle. For the conflict they form close units, which might be designated "organisms" in contrast to "organizations." The organizations participate in the industrial conflict not for their own sake, but as a last resort; moreover, they do not terminate the struggle of the "organisms" but maintain the strife, and direct it into certain grooves and forms. They are merely a combination of a portion of the organisms. These they relieve of a certain portion of the industrial conflict, and attempt to force them into defined rules without being able to relieve the private households altogether of the conflict. Every private household, whatever differences may exist within itself, carries on the industrial conflict as a close unit, and the same remark applies to the undertaking, which in spite of internal differences, concentrates all its forces upon obtaining a result for itself. The separate members of private households and undertakings are therefore links in an organism, whereas in the case of an "organization" those belonging to it have to be described by the wider term "members." The organizations do not render superfluous the individual economic conflict of the organisms, they not only do not abolish the struggle but they actually postulate its existence. The individual organism rather transfers a part or parts of this conflict to the organization, which in consequence acquires a certain influence over its members and is able to bring them into great dependence. Even with the most far-reaching application of democratic principles, only the capable members of the organization will manage to assert themselves in the organization, and thus advance themselves personally, whereas the mass of the indifferent members not only exercise their rights to a small extent, but they thus become weaker since they have been deprived of a part of the conflict which was formerly waged by the individual households as a separate organism. The organization of course also unites more closely to each other the organisms affiliated to it, and has itself the tendency to become an organism.

This is quite apparent in the development of the Cartel. From loose organizations there arise increasingly rigid formations out of which ultimately by fusion there springs a homogeneous undertaking—an organism.

The recognition of the different degrees of strength involved in the economic struggle does not prevent the various classes who are compelled to wage the conflict, from exerting every effort in order either to maintain or to strengthen their strong position, or in order to improve their weak position. At any rate, it must be noted that the economic activity of the private households and of the undertakings is in its nature entirely different from the economic policy of the voluntary and compulsory organizations.

CHAPTER IV

THE INDIVIDUAL HOUSEHOLD

CLASSIFICATION OF HOUSEHOLD ECONOMIES. If we arrange the whole of the private households according to the nature of their ownership, we are able to differentiate three types which have quite distinctive economic policies. There are private households which derive their income from the employment of their capital-goods, and such as derive it from the employment of their labour-power. These two forms stand in strong contrast to each other. The preponderant type is the private household which derives its income exclusively from the employment of labour-power. A third and very common form of private household, whose importance is frequently under-estimated, is that which derives its income from the combined use of its capital and its labour-power. Of course, the economic policy of these three types is so different that we are justified in giving them separate consideration. In the case of the third form the possible variations and the actual differences are so great that they either approach the other two forms very closely, or where this is not the case, they at least reveal such remarkable differences as to make their economic policy appear dissimilar. These mixed household economies, however, entail deviations, but they are not observable to the same extent as in the case of the other two types. This third type of household is the traditional one which is based to some extent upon totally different premises from the other two types, which reveal the strongest contrasts.

The grouping of the existing households into these three types is determined by the preliminary conditions upon which their economic struggle is founded, and also reflects itself in their economic policy. The economic policy of the private household is to render its income as favourable as possible, at the same time ensuring that the employment of the income is effected in the manner most advantageous to the members of the household. Owing to the fact that we distinguish between three groups of private households which differ from each other in regard to the sources of their income, the economic policy of these groups is bound to be different. On the one hand, we find the households which derive their income

exclusively or predominantly from the employment of their labour-power ; on the other hand, we have those who obtain their income from the employment of their capital. The economic policies of both these types stand in direct opposition to each other, the limits of which are found in the fact that capital and labour must be drawn together if an income is to be forthcoming. Apart from the general interest, however, the antagonism is of the sharpest imaginable and leads to the formation of classes consisting of those with a capital interest on the one side, and of the private households with a labour interest on the other side. Midway between these two antagonistic groups we find the very strong group of households which derive their income from a combination of capital and labour. Its interest in the employment of labour-power or in the determination of the rate for the hiring of capital depends on the significance of the one or the other factor in production. If the interest in a possibly higher employment of labour-power predominates, the policy of these mixed households will be to support that of the pure labour households, whereas in the other case it will incline more towards the purely capitalistic households.

THE LABOUR ECONOMIES. The policy of the pure labour economy which is dependent solely on its labour-power must have as its object the employment of its labour-power as favourably as possible. The available labour-power in every household is to a certain degree very individual in its nature, and cannot be reduced to a common standard. Every household will strive to employ its own labour-power to the best possible advantage without regard to other households which have the same objects in view. In a subsequent chapter we shall see that in the labour market there is a strong competition among those who are seeking employment for their labour-power so that the aim of the private household to secure the most beneficial market for its own labour-power is thwarted. Since the cost of reproduction of labour-power as a commodity is not a fixed quantity, but for diverse reasons is subject to great variations, a wage which appears acceptable to one household is refused as inadequate by another. In such a case the former household would appear to find a favourable market for its labour-power, whereas this would not be the case with regard to the latter. This competition of the private households in the labour market is bound to hinder the pure labour household in the

attainment of its ends, for this competition cannot be expected to terminate automatically. If the labour households are to attain their purpose, they must perforce attack in common this internal competition in the labour market. The individual labour economy cannot escape the existence of this competition but, whether consciously or not, it is actually compelled under the stress of circumstances to increase it, otherwise the possibility of obtaining an income would have to be abandoned.

Thus the realization of the common interests of all economies or households dependent on the employment of their labour-power is the preliminary condition for the attainment of the goal which the several economies have set themselves. It is the same phenomenon which, in other markets, has long since been recognized. The regulation of competition by the suppliers of a commodity provides the most favourable conditions for the determination of the price, even though there may exist a united demand for the goods. So long as the suppliers act in isolation they are bound to exercise a more depressing influence upon prices than if they act in unison. The same conditions prevail in the labour market, although in view of its extent and differentiation it is not easy to bring about a combination of the supply of labour-power. Here we have a very tedious process which is aggravated and hindered by local, national, professional, and economic differences concerning the capacity of the owners of labour-power. However valuable it may be in itself, the general conception of common interests does not suffice, for such a conception postulates the prevalence of economic conditions which are not generally found. Combined action is possible only where the cost of the reproduction of labour-power has been fixed over a large economic area, and in which the standard of living tends to be the same. This levelling influence is initiated and furthered by the expansion of capital, and is accelerated by the competition in the money market, although this process of levelling up has by no means advanced so far as is often supposed.

Indispensability of Capital. The regulation of competition in the labour market is the one economic object of the pure labour economy which aims at the better utilization of labour-power, but this object is, as it were, only a means to the second object—the attainment of a greater share in the national dividend. This end can be achieved

only by either the absolute or the relative diminution of the share which goes to the capital economies, either in the form of interest on capital or as profit on the undertaking. Here we must acknowledge the fact that capital as such is absolutely indispensable to the carrying on of undertakings, and that a certain percentage of the revenue of production has constantly to be set aside for future production and distribution. To-day this capital is secured by the offer of a rate of interest, or by the granting of profits for bearing the risks of the undertaking. Even if the factors of production were nationalized a rate of interest on capital and the profit of the *entrepreneur* would have to be reserved to the State, and the labour economies would by no means receive the total amount of the national dividend resulting from production. A definite rate of interest on capital must therefore, under all circumstances, be deducted from the revenue of production in order that the undertakings may be able to produce goods and bring them to the final consumer. The profit of the *entrepreneur* alone would not suffice for this purpose, for it is largely capitalized in the shape of capital-goods. The labour economy may aim at the reduction of the share in the national dividend, which goes to capital; it may oppose the private ownership of capital by striving to transfer the means of production to the possession of public organizations, but it cannot altogether abolish the payment of interest on capital, for this is practically an economic impossibility. Even the transference of the means of production into the hands of public organizations does not dispense with the need for private capital, but only makes it possible for the profits of the undertaking to revert to the public organizations who must recompense the former owners for their private capital. At any rate, the possibility of reducing the share of private capital is so great as to offer an appreciable and permanent increase in the share of labour. Moreover, it may be the object of a pure labour economy to reduce the large incomes which result from the possession of capital, but this can be brought about only by taxation through the public organizations. All these are aims of the economic policy of a pure labour economy. They cannot be attained arbitrarily or by force, however, for any success would be of only the shortest possible duration, so long as competition exists in the labour market. Any attempts in this direction should take into consideration two points, viz., the mutual interests

of labour and capital in the maintenance of production and distribution, and the international character of the money market which admits of national interference only to a limited extent. The mobility of capital is a strong impediment to risky interference, although it must be admitted that the principal capital-goods, that is, the means of production such as land, natural resources, buildings, and the apparatus of production and distribution, constitute the basis of an economic area which, under any circumstances, would remain in the possession of that area.

The Combination of Labour. Of course the individual labour economy is not in a position to wage a conflict against competition in the labour market, and still less is it able to withstand the competition of capital. Such a conflict could be waged successfully only by a combination of labour economies. In this competition the individual household always stands to lose unless the struggle has previously been modified and restricted by an organization. A small portion of the labour-power may succeed in obtaining a profitable use of its labour, but the greater the army of those who have to depend solely upon their labour power, the smaller is the chance for the individual household to rise above the average level of income. Hence combination presents the only possibility of raising the general level of the income of the labour economies, and in thus assisting the great mass of labour economies to find favourable employment for their labour-power. The economic policy of the labour economies, therefore, cannot be individualistic, but must tend to pursue, whether consciously or not, a policy of solidarity in the collectivist sense. This is based on the need for a combined front against the competition of labour itself, and also against the competition of capital. This fact is not realized by the mass of labour economies until they are dragged into the whirlpool of modern market economy. It is not until then that the realization of the need for combination is forced upon them.

CAPITAL ECONOMIES. The economic policy of the pure capital economy follows on principle a direction diametrically opposed to that of the pure labour economy. The tendency is for them to make the most favourable use of their capital-goods. This tendency is restrained by the competition in the money market in the same way that the competition among labour tends to restrict their share in the total product. This restraint, however, takes a

different course from that assumed by labour. A capital-good can always find employment at a certain minimum rate of interest, but this is not the case with labour-power. At times, the latter may find it quite impossible to find employment. Apart from this the pure capital economy may also utilize its labour-power which can be employed in highly paid positions of management and frequently is thus employed. We will discard this possibility, however, and assume that the pure capital economy derives its income exclusively from the employment of capital in the production of wealth. Though the capital economies follow the same tendencies they are far more differentiated than are the pure labour economies. They are also separated from each other by greater distances ; they form individual units which, in their private life, differ greatly from each other. In short, they manifest a tendency to keep apart from each other. They do not carry on the struggle for existence in person but by means of equipment which lies outside themselves, and which is represented by claims on capital-goods. With the gradual improvement in the organization of the money market, the interest in the individual capital-goods tends to disappear. In this case, as the wealth of the pure capital economy increases, the absolute rate of interest becomes of less importance as compared with the provision of a perfectly secure investment. The pure capital economy with large means at its disposal actually becomes the enemy of those economies which possess only a small amount of capital, in view of the keen competition which prevails in the money market.

The position is analogous to the competition in the labour market except that it manifests itself in a different manner. The large capitalist tends to depress the rate of interest for the small capitalist. Thus the position is the reverse of that which exists in the labour market where the stronger is under-bid by the weaker. In the money market the pressure emanates from the stronger, whereas in the labour market the stronger must protect the weaker in order to strengthen his own position. In the money market the stronger pays no heed to the weaker because the prevailing rate of interest does not hinder him in the achievement of his economic aims. The solidarity of interests of the money market is not a personal matter, but is regulated almost mechanically by the rules governing international dealings in money.

Thus we see that the pure capital economy does not present such uniform characteristics as the labour economy. On the contrary, the contrasts between the capital economies are very great, so that the small capitalists have a hard struggle to secure a favourable investment and to maintain themselves against the large capital concentrated in a single hand. The consequence is that only the owners of very large capital can abstain from the employment of their labour-power, and the owners of small capital are less and less in a position to derive an adequate income from the loan of their capital-goods without the employment of their own labour-power.

MIXED ECONOMIES. The mixed household adopts an economic policy which is less definite than that of the pure labour or the pure capital economy. It is threatened on both sides. The sole trader does not lend his labour-power and his capital to an outside undertaking but employs both in his own business. To him his capital is a factor of production which is set in motion by his own labour-power. Such undertakings sometimes require borrowed capital and hired labour-power which they obtain from the money and labour markets, but the proprietor's own capital and labour-power constitute such a dominating factor in the undertaking that every endeavour is directed to the production of the greatest possible return from them. This can be done only if the mixed economy assumes an attitude of opposition to the economic policy of the pure labour and also to the pure capital economy. The activity of the pure capital economies operates in such a manner that small capital loses in value, so that the revenue from interest loses its purchasing power. For instance, the large capital economies prefer to obtain a safe investment in land. The amount of the purchase price is not so important to them because they are in a position to accept a low rate of interest. If necessary, they are content with 2 per cent whereas the small capitalist must have at least 3 per cent. If, for instance, a piece of land yields a ground rent of £150 the capitalized value reckoned at 3 per cent is £5,000. A capitalist who can be content with a rate of interest of 2 per cent is in a position to pay £7,500 for the same piece of land. The capital value has increased, but the revenue expressed in percentage has decreased. This process of appreciating capital value depresses the rate of interest and exerts a particularly unfavourable

influence on the incomes of mixed economies. Since the property of mixed economies is subject to the capitalistic process of valuation, in the case of sale or inheritance, the new owner of the means of production is usually at a disadvantage since the capital value of his assets has nominally risen, although for various reasons he can no longer derive an income which corresponds to the former rate of interest. If he carried on his business exclusively with his own capital, and had no obligations to fulfil with regard to borrowed capital, the lower rate of interest would not affect him so unfavourably. Borrowed capital, however, is employed alongside that of his own capital, and the interest payable on it cannot be reduced in a way corresponding to the sinking rate of interest on the higher valuation of the assets. The sole effect of this increased valuation is that more money can be borrowed on the strength of it—a fact which also increases the liability for interest. Thus the pressure of the pure capital economies has an unfavourable effect upon the incomes of the mixed economies. The fact that the means of production of the mixed undertakings are subject to capitalistic valuation tends to reduce the share of income due to one's own capital. Hence it is only natural that the mixed economies occupy a very difficult position in view of the laws of the money market. Interest on borrowed capital is a fixed quantity; interest on one's own capital is merely a matter of the economic success of the undertaking. Borrowed capital is entitled to the interest agreed upon, whereas the proprietor may take far-reaching risks with his own capital. Where the owner uses his own capital, the revenue may be high, low, or even non-existent. In one direction this relationship to the money market determines the economic policy of the mixed economies. The other is determined by their attitude towards the labour market. The tendency is to employ one's own labour-power as favourably as possible, but to procure hired labour-power as cheaply as possible. The endeavours of the pure labour economies to improve the conditions of labour cannot be supported by the mixed economies because they endanger the success of the mixed economies whose aim is to derive the highest possible return from the combination of capital and labour. Since, in nearly all cases, they are partially dependent on borrowed capital and hired labour, whose interests are in continual conflict with those of the sole trader, the result is that we have an economic policy quite

distinct from that of the pure labour economy or the pure capital economy.

TEST PAPER I

1. Define " Business Economics." Discuss its claim to recognition as a separate science, apart from a general science of Economics.

2. What are the proper limits, if any, of the study of Business Economics ?

3. Sketch carefully what seem to you the natural divisions of the study of Business Economics. Explain the principle on which your division proceeds, and compare it with any other known to you.

4. " The cell of the whole economic organism, as it is represented, for instance, within the framework of Great Britain, is formed by the private economy such as is embodied in the household." Discuss the meaning of this quotation.

5. What is income ? Is it money ?

6. Investigate the advantages which may arise from an act of exchange.

7. Explain free goods, economic goods, value-in-use and value-in-exchange.

8. Describe the process by which, in your opinion, the system of trades in a country at any time have come into existence.

9. Draw up a list of those callings in your locality which are still conducted under the domestic system.

10. Write brief notes on : household economy, undertaking, local market, world market, wages, interest, prices, competition, organizations.

11. Show to what extent the powers of man and of nature respectively co-operate in the process of production.

12. " Industry may be regarded as a dual conflict waged in the first place against nature, and in the second place against mankind," Elucidate this statement.

13. What is meant by the expression " Economic policy " ? Show how it may be applied to a household, an undertaking, or a municipality.

14. Into what three main types may household economies be classified ? Describe the characteristics of each.

15. " Business Economics should be studied from three points of view. The first is the point of view of the particular business house. The second is the point of view of that group of business houses which constitute a particular branch of industry, and the third is the still wider point of view of the business as a branch of national industry." Expand and elucidate.

SECTION II

THE BUSINESS UNDERTAKING

CHAPTER V

THE RISE OF THE BUSINESS UNDERTAKING

PRIVATE HOUSEHOLDS AND BUSINESS UNDERTAKINGS. The undertaking is a combination of capital and labour for the purpose of effecting the production and the distribution of goods. This kind of economy, however, is of an entirely different character from that of the private household. The private household procures income in order to satisfy *directly* the wants of its members. It provides labour, capital, or both, in order to obtain the means by which the goods can be bought for the satisfaction of its wants. The private household either sells or lends values-in-exchange from which it derives an income. This income is transformed into commodities which are either used or consumed. The undertaking buys or hires labour-power and capital with which it produces and distributes goods. It brings these goods to the market and sells them. The difference may thus be summarized: the private household is an end in itself, whilst the undertaking is only the means to an end. Of course, the undertaking also engages in a kind of indirect consumption, but this is not an end in itself, but is necessary for the production and sale of the goods. The peculiar position of the undertaking is due to the separation of the private households from the processes of production and distribution, for these activities are transferred to special economies known as *undertakings*. The process of separation, however, is not yet complete but it is typical of the present-day course of industrial evolution. In the final analysis, the economic policy of the undertaking is due to this—its specialized character. Of course, the degree to which this specialization is carried is not a matter of indifference. There still exists a broad stratum of undertakings in which this separation has not yet been effected, and in which the private household is still closely bound up with the undertaking.

In order to acquire an income, however, these undertakings must sell in the market a portion, at least, of the goods they produce before they can procure what they require for the satisfaction of their own wants. The peculiarity of the undertaking, however, is also inherent in these economies, viz., first to buy or hire and to produce goods and then to sell them. The income results only from the proceeds of the sale, and is used for the consumption of the private household. Hence, on the one hand, we have a pure undertaking which has completely severed its connection with its private household, and on the other we have the undertaking combined with one or more private households. This difference is highly significant in the economic management of undertakings. In the case of the undertaking combined with the private household, the head of the private economy is usually the owner—not merely formally but virtually. It is not to be inferred from this that he owns the undertaking free from all obligations. On the contrary, a large percentage of the assets employed in the undertaking may have been mortgaged. Beyond this, however, the undertaking belongs to the head of the private household; he is not only the *entrepreneur* but also the capitalist, the manager and the employee combined in one and the same person. He unites within himself all these functions. In the undertaking separated from the private household, these functions are distributed quite differently. Here the owners—in the form of shareholders or *entrepreneurs*—are distributed over a wide market area, and are not bound to remain the owners since they can sell their shares at will. To a certain extent only are they lenders of the capital which is invested in the undertaking. The financial requirements of an undertaking are covered in the money market. The *managers* of the undertaking—both technical and commercial, are usually *salaried employees*, who stand in an entirely different relationship to the undertaking from the owner of an undertaking which is still connected with a private household. The economic success of the pure undertaking affects its officials much less than the success of the undertaking connected with the private household affects its head. This relationship is also strongly evident in regard to the workers. The employer of the combined undertaking, in his struggle with the workers, supports not only the interests of the undertaking, but also his own private interests. In the case of the pure undertaking this regard

for the private interest of the employer is entirely eliminated—at least in principle. Thus, a number of differences are to be observed between the pure and the combined undertakings which, in part, account for the attitude assumed by them. The pure undertaking is conducted and administered with much greater freedom than the combined undertaking which has not yet effected its separation from the private household, or which is still engaged in the process of separation. The combined undertaking tends to develop a more economic administration, for here the self-interest of the owner is much more potent. In view of the close connection of the pure undertaking with the money market, there is greater risk in the case of the combined undertaking both in regard to profits and losses. The whole burden of this risk falls upon the head of the private household, whereas in the case of the pure undertaking it is spread over a large number of private households.

REVENUE—THE AIM OF THE UNDERTAKING. The economic policy of the pure undertaking is determined by the fact that it is founded upon a commercial basis. It must buy cheaply and sell at prices which leave a profit; otherwise the undertaking cannot survive. It must sell the goods at a figure in excess of the cost price. This point of view is fundamental for a proper conception of the economic policy of the undertaking. Its attitude towards the money market, the labour market, and the produce market is thereby determined. The aim of the undertaking is to acquire wealth. It must not allow itself to be outstripped in competition with similar undertakings but should strive to utilize every factor of production so that the income shall exceed the expenditure. The undertaking does not consume in the sense of the private household—that is, the income is not employed in the direct satisfaction of human wants; but after allowing for expenses and certain amounts for depreciation and reserve, it serves the purpose of providing income to the owners of the undertaking. If in addition to their shares, the owners have a capital interest in the business, they will receive an additional return in the form of *interest*, but if they conduct the business exclusively with borrowed capital, the surplus, if any, after paying interest on capital, will revert to them in the form of *profit*. An undertaking which does not aim at the realization of a profit is quite conceivable, but it would be unable to maintain itself in the competitive struggle with other

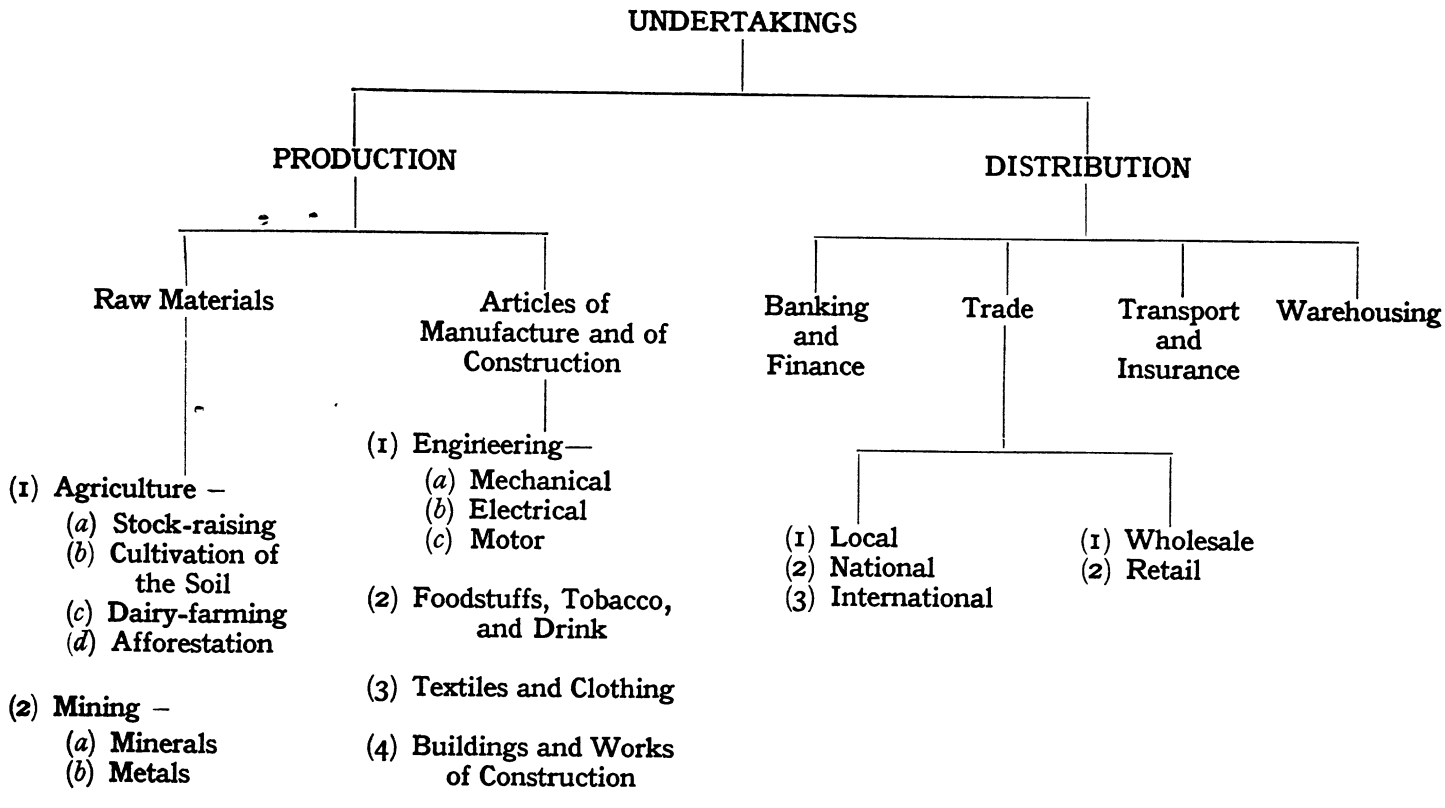
undertakings. For instance, it would be much more difficult to meet its demands for money and capital than in the case of undertakings which yield a profit. Even the co-operative societies aim at the realization of a clearly-defined profit, so that it may be truly said that the guiding notion of the undertaking is the *earning of profit.*

The private household enters the market in order to employ its capital and labour to the best advantage; the undertaking enters the market in order to procure capital and labour as cheaply as possible for the process of production, or for the acquirement of goods from other undertakings on the most advantageous terms. The undertaking, therefore, confronts the suppliers of capital and labour in the capacity of buyer. On the other hand, the undertaking enters the market in order to sell the finished goods which possibly may still have to pass through a long series of undertakings by way of purchase and sale before they finally arrive in the undertakings which offer the finished goods to the private households for ultimate consumption. Now, the private households buy from the undertakings which are the final sellers. It is the aim of the undertakings to obtain the best price possible for their goods in the market, whilst it is in the interest of the private households to buy goods for consumption as cheaply as possible. The undertaking is essentially a *market organization*—a commercial organization for buying and selling. The private household, however, sells first and then buys in order to satisfy its own wants. In the production and distribution of goods the undertaking has wedged itself between the private households and provides the latter both with the income and also with the goods they buy with this income.

On principle, the pure undertaking assumes neither a friendly nor a hostile attitude towards labour and capital, but both in buying and in selling it endeavours to derive the greatest possible advantages from both these factors. To a great extent the policy of the undertaking is dictated by its own self-interest. In this connection we must confine ourselves to a description of the main types of undertakings shown in the diagram on the following page.

Classification of Undertakings. We shall first divide the totality of undertakings into those which are devoted to production; a distinction will then be drawn between those which are engaged in the production of raw materials and those engaged in manufacture and construction. Further, undertakings engaged in the

MAIN TYPES OF UNDERTAKINGS



extraction of raw materials are divided into agricultural undertakings in the widest sense, and into those engaged in mining. In contrast with undertakings engaged in the production of goods are those devoted to their distribution; in this latter category, we include those engaged in trade, banking, transport, insurance, and other undertakings which are engaged in the service of trade. In dealing with the business undertaking some allusion should be made to cartels, which might be treated conveniently under the heading of voluntary organizations. However, since the development of cartels leads naturally to a greater uniformity amongst undertakings and constitutes the highest stage of integration of a number of undertakings into a single undertaking, it is perhaps more appropriate to deal with them from the standpoint of the business undertaking. With these introductory words we will now consider the economic function of the different types of undertakings.

CHAPTER VI

UNDERTAKINGS ENGAGED IN AGRICULTURE

PRODUCTION OF RAW MATERIALS. The production of raw materials is concerned either with the appropriation of the treasures offered by nature to man, or with those activities which exert an influence on the productive powers of nature. To the former class of extractive occupations belong sea-fishing, hunting, the extraction of mineral deposits and ores, and especially coal-mining. These treasures exist in their actual state in nature, but must first be extracted through the medium of special undertakings. To place these treasures at the disposal of man or to render them fit for use, an expenditure of labour-capital effort is always necessary. The other and much more important branch engaged in the production of raw materials consists in conferring such a form upon the natural fertility of the soil and upon the live-stock as to ensure the greatest possible economic yield. This involves the cultivation of the soil with such produce as is necessary for use and consumption, and so to maintain the live-stock that it increases under the most favourable conditions. Human activity must be particularly directed to the influencing of the factors which determine the degree of fecundity so that natural productivity will be furthered and strengthened. In this process, also, the expenditure of labour-capital effort will play a decisive rôle. An over-expenditure of labour-capital effort may endanger in a very high degree the effect of natural growth; hence the policy here must be so to arrange the proportion between the expenditure and the yield that the surplus of goods over the expenditure will not be too small. As a rule the expenditure can and will rise, but the increase can be regarded as economic only if it is accompanied by increased productive power which is expressed in a greater yield.

AGRICULTURE. In this category must be included all those undertakings which, by the cultivation of the soil, are engaged in

the production of vegetable products for use as foodstuffs or as raw materials for manufacture. The agricultural undertaking is bound to the soil, which is not only the means but also the source of production. In the more civilized countries the whole of the land is in the hands of some form of private ownership. The distribution of property, as it exists in England at the present time, is the product of a long course of development. According to the size of the estate, a distinction may be drawn between those undertakings whose yield is not sufficient for the maintenance of a family and which may be described as small *allotments*, and those whose area under cultivation forms the basis of existence for a family ranging from the most modest to the most ample requirements; these are the *holdings* of tenant farmers. Still larger estates are found in the possession of the large landowners, but these can scarcely be regarded as ordinary business undertakings.

Allotments. During the War great stimulus and assistance was given to the production of food by the creation of allotments, particularly in urban centres. The powers granted by D.O.R.A. were freely exercised so that borough and urban district councils were enabled to take possession of unoccupied land for the purpose of letting it as allotments. The growth of the allotment movement may be measured by the fact that in 1890 there were 448,586 allotments in England and Wales of under 1 acre, whereas in 1920 they were estimated at 1,330,000, with a total area of about 162,000 acres. The idea at the back of the movement is that personal ownership has an attraction which is lacking in tenancy, and it is based on analogy with Denmark and Holland, where the peasant proprietorship has had an unbroken history from early times. Unfortunately the spirit of independence which is associated with newly acquired ownership, is foreign to the spirit of co-operation, which is necessary for economical purchases, sales, and perhaps also, working; and the Acts which encourage small-holdings contain no provisions for setting up the machinery of co-operation. In suitable situations, pig and poultry farming, market gardening, and, on the larger holdings, dairy farming, can be made to pay; but for general farming very large farms, adequately staffed, are more profitable both to the owners or tenants and the nation.

Classification of Holdings. The agricultural holdings in England

and Wales are divided for purposes of classification into six groups, and in 1920 the number of holdings were as follows—

(1)	1 – 5 acres	80,737
(2)	5 – 20 ,, ...	114,517
(3)	20 – 50 ,, ...	79,542
(4)	50 – 100 ,, ...	60,697
(5)	100 – 300 ,, ...	69,006
(6)	Above 300 ,, ...	13,492

It is not essential that the area cultivated should be the actual property of the person carrying on the undertaking, but it may only be leased or rented by him. The property of the large landowners may be widely distributed, and may consist of estates spread over many different districts or counties. The percentage of allotments and small holdings differs greatly in various parts of the country.

THE AGRICULTURAL UNDERTAKING. The reason why man carries on the cultivation of the soil is found in its productive capacity, which accounts for the increase of an ear of corn. In an area of a prescribed extent and character a certain quantity of corn sown yields a quantity of grain sufficient to afford to the cultivator not only the quantity necessary for his own consumption but also, under ordinary circumstances, a surplus which may meet the needs of other economies. Upon this fact—that is, the productive power of nature—depends the possibility of the increase of the human species. On this fact also depends the increasing extensity and intensity of human wants which result from the division of labour in industry. We can therefore easily understand the high and universal esteem in which agriculture is held and the importance attached to the agricultural undertaking. It is the function of the latter to prepare the area to be cultivated so that, after the seed is sown, the productive forces of the soil can develop in the most favourable manner possible. The growth of the seed itself depends on factors over which the manager of the economy has no control—e.g. the conditions of the weather—which are of decisive importance in the growth of agricultural or horticultural products. Naturally, the grower can do his best to create the most suitable preliminary conditions. During the period of germination he can do everything calculated to further the growing process and avoid anything which might be detrimental to it, but he cannot exercise any direct influence upon the actual growth itself for this

depends in the long period upon the climate, and in the short period upon the conditions of the weather. This latter circumstance constitutes the primary factor in the working conditions of agriculture. The weather decides the extent and nature of the crop.

The expenditure on equipment and on labour-power is in general the same whether the crop turns out to be good or bad. Thus, there is a great risk involved in the agricultural undertaking, a risk which is too frequently under-estimated. Agriculture, however, is also a seasonal industry, the amount of employment being considerably greater during the sowing and reaping periods of the year. The conditions of growth of plant life necessitate the extraction from the soil of substances necessary for the formation of the plant, so that the soil becomes impoverished. The time gradually approaches when the plants can no longer find the substances necessary for their growth and then they begin to degenerate. Hence the chemical constituents extracted from the soil must be replaced in the shape of fertilizers according to the particular substances which the plants require for the building up of their organisms. Virgin soils may be cultivated for a long time without becoming impoverished. After a certain time, however, even the richest soils become impoverished and require renewal in the form of natural or artificial manures. Tools and machinery adapted to particular purposes have to be employed in the cultivation of the soil. Machinery does not play so significant a part in agriculture as it does in manufacture, although it cannot be denied that here, also, machinery can and does save human labour. The employment of machinery, however, tends to vary with the size of the area under cultivation, and is much more economical in large than in small-scale undertakings.

CATTLE-RAISING. The transition from the capture of cattle to the raising of cattle can still be traced easily in sparsely settled countries such as the Argentine. Here cattle are left to themselves, being caught only in case of need; in the meantime they require neither feeding nor attention. The preliminary condition for the raising of stock is the tending and caring of the animals which increases the cost very materially. A portion of the land must be reserved for the growth of fodder, and labour and capital must be expended in order to render the cattle fit for human consumption. For the proper raising of the animals their fecundity must be

directed and increased by careful breeding, and also by rendering the animals fit for the different purposes in view. 'Cattle-raising is usually associated with agriculture in the wider sense, being included in this term. Cattle are required in agriculture both as working animals and also for their manure, although the employment of artificial fertilizers is gradually displacing the demand for the latter.

In the undertaking engaged in the raising of cattle, the points to be considered are, first, the provision of fodder; and secondly, the procuring of the greatest productivity of the cattle used for breeding purposes. The latter, likewise, is effected according to the principle of the largest return with the smallest possible expenditure of labour-capital effort. The same may be said of the tending and care of the cattle. In cattle-raising itself the employment of labour-power plays a determining rôle; here it can be displaced by machinery only to a very limited extent, so that the large-scale undertaking does not possess the power to eliminate the smaller concerns to the same extent as in manufactures or in agriculture proper. The fecundity of the cattle is determined chiefly by the quantity of suitable fodder which is available, whereas the fertility of the plant is determined by the area allotted to it by man for its cultivation. Its physiological capacity to multiply must in no way be confused with the productivity which is influenced by man. Physiological capacity develops vertically whilst actual productivity develops horizontally. This signifies that whether a female animal bears the maximum of progeny in the course of a year depends largely on factors beyond the control of human art and knowledge; on the other hand, the yield of an undertaking engaged in cattle-raising so far depends on man that it is within his power to determine how many female animals ought to become productive; he can prevent or permit, increase or diminish propagation. For many reasons the financial return to cattle-raising is very difficult to ascertain, for the conduct of agriculture and cattle-raising in the same undertaking is so inter-dependent that the value of the goods and services provided by agriculture for cattle-raising can scarcely be expressed in money, and frequently not at all; for example, in the case of natural manure and the provision of fodder. It is therefore necessary to judge the success of mixed undertakings—such as are the rule—in their entirety. Moreover, the risks of agriculture

are by no means minimized by the addition of cattle-raising but for various reasons they tend to become accentuated.

AFFORESTATION. This is closely connected with agriculture, although various essential differences may be indicated. The forest areas of a country must be cultivated on a large scale, and for that reason in some countries the State has taken over their cultivation and retains them as a monopoly. The primary use of the forest is to supply the household with fuel. In afforestation the productive power of nature plays an even greater rôle than in agriculture or in stock-raising. On the other hand, the expenditure of capital and labour is of minor importance in comparison with the area under cultivation. In forestry a marked difference can be discerned between those countries in which a policy of ruthless exploitation is adopted and those in which an orderly system of afforestation for the production of timber is regarded as essential. In the former type of country the cost of timber is almost negligible for only the expense of collection and of transport is involved, whereas in the other countries the production of timber entails a considerable expenditure of labour and capital—an expenditure which, in view of the market price of timber, makes it difficult to carry on afforestation with financial success in countries which are relatively poor in forests. Private concerns are scarcely in a position to cultivate their forest areas in the interests of the future yield of these areas. Hence, it is better that this form of enterprise be carried on by the State rather than by private undertakings.

THE VALUE OF THE LAND. In an area where the land has passed over into private ownership its valuation will take an entirely different course from that of areas in which it is still free or partly free. Where the land is sub-divided, any increase in the population will raise the value to a greater degree than in other areas. The land of a particular area acquires a certain capacity for production which enables it to yield the raw materials necessary for a certain number of people. Should there be a natural increase in the numbers of the population, only two alternatives are possible: Either by better preliminary considerations it will be possible to succeed in increasing the productivity of nature by economizing in the use of labour so that the raw materials necessary for the increased numbers may be obtained, or else this increase in productivity

is not possible, and the share per head in the quantity of raw materials obtainable must fall. (Where the land is worked under a system of private ownership both these factors co-operate and tend to increase permanently the value of the land.) The expenses of production have the tendency to increase when obtaining an increased yield, and owing to the fact that there is an increase in the scarcity of land, a higher price is offered by the persons demanding it. In the case of sale, more profitable undertakings especially will tend to drive up the value of their land to a figure which far surpasses the average price of land. Moreover, the agricultural undertaking is founded on the system of money economy: an extra yield is quickly capitalized, and the surplus may be regarded as interest or rent of land so that the capital value of the estate increases according to the size of the additional increment and the prevailing rate of interest.

THE POLICY OF THE AGRICULTURAL UNDERTAKING. The aim of the agricultural undertaking is to render the cultivation of the soil as profitable as possible. The soil presents great differences in productive power. These differences are not merely local and national but international, and it is just the *international differences* which play such an important part in the determination of the yield of the undertakings. To a certain extent the difference in the productivity of nature can be neutralized where the cultivation of the land is approximately of the same age. However, where countries with virgin soils compete in the world's market, their superiority, due to their more favourable powers of production, will assert itself with such vigour against the agricultural undertakings in the old countries, that the world-market price becomes very injurious to the older undertakings. The success of agricultural undertakings is largely dependent on the level of the world-market prices prevailing at the time. Thus, at a glance we can see that the productive forces of nature will be a decisive factor in the success of the agricultural undertaking; that the agricultural improvements in land do not extend themselves gradually throughout the world, but that new and extensive areas are ever being opened up, which show a superiority against which the undertakings of old countries are less able to compete. Again, the new undertakings, in addition to their natural advantages, also come into immediate possession of the most modern technique and require capital and labour in

a smaller degree than the old undertakings. In this way, a competitive struggle is introduced among agricultural undertakings which is conducted with entirely unequal weapons. On the one hand, we have undertakings which can exploit the productive forces of nature with a small expenditure, and, on the other hand, we have undertakings which, although able to increase productivity in an astounding manner by means of capital and labour, yet have to incur a considerable higher expenditure for each unit of raw material produced than in undertakings conducted on virgin soil.

Such competition cannot be met by the free play of economic forces. If this competition is not counteracted, the agricultural undertakings of the old countries when dragged into this competitive struggle must be suffocated and strangled by the undertakings of new countries. If the undertakings of the old countries are to survive, the world-market price must not be allowed to dominate in its full strength in the market areas which are being catered for by undertakings with higher costs of production. The majority of agricultural undertakings in the old countries, therefore, in their economic policy aim at the enlistment of protection from the State. The agricultural undertakings of the so-called importing countries therefore tend to support a policy of protection whereas, *vice versa*, the agricultural undertakings of the exporting countries advocate the reverse policy. The attitude of agricultural undertakings therefore depends entirely on the manner in which they are affected by the tariff policy. Self-interest and not theoretical considerations here have to decide. Thus, we see how the character of the productive forces of nature creates differences which in their effect are fatal to the older groups of undertakings where free competition, carried on with unequal weapons, is allowed to prevail.

LARGE-SCALE *v.* SMALL-SCALE UNDERTAKINGS. In contrast with this international competition, the differences in agricultural undertakings within a national economic area are far less significant, although they may still be considerable. Undoubtedly, the success of the agricultural undertaking is in a large measure dependent on its size. The small- and the large-scale undertakings enter into competition with each other. The large undertaking, owing to its having been favoured by the legislature in former

stages of development, possesses a whole series of advantages which guarantee its superiority. Moreover, the large agricultural undertaking is frequently by no means a homogeneous concern, but a combination of several businesses, in contrast with the large undertaking in mining or in manufacture. The large undertaking also has the advantage both in the labour market and in the money market, but this position is also connected with certain drawbacks.

Likewise in the sale of the products, the large undertaking may dispose of its products more advantageously than the small undertaking. On the other hand, the technical process is more or less similar in undertakings of different sizes. The employment of motor-power and other mechanism does not secure for the large-scale undertaking the same superiority as is the case in manufactures and in mining. This similarity in the conduct of agricultural undertakings does not admit of such a sharp contrast between large and small undertakings as is the case between manufactures and handicrafts. The difference in the expenses of production of the various undertakings is not sufficient to enable the large undertakings to drive the small ones out of the market. No doubt the large undertaking has a more favourable opportunity of converting its products into money, but it does not dominate the market, nor does it under-sell the small undertaking to the same extent as in manufacture, when large and small undertakings produce the same class of goods. The community of interest is therefore greater in agricultural than in manufacturing undertakings, and every agricultural undertaking has a strong interest in high prices. The large-scale undertaking does not systematically under-sell the small undertaking with the object of gaining the market for itself. The great mass of small undertakings are more likely to survive alongside the large ones, although it must not be denied that there are certain contrasts between them, and that the large undertakings seem to thrive best when the small ones are also prosperous. The large undertaking is based upon a capitalistic economy, but owing to the fact that the capital belongs to an agricultural undertaking which has to be so managed that a revenue will result, as much interest is taken in the large as in the small undertaking. Even in the small undertaking, where the profitable employment of labour is more important than the yield of interest on capital, a

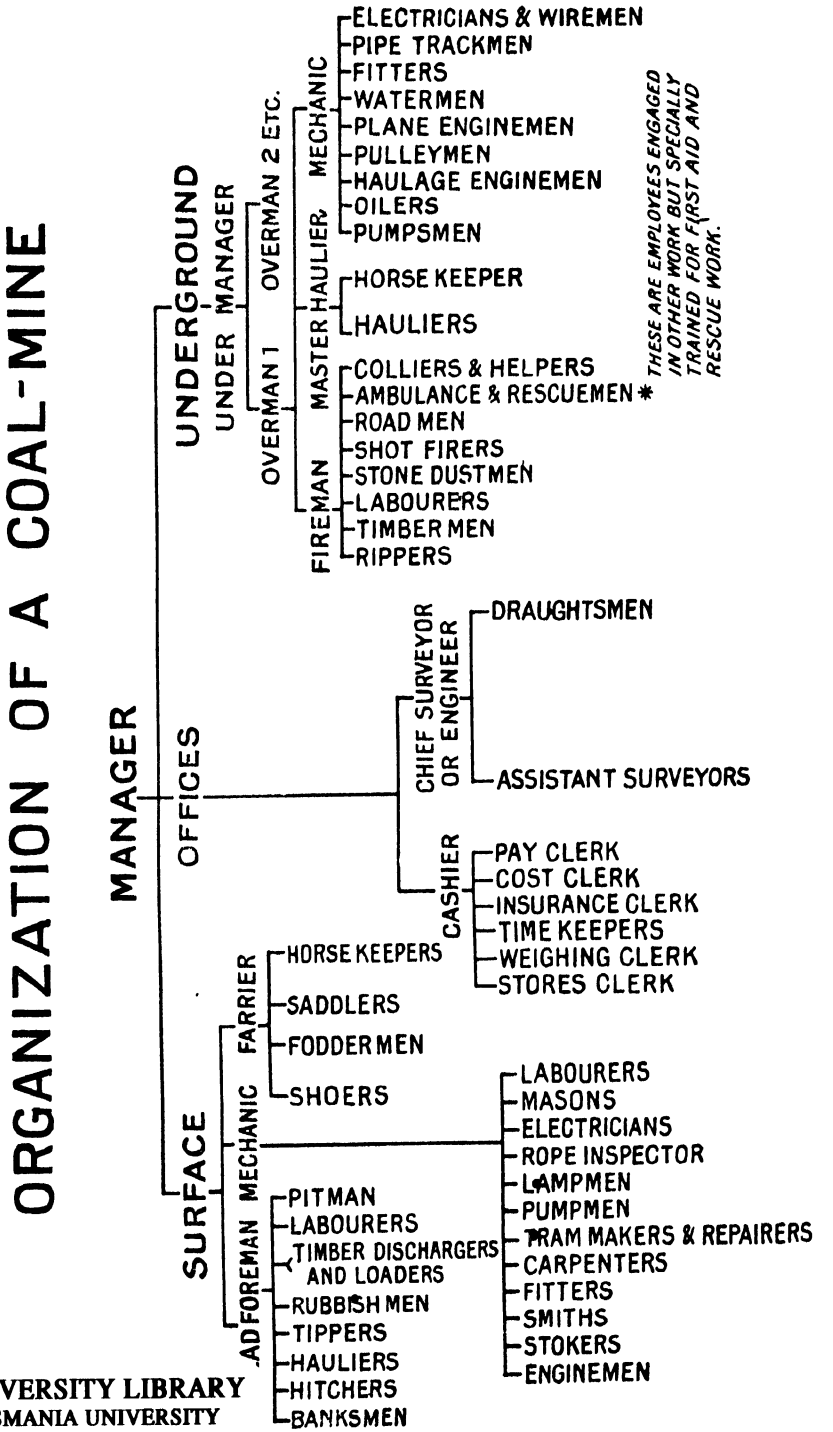
strong interest is taken in the level of prices of the produce which it takes to market, and from the proceeds of which—after deduction of all expenses—a surplus results which constitutes the remuneration for management and return to capital invested. This far-reaching community of interests secures a greater amount of uniformity in the conduct of the industry.

CHAPTER VII

UNDERTAKINGS ENGAGED IN MINING

THE NATURE OF MINING OPERATIONS. Among the raw materials required for the use of man must be included the large number of mineral substances, and especially the metallic ores and the different forms of fuel. Most of these materials are extracted from the earth's crust by the application of labour and capital through mining undertakings. The first step in this process is the location of the deposits, and then the making of a way by which they may be rendered accessible. This preliminary work is essential before the actual work of extraction can be undertaken. On the whole, this economic activity consists in so altering the position of these deposits as to render them capable of satisfying human wants. Mining undertakings therefore devote themselves to the location and extraction of those minerals for which there is a demand. The location of the deposits is effected either by digging or by boring, whilst extraction requires the use of tools and machinery. Hence it is not a matter of creating new material but simply of appropriating for human consumption substances which already exist in the bowels of the earth. Naturally the process of extraction must entail an expenditure of labour and capital smaller than the economic value of the mineral obtained. The commodity extracted does not usually contain the desired mineral in a pure state, but it is found in combination with minerals which have little or no economic value. Mining operations involve a greater and greater expense with an increase in the depth of the shaft through which the minerals are extracted. The process of extraction is therefore much cheaper where the materials are so near to the surface that they can be quarried.

THE POLICY OF THE MINING UNDERTAKINGS. Next to agriculture, the undertakings engaged in mining are the most important for the extraction of raw material. Their aim is the extraction of natural deposits from the earth's surface, especially those of coal and iron ore. In coal mining the extraction itself



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is effected by the employment of a large amount of motor-power and mechanical transport appliances. The installation of machinery finds its most profitable employment in the large-scale undertakings. For this reason, the large-scale undertaking is predominant in mining. Internationally, there is a considerable diversity in working costs, but this is by no means so serious in mining as in agriculture, for the sources of coal production are considerably more restricted than those of agricultural produce. Owing to the fact that the number of mining undertakings is relatively small, and that large-scale undertakings preponderate, competition here assumes a form different from that in agriculture or in manufactures. In the case of agriculture the undertakings compete more or less alongside each other; in most manufacturing undertakings the policy is to undercut prices on the market, whilst in the mining undertakings, which usually have a monopoly of the mineral deposits in a certain market area, there is usually a far-reaching co-operation which is soon manifested in the establishment of cartels. This, of course, does not apply to all branches of mining. In this way competition is not entirely eliminated, but it asserts itself in different forms.

Coal and ore are intimately connected in the process of the production of iron and of other metals. Hence it is natural that, alongside the purely mining undertakings, there should arise others which not only mine for coal and ore but also smelt this ore. It is more economical for the individual undertaking to use the ore and coal as near as possible to the source of extraction. For reasons of economy in the working process a mixed concern is often developed, which extracts the raw materials, smelts the ore, and also partly manufactures the products thus gained. In contrast with pure undertakings, this mixed form reveals far-reaching technical and commercial advantages which often induce pure undertakings to amalgamate with others for the purpose of forming such mixed undertakings, and this tendency to amalgamate is a typical phenomenon in the economic policy of mining undertakings. In this way undertakings come into existence of a size which is found neither in agriculture nor in manufactures. On account of their size and monopolistic position they command an advantage over their customers which is plainly manifested in the determination of prices. Likewise they are in a very strong position in dealing

with their employees, and they also enjoy great independence in the money market; indeed, they are powerful in every direction. The largest of these undertakings assume the form of companies which are no longer managed by their owners or *entrepreneurs* but by *salaried officials.*

THE ORGANIZATION OF A COAL MINE. The management and organization of a coal mine are usually placed under the control of a manager, who must naturally be a man of wide and varied knowledge and experience. To obtain the largest yield of available coal in the best selling condition, at the lowest cost, and with the greatest amount of safety and comfort to the workers, he must be a well-trained mining engineer with a good knowledge of the commercial side of his business, and a tactful leader of men. For the successful working of the mine he is responsible, not only to the lessees of the minerals but also to the State.

From the diagram on page 55 it will be seen that for the purpose of organization the operations of the coal mine are divided into three main sections, viz.—

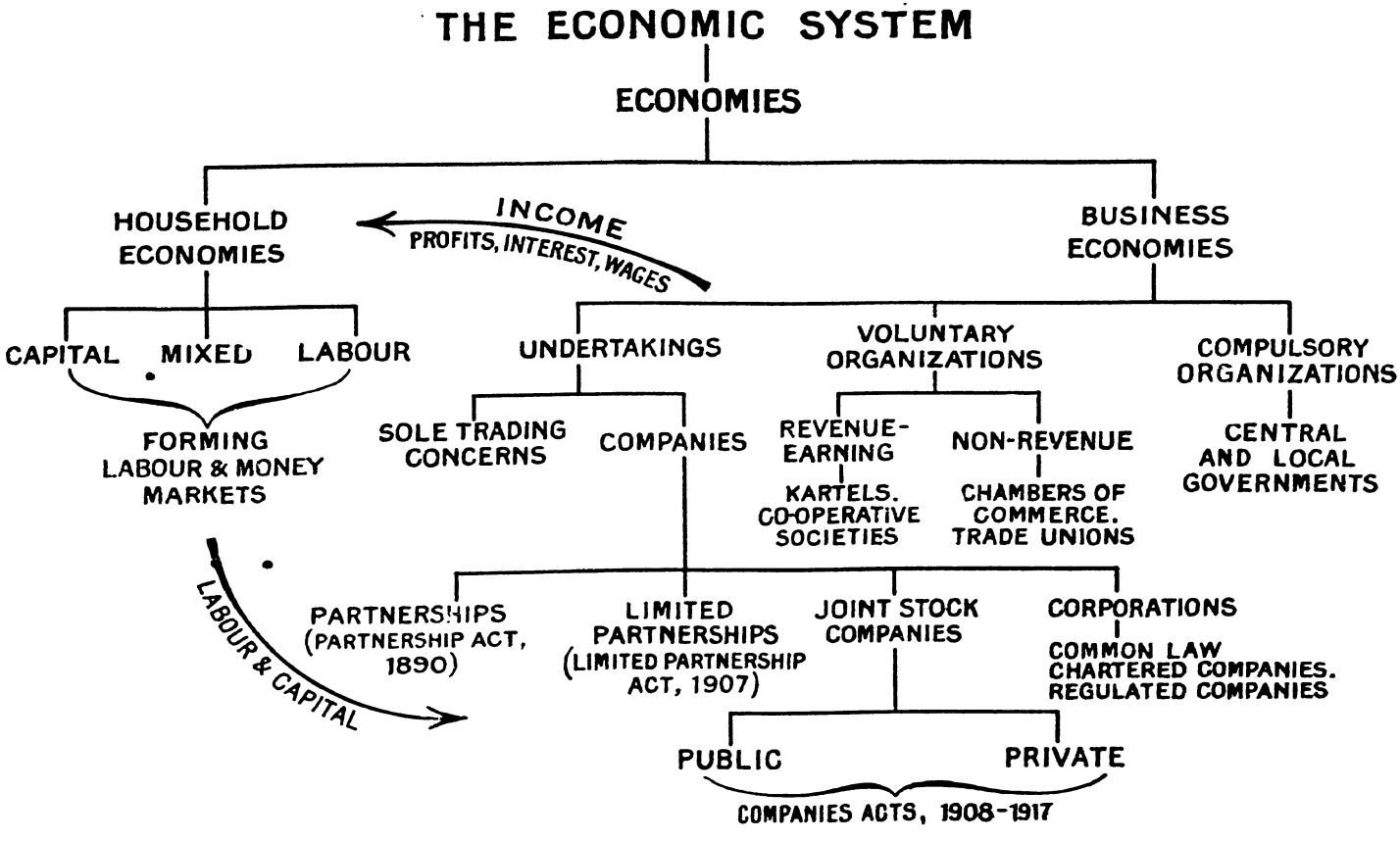
1. The surface operations;
2. The administrative work which is conducted in the colliery offices;
3. The underground operations.

Duties are delegated by the manager to subordinate officials in each section resulting in a very extensive system of division of labour. The diagram shows that the most important officials directly responsible to the manager of the colliery are the pithead foreman, surface mechanic, and the farrier, who are responsible for the operations on the surface; the cashier and chief surveyor for the administrative work; and the under-manager for the operations underground. In like manner these officials delegate duties to other subordinates; for example, the overman has responsible charge underground for a particular district and is directly subject to the under-manager; again, the underground mechanic is responsible to the overman for the engines, boilers, and machinery; finally, the mechanic in turn delegates tasks to electricians and wiremen, pipe trackmen, fitters, watermen, plane enginemen, pulleymen, haulage enginemen, oilers, and pumpsmen.

CHAPTER VIII

UNDERTAKINGS ENGAGED IN MANUFACTURE

THE NATURE OF THE MANUFACTURING PROCESS. We have seen that the primary essential for the success of agriculture and afforestation is *natural productivity*, whilst in the remaining branches of extraction *facility of access* to the natural deposits and their *quality* exert the chief control. In manufactures, however, a totally different point of view prevails. Here it is the *saving in labour and capital* which influences the return. Labour can be substituted by available natural forces such as water-power, wind, the heat of the sun, animal-power or by power artificially generated, such as the heat obtained from coal, which has hitherto found its best expression in steam-power. The employment of these forces enables man to achieve results which otherwise would be absolutely impossible. These forces lead not only to the substitution of human labour-power, but they also increase it and make it potential. Thus, a substitute is utilized which, in transport, for instance, may represent an immense number of units of labour-power. These forces, however, are not at our disposal free of cost, but to place them at the service of man, they also involve an expenditure of labour and capital. The production of these forces is inseparably connected with expense, yet an increase of the forces at our disposal rebounds to the benefit of mankind. For instance, take the working process in a flour mill. A certain number of persons by employing their own labour-power convert into flour a certain quantity of grain within a given time. The use of a wind-mill enables them to economize in labour-power, for the work is now carried on by the force of the wind. Moreover, under certain circumstances, this new force may grind up a larger quantity of grain in a certain unit of time. What then has happened? The efforts of various persons have been substituted by the wind and labour-power has been saved. On the other hand, it must be remembered that the windmill must first be constructed, and must also be kept in repair, and this to a certain extent reduces the amount of saving in labour-power. At any rate, the effect of this employment of natural


THE ECONOMIC SYSTEM
ECONOMIES
HOUSEHOLD ECONOMIES
INCOME
PROFITS, INTEREST, WAGES
BUSINESS ECONOMIES
CAPITAL
MIXED
LABOUR
FORMING LABOUR & MONEY MARKETS
UNDERTAKINGS
SOLE TRADING CONCERNS
COMPANIES
VOLUNTARY ORGANIZATIONS
REVENUE-EARNING
KARTELS. CO-OPERATIVE SOCIETIES
NON-REVENUE
CHAMBERS OF COMMERCE. TRADE UNIONS
COMPULSORY ORGANIZATIONS
CENTRAL AND LOCAL GOVERNMENTS
LABOUR & CAPITAL
PARTNERSHIPS (PARTNERSHIP ACT, 1890)
LIMITED PARTNERSHIPS (LIMITED PARTNERSHIP ACT, 1907)
JOINT STOCK COMPANIES
CORPORATIONS
COMMON LAW CHARTERED COMPANIES. REGULATED COMPANIES
PUBLIC
PRIVATE
COMPANIES ACTS, 1908-1917

force is so great that a large amount of labour-power is saved; in other words, an additional amount of power which man himself could not supply now finds economic employment. This, however, by no means leads to a direct increase of productive power, and only under certain circumstances is it possible for this increase of power to augment natural productivity.

The Importance of Raw Materials. In the manufacture of raw materials into finished goods, labour-power can be saved to a great extent, or in combination with natural forces the manufacturing process can be accelerated and increased in a measure which would not be possible if we had to rely solely upon the employment of labour-power. The harnessing of these forces makes possible the use of machinery, and thus the efficiency of the individual, working with or without tools, is multiplied. Here also the advantage consists in the fact that labour-power is saved, or that with the use of machinery, a greater quantity of raw material can be manufactured than would be the case if machinery were not employed. Thus, the process of manufacture becomes more efficient with the employment of natural power and machinery. Raw materials can be manufactured into finer and more varied qualities and the work can be more easily sub-divided so that specialized commodities can be produced, but the quantity of the raw materials themselves, which in the last resort are based upon *natural productivity*, are not increased. We can apply to the raw materials increasing doses of labour and of capital; we can transform them quantitatively and qualitatively as we think fit; we can use the raw materials more economically; we can substitute them, and can even utilize the waste products. All these means are at hand for the utilization of the entire quantity of raw materials as favourably and advantageously as possible, yet we cannot increase the total quantity of raw materials in manufacture by a single ounce. *The process of manufacture is inseparably connected with the raw materials* which are made available by the various extractive occupations. For this reason, manufacture is not productive in the same sense as agriculture, stock-raising, or afforestation. It should not be overlooked that science, especially chemistry, may be destined to substitute, to a certain extent, the natural process of growth on which the existence of mankind has hitherto been based. In other words, in the future we may be able to produce certain substances

by chemical processes. Rumours are frequently heard that this or that chemist has synthetically produced certain things, e.g. indigo. Here chemistry produces a raw material which was formerly grown. These, however, are dreams of the future. Economics has to deal with the present state of things such as we shall attempt to describe. The extraction of raw materials is a systematic utilization of the gifts of nature and of the periodical productivity of plants and animals, whilst manufacture is the transformation of the raw materials into articles of greater value by the application of labour and capital combined with the assistance of natural forces.

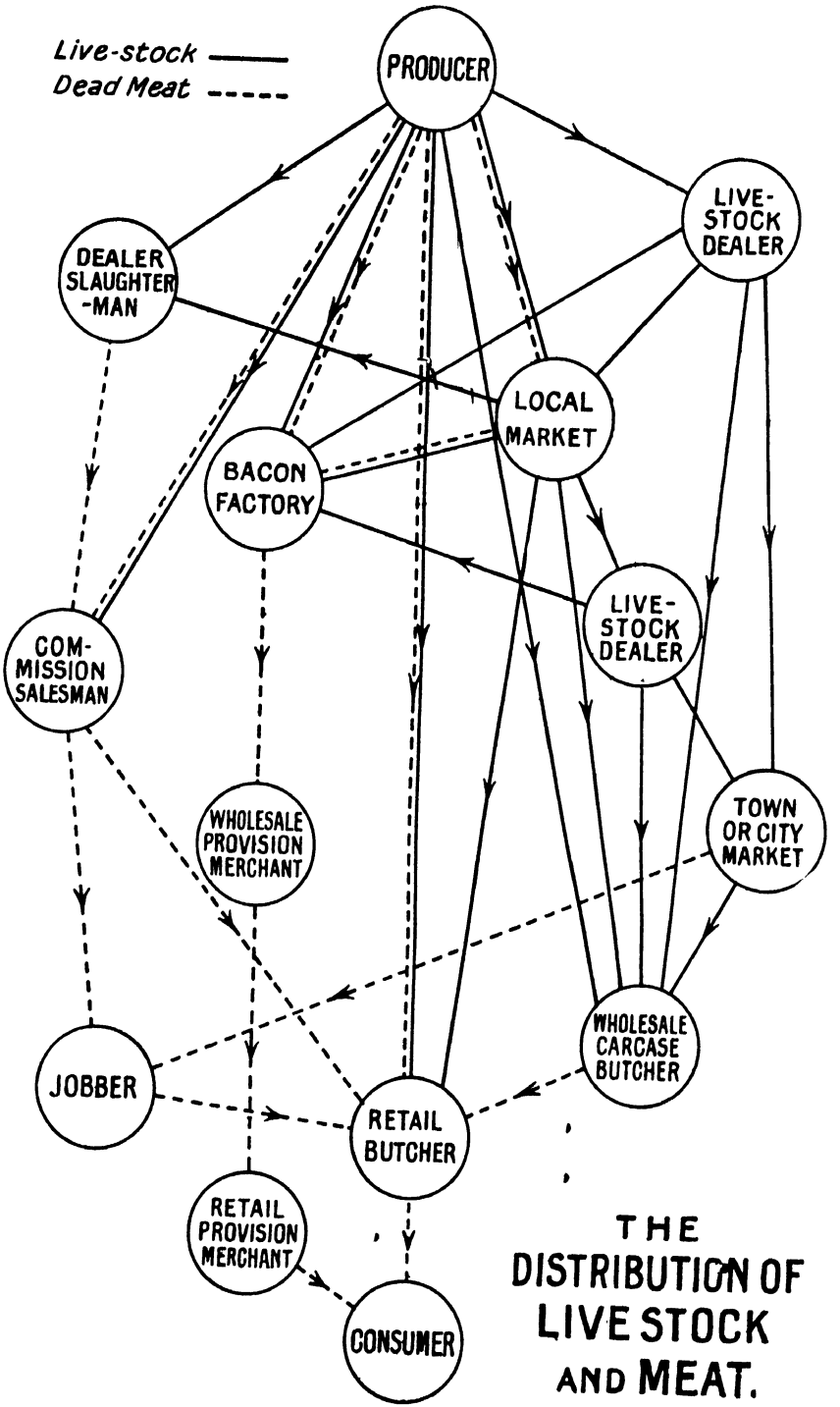
IRON AND STEEL INDUSTRY. In the majority of undertakings engaged in production, and also in distribution, human activity is strengthened and increased by the application of natural forces, tools, and machinery. In order to utilize these they must first be erected or made fit for use, or they must themselves be produced. Hence, there is brought into existence an accumulation of fittings, tools, and machinery which may be grouped under the heading of productive and distributive equipment. The procuring of the apparatus of production is undertaken chiefly by the iron and steel industry, which includes not merely the extraction of iron and other metals from the ore, but also the further manufacture of iron into steel, and the assembling of manufactured parts into machinery. In this connection it should be noted that iron and steel may also be employed for purposes other than the making of machinery. Without this branch of production, however, the mighty engineering industry would be impossible. The expenditure of labour and capital necessitated by this industry is frequently under-estimated.

FOODSTUFFS, TOBACCO, AND DRINK. The main function of this branch of industry is the manufacture of the products of agriculture up to the point at which they are fit for direct consumption. In all these products, however, manufacture is not necessary, and also in the case of potatoes, fruit, poultry, eggs, milk, etc. These products pass directly from the producer in their original state to the private households. Other products such as butter, cheese, etc., are brought to a finished state by the various branches of agriculture. A whole number of important products, however, have first to pass through a more or less complicated process of manufacture.

Meat, etc. The working process involved in the case of cattle for meat is relatively small. The cattle find their way, through the different stages of trade, to the butcher who kills and cuts up the animals in the slaughter houses and then sells the meat to the private households. The final preparation of the meat takes place in the private household itself. Here also in large localities division of labour makes rapid progress, and in the large cities many of the butchers no longer kill their own beasts but simply devote themselves to the sale of the meat to the public. This class of butcher should, strictly speaking, be excluded from manufacture, and in many cases be included simply in the distributive class. The slaughtering of the animals is usually carried out by the wholesale butchers. The diagram on page 63 illustrates both the methods of marketing live-stock in this country and the main channels of distribution of home-killed meat. It will be noticed that some butchers buy live-stock on their own account from local farmers or at markets and undertake their own slaughtering, while the larger retail distributors obtain home-killed meat direct from either commission salesmen or " carcase butchers." The smaller retailers, however, frequently buy from a wholesale distributor or " jobber " who stands between them and the commission or carcase salesman.

Corn. Corn has to undergo a much more extensive process of manufacture than meat. It is converted into flour in the mills. Here the machine process has become so complicated and extensive that the small mills have been altogether eliminated, and the large mill acts as an intermediary between the farmer and the baker. The bakery, the same as the butchery trade, is a local one, and therefore the turnover is determined by the size of the local market. It is only in big cities that undertakings on a large scale can take root.

Other important branches of the food and drink industry are brewing, sugar-refining, and the manufacture of tobacco. In brewing, as in sugar-refining, machinery has been largely introduced, whereas, on the other hand, in the tobacco industry the work is carried on almost exclusively by human labour. The tobacco manufacturers of Great Britain have to procure the greater portion of their raw materials from foreign countries. The employment of machinery in breweries and sugar-refineries has rendered production on a large scale essential, although the same remark does not apply to the tobacco trade where small undertakings can exist


Live-stock
Dead Meat
PRODUCER
LIVE-STOCK DEALER
DEALER SLAUGHTER-MAN
LOCAL MARKET
BACON FACTORY
LIVE-STOCK DEALER
COM-MISSION SALESMAN
WHOLESALE PROVISION MERCHANT
TOWN OR CITY MARKET
WHOLESALE CARCASE BUTCHER
JOBBER
RETAIL BUTCHER
RETAIL PROVISION MERCHANT
CONSUMER
THE DISTRIBUTION OF LIVE STOCK AND MEAT.

alongside the larger concerns. An exception to this, however, is the manufacture of cigarettes, in which the machine process is so determinating that the large undertakings command the field. At any rate, it may be said in regard to the manufacture of foodstuffs that in spite of the large undertakings which predominate in certain branches, the small undertaking best meets the economic conditions which result from the establishment of a local market area, and here their elimination is not yet in sight. The nearer the production of goods approaches the ultimate consumer, the more differentiated become the needs of the market and the less dominant becomes the influence of machinery. Hence the small undertakings still find a wide sphere of activity.

THE TEXTILE AND CLOTHING INDUSTRY. In the manufacture of clothing, the textile industry enters chiefly into consideration. The various branches of the textile industry—spinning. weaving, dyeing, bleaching, etc.—provide the finished and partly-finished materials for the clothing industry, although the textile industry also produces goods for other purposes.

The Textile Industry. However, the preparation of fabrics for the clothing industry is the principal thing. The textile industry is divided into branches according to the nature of the raw material, which is the object of manufacture. The raw materials, in the order of their importance, are cotton, wool, flax, hemp, and jute, although jute is not used in the manufacture of clothing. The manufacture of yarn and of fabrics is carried on in large-scale undertakings well equipped with machinery. The size of the undertaking, however, is larger in spinning than in weaving, owing to the fact that in weaving there is a greater differentiation in the finished articles. Sometimes spinning and weaving are both carried on in the same undertaking. The large-scale undertaking in the textile industry, however, is by no means so highly developed as it is in the mining industry.

Labour and Raw Materials. The working process which is so much simplified by the use of machinery admits of the employment of cheap labour, and this explains the extensive use of *female labour*. At a time when the production of yarn and fabrics was still carried on in the home, the work was conducted by women. The undertakings engaged in the British textile industry have to derive from abroad the greater part of their raw materials—especially

cotton, silk, jute, wool, flax, and hemp. The undertakings of the textile industry produce not only for the local market but also for the national and international markets. As a rule, the finished goods from the undertakings in the textile industry do not pass direct to the clothing industry for further manufacture, but they make a *detour* through the channels of trade. This is to be explained by the fact that the clothing industry, to a large extent, is still confined to the local market, although the sale of ready-made clothes has a tendency to widen the market. The fact that undertakings in the clothing industry are spread over all the localities of an economic area, accounts for the inclusion of the intermediary trader between the textile and the clothing trades. The number of finished and partly-finished articles which the clothing industry receives from the textile industry shows a very great diversity according to the greater or smaller demands of the various undertakings in the clothing trade.

The Clothing Industry. In this trade two kinds of undertakings may be clearly discerned—those engaged in the manufacture of ready-made goods for the wide market, and those engaged in making clothes to order. The former are usually large undertakings, whilst amongst the latter, small undertakings predominate. The working process in the clothing trade is to a large extent hand-work, although a number of machines, especially the sewing machine, find widespread employment. The clothing trade is also *constructive*, since it is engaged in assembling the various parts of a garment. As in the textile trade, female labour is very extensively employed in the clothing trade. The large-scale undertaking assumes a commercial character, and is by no means determined by the nature of the technical processes. Manufacture, in the case of these large undertakings, frequently does not take place in a particular factory, but in the private residences of small intermediary masters, or even in the poor dwellings of the workers themselves. Here we have a broad stratum of domestic industry in the towns which often presents extremely unfavourable conditions in regard to labour.

BUILDING AND WORKS OF CONSTRUCTION. The construction of the dwellings for the private households, of the buildings for the various undertakings, and also of all other buildings for whatever purpose, is carried out by the undertakings engaged in the building

industry. To this industry belong a whole series of auxiliary trades both for the supply of building materials and also for the internal equipment of the various buildings. The building industry, in the narrow sense, is a constructive industry, the same as engineering. An outstanding characteristic of this branch of production consists of the fact that machinery finds scarcely any employment, and human labour-power, therefore, has to carry out the greater part of the work. The transportation of the building materials is the only work which is increasingly effected by machinery. Moreover, the undertakings engaged in building are to a large extent restricted in their activity to a particular locality. The market is local, being determined by the size of the locality, from which it follows that in nearly every locality some kind of building undertaking is found to exist. Owing to this circumstance, the development of the large-scale undertaking is confined to the large towns, although even here the small-scale undertaking largely predominates. In small localities the undertaking to a large extent builds to order, so that the risk of the master-builder is so limited that he can hardly be called an *entrepreneur*. In large towns the erection of dwellings for the market is the order of the day, and this introduces a strong speculative element into the whole building trade. In most cases, the *entrepreneur* builds with borrowed capital and it is not necessary that he himself should be a capitalist. The preliminary condition for the erection of a building is the existence of a *building site* on which the edifice may be constructed. This building land, according to the state of the market, realizes a high or low price, and this price to a large extent determines the cost of the whole building. However, just because of this value, acquisition is facilitated since a *mortgage* may be raised upon the building, and only the surplus expenditure over and above this mortgage has to be paid in ready cash. There are various ways of procuring this sum, although they are often open to objection. Moreover, all the materials necessary for the building must be procured by the *entrepreneur*, so that the workmen can erect the building. In a modern building a large number of different trades work either simultaneously or consecutively. The site value, the cost of the materials and of the labour constitute the cost of production. To this has to be added the interest on the capital, which has to be advanced in carrying on the business. The building trade

is essentially different from agriculture and manufactures. It has no fixed working locality, but changes from building to building. The number of hands necessary is not determined, as in the factory, by the increase in the amount of machinery used; nor as in agriculture, by the extent of the area under cultivation; but it fluctuates according to the rather complicated conditions in the building market, which are more strongly influenced by capital than in other branches of production. Finally, the building trade is mainly carried on in the open, hence it is largely dependent on the weather. During the winter building operations are largely suspended, so that it is regarded as a seasonal trade.

OTHER BRANCHES OF PRODUCTION. No attempt will here be made to give a complete enumeration of the remaining branches of production. The principal of these, according to the Census of Occupations, 1911, are the manufactures of Wood, Furniture, Fittings, and Decorations; Brick, Cement, Pottery, and Glass; Chemicals, Oil, Grease, Soap, Resin, etc,; Skins, Leather, Hair, and Feathers; Paper, Prints, Books, and Stationery, and the trade in Fancy Goods. Some of these trades may have been included already in the principal trades, but not to a degree which exhausts the classification. The Leather industry works up hides and skins as the raw materials of leather which is employed for many purposes. Since this industry supplies leather for the manufacture of gloves, the leather trade might have been included to some extent in the Textile and Clothing industry, and in so far as it supplies belting for machinery, it might be included in the Engineering industry. Where leather or finished articles for the furnishing of rooms are concerned, it might be included under the heading of "Building and Works of Construction," or under that of "Wood, Furniture, Fittings, and Decorations." This method of classification, however, is very difficult to carry out, and it would have the effect of splitting up unnecessarily the trade engaged in the production of leather. The same remark applies to the other trades engaged in the production of goods, especially to the trade in fancy goods. A classification of the various trades and industries of a country may be undertaken from many different standpoints, but the division here adopted is based upon the main requirements of private households and undertakings whose demands are satisfied through certain groups of trades.

CLASSIFICATION OF THE INDUSTRIAL POPULATION. In order to present a general view of the numerical importance of some of the principal industries or services in England and Wales, we will give in brief the results of the Census of Occupations, 1911, which are shown in the following table—

SUMMARY OF PRINCIPAL ENGLISH INDUSTRIES OR SERVICES IN 1911

Industries or Services.	Net Total in Industry or Service.		
	Persons.	Males.	Females.
Domestic Indoor Service	1,302,438	41,765	1,260,673
Agriculture (on Farms, Woods, and Gardens)	1,229,555	1,134,714	94,841
Coal Mining	971,236	968,051	3,185
Building	817,942	814,989	2,953
Cotton Manufacture	623,825	250,991	372,834
Local Government (including Police and Poor Law Services)	588,951	412,501	176,450
Railway Companies' Service	542,969	535,799	7,170
Engineering and Machine Making, Iron-founding and Boilermaking	510,226	502,942	7,284
Dressmaking	336,955	3,826	333,129
Teaching	300,831	89,648	211,183
Inn, Hotel—Service	289,056	178,550	110,506
Grocery	269,322	210,387	58,935
Tailoring	254,828	127,301	127,527
Printing, Bookbinding, and Stationery	249,465	161,856	87,609
National Government	249,199	215,110	34,089
Wool and Worsted Manufacture	233,189	105,552	127,637
Boot, Shoe, etc., Making	217,986	172,000	45,986
Drapery	204,126	93,171	110,955

From the above table it will be seen that, exclusive of domestic service, agriculture affords employment to more persons than does any other single industry or service. Coal-mining comes next in numerical importance, and is followed by the building trades and cotton manufacture. The above figures include all those persons who are connected with the particular industries or services. The figures of the "Local Government Service" and "Railway Companies Service," for example, include all persons in the various branches of those services; thus, teachers employed by local authorities are included, and persons employed in railway companies' hotels are shown under "Railway Companies' Service." The interdependence of many of the industries makes it impossible to claim

that the numbers represent all the persons who, in the widest sense, might be said to be connected with any industry. Thus, for example, persons engaged in making various kinds of machinery are to some extent connected with all the industries in which such machinery is used, but they are for convenience grouped under the heading of Engineering and Machine Making.

THE POLICY OF MANUFACTURING UNDERTAKINGS. In the sphere of manufacture, the undertakings are so highly differentiated that there is not even an approach to similarity in their industrial policy. Attention will therefore be drawn to a few points of view which exercise a great influence on the economic attitude of these undertakings. In the first instance, the undertakings are strongly opposed to each other in their interests, and try to drive each other from the market. This struggle takes place chiefly between the handicrafts and the manufacturing undertakings which are engaged in turning out the same class of goods. Where handicraft production still exists, it is justified either by smallness of the market area or by the technical nature of the manufacturing process. Wherever the process allows the employment of motor-power and mechanical machinery, the expenses of production are thereby cheapened to such an extent that handicraft undertakings are ousted from the market. A whole series of crafts have been eliminated by this superiority of machine production, and some branches of craftmanship are to this day still being squeezed out of existence. Of course, this superiority of machinery manifests itself only in large market areas, and in the more isolated districts handicrafts continue to maintain themselves. At all events there is such a strong contrast between the factory and the handicraft undertaking in the production of the same class of goods that it can only be bridged temporarily by mutual understanding. A second important factor which helps to determine the economic policy of manufacturing undertakings is the nature of the market area. Does the undertaking confine its sale of the local market, to the national market, or does it export to foreign countries? Undertakings which largely export to foreign countries will pursue quite a different policy in regard to the tariff system from those working only for the national market. The former have to take into account not only the world-market price, but they have to undersell international competitors, and may also have to surmount

tariff obstacles in order to gain a footing in the foreign markets. Owing to the importance to them of the export trade, their leanings will be much more towards free trade than towards protection. In some cases they may have to suffer not only from foreign tariffs, but also from those of their own country. Their aim is to dispose of their goods abroad as cheaply as possible, and they must therefore compensate themselves for any losses on the export business by higher prices in the home market, if they can exert such an influence on the determination of prices. Should they fail in this direction, they will try to cheapen the cost of the goods by exerting a strong pressure on the level of wages ; and in this they will succeed more easily where unskilled labour is concerned and where the supply of labour is abundant.

There are strong contrasts, however, between manufacturing undertakings, especially between those undertakings which supply raw materials and partly manufactured goods and those which devote themselves to the production of the finished articles. Usually the former are the stronger though less numerous undertakings, and frequently form themselves into cartels and thus exercise a greater influence on the determination of prices. On the other hand, undertakings producing finished articles are more diversified. In consequence, when dealing with the supplying houses, their demand is seldom, if ever, concentrated ; hence they tend to be the weaker party in the competitive struggle. Owing to the far-reaching specialization and the keen competition for the market, these manufacturers of finished goods adopt a policy which makes it very difficult for them to realize the best prices. Thus, in the case of a large number of finished articles there is never an approximation to a settled price, since owing to the great severity of competition such a price could not be established by conventions. It is just this competition which leads to the fact that articles are manufactured in so many different ways in order to make them cheaper—although perhaps inferior. Competition is thus continually kept alive and frequently an article can be sold only for a short period before it is ousted from the market by a cheap imitation. In this competitive rivalry which enters into the marketing of finished goods, large-scale undertakings are not only able to maintain themselves but are constantly extending their sales.

CHAPTER IX

UNDERTAKINGS ENGAGED IN DISTRIBUTION.

LOCAL, NATIONAL, AND INTERNATIONAL UNDERTAKINGS.

Undertakings engaged in the distribution of goods are divided into a series of groups which, so to speak, operate by themselves. There are undertakings which devote themselves to the distribution of goods in a *particular locality*; those which are engaged in the conduct of trade for the entire sphere of *national* economic activity; and finally, the undertakings which serve the interests of *foreign trade*. These three groups of undertakings do not enter into much direct rivalry, but they rather supplement each other. At any rate, the local transport facilities act as feeders of the railways and waterways, and these in turn feed the ocean-going vessels. In the reverse direction is effected the distribution of the goods and passengers from abroad to the individual localities of an economic area. The individual groups operate independently of each other, and the determination of prices in one group exercises by no means the same effect on the prices of the other groups as, for instance, the price of raw materials or partly-finished goods exerts upon that of the finished articles. Indeed, competition between them is so inappreciable that it may be regarded as negligible. On the other hand, no considerable common interests prevail among these three groups. Between the individual undertakings in the respective groups, however, there is usually a very strong competition, which in many cases has been greatly restricted or even eliminated by the establishment of cartels or the development of municipal or state activity. This competition is still very strong in the group which concerns itself with the trade of a particular locality. Here the small-scale undertaking still preponderates in the sphere in which independent undertakings abound.

In large towns, however, large-scale undertakings may also exist as in the case of large carriers and furniture removers, and especially undertakings for the conveyance of passengers. The latter are also frequently conducted as public undertakings. As these undertakings carry on their activities within the confines of a

restricted area only, competition is limited to the undertakings in this area, and rarely exists between undertakings in adjoining areas. A competitive struggle between the whole of the undertakings which exist within a country is impossible. The conditions are different, however, in regard to the waterways and railways. The waterways exist for the use of the concerns engaged in inland navigation and the competition of these undertakings is confined to the particular waterway. In this respect, however, it should be noted that large-scale undertakings have displaced small-scale undertakings, although there may still be some scope for the latter. In regard to all undertakings, however, there are certain mutual interests which, in spite of competition, result in a common direction of economic aims. Under certain circumstances, especially in the beginning, railway undertakings enter into keen rivalry with one another, particularly where rival companies compete for the traffic, but these fatal tariff struggles generally lead to mutual understandings. Moreover, the State often takes over the control and supervision of the railways, and in the course of time this step often leads to the nationalization of these private undertakings, and creates the possibility of establishing a homogeneous railway system. Undoubtedly the elimination of cut-throat competition between the private undertakings makes for industrial progress, but in many respects the complete nationalization of railways is not without its drawbacks. It is not necessary that the private undertakings be entirely eliminated, for they may still continue to exist as branch lines which feed the main lines controlled by the State. However, since whole districts and numerous localities are in a high degree interested in these branch lines, public authorities frequently participate financially in such private undertakings. With the nationalization or even the legislative control of the railway system, competition is limited to a minimum, and thus to a large extent is dictated the economic policy of these private or public undertakings.

Shipping. There still remain the *shipping undertakings* which carry on the overseas trade. These are private undertakings which are confined to large seaports, and which almost without exception are organized on a large scale. They enter not only into competition with one another, but owing to the fact that their sphere of activity embraces the oceans, they likewise enter into competition with smaller undertakings in other countries. Hence they often

engage in keen tariff conflicts in which the shipping companies concerned try to force one another from the business by undercutting the freight rates. These conflicts generally terminate in the conclusion of a *convention* for a longer or shorter period. To a large extent the business activity of the shipping companies is dependent on the fluctuations which take place in the world's trade. Trade depression in a particular country as expressed by imports and exports is felt by them as quickly as the fluctuation in emigration and immigration. From a commercial standpoint, the position of these undertakings is affected by the fact that they flourish best when the international trade is brisk, and every disturbance or interruption of this trade signifies a loss to them. Undertakings engaged in overseas trade will tend to favour a policy of free trade and the greatest possible facilitation and extension of international exchange.

UNDERTAKINGS IN THE RETAIL TRADE. With the extension of market areas and with the development of similar classes of buyers, undertakings in the retail trade have experienced a high degree of specialization. Four types can be clearly distinguished—

1. The ordinary small retail undertaking ;
2. The large specialized business ;
3. The departmental stores ;
4. The co-operative consumers' society.

Numerous other forms of retail trade have evolved during recent years as will be seen from the table on page 74. The War led to rapid extension of temporary retail Government undertakings and also to the further development of co-operative distribution.

The Small Retailer. The small undertaking of the ordinary retailer is still the principal type. In places with a large market area, however, it is threatened by the specialized business, the departmental store and the co-operative consumers' society. The small retail undertaking is generally intimately connected with the private household of the owner, and his income generally depends on its success. This, however, is determined chiefly by the magnitude of the turnover and the level of the selling prices. To a large extent the latter are influenced and even determined by competition, so that in large market areas the turnover of the undertaking constitutes the principal factor in its success. The larger the number of similar undertakings in a certain place, the smaller of course will

TYPES OF UNDERTAKINGS ENGAGED IN RETAIL TRADE

- **RETAIL TRADE.**
  - **CO-OPERATIVE CONCERNS.** — Distribution of articles of general consumption by an organization of consumers which buys and produces for its members.
    - Small Scale.
      - Isolated Distributive Society . . . 1
      - Organized Distributive Society . . . 2
    - Large Scale.
      - Supply of specialized products, such as milk, bread, and meat 3
      - Supply of general commodities . . . 4
  - **CAPITALISTIC FORMS OF BUSINESS.**
    - Small Scale
      - Classification according to the extent of the market.
        - Trade in mixed goods . . . 5
        - Trade in special articles 6
      - Classification according to the method of financing the business.
        - Independent Entrepreneur.
          - Isolated Retail Shop-keepers . . . 7
          - Organized Retail Shop-keepers (associated for buying in common and for the granting of rebates) 8
        - Dependent Entrepreneur.
          - Indirectly dependent retail traders . . 9
          - Directly dependent retail traders (tied shops) . 10
    - Large Scale
      - Localized Large-Scale Businesses (numerous small branches).
        - Undertakings connected with Manufacture and Wholesale Trade.
          - Multiple shops as branches of syndicates and co-operative selling associations . . 11
          - Multiple shops belonging to the large-scale manufacturer or wholesale trader . . 12
        - Independent Undertakings.
          - Distribution through Branch shops . . 13
          - Street Trading 14
      - Centralized Large-Scale Businesses.
        - Specialized Stores.
          - Ordinary retail shop 15
          - Mail Order Business 16
        - Departmental Stores.
          - Dealers in job lots 17
          - Ordinary Departmental Store (isolated) . . 18
          - Ordinary Departmental Store (organized as member of a co-operative buying or productive society) 19
  - **STATE OR MUNICIPAL CONCERNS.**
    - State distribution of monopolized articles such as powder, alcohol, tobacco, petroleum, and salt.
      - Intermediary trade of the State . . . 20
      - Retail trade of the State 21
      - Large and small-scale distribution by State monopoly companies 22
    - War-time Undertakings, for the production and distribution of raw materials and food-stuff..
      - Municipal small and large-scale undertakings . 23
      - Mixed State and private undertakings for the production of war materials . . . 24

be the average turnover of the individual undertakings. This turnover may fall so low that the financial return is insufficient to maintain the private household dependent on it. As the small undertakings of the retail trade can be established with a small expenditure of capital, and as small manufacturing undertakings also carry on simultaneously a retail trade, it naturally follows that the number of small-scale undertakings grow excessively, and that the competitive struggle becomes exceedingly keen, so that the average income of the private households dependent on them is depressed to a very low level. Of course, departmental stores and co-operative societies may become a great danger in the settlement of prices in the small-scale retail trade, but even more serious is the influence upon average turnover of the individual undertakings.

In villages competition may not have lowered the average income of small retailers as much as in large towns, but in villages the increased competition of the large-scale undertakings in neighbouring towns likewise makes itself appreciably felt. Even in small localities, mail-order business as well as the improved transport facilities deprive the retailer of an increasing portion of his former turnover. Private households naturally endeavour to avail themselves of every advantage offered to them. Thus, the small undertaking in the retail trade has to undergo a hard struggle for existence. Of course, there are exceptions to this rule. Thus, for instance, direct sale to the public by the producers, especially in the case of fresh foodstuffs, still affords a possibility of yielding a good return to an undertaking, as well as comparative affluence to the private households dependent on them. In this respect, it is sufficient to mention bakers, confectioners, and, in some cases, butchers. On the whole, however, the small retail trade carries on a hard struggle for existence ; it has to cope not only with the competition of the departmental stores and co-operative societies but has also to fight against overcrowding in its own camp. Instead of the number of retail undertakings tending to decrease, they are on the increase. In view of the advantages of large-scale undertakings, this is an unfortunate policy on the part of the small retail trade. The absence of any prospect of counteracting successfully this increase and of combating this growing competition within their own camp, renders very difficult any attempt to combine for the safeguarding of their conditions. Every undertaking stands

alone, and has to rely entirely upon its own strength. In the struggle with hostile elements, this is naturally a difficult position; for, in spite of all efforts, the undertaking may have to succumb if the shaping of the particular conditions on which the turnover depends suddenly becomes unfavourable through circumstances over which it has no control.

The Departmental Store. The form of *large-scale undertakings* in the retail trade is represented by the departmental store and the specialized retail shop. Departmental stores offer to their customers the advantage of centralization. Goods necessary for the satisfaction of numerous wants may be bought in the same building, whereas the specialized business limits itself to a very small range of goods, but in a great variety of qualities. Both these types of undertakings are possible only where the market area is so large that the customers have become separated into large classes of a similar nature. These classes form the basis of the departmental stores as well as of the specialized retail business. An undertaking which is devoted exclusively to the sale of optical goods and is carried on as a large-scale undertaking, must have a market area in which the demand for optical instruments is so great that the turnover is capable of maintaining such a large-scale undertaking. Where the preliminary conditions exist, i.e. the market area and the different classes of customers, the development is in the direction of the large-scale undertaking in the retail trade. It is more profitable and manifests advantages over the small-scale undertaking in regard not only to financial results but also in regard to the buying public. An important means of winning over the public is to be found in a well-organized advertising campaign and in a special study of the public, such as the small undertaking cannot display. The latter is naturally the weaker in the struggle for the market. The strong position of the large undertakings in the retail trade, however, asserts itself not only in relation to the customers but also in its struggle with competitors. In the purchase of goods the departmental stores is likewise becoming an important factor. In its relations with the merchant and the manufacturer it can assume an entirely different attitude from that which is possible in the case of the small undertaking. The dissipated competition of the suppliers is not confronted by a dispersed demand as is the case with small undertakings, but it is confronted by a concentrated

demand which places a considerable turnover under a single control.

In this way, the large-scale undertaking exerts a far-reaching influence on the determination of prices. As far as possible, it eliminates the middleman, and for the most part deals directly with the manufacturing undertakings, and thus obtains prices in buying such as are impossible for the small-scale undertaking. Both as buyer and seller, the large-scale undertaking is in a more favourable position, from which it derives all those advantages which constitute their business success. Moreover, there is no doubt that this business method itself has economic advantages, although competition amongst the stores themselves leads to expenses which to a large extent neutralize these advantages. The hostility to the large undertakings in the retail trade is unable to retard the further development of the stores system. Wherever there is a soil for them, and when once they have obtained a hold, their strength is sufficient to shift on to their suppliers or to their customers any financial burdens such as customs duties, etc. These stores are such an attraction to the public that the latter allows itself to be led by them in a surprising manner. The exploitation of the customers' foibles and weaknesses, which have a psychological basis, will cause the public to overlook a whole series of disadvantages which are still possessed by the large-scale undertaking in the retail trade. The taste of the public is largely influenced by these large retail undertakings, and to a certain extent it is determined by them. In regard to the supply of goods in the large cities, the departmental stores and the large specialized retail shops play an important part which can no longer be overlooked; this tends to restrict the small undertakings to those branches of trade in which the competition of the large-scale undertaking does not yet assert itself or in which competition is impossible.

The Co-operative Consumers' Societies. These also must be regarded as large-scale undertakings in the retail trade. In this case, the *entrepreneurs* are the consumers themselves. They constitute a fairly regular and safe clientèle for an undertaking whose chief aim is not profit, but the provision of a cheap and wholesome supply; and their object is to eliminate, as far as possible, the retail trade which works solely for a profit. Of course, the co-operative consumers' society must also incur all that expenditure

which is inevitable in a retail commercial undertaking. The only thing which reverts to the co-operators is the profit, which would otherwise be due to the retailer. The efficiency of co-operative societies increases according to the measure in which its organization is successful in undertaking the function of wholesale buying for all the affiliated societies. Co-operative societies also engage in manufacture, where they can compete successfully with private undertakings in this sphere. In places where their membership is strong, co-operative societies may constitute an important factor in deciding the prices of numerous articles of food. They also contribute towards the improvement of the lowest classes of consumers by securing for them articles of good quality—a fact which, in view of the modern practice of adulteration of commodities, cannot be under-estimated. *The policy of the co-operative consumers' society tends in the direction of acquiring the largest possible number of customers from among the lower classes, and of giving them the benefit of the advantages of a large-scale trading undertaking with the elimination of the profits of the middleman and of the retailer.* Naturally with such a policy it comes into conflict with the small-scale retail undertakings, and also with many undertakings engaged in production. The co-operative society creates an organization of consumers which is of the greatest value in the distribution of goods, for it effectively counteracts the dispersion of energy in the sphere of the retail trade.

UNDERTAKINGS IN THE WHOLESALE TRADE. The undertakings engaged in the *wholesale trade* are still largely in the hands of sole traders; at any rate, the impersonal form of undertakings is still in the minority. In this trade personal responsibility is still of great importance. The wholesale merchant steps in between demand and supply as an intermediary on a large scale, and to a certain extent this position forces him to take advantage of the market conditions which prevail at any particular time. The speculative factor enters largely into his activity. The wholesale merchant is compelled to form a judgment of the market and especially of the world market, to a greater extent than the other persons engaged in distribution. As far as possible he will buy at a time when the supply of a commodity is great, and on the other hand he will try to sell his goods when there is a great demand for them. He has a precise knowledge of the wants of his customers

who scarcely look beyond the sphere of their own particular business. Through the development of commercial technique, wholesalers have made numerous arrangements calculated to reduce the risk connected with their business. In this connection mention may be made of the establishment of *dealings in futures*. The nature and policy of wholesale houses is somewhat different when they are engaged in financial business. Here we refer only to those undertakings which are concerned with the mediation of international trade. Such trade is wholesale trade. The independent merchants who carry on this trade are usually distinguished from the ordinary wholesaler not only by the extent of their capital, but also by their personal foresight, their intimate knowledge of the commercial conditions prevailing in foreign countries, and also by their greater spirit of enterprise. Although the sole trading concern still exercises a very important rôle, yet in this branch of the wholesale trade it is noticeable that the sole trading business assumes an importance which is not due to the particular owner, but to the organization and tradition of the business. Of course, the business needs a very capable person as manager, but at a certain stage in its evolution it works almost automatically. Here, then, we should speak not of an importer, but of an import and export business in which the owner is only of secondary importance. In the import and export business, the nature of the transactions makes it difficult to reduce the high expenses of the organization. These expenses have to be added to the turnover so that the return to the capital invested, where it is in excess of the prevailing rate of interest, must be derived from the skilful manipulation of the market fluctuations.

The wholesale merchant who is not engaged in international trade can obtain large profits by speculative activity and by the exploitation of particular circumstances, but his risk is frequently greater than the average. The fluctuations in his income, averaged over a long period, are subject to great variations. In the foreign trade, the risk was originally much more considerable, but in this sphere commercial technique has created a number of insurances and re-insurances with the object of reducing the risk of loss to a minimum, without appreciably affecting the possibility of realizing a profit.

In the interests of their undertakings, wholesale merchants

usually support those Government measures which tend to increase the international exchange of goods which are calculated to facilitate the opening up of new markets for their business operations. Perhaps more than any other section of the community, they carry out a cool and well-considered policy which aims at the increase of their own wealth.

BANKING UNDERTAKINGS. On the one hand, the banking undertaking collects money from private households, undertakings, and public organizations; on the other hand, it lends it out in the form of credit to all sorts of economies. As a receiver of credit, the bank allows interest on the deposits of its customers, and on the other hand, it charges interest on the loans made to the public. The policy of a bank must be to make the difference between the sum which it has to receive for the loan of credit and the interest which it has to pay on deposits as large as possible. In this way it is able to realize a sufficient rate of interest on the capital of the undertaking and an amount in excess for the profit of the *entrepreneurs*. The competition amongst the lenders of the money market and the rivalry amongst the banks themselves ensures that the rate of interest on money borrowed is not too low, and that for money lent is not too high.

From this fact it follows that the greater the turnover the more beneficially and safely will the banking undertaking operate. The smaller the margin between the borrowing and the lending rates, the better is the bank able to compete, and the more it will succeed in attracting capital and in granting credit on a large scale. The large banks have been called into existence owing to the opportunity which exists of exploiting this possibility. On the one hand, it was necessary that a market should exist which required credil on a large scale, and on the other hand, the small items of capitat from the individual private households and undertakings had to be concentrated in the hands of the large banks in order to form the large sums with which the extension of credit could be effected on a large scale. The policy of the large banks consisted in the recognition of the primary needs of the market conditions which were necessary for their growth, and then began the process of absorbing the distributed items of capital possessed by the smaller undertakings. Naturally, relatively few institutions could evolve into large banks. The small undertakings which carried on the

mediation of credit for a locality or a district naturally suffered from the rise of the large centralized undertakings which regarded the whole national economic area as their sphere of activity, and the more this policy of the large banks was pursued the weaker became the small banks which began to fall into insignificance.

Nowadays, the small-scale banking undertaking can maintain itself only under particular circumstances, since the few large banks, owing to their superior position, offer greater security than the small-scale undertakings. With the growth in the economic power of the large banks, the reputation of the institution engaged in the granting of credit becomes a factor which dominates the credit-giving economies as much as those who are in search of credit. Of course, if the total number of the credit-giving economies had a combined will they could, to a certain extent, inflict their conditions upon the banking undertaking; but in practice, the credit-giving economy always assumes a position of isolation in regard to the bank, in consequence of which the latter can force its conditions upon the credit-giving economies—of course, not arbitrary conditions, but such as will serve primarily the interest of the banking undertaking. Precisely the same dominating position is assumed by the banking undertaking in relation to the credit-seeking economies. Here, again, the granting of credit is dependent on conditions which serve primarily the interest of the banking undertaking and which are calculated to raise the standing of the bank in the estimation of the private household economies, the undertakings, and the public organizations. Thus the mediator becomes the controller of the supplying and demanding economies, and this fact becomes especially apparent when we consider the economic policy of the large banks.

The Banks' Control of Trade. Through their power to grant credit, the large banks have obtained a far-reaching control over the undertakings engaged in the production and distribution of goods, and also over the public organizations. Likewise, the great mass of private households are to a large extent influenced by their policy. The large banks may be said to grant credit in blank to the private and public undertakings, and by the power of their organizations they can induce the private households to hand over their capital to the debtors recommended by the large banks.

The distribution to the undertakings and public organizations of the newly-formed capital is effected by the policy of the large

banks. This policy of distribution is inevitably influenced by the business interests of the banking undertakings. The large banks not only carry out this distribution, but they also exert great influence upon the process of capital accumulation. They influence the production as much as the distribution of goods, and indirectly they also affect the interests of the labour market by exercising a far-reaching influence on the policy of business undertakings. The direct influence on the private households who have capital at their disposal, manifests itself in the direction of demand on the exchange. The large banks which have undertaken the granting of credit to numerous undertakings, and who are thus financially interested in their success, direct the demand towards those investments which are related to their own sphere of interests. They support exchange speculation and they even provide the financial basis for the extension of exchange speculation, and thus co-operate in the process of settlement which takes place between the undertakings and their temporary owners.

Investment in those shares which represent ownership in undertakings is no longer an end in itself but only the means to an end. The investment is not desired for its own sake, but merely to exploit the fluctuations in prices with the object of gaining a profit. The idea is not to become the owner of an undertaking in order to derive dividend on the capital, but the security is merely acquired in the expectation that its price will rise. If this takes place the profit is realized by a sale of the security. The fact that, incidentally, one becomes part-owner in an undertaking is quite unimportant. With the manipulation of shares in this way, the attribute of ownership which is inherent in shares tends to vanish in an increasing degree. Of course, this development is not due entirely to the activity of the large banks, but they have contributed their financial power to this movement, and have thus made it possible for the private householders to engage in speculation to an extraordinary degree.

It is well to remind the reader that the large banking undertakings usually take the form of companies, and that in consequence the business of the bank is carried out by employees, i.e. by salaried officials. The fact that these salaried officials are likewise usually capitalists and belong to the capital economies, does not alter the fact that they are regarded as workers by the large banks.

TEST PAPER II

1. Enumerate three points of difference between the private household and the undertaking.

2. Compare the management of a pure undertaking with that of an undertaking combined with a private household.

3. "The undertaking is essentially a market organization—a commercial organization for buying and selling." Critically examine this statement.

4. Enumerate the main types of undertakings and explain briefly the function of each.

5. What in your judgment are the prospects of British agriculture? Consider in this connection the possibilities of undertakings on a small and on a large scale.

6. Examine the economic characteristics of mining undertakings and show the extent to which they lend themselves to division of labour.

7. Trace the effect on production of the adoption of mechanical methods and the growth of large-scale operations in manufacture.

8. Write short notes on the following branches of industry—

(*a*) Iron and steel. (*b*) Foodstuffs. (*c*) Textiles.

9. Give a brief synopsis of the various ways in which English producers of live-stock and meat get their commodities into the hands of the ultimate consumers; and institute a summary comparison between them.

10. Give some examples of the localization of undertakings in Great Britain. Comment on the character of the undertakings and the degree of localization in each case; and consider the extent to which the localization can be assigned to the presence of physical advantages.

11. It has been said that English industry is benefited by the high degree of "differentiation" that has come into existence. Consider this proposition, and illustrate it by some reference to the textile industries.

12. Classify the undertakings engaged in distribution according to the market area served by them. Suggest any other method of classification which could be adopted.

13. What are the causes of the permanence of small businesses in many industries? Give illustrations.

14. Enumerate the four main types of undertakings engaged in the retail trade, and state the characteristics of each type.

15. Explain and illustrate the function of the wholesale trader.

SECTION III

MONEY AND THE MONEY MARKET

CHAPTER X

ORIGIN AND NATURE OF MONEY

NATURE OF MONEY. Money economy, in which all exchange takes place for money and in which all goods and services are valued in money, has emanated from the economic stage of *natural economy* in which the goods were exchanged directly for one another without the intervention of any particular medium of exchange. This form of economic intercourse, however, is possible only in the smaller and more primitive societies. As soon as the group of people carrying on a barter economy begins to increase, there is manifested the need for a commodity which can be employed as a *general medium of exchange.* A commodity could become a medium of exchange only if it could not merely be used to effect purchases momentarily, but be stored without any loss of value. Among such commodities the precious metals—gold and silver—came into use, and these have developed into generally accepted media of exchange or of payment. The high exchange value of the precious metals, especially of gold, was and still is based on the relative scarcity of these metals, which renders very high the value of a small unit in weight. The fact that money in small weight units represents a high value makes it possible for large values to be stored in a comparatively small compass. Money is therefore also a means of accumulating wealth. It performs this function in a particularly high degree, because gold and silver do not lose appreciably in value by being stored, whereas all other articles of exchange become more or less quickly depreciated by mere storage. The aforementioned qualities had the effect of enabling gold and silver to assume the nature of money at a time when a system of natural economy was still predominant. Other goods were given in exchange for gold and silver because it was

known that any other goods could be obtained for these media of exchange.

From the most favoured media of exchange gold and silver gradually became the *standard of value* for all other goods and services. With the gradual decay of the system of natural economy money became increasingly the *medium of exchange* and also a *standard of value*. The use of the precious metals as a generally recognized standard of value has developed most quickly in international trade, and has asserted itself amongst all peoples who have arrived at the stage of monetary intercourse. In particular, it is gold whose value is an internationally accepted quantity. There is no other commodity of a similarly universally accepted value as gold. The question is often asked whether gold is a commodity at all, and whether the price of gold fluctuates? Of course such fluctuations occur, but they do not make themselves noticeable in the Mint price of gold itself, which is fixed at £3 17s. 10½d. per oz. Whether gold has become cheaper or dearer can be seen only in the fact that the sum of the other commodities which we can buy for a pound sterling has become smaller or larger. However, as the prices of the other goods are for many other reasons, likewise subject to fluctuations, it is not easy to distinguish, in a particular concrete case, whether the exchange value of gold rises or falls. For all that, gold is and remains a commodity. It has an exchange value, and is an article of trade.

SYSTEM OF COINAGE AND CURRENCY. In daily life we see many coins (i.e. metal discs) which are made not only of gold and silver but also of bronze, and in some countries nickel, and these are of a definite size, mintage, and inscription. Every country of any size with a highly developed civilization has its own coins. The minting of the coins is carried on by the State, which possesses and exercises this prerogative. The State is, so to speak, the guarantor for the proper content value of the coins. Coins are not minted from the pure metal but from an alloy of which the principal metal receives a certain addition. In a large degree the minting of coins is influenced by the currency laws of a State which are by no means everywhere the same. The currency laws determine which metal or metals are legal tender. So far we have not yet spoken of paper money. We will, however, observe that the State can also proclaim paper money as legal tender. We have gold

currency according to which gold alone is legal tender. In the silver currency and also under bi-metallism gold and silver are both legal tender. England has a composite system of legal tender in which gold, Bank of England notes and Treasury notes are legal tender to any amount, silver to 40s. and copper to 1s.

The form of the gold coin is stipulated precisely by law—a remark which also applies to other coins. Thus, *a pound is the legal name for a sovereign, that is, for a piece of metal, certified by Government stamp and fashion to contain* 123·27447 *grains Troy, of which eleven-twelfths are pure gold.* The other coins are not full value money, and they serve as media for the payment of only small amounts, since the gold coins are unsuitable for small payments. The State also mints coins of silver and of copper, which are not of full value and whose metal value is less than the nominal value at which they circulate. These latter coins are known as *token coins*, whereas gold coins are known as *standard coins.* The fact that the State occupies itself so intimately with the regulation of the coinage system, and that it has brought it to its present stage of development is a consequence of the continued abuse which has been connected with the minting of coins in the course of economic history. This abuse has likewise been practised by those bodies which possessed the minting right to the detriment of the population who made use of the coins.

INTERNATIONAL CHARACTER OF GOLD MONEY. In every part of the globe where a *money economy* has been adopted, the value of gold is the same. This is an exceedingly important fact. Though the gold coins differ in the various countries, yet an ounce of gold is everywhere exchanged for another ounce of gold. In international trade gold is also the exclusive means of payment. Silver is exchanged at its rateable value in relation to gold at any given time. When we say that the value of gold is everywhere the same, this does not mean that gold has everywhere the same purchasing power in regard to other goods. This is by no means the case. It merely signifies that gold is the only commodity which is generally accepted in all countries of the world at the same value. The exchange value of gold and the value-in-use of gold are universally recognized, so that the price of gold on the whole can be described as constant.

MONEY AS THE MEASURE OF VALUE. We have frequently

remarked that all goods and services can be and are measured in money. Indeed, the increasing development of money economy has imprinted on all goods and services the money character. This is due to the fact that not only goods, but also land and personal services, can be valued in terms of money. The prevailing forms of metallic money merely constitute the media for the settlement of transactions which take place from day to day. It will be seen that, with the present day magnitude of the turnover, metallic gold is no longer sufficient by a long way to effect all payments. However, money still remains the basis of payments. The immense quantities of commodities and services which are in existence at any given time in a country, are all estimated in terms of money, and the fluctuations in value which continually occur are likewise expressed in money. We express in terms of money all goods intended for direct consumption ; and furthermore, all goods which are described as capital, such as land, mineral wealth, buildings, and all the means of production which are not attached to the soil and which constitute the wealth of individuals. At the same time, however, it would not be possible to pay out the wealth of even a large number of the richest people in a country in the gold existing in that country. For the accumulation of capital in connection with the individual private household, money itself is not necessary, but all capital, no matter of what it consists, is measured by money and thus has an exchange value.

CAPITAL AND MONEY. If two persons have £5 each and one of them spends his £5 in order to have an enjoyable evening, this money may be said to be the means of satisfying the direct momentary want. If, however, the second person takes his £5 to a bank and receives interest for it, the £5 has become capital. Whether money becomes capital therefore depends on the purpose to which it is applied. At the present day the large joint-stock banks have control over huge sums of money which have been deposited with them but which may be withdrawn by the customers of the banks in accordance with their daily requirements. In this way banks experience a considerable increase in capital which is employed in their business. Where a workmen's organization collects the small contributions of its members and accumulates a Union fund, this likewise becomes capital, although the individual copper coins of the workers can scarcely be described as such.

Whether and when money becomes capital depends, on the one hand, upon the sum of the accumulated money, and on the other hand, on the employment of the money. The actual capital-goods have a money value, but they are not in their entirety liquidated in money nor can they be so liquidated. In the last resort the capital of individual householders is represented mainly by claims to the possession of land, buildings, industrial establishments, raw materials, equipment, commodities destined for consumption, services, etc. Moreover, it is easy to see that metallic money is not nearly sufficient to carry out all the transactions which are expressed in money. For this reason *money substitutes* have been invented which, like current coin, are based mainly upon the degree of confidence that is entrusted in them.

THE EFFECT OF THE WAR ON THE MONETARY SYSTEM. The consolidation of international currency systems on a gold basis, which has resulted from the considerable increase in gold production at the beginning of the twentieth century, was destroyed at one stroke by the world war. As in political and economic affairs, so in the sphere of currency, the War brought forth the most serious disturbances and created a state of disorder and ferment which will continue for a long time to come.

With the outbreak of the War, the belligerent states were confronted by the immediate necessity of adapting the currency system to meet the needs of war, and to this end its currency was put into a state of mobilization. The neutral states, whose financial and economic relations with foreign countries became worse with the duration of hostilities, were also compelled to take drastic measures in the sphere of currency.

The first and most important measures were concerned with the safeguarding of the national reserves of gold. Such protective measures were rendered imperative by the necessity to pay in gold for the imports of foodstuffs, raw materials, and other requisites for the conduct of the War. In the various countries they assumed different forms. The redemption of paper money in gold was forbidden by law in most countries, whilst in others, without actually prohibiting the redemption of paper money, resort was had to practical measures which in their effect attained the same end.

In many states, especially in England, there was no legal enactment prohibiting the conversion of bank notes into gold. In

practice, however, even in such countries where no legal enactments were introduced, the redemption of bank notes in gold was stopped. The influence of the State and the Bank of England over the business community, combined with the national discipline, proved strong enough to prevent the cashing of notes to any considerable extent. Every Englishman who, against the wish of the Government and the Bank of England, dared to take advantage of his legal right to present bank notes for payment in gold, would have made himself impossible as a business man. The loss of reputation and business boycott of all those who would have attempted to withdraw gold from the Bank of England in opposition to the will and interest of the State, were deterrents almost equal to a law itself. This was all the more the case, since very soon a law was passed in England forbidding the export of gold.

The Embargo on Gold. Thus was destroyed the free movement of gold—the basis of an effective currency system, on which depends the relative values of paper and gold, and which alone secures the stability of the rates of exchange between countries which have adopted a gold standard. Owing to a variety of circumstances the difference in value between the monetary unit and the gold equivalent scarcely manifested itself in internal intercourse during the early period of the War. When dealings in gold were prohibited, the possibility of expressing satisfactorily changes in the price of gold was prevented. In England, which had hitherto been the principal gold market of the world, an order was made that gold could be sold only to the Bank of England, and this at the legal Mint price of £3 17s. 9d. per ounce of standard gold. The South African mines were instructed to sell their whole output of gold at this price to the Bank of England. Accordingly it was possible for a long time to maintain in the London Gold Market the fiction that gold had kept its unchanged value of £3 17s. 9d. per standard ounce, and that a change in the value of English currency measured in gold had not occurred.

As a matter of fact, a gold market, deserving of the name, no longer existed in London ; there were only compulsory sales to the Bank of England. In the year 1919 the English Government, under the pressure of the continued reduction of the South African gold production, yielded to the representations of the mining interest and gave the South African gold producers permission to

sell their output of gold in the open market. It was not until then that the difference between the artificially fixed Mint price of gold and its actual international value became clearly manifested. Whilst the Mint price of £3 17s. 9d. per standard ounce corresponds to a rate of £4 4s. 11¼d. for an ounce of fine gold, in February, 1920, as much as £6 7s. 4d. was quoted for an ounce of fine gold in the London Market. This represents a premium of 50 per cent in round figures over the Mint price. Moreover, as the export prohibition was maintained in London, only the smaller part of the South African gold output came to London; the larger part of the South African output went, at high prices, to America. Likewise, the gold obtained in Australia went in the main to China and Japan.

Whilst the belligerent countries were oppressed by the anxiety to maintain a gold reserve equal to all eventualities, and to procure the gold which was required for the financing of their importations from abroad, the neutral states were soon confronted by a different embarrassment. With the outbreak of the War the neutrals also were exposed to strong attacks on their gold reserve. The belligerent countries tried to realize their short term credits in neutral countries as quickly as possible in actual gold in order to strengthen their own position. It was chiefly England, who in this manner tried to draw large amounts of gold from the neutral countries during the period immediately preceding and following the outbreak of the War. Large quantities of gold were imported from the United States of America. Owing to these conditions the neutral states were compelled to take energetic measures to protect their gold reserve. In these countries, too, legal or *de facto* suspension of payment in gold, and prohibition of the export of gold, took place.

Very soon, however, the position changed. The belligerent countries were compelled to increase materially their imports of goods from neutral countries so that they had to make correspondingly large payments to the neutral countries, a considerable portion of which had ultimately to be made in gold. As a consequence, the neutral states were soon placed in the position to introduce milder precautions for the protection of their gold reserves, or relinquish them altogether. Of the European neutral states, Sweden in 1915 was the first to resume payment of its notes in gold. Soon, however, it came to such a point that the neutral states no

longer regarded the influx of gold as a benefit, but on the contrary were increasingly troubled by superfluity of gold. In particular, with the considerable increase in their media of exchange which accompanied the influx of gold, they were afraid of being involved in a similar depreciation of currency as that which took place in the belligerent states in consequence of the increased issue of paper money. Arising out of such considerations, measures were passed to stop the influx of gold. The note-issuing banks of the Scandinavian countries, which had hitherto—like most note-issuing banks with a gold standard—been compelled to issue notes or gold coins in return for bar gold, were now relieved of this obligation, and henceforth declined to accept gold. The Bank of Spain proceeded in a similar manner by reducing its buying price of gold. In other neutral countries, too, difficulties were placed in the way of accepting gold at the central note-issuing banks.

In fact, the measures were equivalent to a suspension of the free mintage of gold, and in the neutral states where they were adopted, had the result of raising the standard of value above its gold equivalent. Similarly, in the belligerent countries, there was a tendency for the monetary standard to fall below its gold equivalent on account of the suspension of gold payments.

The effect of these measures which tended in opposing directions, was augmented by the immense increase in the costs of transporting and insuring gold. This metal—gold—which in the last few decades before the world war had become the sound and stable basis of international monetary transactions, was now divested of this function.

CHAPTER XI

CREDIT AND ITS FORMS

CREDIT AND INTEREST. Where one economy lends a commodity to another economy with the proviso that the commodity or its value shall be returned after a certain time and under payment of a certain fixed rate of interest, the first economy must have confidence in the second economy that this arrangement will and can be carried out. Such confidence or credit existed long before the introduction of money economy, but with the advent of this system the practice of postponing payment to some future time has developed into an exceedingly important factor in commercial intercourse. Another form of credit is where goods are sold to another person with the proviso that he need not pay at once but only at the expiration of a certain time. In this case, likewise, the seller must have confidence that the debtor will and can pay at the end of the period stipulated.

The two kinds of credit seem to differ, but in reality the difference is not very great. If I give credit for the amount of the purchase price to a buyer, as a rule the price will be so fixed that an equivalent amount will be included in the price, for the period for which payment is postponed. This may be regarded as the rate of interest. *Credit therefore is the loan of wealth in return for a rate of interest; that is, a transaction in which a counter-service is given for service, not immediately but at a later date, in conformity with a previous arrangement.* The exchange will be effected only when the person who does not give an immediate counter-service enjoys the confidence that he is able and in a position to render this counter-service at a later date. In this act of exchange there is thus a certain risk borne by the person parting with the wealth in consideration for which he claims a certain equivalent in the form of interest, the rate of which may vary greatly according to the bargaining capacity of the contracting parties to the credit transaction, or according to the greater or smaller economic utility of the wealth concerned. Credit business on an increasing scale is possible only where the difference in wealth of the private households is sufficiently large

to create a supply of such capital on the one hand, and a demand for it on the other. Credit originates with interest, and interest with credit. A person pays interest for capital lent to him and for which he has a use. If he parts with capital, he places confidence in the person to whom he gives it and believes that the borrower will be capable of repaying the capital together with interest. The demand for capital tends to be greatest where the private households are split up, so that one part is in possession of capital whilst the other is in possession of labour-power only ; and where such economies are separated from the sphere of production and of distribution, and are conducted in separate business undertakings.

All these are reasons which tend to the increasing development of the credit system, and make it impossible for the owners of capital to part with their portions of available capital in ready cash. For the stock of ready money would in no way be sufficient to effect the turnover expressed in gold between the private households and the business undertakings, or between one business undertaking and another. Documents have therefore come into existence which take the place of gold and of capital in business intercourse ; these are paper instruments of credit which prove the claims and which mobilize the mass of the capital into private hands or into public ownership ; they are all securities in the widest sense of the word—bank notes, Treasury notes, cheques, bills of exchange, bearer bonds, etc. Such instruments of credit and other transactions based upon credit have not developed and increased in a haphazard fashion, but in the last analysis they are always founded on the belief or confidence that the individual claims will be realized in gold at a given time. In individual cases this is possible, but in regard to the whole of the claims, it would be a matter of impossibility.

THE CREDIT GIVER. Credit is received by the private households, by the undertakings and by the public organizations. These various economies likewise give credit but in a very varying degree. On close observation it will be found that credit is given by the private households only in the form of capital, whereas the credit of the business undertakings and public organizations becomes possible solely because they have created for themselves a financial basis through the use of the capital of the private households.

Credit is extended to undertakings and organizations because

they are supported by the capital of private households—a fact which reduces the risk of giving credit to them. On the other hand, as a receiver of credit the private household is not in such a favourable position. The private household, which is in possession of property, can easily raise credit on such property because of its realizable value. On the other hand, the isolated private household which has to rely exclusively on the use of its labour-power is, as a rule, without credit, but this does not imply that no credit whatever is extended to it; it merely signifies that the basis on which credit is built is absent. For the extension of credit it is a preliminary condition that there should be in existence a counter-value sufficient to guarantee the repayment of the loan in the future. Such values consist of goods, land, buildings, machinery, tools, and merchandise, but not of ordinary human labour-power. Even so-called *personal credit* is only extended to a person who, it is believed, will be able to repay the loan, although the belief may be based on certain anticipations which do not rest exclusively in his own person. Moreover, personal credit proper tends increasingly to disappear.

THE BANK NOTE. The bank note is a document in which a bank promises to pay the face value of the note at any time to the person presenting it. It is therefore an instrument of credit; nevertheless, it is as good as ready cash. Owing to the fact that in business intercourse it is accepted as ready money, it economizes gold and increases the stock of money. It can easily be seen, however, that the issue of bank notes must have a limit, which is set by the ability of the bank to convert into gold the notes presented. In the early days of the history of banking it frequently occurred that the banks could not meet their obligations, and great financial crises were thus caused. For this reason the issue of bank notes has been regulated by law, so that it has laid down precisely to what extent bank notes may be issued, and what provision has to be made, so that the bank notes can be redeemed any time. Likewise, the number of banks which may issue notes is usually restricted, and in England the Bank of England has now the sole monopoly.

The demand and supply of media of exchange are in a state of continual fluctuation. Indeed, there are times when the amounts to be paid accumulate very greatly: for example, the times of harvest, quarter days, and the end of the year. With the issue of bank notes the metallic money which serves as a medium of exchange

is, as it were, increased in order to be able to satisfy the increasing requirements for money. Of course, there is also the danger that the bank note may be abused. The limitation of the issue of bank notes led the business world to the development of another instrument of credit, the introduction of which pre-supposes a highly organized credit system, but which is to a much greater extent suitable to economize the media of payment. This instrument is the cheque.

THE CHEQUE. In every country the issue of bank notes is restricted to a small number of credit institutions. The development of money economy, however, demands such large amounts of media of exchange that the substitution of bank notes is totally insufficient to cover the buying and selling transactions and the turnover of money and capital. Indeed, there was need for a credit instrument to effect small transactions. The mass of business undertakings and private households were thus in a position to bring into circulation a credit certificate which would act as a substitute for gold. The cheque is such a certificate. The cheque, the same as the bank note, is a document which can be exchanged for gold or notes. Of course, the cheque is not legal tender but it is used in the business world and by members of the general public the same as money.

A cheque is an unconditional order drawn by the customer upon the banker, requiring the latter to pay on demand a sum of money to, or to the order of, a specified person or to bearer. If the specified person happens to have an account himself, the amount can be transferred to this account. In this possibility of transfer is to be found the great saving in metal coin and notes. A vast sum of payments which would otherwise have to be effected in money can thus be transferred by means of book entries. The cheque presupposes that the drawer of the cheque possesses an adequate sum at the bank which he instructs to be paid, and furthermore, that the bank is in a position to pay the amount of the cheque in money or in notes. Earlier than the cheque, another credit instrument arose in business intercourse, which, however, is farther removed from money than the bank note or the cheque. This is the bill of exchange, of which the cheque is a specialized form.

BILL OF EXCHANGE. There is an essential difference between the cheque and the bill of exchange as such. This consists in the

fact that the cheque as a rule is payable on demand. On the other hand the bill of exchange is payable at a future date. Where a bill of exchange is payable at sight and is drawn upon a bank, the economic difference between a cheque and a bill of exchange is almost negligible. The bill of exchange is one of the earliest and most important credit instruments which has developed in the interlocal and international trade. The significance of the bill of exchange lies in the fact that the merchant or manufacturer need not at once pay the price of goods purchased, but only after the lapse of a certain time ; before the expiration of this time he has either come into possession of the goods (international trade), or he has been able to resell the goods purchased, either in their original state or after they have been transformed. The use of such a credit instrument, however, is also to the interest of the seller, owing to the fact that by this means he can obtain the amount due earlier than would otherwise be the case. In his turn he can either use the bill of exchange for payment, or convert it immediately into ready cash, subject to a certain reduction for discount—the discount being calculated on the number of days the bill has to run before the date of maturity.

Unlike the bank note and the cheque, the bill of exchange is not free of interest, but the amount of the bill must pay interest until the due date. In the case of a bill of exchange, this rate of interest—or discount as it is called—is of the highest importance to the market rate of interest prevailing in an economic area. This rate of interest not only regulates the amount of business done in bills, but it also exercises an influence on the price of all securities. The bill of exchange therefore in the main is not only an instrument of credit for the liquidation of debts, but it is also the representative of a certain amount of capital which it is intended shall exist in the form of goods.

CURRENCY NOTES. In England the issue of Treasury notes was authorized by the Currency and Bank Notes Act, which was passed on the 6th August, 1914, being a consequence of the outbreak of the War. According to the provisions of this Act, the Treasury were empowered to issue notes of £1 and 10s., which were to pass as legal tender for any amount within the United Kingdom. The notes are issued through the Bank of England and a weekly return is published showing the amount outstanding and the position of the

redemption account. From the following specimen it will be seen that the ratio of gold and bank notes to Treasury notes on the 10th October, 1923, was 17·5 per cent.

CURRENCY NOTES RETURN, 10TH OCTOBER, 1923
000's OMITTED

	£		£
Notes Outstanding	283,599	Redemption Account—	
Investment Reserve	12,090	Gold	27,000
		Silver Coin	7,000
		Bank Notes	22,450
		Government Securities	239,102
		Balance at Bank of England	137
	£295,689		£295,689

The enormous amount of these notes issued against Government Securities has caused a great inflation of the currency as shown by high prices. In Volume IV of the Report of the Brussels Conference, figures are given showing the degree of currency inflation in various countries up to 31st December, 1919. In the United States, South American countries, and British Dominions the increase of currency was from 50 to 100 per cent. In the United Kingdom, Japan, and the European countries the increase varied from 100 to 125 per cent. In Portugal, France, Greece, and Italy the increase varied from 250 to 350 per cent. In the case of other belligerent European states the increase exceeded 800 per cent. The Brussels Conference also made certain resolutions and recommendations to remedy this state of affairs. Briefly, they declare that the only means of remedying the economic situation of Europe is the establishment of real peace and a general reduction of armaments ; vigorous retrenchment in public expenditure of all countries, and the restoration of sound currencies ; the abandonment of economic and artificial measures which conceal from the people the true economic position ; the encouragement of the maximum production on the part of capital and labour ; the removal of Government and bureaucratic control ; and the restoration of freedom of trade between the various countries.

CHARACTERISTICS OF PAPER MONEY. In areas where paper money constitutes a part of the legal currency it is made to serve as the medium of payment instead of metal. Under the present-day system of international gold currency, such paper money cannot be established permanently over a given area. But

in times of war, a state may be forced to issue paper money with compulsory legal tender as a temporary expedient.

A certain quantity of paper money, however, might maintain itself in moderate amounts, especially in a state possessing a good currency, even without creating any confusion. The consequences of the issue of a compulsory paper currency without any obligation of redemption on the part of the issuing state has always led to a depreciation of the paper money. This has had the effect of causing great confusion and insecurity in business intercourse so that the price of gold and silver tends to rise to a premium. Moreover, the purchasing power of paper money tends to fall, not only in foreign countries with which trade has been transacted, but also in the country of issue. The expression paper money in the sense here described means a non-interest bearing document with compulsory currency but without the obligation of redemption on the part of the state. Thus, to a certain extent the bank note and the cheque might also be looked upon as paper money. The non-interest bearing *Treasury Bills* with short currency, which are customary in England and which serve to cover a temporary need of money, are also paper money, but they run for a short time only and they are dealt in on the market the same as bills of exchange. For instance, a person may offer the Treasury £100 at 4 per cent discount. He would thus lend only £96, but would recover a Treasury Bill for £100. The long-dated Treasury Bonds have interest vouchers attached to them; hence they have the character of a kind of interest-bearing Government stock.

CHAPTER XII

CAPITAL AND ITS INVESTMENT

FINANCE. There are four classes of persons who are engaged in directing the flow of capital into the most profitable industries, and who are occupied in establishing a connection between those who have capital to invest and those desirous of finding employment for the capital of others. These are—

1. **Company Promoters.** These are persons whose business it is to find out those industries which are most in want of capital, and therefore, most likely to be able to offer a good return to the investor. As a rule, promoters do not act merely as brokers or agents whose business is to introduce the parties, but they step in as independent middle men. In short, they are traders in businesses or properties.

2. **Stockbrokers.** These are persons primarily responsible for finding the capital which is required by the promoters. They act as agents on commission for a great number of persons who, in varying degrees, have money to invest from time to time. Brokers serve a useful function in bringing together parties who are strangers to each other, but who may transact business to their mutual advantage. When an investor acquires shares in a company it is usually assumed that he has acquired something which is capable of being sold through the medium of a broker. Accordingly stockbrokers as a body confer on the capital of companies the quality of realizability.

3. **Underwriters.** The function of the underwriter is to guarantee to the promoter that at least a minimum amount of the capital which he is desirous of placing will be subscribed. Hence the underwriter really acts as insurer who undertakes to subscribe a given amount of capital if the public fail to do so. For instance, suppose the promoter was desirous of obtaining a subscription of £50,000, he may enter into agreements with underwriters who, among them, guarantee that the subscription list shall not fall short of that amount. The underwriters receive their commission

on the amounts they underwrite, whether or not they are afterwards called upon to take up any shares. If the issue goes well they get their commission and have nothing further to do with it. If the issue goes badly, they will have to take up the full number of shares they have underwritten and pay for them at their full face value. As they receive commission on the shares they underwrite, they really purchase them at a lower price than the general public.

4. **Bankers.** The legitimate function of a banker is to lend money on short loans which can easily be recalled. As a rule, he is not concerned with the permanent investment of capital in industry.

All these parties—the promoter, the stockbroker, the underwriter, and the banker—are interested in directing the flow of capital into the most profitable channels.

FORMS OF INVESTMENT. Anyone who has capital at his disposal can lend it in various ways. He can either lend it out for a *fixed* rate of interest or he can hand it over to an undertaking with a claim to participation in the profits of the business. Among loans bearing a fixed rate of interest are those which represent the acknowledgment of debt but which may or may not be issued against security. Examples are the loan of money against a claim on a piece of land which is known as a *mortgage*, the investment of money in a savings bank, the deposit of money with a banker; and lastly, an annuity. These forms of capital investment also find expression in the loan of capital to undertakings. Here, likewise, it is a matter of lending at a fixed rate of interest as in the case of a debenture, or even a preference share, or one of participation in the risks of the undertakings themselves in the shape of ordinary shares. The majority of persons investing capital do not lend it directly to the borrowers in person—though this direct intercourse still exists—but they rather lend it out by availing themselves of special institutions, e.g. banks, which effect the mediation between the demand for and the supply of capital. The increase of intercourse in the money market, the accumulation of capital and its far-reaching divisibility into small units or shares, have not only created the need for this special branch of trade, but they also provide the conditions which favour its success. On the one hand, it attracts the supply of capital whilst, on the other

hand, it satisfies the demand for the various kinds of employment of capital. This branch of trade is known as banking and finance.

SECURITIES. A distinction must be drawn between securities bearing a fixed rate of interest and those bearing a variable return such as *dividend warrants*. Amongst the securities bearing a fixed rate of interest are Government Stocks, municipal loans, the preference shares of railway and mining companies, and of other industrial concerns. In the main, the dividend bearing securities consist of ordinary shares.

STATE LOANS. A large portion of the loans dealt in on the money market consist of the debts of public authorities, especially of the central government and of the various municipalities. These are known as State loans. In the modern State system such loans can be arranged only with the sanction of the Government. As security for these loans, the property and revenues of the State are liable, and especially the taxable capacity of the people. A distinction is drawn between floating and funded debts. The former class consists chiefly of Treasury bills which are repayable within a short period so that their circulation is restricted. The following table gives a comparative statement of the debt contracted by the British Government for the years 1914 and 1922—

NATIONAL DEBT (IN MILLIONS OF £)

	1914	1922
Funded Debt	588	315
Term Annuities	30	16
3½ per cent Conversion Loan	—	690
Other War Loans	—	2,543
Short-dated Bonds	20	1,825
National Savings Certificates	—	367
Other Debt	—	1,074
,, Capital Liabilities	57	65
	695	6,895
Floating Debt—		
Ways and Means Advances	—	212
Treasury Bills	16	731
Total	711	7,838

Floating Debt. From the table on p. 101 it will be noted that since 1914 enormous sums have been borrowed by the Government from the Bank of England in the form of " Ways and Means Advances," and from the public on " Treasury Bills." The former method of borrowing was much used during the War to tide over a temporary shortage of Government funds, but originally this method was used to convenience the Government until the tax payments came in. The fact that no check exists on such Government borrowings which are in the hands of Government officials leads to discredit and disturbances. There is no such wide publicity as in the case of the issue of a large loan and the difficulty providing repayment tends to increase the amount of such borrowings, thus involving the nation in large interest charges.

In Great Britain the ordinary Treasury Notes must be distinguished from Treasury Bills which circulate only for a few months. Treasury Bills are dealt in like bills of exchange in amounts bearing a certain nominal value. In comparison with the funded debt of the State, these Treasury Bills play but a minor rôle.

Redeemable and Irredeemable Loans. State loans may be viewed from various aspects. For example a difference is made between *Redeemable* and *Irredeemable Loans*. In the case of the former, the debtor state is under the obligation to redeem the loan after the lapse of a certain period either by drawings or by repayment, but the latter are only redeemed when it is favourable for the State to do so. The method adopted is by purchase in the market and cancellation. An alteration of the rate of interest is known as *conversion*. Generally, it consists in the reduction of the rate of interest. Notice of the termination of the loan is given formally, but it is left to the option of the lender to decide whether repayment be effected at the face value or whether he prefers to keep his loan invested at the lower rate of interest. Moreover, we speak of *internal* and *external* debts according as to whether a loan has been floated at home or abroad. We speak of a *forced loan* where a state compels its subjects to lend money to the state according to their respective capacities. Such loans may become necessary in time of war where the state is unable to pay the interest accruing on its debts; where, for that reason, it reduces the rate of interest or suspends the payment of interest altogether, the state is said to become insolvent. States which are financially weak or which

have got into arrears with the payment of the interest to their debtors, or which have already become bankrupt, can obtain new credit only under aggravated conditions.

As a rule the State loans are thrown on the market by banks or by a syndicate of banks. There are, however, other methods of bringing loans on to the market, but they are of secondary importance, e.g. direct sale without the mediation of the banks. In the case of a loan being sold on the market through banks, the syndicate takes over the loan at a fixed price and sells it on the money market at a higher rate—this being known as the *subscription* or *market price*. The difference between the underwriting rate or price and the issued price, after the deduction of the expenses, constitutes the profit of the banking syndicate. Of course, it is within the bounds of possibility for the transaction to result in a loss to the mediating banks, but in view of the great caution exercised by the banks concerned, this loss very rarely occurs.

Apart from loans to the State, other concerns such as municipalities also issue loans for which they require the sanction of the State.

SHARES. Whereas the securities of public bodies are usually called stocks and bear a fixed rate of interest, business houses usually raise their capital by means of shares. A share certificate is a document indicating the amount to which the owner participates in the property of an undertaking. The shares represent a definite fraction of the capital, and may have a face value of any amount, but are usually for one pound A distinction is drawn between founders' shares, cumulative preference shares, preference shares, ordinary shares, etc. The names vary in meaning in different companies according to the wording of the articles of association.

Deferred Shares stand in the same relation to ordinary shares as the latter do to preference shares.

Founders' Shares are deferred shares allotted to the founders or promoters of a company and receive no dividend until the preference and the ordinary shares have been paid a fair dividend, e.g. they may be entitled to half the profits after a dividend of, say, 10 per cent has been paid on the ordinary shares. Founders' shares are sometimes offered to subscribers for ordinary shares, one founders'

share being given with so many ordinary shares as an inducement to subscribe freely.

Preference Shares. There are two kinds of preference shares, viz.—

1. Those which confer preferential rights as to dividend only; and

2. Those which give a preference in the distribution of the capital of the company in the event of a winding-up as well as in the payment of dividends in the meantime.

In either case the preferential dividend may be either cumulative, i.e. if not paid in one year then payable in full out of the profits of subsequent years; or non-cumulative, i.e. payable out of the profits of each year only. The arrears of dividend on cumulative preference shares are a contingent liability only and do not become due till profits are actually available for dividend purposes. A class of shares which has recently come very prominently into the public eye are *Cumulative Participating Preference Shares*, which are preference shares giving a cumulative dividend of, say, 6 per cent, and then having the right to participate in the remaining profits after the ordinary shares have received a certain percentage. For example, after the ordinary shares have been paid, say, 6 per cent preference shares get 25 per cent of the balance of the profits, the remainder going to the ordinary shareholders.

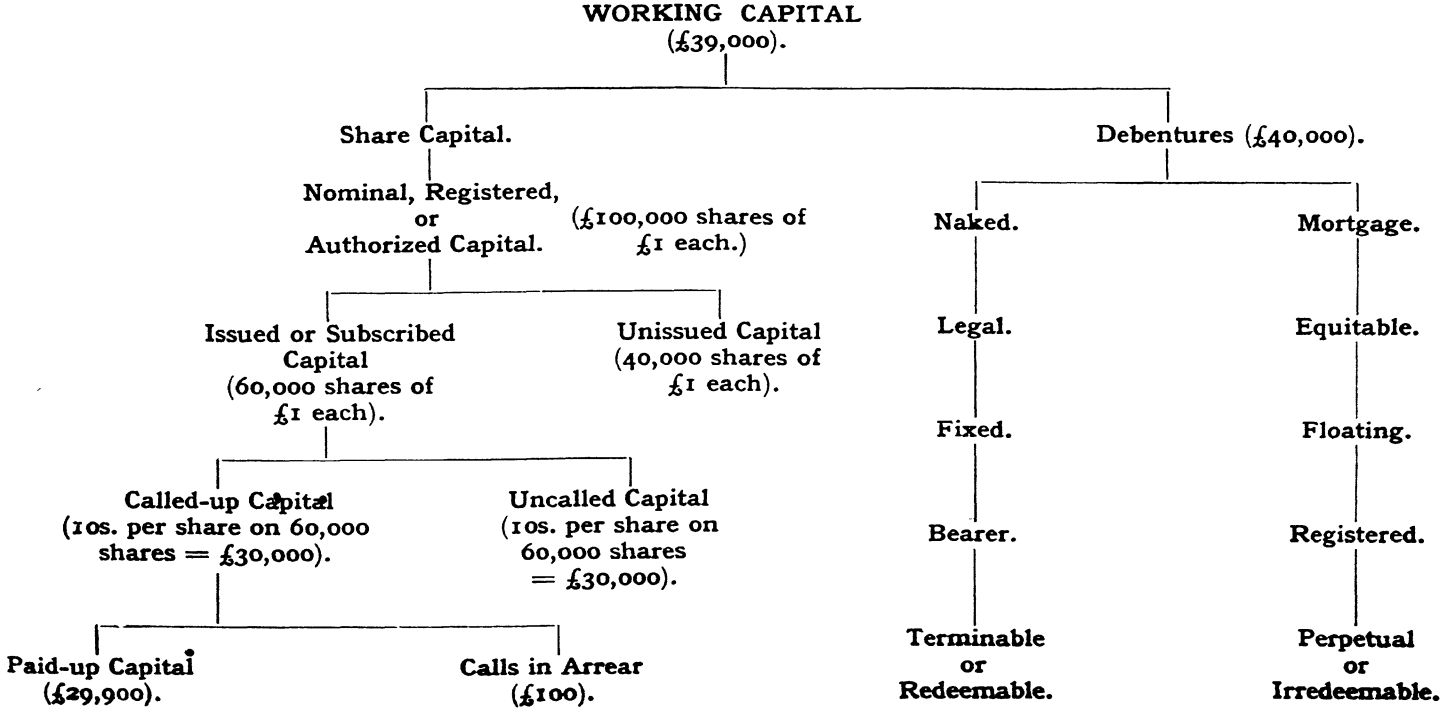
THE SHARE CAPITAL. The share capital of a company is usually divided into—

1. **Nominal, Registered, or Authorized.** This is the amount set out in the memorandum of association as the maximum amount of capital which the company has power to issue; for example, 100,000 shares of £1 each. The stamp duty payable on registration is based upon this sum.

2. **Issued and Subscribed.** This is the capital represented by the number of shares that have been issued to the public for cash and to the vendors as fully or partly paid; for example, £60,000, thus leaving £40,000 unissued capital to be issued later if the directors wish.

3. **Called-up Capital.** This is the amount of money called up on the shares actually issued. A company does not necessarily require the full amount at once on the shares it has issued, and therefore calls up only such as it needs, hence the use of the term.

THE WORKING CAPITAL OF A COMPANY



(Share Capital, £29,000 + Debentures, £40,000) – Purchase Price of Business, £30,000 = Working Capital, £39,000.

For example, if 10s. per share is called up on 60,000 shares of £1 each, the total amount called up equals £30,000 leaving £30,000 still untouched.

4. **Paid-up Capital.** This is that part of the called-up capital which has actually been received in cash by the company. For example, of the £30,000 called up only £29,000 was received, thus leaving £1,000 unpaid as calls in arrear.

5. **Working Capital.** This is the amount left, after purchasing a business, with which to carry on the undertaking. From the diagram on page 105 it will be seen that the term also includes debentures which are not really capital in the strict sense. Thus, if a company raised an initial capital of £69,000 from the sale of shares and debentures, and paid £30,000 of it for a business, then £39,000 would remain as working capital.

DEBENTURES. The investment of capital also takes the form of debentures. A debenture is simply a debt, the word being derived from the Latin *debeo*, meaning "I owe." A debenture holder in a company is therefore a creditor of the company. Further, the debt is secured on the whole or a portion of the company's property, and an instrument is drawn up to that effect. Hence a debenture is an instrument executed under the seal of the company charging the whole or a portion of its assets in favour of the holder or holders, as security for a certain sum of money. It also provides for the payment of interest at a certain definite rate so long as the principal is not repaid. When debentures are consolidated they are known as *debenture stock*. Debenture stock has the same attributes as regards charge, security, and interest, except that the stock is capable of being sub-divided.

The usual provisions of a debenture are—

1. A covenant for the repayment of the principal after a named date.

2. A covenant for payment of interest at a named rate.

3. A statement charging with such payments its undertaking and all its property whatsoever and wheresoever, both present and future, including its uncalled capital.

4. Issued subject to conditions endorsed on the back. These conditions refer to mode of transfer; right to inspect the register; provisions for repayment at an earlier date, if necessary; place where interest is payable, etc.

The following are the chief kinds of debentures—

1. **Naked Debentures.** These consist of a mere promise to pay without any security being given for payment of interest or repayment of principal.

2. **Mortgage Debentures.** Those which are secured by a first charge on all the undertakings and assets of the company.

3. **Fixed Debentures.** Those secured by a charge on the fixed property of the company.

4. **Floating Debentures.** Those which are secured by a floating charge on the company's property. This enables the company to deal with its circulating assets in the ordinary course of business.

5. **Legal Debentures.** Those by which the legal ownership of property is transferred to the mortgagee as security for a loan. It is created by deed.

6. **Equitable Debentures.** Those in which title deeds are deposited with a memorandum in writing charging the property.

7. **Bearer Debentures.** Those payable to bearer and which are transferable by mere delivery.

8. **Registered Debentures.** Those payable to a registered holder the transfer of which must be registered with the company.

9. **Terminable or Redeemable Debentures.** Those which provide for repayment of the principal sums upon a given date or upon notice.

10. **Perpetual or Irredeemable Debentures.** Those which are issued on condition that the principal sums secured are repayable only on default of payment of interest or on the winding-up of the company.

Shares participate in the profit of the undertaking, whereas in the case of debentures the interest charge is made prior to the ascertainment of profit. Unlike debentures, the essential characteristic of all shares is that the interest is not a fixed quantity but varies according to the success of the company. From an economic standpoint, the difference between a security for a debenture debt and that for a share is not very great, for the business undertaking assumes the position of the debtor in regard to the shareholders; the great mass of the shareholders are no longer conscious of the fact that by their possession of shares they are the owners of a certain undertaking. Of course, the conditions are different where an individual owns a very large number of shares in one undertaking.

THE MONEY MARKET. Intimately connected with the operations of capital investment is the London Money Market, which is composed of the Bank of England, the great joint-stock banks, bill-brokers, and financial houses. The market is economic in its nature ; that is to say, its existence is the result of modern economic conditions, which require that a medium shall exist whereby credit facilities may be obtained at a minimum cost to the trader and *entrepreneur*, and whereby money which would otherwise remain idle may be used to advantage.

The Money Market may be said to centre upon the Bank of England, because this institution by the management of the ultimate gold reserve of the country through its official rate of discount, i.e. the Bank Rate, is both able and is expected to manifest the greatest influence in times of financial difficulty. The outside banks contribute to the short loan fund of the market by the use of deposits of customers in their hands ; whilst the brokers and discount houses which employ these short term advances deal in bills of exchange arising out of commercial transactions. Similarly, Stock Exchange operators use day-to-day money from the banks to finance their purchases of stocks and shares.

The interconnection of the supply of money and the demand for it depends on the general state of trade and credit of the nation as a whole ; its relations with other countries ; and fluctuations of a seasonal or temporary nature, such as a rise after harvest shipments and payment of the yearly taxes. The result is that the deposit rate allowed by the banks, the loan rates, and rates for discount of bills in the market are intimately connected with foreign exchange rates, and above all, with the Bank rate. The latter is most influential in times of stringency, since an increase in the rate is followed by the calling in of loans on the part of other banks, and a tendency to contract advances and reduce overdrafts. The market rates, therefore, rise in sympathy, and a general weakness in the prices of securities ensues, due to an all-round desire to liquidate by sale, and the increase in the interest rate.

In normal times, however, money, or rather the use of it, is freely obtainable on ordinary security, and the major portion of the banks' resources is employed in the market in some way or another.

Until quite recently it was customary for the bill-brokers to meet in the Royal Exchange twice a week. This practice has now been

discontinued so that the money market no longer exists in the physical sense. Nevertheless, the position of London as the world's greatest financial centre is dependent on the activities of those institutions which comprise the " market," intangible though that market may be.

CHAPTER XIII

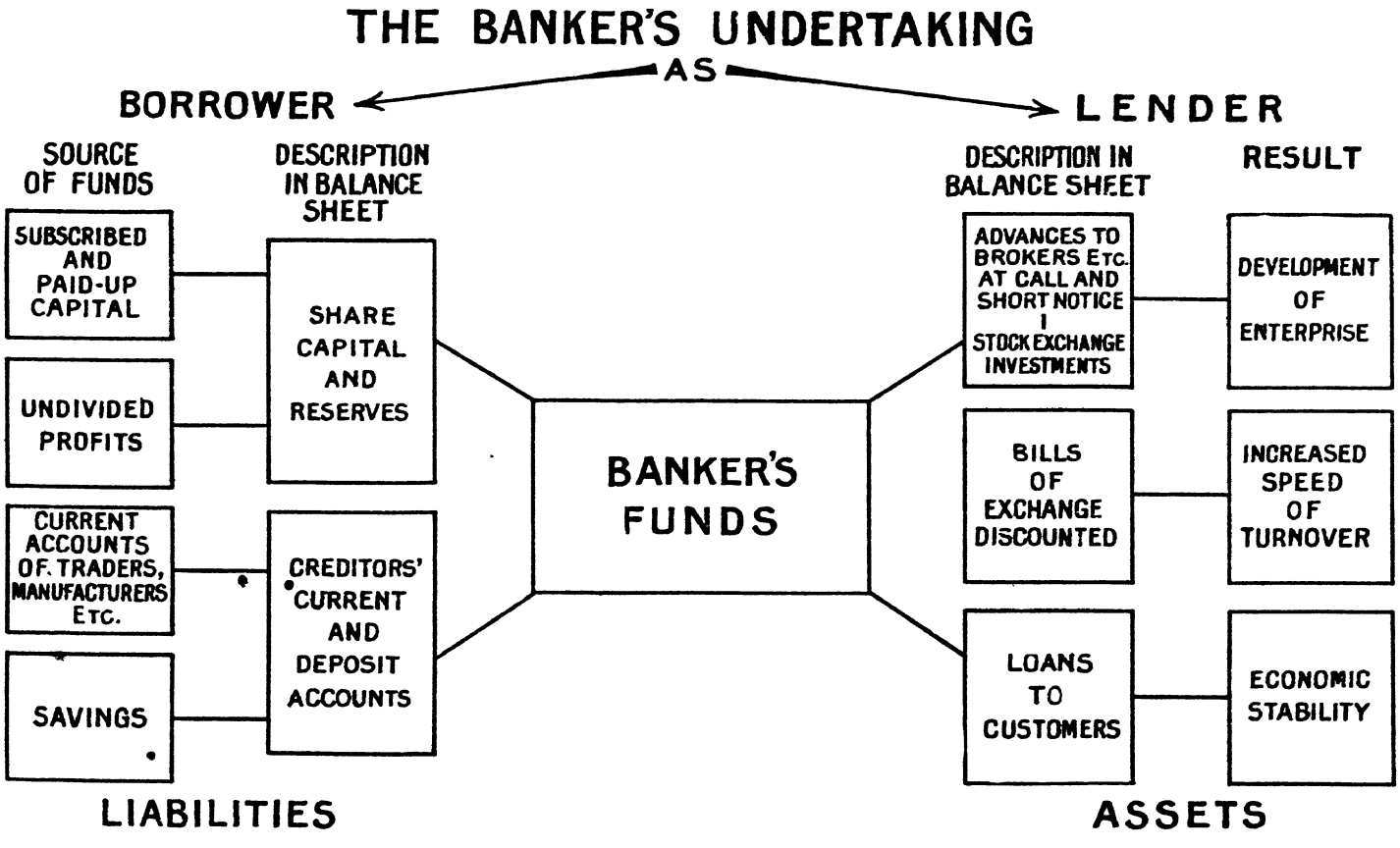
THE BANKING BUSINESS

ECONOMIC ADVANTAGES OF BANKING. In his work, *Lombard Street*—a description of the Money Market—Walter Bagehot describes the advantages of the accumulation of money in banks—

> A million in the hands of a single banker is a great power ; he can at once lend it where he will, and borrowers can come to him, because they know or believe that he has it. But the same sum scattered in tens and fifties through a whole nation is no power at all : no one knows where to find it or whom to ask for it. Concentration of money in banks, though not the sole cause, is the principal cause which has made the Money Market of England so exceedingly rich so much beyond that of other countries.

What Bagehot praised more than fifty years ago in the English banking system, and especially in the banking department of the Bank of England—the sole reservoir of Europe where at any time gold was obtainable on demand—also applies to-day to the banking systems of other countries. Stocks of cash and other liquid capital are accumulated by the banks and transferred into those hands which can profitably invest them, but who can also give guarantees in regard to repayment. This granting of credit is of the highest economic significance. It knows no frontiers between town and country, and money is transferred from one continent to another by means of the cable almost as quickly as to an inhabitant of the same place. The highly developed cheque and clearing system facilitates trade in the same locality as well as between different towns and countries. Indeed, the greatest distances have been overcome—thanks to the progress of modern technique and the highly developed system of banking.

FUNCTIONS OF THE BANKER. A banker may be regarded as a professional borrower and lender. (See diagram, page 111.) His chief function is to collect the various streams of unused purchasing power or savings in one fund, and then to lend these savings to persons who can put them to profitable use. For the money lent to the undertaking the banker has to pay interest, whereas for the money lent out he receives interest. The economic


THE BANKER'S UNDERTAKING
AS
BORROWER
LENDER
SOURCE OF FUNDS
DESCRIPTION IN BALANCE SHEET
DESCRIPTION IN BALANCE SHEET
RESULT
SUBSCRIBED AND PAID-UP CAPITAL
UNDIVIDED PROFITS
CURRENT ACCOUNTS OF TRADERS, MANUFACTURERS ETC.
SAVINGS
SHARE CAPITAL AND RESERVES
CREDITORS' CURRENT AND DEPOSIT ACCOUNTS
BANKER'S FUNDS
ADVANCES TO BROKERS ETC. AT CALL AND SHORT NOTICE
STOCK EXCHANGE INVESTMENTS
BILLS OF EXCHANGE DISCOUNTED
LOANS TO CUSTOMERS
DEVELOPMENT OF ENTERPRISE
INCREASED SPEED OF TURNOVER
ECONOMIC STABILITY
LIABILITIES
ASSETS

aim of a banking undertaking is to obtain a greater amount of interest from the employment of the sums handed over to it, than the amount it pays itself. The greater the difference between the two items, the greater is the profit. This circumstance results in the fact that the profits of the banker depend on the magnitude of the turnover. If large sums of money are borrowed at a relatively low rate of interest and then lent out at a higher rate there will result a profit, the extent of which will depend upon the magnitude of the business done. In the banking business, therefore, it was natural for the large-scale undertaking to experience a rapid and permanent development at the expense of the smaller undertakings. This was particularly the case where the market area was well equipped with the modern means of communication among which to-day must be included not only the railways and the post, but also the telegraph and the telephone.

At the present time the large banks dominate the market to such an extent that the small banks have sunk into comparative insignificance. As intermediaries between the supply of and the demand for money and capital, the banks also act as agents or regulators of credit, for persons requiring money and capital are receivers of credit. The banks meet this demand for credit by themselves receiving credit from people who want to invest their capital. For this purpose the banks require a working capital of their own, whilst in their undertakings the employment of labour-power plays a modest though not unimportant rôle. The work is of a mental and clerical nature, and manual work is quite inappreciable.

NOTE ISSUING BANKS. A distinction may be drawn between the various kinds of banks, but it is necessary to describe here only the most important types and their leading characteristics. The *note issuing banks* have the exclusive right to issue bank notes. For this reason they are subject to certain regulations which keep in view the fact that these banks must be in a position to convert into gold the notes presented to them at any time. This in itself is a reason why all business is avoided which is detrimental to the security of their investments, and only such business is done as makes possible the rapid liquidation of the investments. The note issuing banks therefore buy good bills of exchange from commercial people for bank notes, and in return for this service they receive a deduction from the face value of the bill in the form of a discount.

On the due date they collect payment of these bills. This is an exception to the ordinary form of banking business in that they do not receive credit but give it to the credit seekers in the form of bank notes after a certain rate of interest has been deducted. They become liable for the bank notes issued only in so far as they are obliged to give gold for the notes presented. Their profit results from the total amount of interest received on the discounted bills. Of course, the banks of issue discount only those bills which conform to specified conditions. Even with such restrictions, however, there is still the risk that the bank of issue may be flooded with bills which are beyond its capability to meet. For this reason regulations have been made which are intended to prevent such an occurrence. Amongst these measures must first be mentioned a change in the *bank rate*. Where the incoming bills become so numerous that the issue of notes exceeds the amount which must not be transgressed in regard to the redemption of the notes in gold, the note issuing bank must resort to the means of increasing the rate of discount which simply means that the discounters must submit to a larger deduction from the face value of the bill. In the first place, this change of bank rate affects the large undertakings which are accustomed to discount bills with the Bank of England, and who in their turn discount the bills of their customers. The increase in the discount rate of the Bank of England has its immediate effect on the whole trade in bills. It makes it more expensive and more difficult, and in consequence there are fewer bills discounted. The increase in the discount, of course, reduces the profit on the business transactions to which the bills owe their origin, and this must have an impeding effect in regard to the issue of new bills or the discounting of bills which are already in existence. On the other hand, if the bank of issue does not wish the amount of the bills handed in for discount to decrease too much, it must reduce the discount rate; otherwise, the bills may be discounted more cheaply by other institutions. In this way, the discount rate of the Bank of England is formed, and this rate plays an important rôle in the fixing of the interest on loans throughout the country. On the other hand, however, the Bank of England must also protect its stock of gold in relation to foreign countries.

With an increased rate of interest in foreign countries, the payment in bills becomes more expensive than payment in gold. To

prevent the export of gold to foreign countries, the Bank of England therefore often decides to increase the discount rate which again renders possible payment by means of bills of exchange. Thus, as a note issuing bank the Bank of England performs a double function—on the one hand, it has to regulate by its discount policy at home the circulation of bank notes so that their redemption in gold may be secured ; on the other hand, it has to protect its stock of gold to prevent exportation to foreign countries. In addition to its discount business the Bank of England also does other work such as the lending of money on security but, as the sole bank of issue in England, its principal activity consists in the discounting of bills and the issue of bank notes.

SAVINGS BANKS. In order to collect the small amounts of money which the private households may be able to save and to lend out in the shape of capital, savings banks have been established. As a rule these are not profit-making undertakings but they are called into being by the State, e.g. Post Office Savings Banks. In this way sums of money are collected which, as individual items, would otherwise be lost to the market.

The systematic attraction of the smallest amounts, however, accumulate funds which play an important rôle especially in the granting of loans on mortgage. Hence savings of the small investor which have been put by for a rainy day are transformed into capital. The fact that the savings bank investments bear a rate of interest, small though it may be, acts as an inducement for people to collect these small sums into certain undertakings where they are lent out as capital especially on mortgages. The savings bank moneys are also invested in Government, municipal, and other corporation stocks. As the savings are subject to withdrawal by the investors, it is in the nature of savings banks to invest their moneys with due regard to such withdrawals. On the one hand, the absolute safety of the investment must be kept in view, but, on the other hand, regard must be had to the possibility of the investors wishing to withdraw their savings. For these reasons the rate of interest in savings banks is below the customary rate ; this is natural when it is remembered that likewise the money lent out by the savings bank must be made at a low rate. Further, the expenses of administration in view of the numerous small customers are rather high, and for this reason it is very difficult for undertakings which

aim at a profit to compete with the Post Office Savings Bank. The moneys collected by the savings banks have had a remarkable influence upon the process of the formation of capital. The whole country is covered with a network of savings banks extending right into the smallest village, and they attract the most insignificant savings of private individuals so that these very small individual amounts may be employed in a beneficial manner. Many a mortgage on a large estate owes its origin to the small savings of servants, workmen, etc., and these savings participate in the revenue derived from the capital, though in a very small degree. Thus, even the smallest items of money saved, which, as individual items, would not enter into consideration as capital, are brought into the money market and become subject to economic employment.

The savings banks take credit from the smallest savers in order to accumulate these moneys to such an extent as to enable them to give large credits. This is the character of these peculiar credit institutions which, however, in some ways occupy a unique position ; yet, in the last resort, they must be included as banks, although their object is not so much the making of profit as it is with ordinary banks. They serve the same end, however, in so far as they absorb superfluous savings and convert them into capital.

INSURANCE COMPANIES. It is a controversial question whether or not insurance companies should be included amongst banking undertakings. At any rate, in many respects they bear a close relationship to banks. For this reason it will now be convenient to consider these companies. The whole course of human life is subject to certain risks which cannot be foreseen either by the individual or by the undertaking. The frequency with which such risks occur within a large area can be ascertained, however, as well as their average rate of occurrence in regard to the individual or the undertaking. In view of the fact that every undertaking is exposed to these risks, whilst only a certain percentage are actually affected by them, the risk can be borne by the total number of persons or undertakings interested if the latter can be persuaded to accumulate contributions in order to indemnify themselves against loss or to reduce the risk of loss. The insurance against a certain risk is thus carried out on a business basis by a certain undertaking collecting these contributions in order to pay out the indemnities. In this way we set up the insurance

undertakings. The probability that a loss may occur at a certain moment, the fact that a number of people are exposed to this risk, and the uncertainty as to who might be affected by it are the main factors in insurance.

The insurance business aims, on the one hand, at accumulating a fund by collecting contributions or premiums and from this fund the promised indemnities can be paid in the event of loss. The capital collected by the undertakings is lent out and by this means a revenue accrues in the form of interest. In addition to covering its expenses the undertaking has likewise to make a profit on its capital. Insurance is carried on not only by business undertakings but also by municipalities and governments. In addition to the insurance companies mention should also be made of mutual insurance associations which carry on insurance on a kind of co-operative basis. According to the nature of the insurance a distinction is drawn between life, accident, sickness, fire, and burglary, and, in particular, insurance against the risks of transport. In order to minimize the risk borne by insurance undertakings, there exists a system of re-insurance, by which the risk in certain cases is not borne by one but by a number of undertakings. From an economic standpoint insurance has brought about a tremendous accumulation of capital which considerably influences the supply side of the money market, and for this reason insurance companies should be discussed in conjunction with banks. The investments of insurance companies are made chiefly in the form of mortgage loans and loans to public bodies. With the development of a system of insurance the funds of insurance companies have accumulated into such a vast sum that the capital of these institutions represents an important rival to that of the deposit and savings banks.

CHAPTER XIV

THE STOCK EXCHANGE

NATURE OF AN EXCHANGE. In contrast with the commodity "labour," the market for securities is highly organized. The available demand is brought into contact with the available supply in certain places appointed for dealings in securities and thus a central market is created where business is conducted in accordance with certain prescribed regulations. These places are known as *Stock Exchanges* or simply Exchanges, but in this connection it must be noted that there are also organized markets for dealing in goods, known as "produce exchanges." An exchange may therefore be defined as *a meeting of buyers, sellers, and middlemen which occurs regularly in a certain locality at a stipulated time for the purpose of dealing in securities or in certain kinds of goods.* The latter is known as a produce exchange, whilst the former is a stock exchange.

The development and organization of the Money Market has created a large number of securities which are the subject of continual dealings on the various Stock Exchanges. New capital has to be raised from amongst the members of the public, old securities have to be sold, whilst the owners of capital are desirous of investing their wealth in the different kinds of securities. In short, there is a continual demand for, and supply of, capital in the form of securities.

In addition to dealings in securities, there are also transactions in bills of exchange and other forms of money. At any rate, the function of the exchange is to centralize demand and supply in a market serving a definite area, to focus the prices of securities through the forces of demand and supply, and to carry out buying and selling instructions.

FORMS OF DEALING. Dealings on the Stock Exchange are subject to minute regulation. Admission to an exchange is subject to certain preliminary conditions in regard both to the securities dealt in and to the persons who conduct business on the Exchange. This is quite natural when it is remembered

that not all dealings in securities are effected on the Exchanges, but only the most important section of the market in securities, viz., the organized part of it. The banks in particular carry on business both in those securities which are officially quoted on the Exchange and in those which are not admitted to the Exchange. The large banks, for instance, execute instructions from their customers for the purchase or sale of securities outside the Exchange, of course always with due regard to the prevailing official quotations on the Exchange. The official exchange price is fixed by the jobbers on the basis of their orders to buy and sell individual securities. On the Exchange, however, the market price of securities is subject to constant fluctuation. The various members, and especially the large army of outside brokers, deal continually at prices which are by no means tied to the official quotation, although naturally due regard is paid to this quotation.

Speculation on the Exchange. Buyers and sellers, however, are always trying to influence the market to their own advantage, that is, they strive to manipulate prices so as to derive the largest possible benefit in the execution of their own transactions. The organization of business on the Exchange has led to a form of dealing which derives its profit almost exclusively from the rise or fall of the quotations. If I buy a security at a certain price in the hope that this price may rise, or if I sell in the expectation that the market price may fall, and my expectation is realized, I gain the difference in the two prices. This activity—known as speculation—has assumed large dimensions in Stock Exchange business. The principal kind of securities which lend themselves to this method of dealing are shares, that is, dividend-earning securities. The mass of the public who transact exchange business through the banks or through brokers do not seek investment in these shares, but rather look for profit arising out of the continual fluctuations of market prices. Of course, for persons who have an insight into the various companies, it is easy to influence the prices of these dividend-bearing shares. In general, the quotations are dependent on the prevailing state of the market, the bank rate of discount, and the anticipated dividend of the security. In regard to the shares of individual companies, a certain price tends to be formed in the course of time, which is based upon the financial condition of the particular company. This market price is not a fixed

quantity but fluctuates continually and within fairly wide limits.

The price is often expressed by substituting the figure 100 for the face value of the share, and if the market price stands at this point it is said to stand *at par*; if it falls below this point, it stands at a discount. Where, owing to certain reports, the buying public concentrates on a particular security, it stands to reason that its price will be forced up without any well-founded reason, whereas in the reverse case where there is an excessive desire to sell, the paper tends to fall in price. For the correct adjustment of the market price there is no proper standard, for neither the buying nor the selling public, nor the intermediaries require the securities for permanent investment, but merely as a means to an end; that is, they buy in order to sell at a profit when the quotations rise, or they sell in order to buy more cheaply in the event of a fall in prices.

CASH AND CREDIT DEALINGS. Purchases and sales on the Exchanges are conducted according to prescribed rules. A distinction is drawn between—

1. Cash transactions, and
2. Dealings for the Account.

In the case of cash transactions the business is settled at once; that is, usually on the first or second working day after the contract has been concluded. A person gives instructions to a broker to buy a certain quantity of a certain security at a fixed price. After this has been done, the buyer must immediately remit the amount to the seller in exchange for which he receives the securities. Where the buyer desires to speculate, he will deposit a certain amount with the broker as a security to cover any loss which may possibly occur. Owing to competition between the brokers, these deposits or margins are relatively low. The broker does not give to the buyer the security acquired, but he keeps it in his own possession until the purchaser instructs him to sell the security. The sale takes place if there is a *rise* in prices. Likewise, the customer may also sell in expectation of a *fall* in price, and then he can cover himself at the lower figure. In this connection the broker also accepts instructions for carrying out the operation in return for a certain remuneration and against security. However, it is easier for the customers to speculate because in dealings for cash the security sold must be delivered, whereas in dealings *for the account*

this is not necessary. In order to make it possible to sell without the actual possession of securities the Stock Exchange has introduced dealings "for the account" which differ from "cash" dealings in the fact that a certain period intervenes between the date of settling the transaction and the date of its execution, and within that period the seller may buy the securities which he is obliged to deliver. On the London Stock Exchange the Settlement takes place every fortnight. For instance, if a speculator on the Exchange is of opinion that the price of a security which is the subject of future dealings is going to fall, he will sell a large amount of this security at the beginning of the month to a third party. If the rate actually drops the speculator awaits the lowest possible price, at which he then buys the security; if he sold at £156 and bought at £150 he would make a profit of £6, so that if he has bought £5,000 worth he would make a profit of £200. At the end of the month he would deliver the securities he bought to the person who has bought them from him. This is the manner in which business *for the account* is transacted on the Stock Exchange. Between the time of the making of a contract and its execution there is a certain period intervening which makes it possible for both contracting parties to utilize the change in price which has occurred in the meantime.

OPTIONS. In order to limit the risk of loss there are some further kinds of transactions on the Stock Exchanges known as *options*. An option is the right which a person has of either buying or selling a certain amount of stock or of shares at a fixed price on a certain day. For this privilege the person has to pay a small percentage sum as consideration. Options are of three kinds. A "put" option is the right to sell; a "call" option is the right to buy the stock or shares; a "put and call" option or a "double" option is the right to buy or to sell so much stock or shares at a fixed price on a certain day.

Options are not confined to Stock Exchange transactions but are frequently met with on the Produce Exchange. Thus, a merchant anticipating a rise in the price of cheese could purchase a call option on, say, ten tons at 80s. per cwt., during the following two months. If during this period the price rose to 90s. he could exercise his option by buying at 80s., then sell at current price and pocket the difference, less the cost of the option.

If, on the other hand, the same merchant had anticipated a fall in the price of cheese, he could have bought a put option and, had the fall supervened, sold his cheese at a price above market rate.

Had he been doubtful whether to anticipate a rise or a fall, he could have prepared for either eventuality by buying a double option, that is, a right to buy or to sell in the future. This would cost twice as much as a single option. Thus it is seen that an option is a form of insurance against a rise or a fall in prices.

TIME DEALINGS. Time bargains may also be *carried over* which process is effected by a system of mortgage. Through dealing for the account, it is possible to reduce the risk associated with monetary transactions and thus work in the direction of a greater steadiness of prices. It also affords to the pure speculator a wide field of activity for that kind of speculation which simply and solely utilizes fluctuations in order to derive a profit from the differences. On many Exchanges time-dealings are prohibited, or at least greatly restricted. In the opinion of many people transactions in futures have degenerated to a large extent into speculation in differences, since the various buyers and sellers have no intention whatever of taking up or of delivering the securities, but want merely to derive a benefit on the differences which arise between the buying and selling prices. This may be made clear by means of an example. Let us suppose that ten persons named A to K are engaged in dealing in the same kind of security for the account. The transactions are as follows—

A buys £1,000 worth of the security from G and thus G sells £1,000 worth ;

B buys £1,500 worth from H and thus H sells £1,500 worth ;

C buys £750 worth from I and thus I sells £750 worth ;

D buys £1,500 worth from K and thus K sells £1,500 worth ;

E buys £1,250 worth from F and thus F sells £1,250 ;

A sells £2,000 worth to F and thus F buys £2,000 worth ;

B sells £500 worth to K and K therefore buys £500 worth ;

C sells £1,750 worth to I and I thus buys £1,750 worth ;

D sells £250 worth to H and thus H buys £250 worth ;

E sells £1,250 to G and G buys £1,250 worth.

A total of £11,750 worth of the security has been turned over and the accounts of the various parties stand as follows—

A buys £1,000 worth and sells £2,000 worth ; he has therefore to deliver £1,000 worth ;

B buys £1,500 worth and sells £500 worth and therefore must take up £1,000 worth ;

C buys £750 worth and sells £1,750 worth ; he has therefore to deliver £1,000 worth ;

D buys £1,500 worth and sells £250 worth ; he has therefore to take up £1,250 worth ;

E buys £1,250 worth and sells £1,250 worth so that his account is balanced ;

F buys £2,000 worth and sells £1,250 ; he must therefore take up £750 ;

G buys £1,250 and sells £1,000 worth and must therefore take up £250 worth ;

H buys £250 worth and sells £1,500 and has therefore to deliver £1,250 worth ;

I buys £1,750 worth and sells £750 worth and has therefore to take up £1,000 worth ;

K buys £500 worth and sells £1,500 worth and has therefore to deliver £1,000 worth.

If we now examine how much has to be delivered and how much to be taken up, the result is that a turnover of £11,750 has been balanced by a delivery of £4,250 as follows—

A has to deliver to B £1,000 worth ;

C has to deliver to I £1,000 worth ;

H has to deliver to D £1,250 worth ;

K has to deliver to F £750 worth and to G £250 worth ;

E has balanced his account.

These are the respective amounts to be delivered or to be taken up. In addition, however, the differences which have resulted from the fluctuations in the exchange prices have also to be taken into account. A, for instance, buys from G £1,000 worth at the exchange price of £150 and has therefore to pay to G £1,500 ; he sells to F at £155, that is, he has to receive from F £3,100. These sums are not actually paid, but only the differences which have arisen between the price at the date of settlement and the buying or selling price respectively. If the price at the date of settlement is £152,

A has to pay to B for each £5 of stock bought the sum of 2s. or £20 altogether, and he has received 3s. for each £5 worth of stock sold to F or a total of £60.

The difference in favour of A is therefore £80. The solution is as follows: A buys £1,000 worth at £150 from G, that is, he pays to him a total of £1,500. This £1,000 worth he sells at £155 to F and receives from him £1,550. However, he has not sold £1,000 worth but £2,000 worth at £155, and for the other half he receives £1,550. This second £1,550 worth, however, he must deliver to B at the rate of liquidation. This rate is £152, which is 3 per cent lower than the rate at which he has sold the securities. At the time of delivery he therefore pays only £1,520 instead of £1,550. Since he has sold at £1,550 he has realized a profit of £30 or a profit of £80 on the whole of his buying and selling operations.

THE LONDON STOCK EXCHANGE. The London Stock Exchange has existed in its present form since 1886, when it was reorganized. It resembles a club in that all its members become such by election. Each member must apply for re-election each year. The committee consisting of thirty members is elected yearly. Each member when recording his vote, must vote for thirty members—no more and no less; otherwise the paper is void. The committee has power to expel a member for misconduct or other reasons. In modern times the power is not often exercised, but during the Great European War measures were taken to exclude persons of enemy nationality.

The members of the Stock Exchange are divided into two classes, viz., brokers and jobbers. The jobber acts as a principal. He generally specializes in a few classes of securities and is always to be found in a certain corner of the Stock Exchange. He is a dealer and works for his own book. When asked to give a price he quotes his buying and selling price for the stock in question, and is bound to deal up to a reasonable amount at those quotations. The jobber looks to the broker for payment or delivery just as if the latter were a principal.

The broker acts as agent for a member of the public, for another broker, or for a jobber. To the customer he could not be legally responsible for any failure of a jobber to meet his engagements, but such an action would be fatal to his reputation. The broker buys or sells stocks and shares, arranges for the delivery of money

or shares, the filling up of the transfers, and the obtaining of the stock or share certificates. In order to have a good market all the members must have their offices near the Stock Exchange.

A jobber is not allowed to deal directly with members of provincial exchanges.

PROCEDURE ON THE LONDON STOCK EXCHANGE. When a contract is made on the Stock Exchange it has to be carried out at the next settlement. In the case of most stocks and shares there are fortnightly settlements. The settlement extends over three days. The first day is known as *Contango* or *Making-up* day, when any contracts which are carried over are arranged for. The second day is called the *Ticket* or *Name* day, when the brokers' receipts for stocks are delivered. On the third or *Settlement* day, delivery of the stock or money is made.

The broker must act for his client in all matters appertaining to the transfer of the stocks. If *bearer* securities have been bought these are handed over. In the case of *Inscribed Stock*, the broker and jobber must attend at the Bank of England in order that the transfer may be made in the books of the Bank. In the case of *Registered Stock*, the jobber hands the broker a certificate of transfer which has to be registered with the Company or Corporation so that a Stock or Share Certificate may be issued to the buyer. The money in payment is paid over on *Settlement Day* when the stock is delivered.

The actual delivery of stocks and shares on settlement is made by means of a clearing, when the transactions in each security are reduced by set-off to one account, and a broker who has to receive stock receives a ticket telling him from whom he will receive, and if he has to deliver the stock, he will be informed in similar fashion when he has to deliver it. In this way much unnecessary work is avoided.

The advantages of the system of settlement on the Stock Exchange are that the attention of brokers and jobbers can be focused on buying and selling only, during the greater part of the month. The settlement of accounts at one time avoids unnecessary deliveries; a fortnightly settlement is also a healthy means of removing speculators from the market when they are getting involved to an extent more than they can afford.

COMPETITION ON THE STOCK EXCHANGE. On the Stock Exchange there is a continuous and keen competition. Profitable

investments are in great demand by owners of capital, and this competition tends to depress the rate of interest on securities to an average rate corresponding, as a rule, to the so-called discount rate. This depressing occurs in a very striking manner, for the capital value of the object behind the investment increases almost automatically. For instance, if the discount rate is 4 per cent and the capital investment promises an interest of 8 per cent, competition on the Stock Exchange will succeed in driving up the value of the security in question to a height which is necessary to make the interest only 4 per cent. If the value of the investment is £100 as a result of competition on the Stock Exchange, the value would soon be driven up to £200. If, therefore, owing to certain causes the profit on a security increases, the higher rate of interest is immediately capitalized, that is, it finds expression in the higher valuation of the capital investment. This is applicable to all capital invested in undertakings or to the securities represented by them. The rate of interest for capital remains the same, but the process of capitalization has doubled the momentary value of the capital-goods. However, on the whole, the conditions of the Stock Exchange are not quite so simple as in this example. At any rate, the fact should be remembered that the increased amount of capital invested in production does not manifest itself exclusively in a higher rate of interest on capital; but the more the capital-goods are exposed to the influences of the Stock Exchange, the more do the securities tend to increase in value. Hence, owing to this higher valuation with an equal rate of interest, capital takes an increased share in the results of production. This increase in price of the securities is the consequence of competition on the Stock Exchange. Amongst the investors of capital, however, competition is manifested in such a way that, with the increasing inequality in the distribution of capital, the large sums controlled by a single individual enter into competition with the smaller items of capital. Where the ownership of capital is concentrated in a single person, it can more easily afford to take a lower rate of interest.

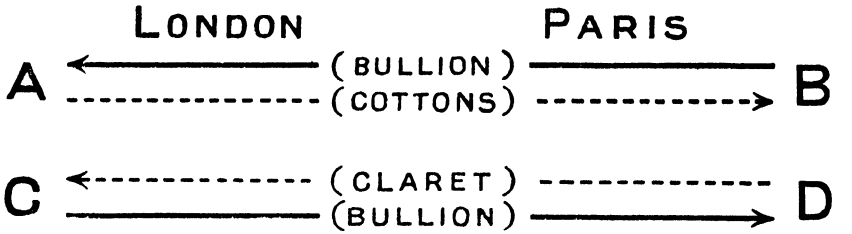
The owner of many thousands of pounds can easily secure a large income with a low rate of interest, whereas the owner of a few hundreds will be desirous of investing his capital so as to obtain the highest possible rate of interest. The risk will therefore be less in the case of the large capitalists than in the case of the smaller

ones ; the latter, for the sake of a high rate of interest, will have to accept risks. There is also a competition on the Stock Exchange for the rate of interest, which so operates that small sums of capital in the hands of a single individual tend to have less value than formerly. With the accumulation of capital in the hands of individuals and with the tendency to place a higher value on the securities of large-scale concerns this competition will become more accentuated, especially where small capital investments fail to yield a return appreciably larger than the general rate of interest. There are forces which work in opposition to this process, but they are unable to arrest the general development which is taking place under the influence of competition, and at most they can only retard it temporarily.

CHAPTER XV

FOREIGN EXCHANGES

NATURE OF FOREIGN EXCHANGES. We are now to enquire how the debts which arise in international trade may be settled by credit documents in the form of bills of exchange, thus obviating the risk, expense, and time involved in continual transference of specie from one country to another. For example, a certain trader A in London is creditor to B in Paris for a certain sum (say £100); suppose also that D in Paris is creditor to C in London for an equal sum. Then in order to pay their debts B would have to send the money to A, and C would have to send an equal sum to D; thus causing two separate transmissions of bullion between London and Paris, at the expense of freight and insurance. This may be represented as follows—

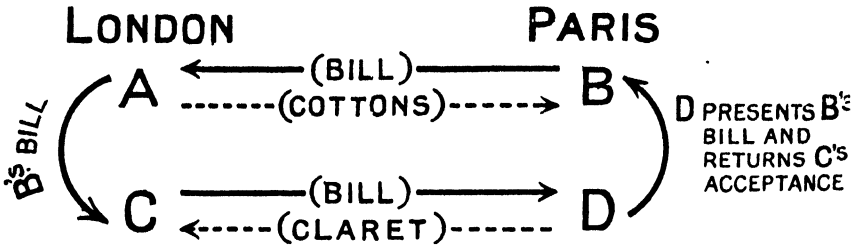


Thus A has sent, say, cottons worth £100 to B, D has sent claret worth £100 to C, and to avoid the transmission of bullion between the two countries, we want some contrivance whereby the claret will pay for the cottons and the cottons for the claret.

Instead of receiving bullion, A therefore draws a bill of exchange upon B for £100; this B accepts and returns to A, who now has in his possession a bill with B's undertaking to pay written across it. A is said to be in possession of a French bill because the bill takes its nationality from its acceptor. It is payable in France. On the same day, D having sent goods to London, draws upon C for £100; C accepts the bill, returns it to D so that he has now in his possession an English bill, because it is accepted by an English firm.

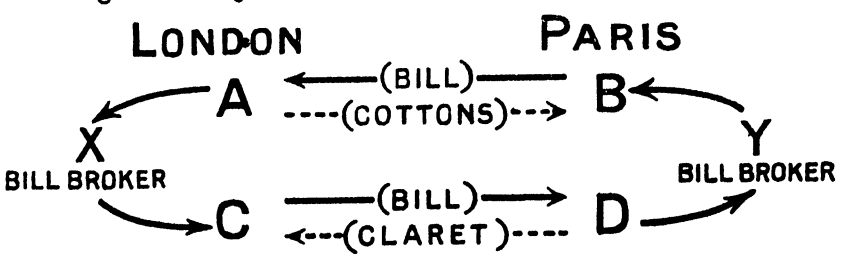
Suppose now that the debtor C goes across to A and offers to buy B's bill for £100, so that A being paid for his cottons falls out

of the transaction. C now forwards B's bill across to D in return for which he receives his own acceptance from D. C is thus in the happy possession of his own bill, and D is in the possession of B's bill which he presents to B for payment at the due date. On the payment of the amount by B, the two transactions are settled—the claret has paid for the cottons and the cottons for the claret, and no coin whatever has passed between the parties: thus—



Both these transactions, however, may be worked with a single bill just as well as it can be worked with two bills. For example, let us suppose that A draws upon B, B accepts and returns the bill to A; C buys the bill from A and forwards it to D; D presents it to B who finally pays it so that both transactions are settled by a single bill.

However, C may not be acquainted with A, and we cannot say that the amounts of the bill will be exactly what is required by C. The facts of the case will be that in each city there will be a third person whom we might call X in London, and Y in Paris. (*See* diagram below.) These persons will be dealers in bills, or bill brokers. When C wants a bill he goes to X to buy the bill, with the certainty that he will have the required bill. When A sends his cottons to B and draws a bill on B, he promptly sells it to X; when D has sent the claret to C, he receives a bill from C which he sells to Y. The profit made by the broker is known as brokerage.

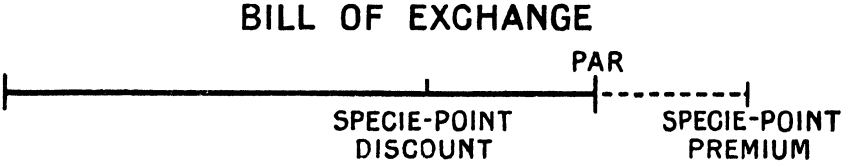


So long as there is an equality of goods passing between the two countries, there will be sufficient bills to satisfy the needs of the merchants on both sides. The supply and demand on each side will be equal, and the bills will be sold at their face value, and exchanges will tend to be at *par*.

GOLD POINTS. Let us now suppose that A, B, C, and D are no longer individuals, but classes of persons. A represents the English exporters to Paris ; C importers from Paris ; D exporters to England ; and B importers from England. So long as the exports and imports are equal, the amount of bills in the hands of X, and those in the hands of Y will be equal, and there will be a bill for every demander of a bill on both sides of the transaction. If C cannot buy a bill, he will have to send bullion, and he will have to pay not only the cost of the goods he imports, but also an amount for freight and insurance of the bullion. The merchant is therefore very anxious to avoid the necessity of having to send bullion. Suppose it costs 1 per cent to send £100 worth of bullion from London to Paris, then it will pay C to give anything up to £101 for a bill, if necessary, in order to save him the expense of sending bullion across to D.

Suppose the exports and imports between London and Paris are unequal. This may mean that London has sent more goods to Paris than Paris has sent to London. In this case there will be more bills in the hands of X than there is a demand for on the part of C, whilst in Paris B is asking for more bills from Y than he is able to supply. Y is short of English bills, whereas X is provided with a plentiful supply of French bills. When the supply of bills is plentiful the price falls ; when the supply is less than the demand the price rises. Under normal circumstances, the members of class B in Paris will have to bid against each other for whatever English bills there are in the hands of Y, and they will be willing to pay as much as £101 for the English bill. Beyond that price specie will begin to pass from Paris to London, so that as soon as the premium is as great as the cost of carriage the exchange is said to touch *specie point premium*. At this point bullion begins to move from France to England. In England, on the other hand, the price of bills is at *specie point discount*, owing to the plentiful supply of bills. Thus, specie point is the rate of exchange produced by buying gold in one country and selling it in the other.

The exchanges, in normal times, oscillate above and below par, always with a tendency towards par. These two limits in the normal price of bills may be shown as follows—



In former times it was thought that the object of foreign trade was to bring gold into the country. When such conditions existed and England was the recipient of goods, the exchanges were described as " favourable." On the contrary, when money tended to leave England the exchange was described as " unfavourable."

EXCHANGES TEND TO PAR. In the above example, we observed that bills were at a discount in England and at a premium in France because A and B have done too much business and C and D have done too little. Clearly this is an unsatisfactory state of affairs for A, because cottons were sent across to Paris valued at £100, in return for which only £99 was paid by X, so that A had 1 per cent deducted from his price. Hence there is a discouragement to the English export of cottons and trade falls off. On the other hand, when B goes to Y, he finds that he has to give £101 for a bill in order to obtain £100 worth of English goods, so that he, too, is discouraged by the state of affairs.

Now let us examine the trade between C and D. When D sends claret to C he gets a bill which he sells for £101 and thus he increases his price by 1 per cent.

Consequently D pushes his sales in England and does his best to take advantage of the high price of bills. C likes this state of affairs because he can obtain a bill from X for £99 which will enable him to purchase £100 worth of French goods. Suppose this condition continues until at last *specie point* is passed and French gold begins to flow into England. Under these circumstances gold in England is increased, English prices rise, the money in France diminishes, and French prices fall; hence all French buyers in England are discouraged and English buyers from France are encouraged, i.e. B is discouraged whilst D is encouraged. Finally,

the balance of trade turns in the opposite direction and once more exchanges tend towards par.

When the exchanges are unfavourable to France, this acts as a tax upon her imports. The unfavourable exchange means that the English bill in the hands of Y is at a premium, and when B goes to Y for a bill he has to pay £101. Thus an unfavourable exchange acts as a tax on imports.

When reading the money article in the daily papers, the following expressions should therefore be clearly distinguished—

FAVOURABLE EXCHANGE = INCOMING GOLD = BILLS AT A DISCOUNT.	which are opposed to	UNFAVOURABLE EXCHANGE = OUTGOING GOLD = BILLS AT A PREMIUM.

BILLS DRAWN ON LONDON. Since London is the great financial centre of the world, most of our foreign trade is settled by bills drawn on London. London draws few bills but accepts many. This is largely due to the universality of the British export trade. Wherever we go there is a merchant who has imported goods from England and who is only too pleased to obtain an English bill wherewith to pay for them. Another reason is the fact that the English bill is always negotiable in gold, and gold of the $\frac{11}{12}$th caratage ; that is to say, of the finest caratage in the world.

It is largely for these reasons that England accepts much and draws little. It is the English bill with the English acceptance upon it that does the work of the commercial world. The English bill does not surpass bills of other countries in regard to respectability and solvency, but the chief thing in which it does surpass the bills of other countries is in the *universality* of English exports ; it is not merely the magnitude of our exports but the fact that they are sent everywhere. In every port there is always some merchant who will be willing to buy the English bill because he wants to pay for English goods. The bill is drawn abroad, and is sold for what it will fetch abroad, so that the bill finds at once its origin and its value in the foreign port. Thus, the rates of exchange on London are fixed by the person abroad who negotiates the bill, and the quotation of rates in London in foreign units facilitates comparison with the rates fixed abroad.

MINT PAR OF EXCHANGE. When the price of a bill is at such a rate that one ounce of fine gold in one country commands the right to receive one ounce of fine gold in another country, the

exchange is said to be at a Mint par. This does not by any means signify that the exchange enables an ounce of foreign coin to exchange for an ounce of English coin, for the caratage of the two coinages may be different—the caratage meaning the proportion of pure gold in the currency. The caratage of the British coinage is 22; that is, 22 out of 24 or $\frac{11}{12}$th fine gold. In the English sovereign $\frac{11}{12}$ths of the weight are pure gold; in the French 20 franc piece $\frac{9}{10}$ths are pure gold; in the German Reichmark $\frac{9}{10}$ths are pure gold; there is only one foreign country of repute which has a standard $\frac{11}{12}$ths fine and that is Turkey.

The amount of fine gold in the currency of a country is fixed by its currency laws. The Currency Act, passed by Lord Liverpool in 1816, fixed the proportion of fine gold in the English currency at eleven out of twelve parts, but since that it is not the case with regard to other countries, we must know the law of those countries in order to find the Mint par, and then work by that process of arithmetic known as the Chain Rule. For example, we know that in France 3,100 frs. weigh 1 kilo., which is $\frac{9}{10}$ths fine. £1 = 123·27447 grains = 7·988 grammes, which is the weight of the English sovereign. Since the latter is $\frac{11}{12}$ths fine, the Mint par between England and France would be ascertained as follows—

£1 = 7·988 grammes.
Every 12 grammes = 11 grammes fine.
In 900 grammes fine= 3,100 francs.

$$\frac{7.988 \times 11 \times 3{,}100}{12 \times 900} = 25{\cdot}2214 = \text{Mint par between England and France.}$$

When the two countries have different metals in their currencies, as for instance, when one country is a gold-using country and the other is a silver-using country like England and China, there is no Mint par ready-made, but it is possible to calculate the Mint par for any given day by using for that day the gold price of silver or the silver price of gold, as the case may be. The same principle also applies to paper. Suppose, for instance, there is a 20 per cent depreciation of paper in Vienna. To ascertain the Mint par in London of a bill drawn on Vienna, it would be necessary to find the bullion value of the bill if sold in the open market in Vienna. Assuming that the nominal value of the bill were equal to £100, and that its bullion value were £80, then the par of exchange as between London and Vienna is £80 to £100 bill. In other words,

£80 in London would buy a claim on Vienna with a nominal paper value of £100. Thus, the real par of exchange is obtained by subtracting the total depreciation of the paper from its nominal value.

MEANING OF EXCHANGE QUOTATIONS. The following table gives a list of the chief exchange rates on London, together with the par of exchange, the highest and lowest quotations during the War, and the rate prevailing on 30th December, 1922—

EXCHANGE RATES.

	Parity.	During War.		Date of Armistice (Nov. 11 1918).	December 30, 1922.
		Highest.	Lowest.		
Alexandria	97¼ Piastres per £	—	—	97⅛	97⅛–97 5/16
Amsterdam	12·10 Florins per £	12·20	8·97	11·46	11·70½–11·71
Athens	25·22½ Drachs. per £	—	—	—	395–405
Belgrade	25·22½ Dinars per £	—	—	—	420–440
Berlin	20·43 Marks per £	—	—	—	34,000–34,250
Bombay	10 Rupees to Gold £	1/6	1/4	1/5 11/32	1/4½–1/4 3/32
Brussels	25·22½ Francs per £	—	—	—	69·15–69·20
Buenos Aires	47·58d. per Peso	—	—	51 5/16	48⅜–44½
Bucharest	25·22½ Lei per £.	32	25·22	—	790–810
Canada	4·867 Dollars per £	5·01	4·52	4·86	4·69–4·69⅛
Christiania	18·159 Kronen per £	19·63	12·65	17·54	24·60–24·62
Copenhagen	18·159 Kronen per £	19·68	12·75	17·85	22·48–22·50
Constantinople	110 Piastres per £	—	—	—	780–820
Helsingfors	25·22½ Marks per £	—	—	—	186–187
Hong Kong	——	3/8⅞	1/8⅜	3/2⅛	2/2⅛–2/3 3/16
Lisbon	53·28d. per Milreis	35½	27½	31	2 1/32–2 3/32
Madrid	25·22½ Pesetas per £	26·75	16·60	24·05	29·48–29·51
Mexico	24·58d. per Dollar	—	—	—	24–26
Montevideo	50·98d. per Peso	—	—	59½	44⅛–44⅜
New York	4·867 Dollars per £	5·06	4·525	4·76 5/16	4·63⅛–4·63⅜
Paris	25·22½ Francs per £	28·98	24·97	25·85	63·45–63·55
Petrograd	94·60 Roubles per £10	405	110	—	——
Prague	24·02 Kronen per £	—	—	—	149½–150½
Rio de Janeiro	26·93d. per Gold Milreis	14	11 1/16	13 1/16	6⅛
Rome	25·22½ Lire per £	45·65	25·50	30·37½	91⅛–91⅜
Shanghai	——	5/6	2/2½	5/–	3/0–3/1½
Sofia	25·22½ Levas per £	—	—	—	630–680
Stockholm	18·159 Kronen per £	19·75	9·95	17·15	17·12–17·15
Switzerland	25·22½ Francs per £	26·40	18·72	24·00	24·45–24·48
Valparaiso	13½ Pesos per £	34·60	13·80	19·30	35·20
Vienna	24·02 Kronen per £	—	—	—	315,000–330,000
Warsaw	20·43 Marks per £	—	—	—	81,000–84,000
Yokohama	24·58d. per Yen.	—	—	2/3	2/1 5/16–2/1⅜

The great majority of the rates are quoted in foreign currency to the pound sterling. In this case the rule is " Buy high, sell low." " High rates are for us, low rates are against us." A buyer of a bill, say, on Paris, wants as many francs as he can get per pound

sterling, whilst a seller wants to give as few francs as possible for the pound sterling. Where the rates are quoted in pence to a fixed unit of foreign currency the rule will be reversed, so that low rates will be in our favour.

FLUCTUATIONS IN THE EXCHANGES. The rates of exchange are constantly fluctuating not only between London and other foreign centres, but between such foreign places themselves. The trader whose dealings involve much interchange of money between home and foreign centres must ever be on the alert that he may avail himself of favourable times and routes for making remittances. The most direct route is not always the best; in other words, it is not always best to make a remittance direct, say, from London to Berlin. A saving may sometimes be effected by first buying bills on Paris, and then with these making the necessary purchases of German paper.

The causes which influence the variations in the rates of exchange are very complex, but the most important may be tabulated as shown on p. 135.

From this table it will be seen that the two main factors affecting the prevailing rates of exchange are—

1. The Currency Conditions, and
2. The Demand for and Supply of Bills of Exchange.

CURRENCY CONDITIONS. The basis of exchange rates is the value of one currency unit expressed in terms of another. If, for any reason, one currency becomes of less value, its worth as measured in terms of another must fall. A fall in relative value or purchasing power of a currency is known as depreciation. This may be the result of the issue of inconvertible paper money, or in the case of a silver currency, it may be due to a fall in the price of silver, which, in a gold standard country, is simply a commodity. In such cases the exchanges move against the country with the depreciated currency, and the variations in the rates of exchange are accentuated by the fact that the credit of the country suffers and trade diminishes.

THE DEMAND AND SUPPLY OF BILLS. We have already seen that if the amount of bills and cheques payable in Paris offered for sale in London is equal to the demand in London for such paper, the rate of exchange will tend to be at par. But if the amount so offered exceeds the demand, it is clear from the laws

FLUCTUATIONS IN FOREIGN EXCHANGE.

RATES.

- Rate of Exchange
  - Currency Conditions.
    - Depreciation of paper currency due chiefly to inflation.
    - Worn or debased coinage.
  - Demand and Supply of Bills.
    - Trade conditions.
      - Imports and Exports as shown by Board of Trade Returns.
      - Invisible Imports and Exports, such as income from investments and earnings for services rendered.
    - Stock Exchange Influences.
      - Bills drawn for purchases and sales of securities.
      - Remittances of loans raised by governments, and other undertakings.
    - Banking Influences.
      - Bankers' Investments in Bills.
      - Circular notes, letters of credit
      - Arbitage, i.e. the purchase and sale of currency in foreign centres.

of demand and supply, that the sellers will have to take less than par, and the buyers will require more francs for each sovereign. The chief factors which influence the demand and supply of bills are—

(*a*) Trade conditions. (*b*) Stock Exchange influences.
(*c*) Banking influences.

Trade Conditions. Imports and exports are the main elements in international indebtedness, but in the case of nations such as our own, freights earned by shipping and other invisible items

greatly affect the balance of trade. In 1922 the excess of British imports of merchandise and bullion was £170 millions, whilst the net income from Overseas Investments was £175 millions; the Net National Shipping Income was £110 millions, and Commissions and other services were estimated at £40 millions; thus the total "Invisible Exports" amounted to no less than £325 millions.

Stock Exchange Influences. Bills of exchange are drawn on London against Stock Exchange transactions. For example, securities are frequently sold in London on behalf of foreigners, or such securities may be bought abroad on behalf of this country.

Again, the raising of a loan in London by a foreign nation may influence the exchange against London for a time, because London has to pay the amount of the loan either in money or its equivalent to the foreign country or its nominees. The payment of interest on the loans has the reverse effect because the foreign nation must make payment to London in money or in kind, thus influencing the exchanges in favour of London.

Banking Influences. Continental bankers invest their surplus funds in bills drawn on London which represent gold. These are generally secure, and usually earn higher interest on the money investment than the continental bills of the same class. The Bank rate is usually higher than continental rates, because it is utilized to protect the reserve, so that London bills are discounted at a higher rate and therefore give a higher return on money invested in them. When the Bank rate rises foreign bankers buy London bills to earn higher interest, and this helps to influence favourably the exchange rates. If the rate drops these bills may be sent to London for discount at a lower rate, thereby earning an immediate profit for the holder.

Bankers and brokers are in touch by telegraph or telephone with their agents at the principal centres, and by means of arbitage operations they are enabled to make profits out of differences in the rates of exchange existing at two or more centres at the same time; thus, a banker can make profits by buying, say, francs in London at 58 to the pound and by selling them in Paris or Amsterdam at 56 to the pound.

THE WAR AND FOREIGN EXCHANGES. The universal shock to the financial system consequent on the War manifested itself most visibly in the foreign exchange market. Exchange rates

between the belligerent enemy countries were not quoted so long as the War lasted. In London, bills on enemy countries were not quoted until the ratification of the Peace. However, from the exchange quotations of the war period we can derive a sufficient survey of the shocks suffered by the financial system.

It is often assumed that of all currencies that of the United States was the most stable throughout the period of the War. This conception, however, is erroneous; for the American dollar experienced some surprising and curious fluctuations. During the first period of the War, it showed a certain depreciation as compared with many of the belligerent states, and for a time it remained below gold parity in the subsequent course of the War as compared with certain European neutral countries. It was not until the conclusion of the Armistice and of Peace that the dollar became standard money, as it still is, in international trade.

EXCHANGES BETWEEN NEW YORK AND LONDON. The course of exchange between New York and London may be given in illustration. The Mint par of Exchange is 4·867 dollars to the pound sterling. On the 30th July, 1914, under the pressure of the withdrawal of English credits from the United States, the cheque on London was quoted at 5·15 in New York. This quotation means that the dollar stood 6 per cent below parity as compared with the pound. By the end of 1914 this discrepancy was again readjusted. The last sterling quotation, which was given in 1914 in New York was 4·85⅝ and this came near parity. In the course of 1915 the exchange rate of the pound in New York went back. On 1st September, 1915, the pound was quoted at 4·55 dollars to the pound, that is, 31⅛ points below parity. The English Government succeeded in bringing about an improvement by taking up the American loan and made an arrangement with the Morgan group of banks for the stabilization of the English rate of exchange. From 1916-1919 the exchange rate in New York on London was maintained with unimportant fluctuations at a rate of 4·765 dollars. After the conclusion of peace the British Government believed they could dispense with the very expensive artificial expedients to maintain the British-American exchange rate. The consequence was that a very strong depreciation took place in the value of the pound as compared with that of the dollar. At the end of 1919 the New York rate of exchange upon London was only 3·765. At the end

of 1920 it had fallen to 3·53 and for a time during the year it went down to 3·20, which meant that the dollar had risen to a premium of 50 per cent as compared with the pound. Towards the end of 1923 the New York quotation for cable transfers on London was 4·63 which is equivalent to a premium of 10% on the dollar.

OTHER EXCHANGES. A much sharper depreciation than the exchanges of the Entente powers was experienced in the course of the War and after the conclusion of the Armistice and the Peace Treaty by the exchange rates of the Central European powers. Still more unfavourable at first were the exchange rates of Russia, Poland, and the countries emanating from the Austrian-Hungarian monarchy. In October, 1923, however, the German mark broke all records and depreciated to such an extent that it was quoted at 23 milliards the pound sterling.

Thus the international monetary system to-day is in a state of chaos, and the return of peaceful conditions and comparatively stable relations between the exchange rates of the various countries is dependent on the consolidation of the political, economic, and financial conditions in the various countries and on the restitution of normal political and economic relations between the great nations of the world.

TEST PAPER III

1. Name, with your reasons, the quality which you consider to be the most important in any commodity which it is proposed to use as the money of a civilized community.

2. State precisely the meaning of a "pound sterling."

3. Explain clearly the terms "Legal Tender," "Token Money," "Standard." State the law of legal tender in England; and compare in the matter of legal tender the English currency system with that of some other great state.

4. Distinguish between "Capital" and "Money."

5. What have been the more important changes in the currency system of Great Britain during the War? In your answer refer to the relations at present existing between Treasury note issue and the issues of the Bank of England.

6. (*a*) "The price of gold in this country has remained stationary at £3 17s. 10½d. per oz. during the War."

(*b*) "The value of gold in this country has fallen considerably during the War."

(*c*) " The supply of gold in this country has diminished considerably during the War."

Can you reconcile these statements ?

7. Define credit, and describe three credit instruments in general use in the business community.

8. Classify the items of which a large joint-stock bank's assets are made up. Examine the relative convertibility of the assets, and state which you regard as the reserve.

9. What is meant by a " One Reserve System " of banking ? Illustrate your answer from the English system.

10. What information is conveyed by the weekly return of the Bank of England ? Discuss what can be said for and against the maintenance of a large reserve.

11. Contrast the banking organizations of Great Britain, France, the United States, and Germany, with special references to their systems of note issue.

12. What are the points of resemblance and of difference between a bank and an insurance company ?

13. A speculator paid 1 per cent for a " put " option for a month on £12,500 stock at 123⅞. After three weeks he bought at 121¼, and at the end of the month he exercised his " put." What profit did he make ?

14. Give a general description of the work and organization of the London Stock Exchange ? What are the functions of brokers and jobbers, and how are they remunerated ?

15. What do you understand by the term " The Money Market " ? What financial operations are conducted in the money market ?

16. What is meant by " Stock-watering " ? Why is it resorted to ? Discuss its effects from the points of view of : (*a*) The purchasers of the watered stock, and (*b*) public interest.

17. Illustrate either the connection between banking and (*a*) bill brokers, (*b*) the Stock Exchange.

18. Explain how the convertibility of the English bank note is provided for.

19. You are a reliable timber merchant in a small but sound way of business, and have an opportunity of importing, against cash, some thousands of cubic feet of red fir pit props from Riga, at a low price, on what you judge to be a rising home market. But you have insufficient funds immediately available. Show how you can, with the assistance of your banker, avail yourself of the opportunity.

20. Briefly describe how international trade is carried on by means of bills of exchange. How do you account for the practice of drawing the greater part of foreign bills on London ?

21. What systems are used for denoting the fineness of a gold currency ? Why, and to what extent, does the fineness of English gold coins differ from that of other gold standard countries ? Would it be

either possible or expedient to change the fineness of our gold in order to bring it into line with that of other countries ?

22. What is the cause of a fall in exchange, and what is its effect upon a merchant carrying on an important business in Great Britain ?

23. If a country whose full legal tender money is a free unlimited metal, puts a heavy tax on the importation of the metal, what effect would this produce on : (*a*) Its home prices ; (*b*) Its foreign trade ; (*c*) Its foreign exchanges ?

24. Before the War the pound sterling was worth 4·867 American dollars or 9·47 Russian roubles. In 1923 the English pound sells for 4·63 dollars, but it is possible to buy many thousand roubles for a pound. Why ?

SECTION IV

LABOUR AND THE LABOUR MARKET

CHAPTER XVI

LABOUR AND ITS FORMS

THE term " labour " is used in various senses. For instance, it is sometimes confined to the effort exerted by persons engaged in manual work, at other times it has reference to the actual work which has been completed. In economics, it is not every form of effort or physical activity which is embraced by the term " labour." For instance, where a mountain climber undertakes a difficult ascent for his own pleasure, he is active and puts forward effort but does not " labour " in the economic sense. If, however, a guide makes a profession of conducting tourists up the mountain, his activity or effort is labour in the economic sense. In its widest sense, *labour is the application of the physical and mental powers of man to the procuring of the means of subsistence.* A differentiation between physical and mental work is justifiable if we do not forget that a complete separation of both kinds of labour does not exist. In all physical work the mind has also to participate, whereas in mental work the body is never entirely without its contribution. With this limitation, a differentiation between physical and mental work may be made. Labour involves the expenditure of physical or of mental energy. Man has a natural disinclination to work, and there is always a desire on his part to make work as easy, as short, and as little fatiguing as possible. From this natural desire arises the fact that man tries to delegate his duties to others ; and, in general, the parties who are economically the stronger try to shift the more onerous duties on to the shoulders of the weaker. It is often pointed out that work is a means of ennobling man, although in reality this is by no means always the case, especially under modern conditions. The institution of slavery, together with the existence of masses of free workmen who possess nothing except their labour-power, facilitates

the unequal distribution of work amongst men. In our modern economic system there is a whole series of vocational activities which can be distinguished by the most varied characteristics. The degree of skill involved may be very different and may manifest itself in a multitude of ways. The claims on physical strength reveal differences as widely marked as those which are made upon the powers of the mind.

Again, the working capacity of man is influenced by all sorts of circumstances; labour as a commodity is not uniform, but varies with different nationalities; it has developed differently with historic evolution and with the economic structure of a people. In short, there are so many kinds and shades as to make it immensely difficult to reduce all forms of labour to a basic unit. As compared with money, here we have a fundamental difference. There is a far-reaching international understanding in the case of money, which acts as a common means of exchange, whereas in the case of labour there is a multiplicity of forms which it has hitherto been impossible to reduce to any common denominator. This diversity in the forms of labour, which can neither be standardized, nor easily compared, results from the fact that labour is not a commodity apart from man, but only becomes one through man himself. Labour-power is a human possession bequeathed by nature.

WHO ARE THE WORKERS? From the foregoing it will be perceived that the term " worker " is not employed in the narrow sense of the manual worker, but that the mental worker is also included in this category; that is, the term includes both the labour of execution and of direction. Anyone whose labour finds employment in an undertaking, whether as manual worker, as an employee of the lower or of the higher grades, or as an employer is a worker in the economic sense, although he may in addition derive a larger or smaller portion of his income from the possession of capital. Strictly speaking, therefore, only those persons who do not employ their labour-power in any undertaking are according to the present usage of the term excluded from the category of workers.

Alongside this essentially wide conception of the term " worker," the fact must not be overlooked that a person with nothing to give but his labour, and another who derives an income from capital and at the same time employs his labour, differ fundamentally

from each other. Workers with capital at their disposal, in comparison with those who have only labour-power, possess a weapon which enables them to rise more easily into the class of qualified and directing labour, whereas the possessors of mere labour-power are generally debarred from reaching these higher grades. It is not capacity alone which determines the issue, but the possibility of receiving the necessary education and training, of establishing suitable social connections and various other circumstances, and capability enters into the question only after the fulfilment of all these preliminary conditions. A glance at the advertisement columns of *The Times* under the heading of " Business Opportunities " will provide ample evidence in support of this contention. The possession of a certain amount of capital thus creates the preliminary conditions for the employment of labour-power in the direction and management of undertakings. At least, this is the rule although exceptions are naturally of frequent occurrence.

LABOUR-POWER. Too little is known of the beginnings of human economy to trace in detail the steps by which the delegation of duties by the stronger on to the weaker has gradually taken place. One is led to assume that, even when nature rendered it easy for man to procure the necessaries of life, some amount of effort had to be exerted. With an increase in the need for exertion there was a growing desire to leave to others the fatiguing tasks. It became recognized that man was a commodity, whose physical power could be placed at the service of another. This was based on the assumption that the exercise of the labour-power of a number of persons was able to procure the necessaries of life in such a measure as to leave over a surplus after their own requirements had been satisfied—a surplus which could fall to the lot of another person. This commodity was the labour-power of man, which with the evolution of private property, became dependent on the owners of the means of production. Without the use of human labour-power no commodity can be obtained, and by labour-power alone it is possible to produce wealth; but this, likewise, entails an unequal distribution of goods. In order to be able to make use of his labour-power, man has to replace the forces which he expends; in other words, he must be able to command a certain quantity of goods which will permit him to satisfy the most pressing human needs. These are the costs of the reproduction of labour-power,

the varied nature of which, in the inhabited parts of the globe, stands in striking contrast to the stationary value of gold.

In the case of black labour in Africa, the costs of the reproduction of labour-power are entirely different from what they are, for instance, in the case of white labour in Europe; they are quite different in the case of an English workman and that of a Japanese. Two circumstances combine to produce this difference in the costs of the reproduction of labour-power—in regard to external causes, the degree of productivity of the natural environment, and from the human side, the extent of the man's needs involved in the satisfaction of his wants. The lower these claims, the cheaper are the costs of reproduction in a country of great natural resources. The more these claims increase and are realized, the greater will become the costs of production unless nature is particularly rich in its resources. Where this is not the case, and where the claims nevertheless increase, there must also be an increase in the efforts applied to the production of natural products. In short, the costs of the reproduction of labour-power, not only for natural but also for historical reasons, show such a marked differentiation, that the commodity " labour " in economic science requires a totally different treatment from that of all other commodities.

Man is not merely the vehicle of labour-power, but more especially is he a conscious and wilful being who, for economic purposes, expends his labour-power only so far as he is compelled. This obligation is the combined resultant of the sterility of nature and of the power on the part of his fellow men to employ his services. This obligation to work also increases with the extension and intensity of human wants. Thus, when a survey is made of the great fund of labour-power throughout industrial society it will be seen that there exist the most far-reaching differences in the costs of reproduction of the commodity " labour." From this differentiation it follows that the commodity-value of labour even in its simplest forms, cannot be homogeneous, but that the sharpest differences must exist, not only as between country and country, but also as between the different parts of one country.

THE DIFFERENTIATION OF LABOUR. Labour expended on economic objects is of great variety and is valued differently according to its efficiency and according to supply and demand. Labour, the execution of which necessitates a long period of

training, is usually more valuable than that which can be executed without any preliminary training or apprenticeship. Highly-skilled labour often requires a different standard of living from that of unskilled labour. These differences in the kinds of labour are so essential that it would be quite misleading to ignore their influence in estimating the values placed upon labour. In particular, labour which is largely mental, such as directing and managerial labour, must be estimated at a higher value than mere manual labour. Within the sphere of mental labour, creative work is the best and ought to be valued the highest, although in practice it frequently sinks very low owing to the fact that it is not appreciated; at least, not until it is too late. In the economic process, however, there is no conscious valuation of labour according to its inherent qualities, although certain differences have unconsciously been fixed traditionally—differences which are subject to continuous fluctuations under the pressure of competition in the labour market. Likewise, the valuation of mental effort fluctuates within wide limits in accordance with the state of demand and supply in a certain vocation; and it may happen that, owing to the market conditions, highly skilled mental work is estimated at a lower figure than mere manual labour, the execution of which requires no preliminary training. There is no fixed standard of value for labour, for the number of those willing to carry out the work is usually greater than the demand. The splitting up of the earth and its treasures into private hands, together with the law of inheritance, tends to lead to the increase of that class of person who, in the market, has nothing else to offer but his labour-power.

CHAPTER XVII

WAGES AND THE REMUNERATION OF LABOUR

"LABOUR" as a commodity has an exchange value, i.e. a price which is known by the term "wages." The wages which a person receives for a certain amount of work is primarily determined by the costs of reproduction of labour-power, but also by the custom or tradition which has developed in the various countries, trades, and professions. The costs of the reproduction of labour-power fluctuate within rather wide limits, so that we cannot speak of a uniform value of labour. Wages are sometimes described as the compensation paid for labour-power expended in the interests of another. This conception does not take sufficient cognizance of the economic dependence of the worker. In fact, the worker does not wish to give his labour-power to another at all, but in order to survive he is compelled to hire out this, his sole commodity, to an *entrepreneur*. Wages may also be regarded as the hire price of human labour, the rate of which in contrast to the rate of interest on capital, does not vary evenly in all parts of the world, but fluctuates considerably with the change in the costs of reproduction of the same labour service. Wages are measured and paid out in money under a money economy. These are known as *nominal wages*. In places where wages in kind still prevail, they may also be expressed in terms of money. Here we will once more observe that the term "labour" will be conceived in its widest sense as embracing mental as well as physical effort directed to an economic end.

LABOUR AND ITS COSTS OF REPRODUCTION. The price of labour-power is measured chiefly by the costs of reproduction, that is, by the expenditure necessary in a certain market area for the satisfaction of the worker's wants. This expenditure is by no means a fixed amount in the various economic areas, but is subject to rather wide oscillations. Even if we take the lowest class of labour, the costs of reproduction of its labour-power differ greatly within the same economic area, but they manifest startling differences when we compare countries with a highly developed civilization with those at a lower stage. International contrasts are

particularly noteworthy because peoples with the lowest costs of reproduction of labour-power continue to play a very important part in regard to numbers. If we only think of India and China with their 720 million inhabitants, against which may be compared the population of Europe (excluding Russia) and North America with a population of about 400 millions, we have, broadly, the representatives of the economic areas which are strongly contrasted in regard to the costs of the reproduction of their labour-power. Although this contrast may to a large extent be latent, yet it is none the less significant when dealing with international competition in the labour market. It shows the leeway which has to be made up before the costs of reproduction of labour-power have been levelled up not only within the same economic area, but internationally. Until this end has been achieved, the country with higher costs of reproduction of labour-power will have to withstand many a blow from the countries with a lower cost, even though provision be made to mitigate such blows.

METHODS OF WAGE-PAYMENT. The usual form in which wages are paid under our modern economic system is in *money*. Payment in kind has been almost completely abolished in the more highly developed economic areas, although it may still be met with in some branches of agriculture. Here wages in kind and money wages are frequently combined with each other. A similar condition of affairs exists in the payment of the wages of domestic servants, and in some cases of shop assistants who, in addition to money wages, receive also board and lodgings with the employer. In determining the amount of wages to be paid, the difference between time wages and piece wages is important. *Time wages* are paid without special regard to the output of work, since it is agreed that a certain amount of money shall be paid for a certain period of work. These wages are usually expressed at so much per hour, day, or week. In the case of *piece wages*, however, a rate per unit of work to be done is agreed upon, and this amount is paid after the execution of the work without regard to the time occupied in completing the task. Of course, piece rates are measured on the basis of previous experience, due regard being paid to the probable duration of the work. Where piece rates are in vogue the worker has the chance of reducing the working time by increasing the intensity of his work and thus is able to earn more in a shorter

METHOD.	DESCRIPTION.	WHERE APPLIED.
I. TIME WAGES.	The worker is paid in strict accordance with the time spent on the work at so much per day, hour, week, etc., irrespective of output. A certain minimum of output, however, would be demanded.	Building industry, transport generally, agriculture, pattern-making, woodworking trades, printing industry, distributive trades and clerical work.
II. PIECE WAGES.	The worker is paid according to the output. The piece rate is usually fixed at a certain fraction above the customary time rate of the average worker.	Textile industries, engineering, mining and metal industries (in the case of direct workers), shipbuilding, clothing, boot and shoe, glass and pottery industries, coal trimming and bunkering, loading and unloading of standard products, e.g. ore, grain, timber, etc.
III. PREMIUM BONUS SYSTEM.	A time allowance is fixed for the job, and if it is done in less time, the worker is paid the time rate for the time actually taken, also a fraction of this rate for the time saved.	Engineering trade.
IV. SLIDING SCALE.	Wages fluctuate with the selling price above a certain fixed minimum standard, and possibly below a certain fixed minimum standard.	Certain branches of the iron and steel industry, also the coal industry.
V. SCIENTIFIC MANAGEMENT.	By this method the time necessary for a task and the most efficient method of doing it are ascertained in a scientific manner, and thus piece rates are fixed scientifically. Above a certain minimum of ouput the worker is rewarded at a rate increasing with the quantity of output, and when a certain output is reached he is also given a bonus.	Largely in U.S.A. To a less degree here in work of a repetitive nature, e.g. loading of pig-iron on trucks, laying of bricks, handsewing in tailoring, engineering, etc.
VI. PROFIT SHARING.	A percentage paid on wages varying with the profits of the concern.	In isolated instances, e.g. an engineering firm.
VII. COMMISSION SYSTEM.	This is a payment of time wages plus a commission calculated on the turnover or profits.	Distributive trades, commercial travellers, etc.

REMUNERATION

ADVANTAGES.	DISADVANTAGES.
1. This method of remuneration is simple and straightforward. 2. Since the worker is not tied to time the quality of the work need not suffer.	1. Unequal output above the minimum demanded is rewarded unequally. 2. There is frequent difficulty in deciding what should be the minimum output demanded.
1. Labour awarded according to efficiency. 2. Fixed capital used more economically, so that overhead charges are reduced. 3. The worker is more independent. 4. It affords an incentive to increased output and hence wages.	1. Difficulty of fixing piece-work rates owing to the varied nature of the output. 2. Possible deterioration in the quality of the output. 3. A change in the method of production may lead to a disproportionate change in the piece rate.
1. Output encouraged. 2. Cost of production diminished since there is a saving on labour cost and overhead charges.	1. Difficulty of fixing the standard time allowance fairly and of adhering to it, both on the part of the employer and the employed. 2. Changes in the method of production necessitate changes in the time allowance with its attendant difficulties.
1. Wages are made dependent on the prosperity of trade. 2. Slack trade and lower prices are made more bearable from the employer's point of view by a lower wages bill. 3. Brisk trade benefits the worker as well as the employer.	1. Dissatisfaction and inconvenience is experienced when the selling price fluctuates violently. 2. A high selling price does not always mean high profits, and the higher wages resulting therefrom may be neutralized by a higher general level of prices.
1. Efficiency encouraged. 2. Rate cutting is prevented and made unnecessary. 3. Economy of effort on the part of the worker. 4. Increased division of labour and specialization of processes. 5. Much skilled work is relegated to the unskilled workers.	1. The worker is reduced to a mere automaton and all originality and initiative is eliminated. 2. Possibility of nervous strain on the worker. 3. Difficulty of obtaining suitable conditions for investigation and allowing for unforeseen and unavoidable delays in practice. 4. The resulting systems of payment are so complicated as often to be beyond the understanding of the workers.
1. Gives the worker a real interest in the business. 2. There is an incentive to increased output.	1. The reward is too remote to have any real effect on the efforts of the worker. 2. The amount of profits is often beyond the worker's control since market conditions largely decide this.
1. The interest of the workers in the prosperity of the business is secured. 2. There is a great incentive to the increase of sales.	1. Where the time wages are low the position of the wage earner is precarious. 2. Wages are not so much for effort as for personality and other factors, some of which may not be socially desirable.

time. However, so long as the piece rate system is regulated one-sidedly by the employer, it exercises a fatal effect upon the output, and in the long run the saving of labour-power does not benefit the worker but the *entrepreneur*. With the increase in the intensity of labour, there develops a tendency on the part of the employer to reduce the piece rates with the object of still further increasing the output.

TIME WAGES *v.* **PIECE WAGES.** **Time Wages** are the most common in England. They are unavoidable where—

1. It is difficult to delegate a certain amount of work to a workman and pay him by results. Most processes of industry are so complex that it is impossible to pay each individual by his unit of output or work brought to a certain stage of completion.

2. Where quality is a first necessity, it is more likely to be produced if time wages are paid.

3. If delicate machinery is used, piece wages would entail certain risk through the desire of the workman to speed up his work.

4. If the amount of work done by a workman is dependent on that turned out or given over to him by another, a system of piece wages would be unfair since his output would be dependent on others.

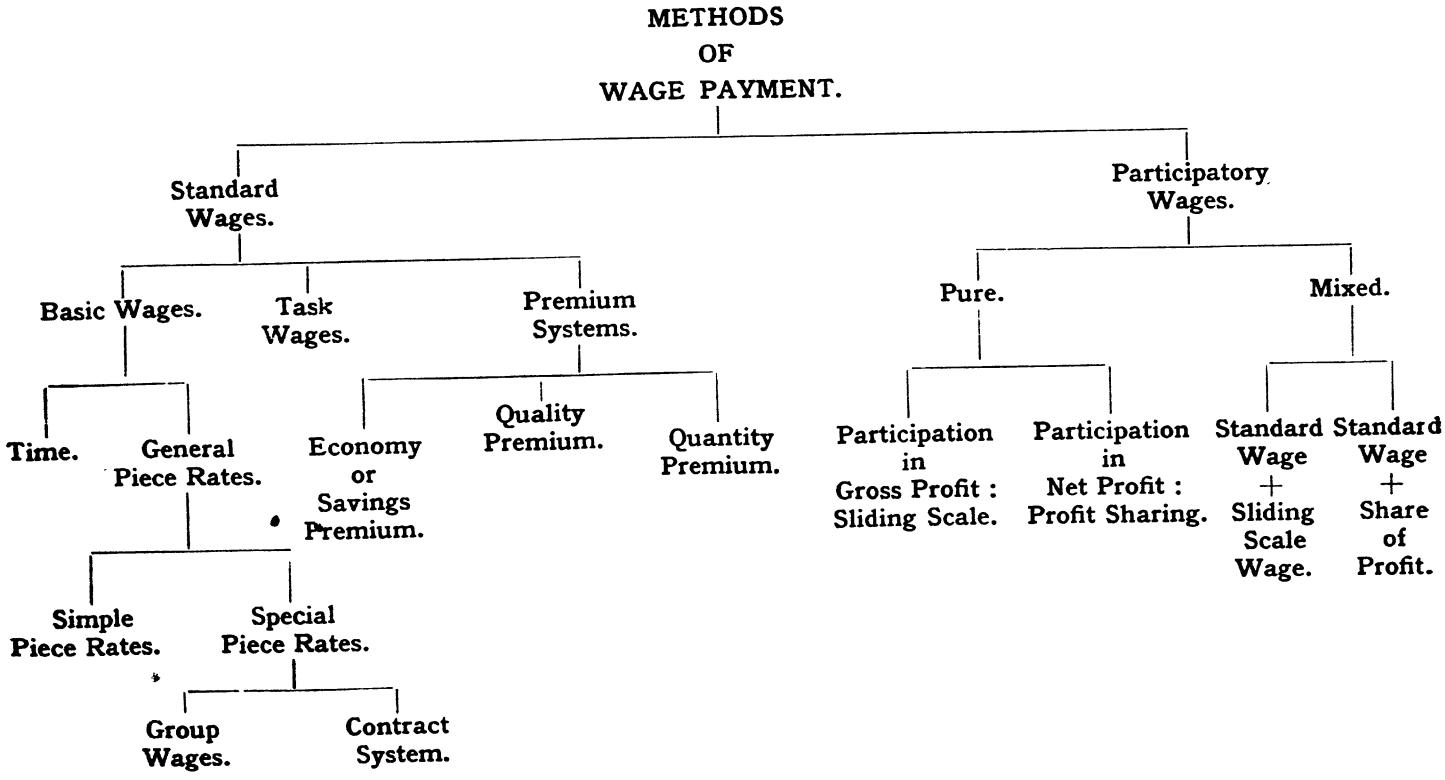
In all these cases time wages are essential.

Piece Wages are preferable where work can be subdivided and payment per unit of output is possible ; for example, in tool making, engineering trade, textiles, and in coal mines. Where work cannot be split up into small units, the difficulty can be overcome by payments of *group piece wages*, where a gang of men are engaged on one article and the payment is divided among them. The group should not be too large or the individual incentive will be destroyed. Where quality is a *sine qua non*, piece wages are not available, since a costly system of supervision and control will be necessary.

Piece wages are also objected to on the following grounds—

(*a*) MORAL. The worker is tempted to rush his work during the first few days of the week, and when he has assured himself of a fairly satisfactory wage for the week, he will be tempted to slack the rest of the time.

(*b*) HEALTH. Piece wages afford a strong temptation to over-strain and the effect will be detrimental to the health and physique of the worker.


METHODS
OF
WAGE PAYMENT.
Standard Wages.
Participatory Wages.
Basic Wages.
Task Wages.
Premium Systems.
Pure.
Mixed.
Time.
General Piece Rates.
Economy or Savings Premium.
Quality Premium.
Quantity Premium.
Participation in Gross Profit : Sliding Scale.
Participation in Net Profit : Profit Sharing.
Standard Wage + Sliding Scale Wage.
Standard Wage + Share of Profit.
Simple Piece Rates.
Special Piece Rates.
Group Wages.
Contract System.

(*c*) ECONOMIC. The policy of the working man in receipt of piece wages is to turn out work which will just attain to the required standard. "Near enough," is his motto. There is a tendency to scamp work. Good workmen take a pride in their work and deprecate such methods. Goods turned out in a hurry are rarely without some defect. Dissatisfaction of the buyer may cause further demand to contract and the ultimate effect of piece wages may be harmful to the industry.

OTHER METHODS. Other forms of wage payment are task wages, progressive wages, wages plus a share in the profits, and wages plus a share in the management, but these latter forms are not common. (See Table on page 151.)

Task Wages are payments made for a minimum amount of work which must be turned out or the workman may be dismissed. No extra payment is made if the minimum amount is exceeded. Such wages are not popular; they might be applied in the building trades, e.g. bricklaying or digging.

Progressive wages are paid where any excess above a given output is paid for by an additional bonus. Since they would have the same effect as piece wages if payment for additional units were made at the usual rate, the quality of the work done would suffer and the payments are generally made on a decreasing scale, for every unit of output above a certain amount. According to this method there is a certain minimum of output below which the worker would not be employed. At that minimum he would be employed at a certain rate per piece. As he improves in the amount he produces, he is paid, not merely more in proportion to his increased output, but more per piece—a higher rate of pay for a more effective production. When the standard output is reached the payment made is not only a payment at the maximum rate per piece, but there is also a bonus added to the proceeds of this standard rate. Beyond this standard output the worker's rate per piece for the additional product is rapidly lowered as it is not to the employer's interest to encourage a man to do too much.

Such wages are useful where work can be divided into individual units, but where good quality of labour is also required, e.g. in the manufacture of straw hats of good quality, art pottery, etc., a modification of the progressive wage system is the *gain share wage*, where payment is made for time saved. For instance, if a workman

finished six hours ordinary labour in five hours, he would receive a bonus.

SCIENTIFIC MANAGEMENT. This is one of the names adopted for a certain body of principles and methods of management which have been propounded as applicable to industrial undertakings, other names being Efficiency, Engineering and Industrial Management. The idea has been adopted chiefly in America, the home of mass production. In the main, it is a method of redistributing and reorganizing the functions and the mutual relations of the personnel of a large undertaking, with the object of increasing the aggregate efficiency by narrowing the range of responsibility of most of its employees, and bringing careful studies to bear on the instructions given in regard to the simplest manual operations. The chief features of the system are—

1. **Central Control.** The establishment of a strong central control which can arrange on a firm basis the details of work by the use of an elaborate system of instruction cards. These cover very many details, and contain the particulars required by an expert cost-accountant.

2. **Planning Department.** The establishment of a planning department, the duty of which is to lay down the order of preference of all work, and the sequence of operations or moves through which each job has to pass. It arranges that nothing shall go into the store or leave it without records ; that material shall be ready for every job, and that every class of machine shall, as far as possible, be in fairly constant employment ; and that the total route travelled by each product during manufacture shall be short and easy.

3. **Time and Motion Study.** Time studies are made of the elements of all jobs, whilst motion study is a development of time study, being an analysis by special methods of the motions involved in an element of work. From this study motions or parts of motions which are useless are eliminated and the new method taught to the worker.

4. **Payment by Result.** The aim of scientific management is to ascertain the time which a job requires when performed with standard provision of accessories, and by a workman of fair average ability. It sets a standard wage which corresponds to that standard time, and finally it increases the wage for the whole of the job for every diminution below the standard of the time

which the workman detains his plant on it. It claims that very high efficiency of plant can be obtained without overstraining the operative in charge of it, by supplying him with high standard conditions of work, and causing his remuneration for each job to increase with every increase in the speed of its performance.

5. **Standardization** of all machines, tools, and appliances, and of all factory equipment.

THE WORKING TIME. In order to determine the income of the worker, it is necessary to know not only the amount of output for a certain unit of effort expended or for a certain period of time, but also the length of time which the person is employed daily, weekly, or annually. When we know the rate of wages of a worker per hour, this is only one factor in the determination of the worker's income. The other factor is the number of hours for which the workman is engaged in production. The number of working hours is by no means always the same but is subject to great fluctuations, a circumstance which is largely due to the fact that the opportunity for employment is not always the same. The chances of employment are determined by the state of the weather, the seasons, changes of fashion, market fluctuations, etc.; in short, they vary to such an extent that the annual working period is consequently by no means a fixed quantity. It frequently happens that the rate per hour in a particular calling is very high, whilst on the other hand the worker is employed for certain months in the year as for instance, in the building trades during the winter months. The income is therefore so greatly affected by this circumstance that the total amount of wages is not so high as in another calling where the worker is employed all the year round at a lower rate of wages. The working day finds its natural limit in the exhaustion of the workers, but in reality custom, legal enactments, trade unions, etc., have tended to prevent this natural limit from being reached. The man who works until he is exhausted is not likely to enjoy a very long life. Experience also teaches that the output does not increase according to the length of the working day, but begins to diminish with the advent of fatigue.

CHAPTER XVIII

UNEMPLOYMENT

A SIGNIFICANT phenomenon in the labour market is the continual unemployment which grows in a disquieting degree, especially in times of industrial depression. Although capital may always find employment, the same remark does not apply to labour-power. For labour, the supply is on an average greater than the demand. For the relatively large increase of human beings who have only labour-power at their disposal it becomes more difficult to produce the needed additional food; harder to produce food enough. The competition of the permanent surplus in the labour market is itself a means of throwing a certain amount of labour out of employment. In addition, however, there are other causes of unemployment which exercises a temporary influence on the amount of unemployment in the various trades and professions. It is especially the older and more service-worn workers who, under the pressure of competition, are thrown out of work, and who are condemned to temporary or even permanent unemployment. If one surveys the labour market over a period of years it is impossible to avoid the impression that, apart from a few short periods, a surplus of labour and, in consequence, unemployment prevail, and that in years of trade prosperity this surplus is less on the whole, whereas in periods of acute trade depression the excess of the supply over the demand is greater.

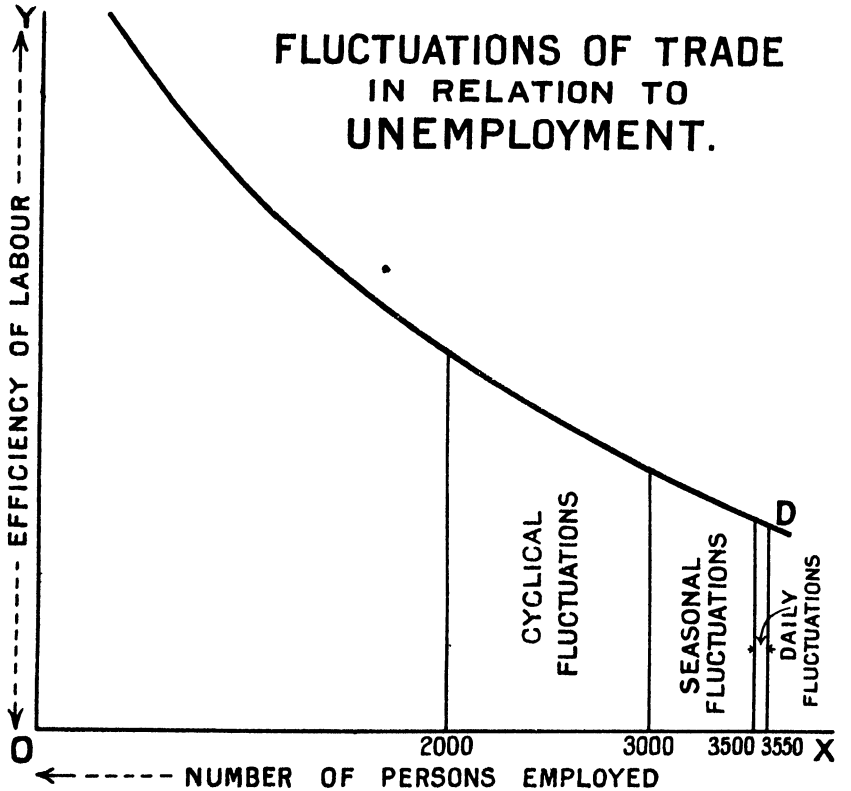
This surplus of supply over demand affects all vocations more or less, although in trades where unskilled or cheap labour is employed, the unemployment figures are particularly high. In agriculture, too, employment fluctuates so much that we cannot speak of a continuous period of work for the labourer, and here likewise the casual worker has his periods of unemployment every year.

FLUCTUATIONS IN TRADE. There are three different types of fluctuations in trade, viz., daily, seasonal, and cyclical.

In some trades the demand for labour fluctuates from day to day as in the shipping trade, where the problem of casual labour is most acute.

Seasonal Fluctuations. Most trades have their regular alternations of busy and slack months year by year. Each trade, moreover, has its own characteristic period of fluctuation. For example—

1. The building trades have far greater employment in summer than in winter.



An undertaking in which, during a trade boom, the maximum number of persons employed is 3,550, is compelled by daily fluctuations in trade to reduce the number of its employees to 3,500; the occurrence of seasonal depression in trade reduces the number to 3,000; finally the appearance of cyclical depression causes the undertaking to reduce its staff to a minimum—i.e. 2,000.

The diagram also illustrates the tendency for the least efficient, or marginal, workers first to be discharged.

2. The coal trade is more active in winter than in summer.

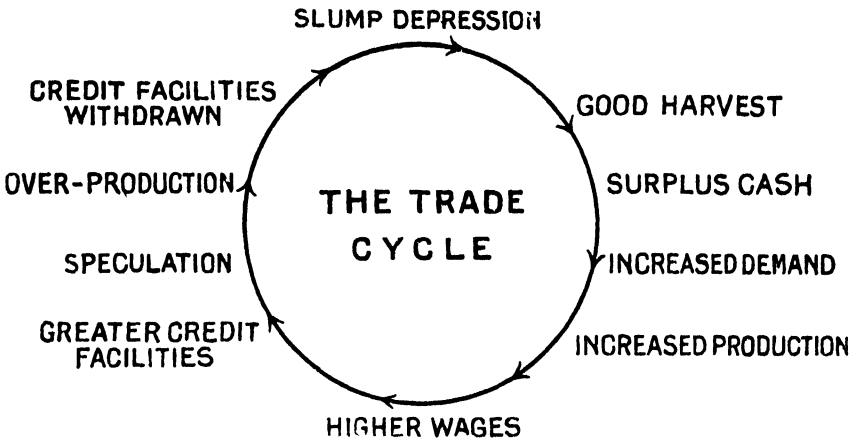
3. The printing trade has four well-marked fluctuations, the greatest activity coinciding with the output of the quarterly magazines.

4. There is a well-marked autumnal pressure in the money market, usually showing itself in rising discount rates. This is probably due to the fact that the summer and the autumn are the spending

seasons. The harvest has to be reaped and wages paid, whilst there is a demand for money for holiday expenditure.

Some of these seasonal fluctuations are clearly the direct result of climatic conditions, e.g. building and coal mining; others appear to depend upon fashion alone, e.g. printing trade; in others, both climate and fashion have their effects.

The diagram on page 156 shows the influence of these changes upon unemployment.



THE TRADE CYCLE. It has been noticed during the last century that good times are succeeded by bad times at fairly regular intervals. These waves of good and bad trade have been extraordinarily uniform, and the name *trade cycle* has been given to the phenomenon. The cycle generally takes up a fairly constant period of three-and-a-half years. The trade cycle is usually brought about as follows: It usually commences after a series of good harvests which cheapen the cost of food. As food is cheaper there is more money available for other products, and this demand stimulates production in other trades. The producers finding they can make good profits offer good prices for their raw materials, and consequently the boom begins to spread, while the fact that larger wages are being paid also assists the demand for goods through the abundance of money. At the same time credit facilities are better, and prices, wages, and profits continue their rise. Now come in the speculators, and these operating with borrowed money force up prices until credit is inflated and trade is in a dangerous condition. The lenders of money first give the alarm, and their first

step is to limit their loans which immediately disturbs trade. The speculators have to sell at a loss in order to meet their obligations and the boom is stayed. If a large speculator fails, his failure brings about others and panic is soon bred. Prices fall, wages and profits fall, and trade is bad. The cycle is complete, and after a period of quiescence the movement will start again going through the same stages.

Causes of Trade Cycles. Several theories have been advanced to explain the trade cycle, viz., the climatic theory, the psychological theory, and the theory based on competition.

The Climatic Theory first took form in the *Sun Spot Theory* of Jevons, which was generally discredited. It has been revised and again offered by his son. Under the Climatic Theory it is held that the heat given by the sun is not constant and may synchronize with the sun spots. Greater heat is bound to affect the harvests of the world and may result in bigger harvests with resulting beneficial incentive to trade.

The Psychological Theory holds that men influence each other and mould each other's ideas. A state of depression in one district will influence another and the impression will spread.

The Theory based upon Competition holds that keen competition leads to overproduction and consequent crises in certain trades which affects other trades.

None of the three theories affords an irrefutable argument since there are always factors present which cannot be explained away. But taken together they may give an explanation which one can accept.

The Future of Trade Cycles. The argument has been advanced that with the growing complexity of modern commerce and industry and their world-wide ramifications, and the absolute necessity of production for future or distant markets, trade fluctuations are bound to occur in the future and with increasing irregularity. Professor Chapman does not agree with this view. Experience, he argues, is a great teacher, and the world has not had many years' experience of the trade cycle. It may be supposed that business men will gain the ability to predict the effects of the cycle, and in times of over-trading restrain their inclinations to do all business possible with the aid of borrowed money. Again, in bad times they will consolidate their positions and prepare for the future.

In bad times prices are low and the moment is most favourable for building new factories and offices and for the purchase of raw material. Again, the increasing facility of communication and the ability to secure quick and reliable intelligence will tend to avoid fluctuations in trade through production for distant markets. Another vital factor in the scheme is *purchasing power*, which is controlled by the banks. In times of excitement and abundant credit, the banks are the first to see that things have gone too far, since their business is to see that the credit superstructure does not become too big or unwieldy in proportion to the cash basis on which it is built up. The banker can to a large extent control trade fluctuations. Still he must have an eye to his own interests, and what he refuses to do may be done by a competitor. The increasing amalgamation of banks and the formation of huge money trusts has been bewailed by many. But a meeting of bankers which could control all the banks in England has great possibilities during a time when credit inflation is becoming dangerous.

CLASSIFICATION OF THE UNEMPLOYED. One of the most fundamental mistakes which has been committed in the various experiments made for dealing with unemployment is the attempt to deal with it in the lump, as if persons were all unemployed because of the same cause, which could be solved by the same remedies. When once it is realized that the unemployed consist of a variety of classes which have to be dealt with by a variety of remedies, a great advance will have been reached.

REPORT OF THE POOR LAW COMMISSION, 1909. In the Majority and Minority Reports of the Poor Law Commission, issued in 1909, the following classification was adopted—

Class I.—Those from Permanent Situations. This is the most difficult class to deal with. Men and women who may have been fifteen or twenty years in the employ of a particular firm and are committed to that business, for some reason or other lose their foothold in the ranks of industry, perhaps because of the bankruptcy of the firm, new methods of production, or some minor fault such as friction with the foreman, etc. This class consists of persons who have been in a permanent occupation and who in many cases are too old to enter upon a new occupation. Whilst this is the most difficult class, fortunately it is the smallest. Although

theoretically possible, insurance against unemployment is not applicable to this class since no one would propose to provide such persons with benefits for the remainder of their lives.

Class II.—Persons from Discontinuous Employments. This consists of a large class of persons engaged chiefly in the building trades, who, while they can probably get a job again in a few weeks or a few months, have no job at present. There are a great number of trades marked permanently by this seasonal unemployment, especially the so-called Seasonal Trades. In this class the method of assistance is obviously entirely different from that which could be devised for the first class. All that the members of this class require is to tide over a certain period when they will again be able to find a foothold in their own trade.

Class III.—The Under-Employed. In the first class are included individuals who happen to be undergoing the experience—in their lives occasionally only, and even rare—of being out of work. In the second class the whole body are normally and habitually out of work in the intervals between jobs, such intervals occurring every few weeks or months, involving a chronic " leakage " in loss of time and wages, and being, in the course of the lifetime of nearly every man, occasionally so prolonged as to create acute distress. In our third class we are faced with the problem of a whole population of manual workers who are, year in and year out, week by week, continuously in a state of partial destitution of the necessaries of life owing to their chronic failure to get a full week's work. This is not unemployment in the ordinary sense, but something which is, in its social effects, even worse. It is not a case of the man being alternately fully at work and fully at leisure. His whole life is absorbed either in work, or in looking or waiting for work, but he does not get his time paid for. It represents at the bottom not so much want of employment as a wrong distribution of employment, a spreading, say, of 3,000 days' work in a week over 1,000 men at three days each instead of 500 men at six days each. This casual labour class is estimated at a million or more in number.

Class IV.—The Unemployable. This class consists of the " Can't Works " and the " Won't Works." To this type there approximate a heterogeneous crowd of persons without any recognized means of subsistence, who either do not seek work, or who seek it in vain, owing to physical or mental shortcomings, in such a

condition that they are not taken on by any employer or, if taken on, are incapable of working, or are unwilling to work, or cannot retain any situation for more than a few hours. In this crowd there are to be found men who have fallen from every social grade, every profession, and every section of the wage-earners; along with others who have, so to speak, been born and bred in the class, and have known no other experience. Among them we find many of feeble intellect and infirm will, but also some of moral refinement and exceptional talent. Others, again, are strong and competent, but of incurably parasitic or criminal disposition.

DE-CASUALIZATION AND THE LABOUR EXCHANGE. The idea of de-casualization as expounded by Sir William Beveridge in his book on *Unemployment* prompted the establishment of labour exchanges, and this in turn tends to affect the classification of unemployment. If the principle of de-casualization were applied with success and it was fairly universal, that is, if every casual labourer had to apply for labour through a labour exchange, it would mean that Class III in the above classification would be reduced to exceedingly small proportions, and if the scheme were completely successful, it would disappear and we should have a certain number of persons in Class III eliminated altogether, whilst the remainder would be either in permanent employment or in discontinuous employment. With regard to Class II Sir William Beveridge's argument is that whatever schemes of relief were adopted for the benefit of this class they would always be swamped by casual labourers who could, from the nature of the case, receive no permanent benefit from them.

A glance at the unemployment relief schemes of the past shows that they were intended to deal with Class II. Men were given work during the winter and paid wages sufficient to maintain themselves and their families. Such schemes as these were well suited to members of Class II, for what they required was to be tided over the period of acute depression. It is quite clear that such schemes could be of no use to casual labourers, who would be in the same condition at the end of the relief work as they were at the beginning.

Again, insurance is suitable to Class II. It is a form of relief which is expected to take the place of the Municipal Relief Works which used to be established before the War. The whole idea of insurance is that the insured workman should pay contributions

when in employment, and should draw from those payments when he is out of work. But it is clear that no insurance scheme could undertake to maintain men who were unemployed in perpetuity. The idea is that those who are unemployed should be in employment for so much longer than they are unemployed that their contributions, while in employment, will be sufficiently large to cover the remaining period.

LABOUR EXCHANGES AND UNEMPLOYMENT INSURANCE. The theory of labour exchanges is that the insolvable problem of casual labour will be exchanged for the problem of discontinuous employment. The effect of labour exchanges might be that the number of persons in Class II will be increased above the present number and then a system of insurance applied.

If we look at the provisions of Part II of the Unemployment Insurance Act, we shall find that it is divided so that the casual labourer is automatically excluded and it is confined to the members of Class II. It is thus calculated to include within its scope those who are subject to seasonal fluctuations such as the building trades. Immediately unemployment becomes so great as to approximate to that of casual labour, then the Act does not apply. Thus, there is a close connection between labour exchanges and insurance, and also in the working of the two systems. Insurance is the completion of the work of the labour exchanges, and the two together are intended as a solution of one of the most difficult sections of the problem of unemployment.

We have seen that the process of de-casualization means that certain classes are likely to be excluded altogether from employment as a result of labour exchanges. The same tendency towards elimination is seen in the case of the introduction of a *minimum wage*. If such legislation were carried out thoroughly there would be a certain number of persons who would not obtain employment at that wage. Already the trade unions have experienced this difficulty where older men cannot obtain the standard rate.

The effect of labour exchanges is to raise the standard of employment by the elimination of a section, and the raising of wages is effected in the same way. The combination of the policy of the labour exchanges with that of the payment of a minimum wage is hoped to have the consequence of enabling everybody within the ranks of industry to live at a fairly high level. Such a policy

involves a cleavage between those who can and those who cannot live up to a certain *standard of efficiency*. What to do with those who are eliminated from the ranks of industry is a problem which has not yet been decided. The machinery intended to deal with them at the present time is the poor law. Legislators, however, are afraid of moving forward fast until there is some form of machinery other than the poor law. If the poor law were so reformed that one could consider the eliminated people committed to its charge with more equanimity than at present, then this class of legislation, intended to establish a minimum standard of life, would undoubtedly move forward with greater rapidity than has been the case in the past.

We may safely conclude that in seeking to remedy unemployment no one solution can even be conceived as offering any hope of a cure. We require a thorough scientific treatment, one that will recognize that we have all sorts and conditions of individuals to be grouped in classes most carefully graded. For each class there must be found the appropriate treatment and this treatment must be such that it will fit into one organized system by means of which the derelict and outcast of society may be restored, step by step, to self-respecting citizenship.

CHAPTER XIX

ORGANIZATION OF THE LABOUR MARKET

ATTEMPTS to organize the local demand and supply of labour took place at a relatively late period in contrast to the creation of markets for other goods—especially for money and capital. Formerly, it was customary for people in want of employment to look around their own neighbourhood in search of a job. If there were no vacancies in their own locality, they used to tramp about from place to place in the hope of finding employment. Any increased or sudden demand for labour was made known through the medium of advertisements. Instead of this primitive method of bringing demand and supply in the labour market in contact with each other, a regulated exchange was instituted by the creation of *labour exchanges*, in which was collected the supply and demand for labour in a certain area or in certain trades. Both employers and workers supported the establishment of such exchanges, since they were controlled neither by the buyer nor by the seller of labour.

Apart from the national organization, public labour exchanges were also instituted by the municipal authorities as well as by professional employment bureaus who filled a large number of the vacancies in the labour market, and may thus be regarded as the first attempts to organize a market for labour. These exchanges were connected with each other so that matters could be adjusted should demand without supply exist in one place, or a corresponding supply and no demand in another. These first attempts at market organization for the commodity " labour," constitute the beginning of that net-work of labour exchanges which now covers the whole national market area. It is their function to equalize the excesses and deficiencies in supply and demand similar to what is done in other organized markets.

STRIKES AND LOCK-OUTS. In the undertakings engaged in the production and distribution of goods, the workers hire their labour-power to the employers for comparatively short intervals at a time. In all the large manufacturing undertakings the notice of dismissal is either quite short or non-existent. In agriculture

the conditions tend to be different owing to the peculiar nature of the work, and also partly on account of the prevailing custom. The fact is that the individual workman cannot change the working conditions imposed upon him by his employer but, as the economically weaker party, he is obliged to accept them if he desires to sell his labour-power. Hence, in order to improve the working conditions or to prevent them from becoming worse, the workers have endeavoured to exert pressure upon the employer, not singly, but in combination, their object being to force up wages, reduce working hours, or obtain other concessions.

Should the contract of employment extend over a long period of time, thus necessitating a formal notice of leave, the result would be that the employer could very soon find substitutes for the departing employees. On this account the workers of a particular undertaking or of a group of undertakings often lay down their tools very suddenly, a procedure which is known as a strike.

A *sectional strike* is one in which all the workers of an undertaking or the workers of one or several trades in the same undertaking, lay down their tools. Where several undertakings of a similar kind in one or more localities strike simultaneously in order to obtain the satisfaction of their demands, this is known as a *lightning* strike. Where the strike extends to all undertakings in one or several localities, or to all undertakings of a similar nature in a large industrial area, it is called a *general* strike. The term *sympathetic* strike is employed when workers in undertakings for which no strike has been declared, lay down their tools because they refuse to do work which ought to have been executed in establishments on strike. The workers refuse to do work which the strikers would have done in the ordinary course because they do not wish to damage the cause of their colleagues. Viewed from another standpoint, a distinction must also be drawn between offensive and defensive strikes. *Offensive strikes* aim at an improvement in the working conditions, and usually take the form of demands made by the employees; whereas *defensive strikes* simply aim at the prevention of any deterioration in the conditions of labour. The opposing weapon in the hands of the employer is the *lock-out*, which consists of the discharge by the employer of large numbers of workmen with the object of exercising pressure upon them, and to induce them to abstain from insisting on their demands.

With the growth of employers' and workers' organizations and the increased centralization of their power, the tendency will be for strikes and lock-outs to develop in magnitude and intensity, and they will have a more marked effect upon the economic conditions both of employers and employed. Moreover, strikes and lock-outs on a large scale appreciably affects the interests of the community, so that the struggle, in effect, is no longer restricted to the two contending parties, but affects the mass of the people who have to suffer indirectly on account of the conflict. Hence with the increase in intensity of these conflicts there grows an increasing responsibility on the part of the contending parties, but with it also the desire to avoid such conflicts and to submit them to *arbitration*. To a large extent, the success of strikes and lock-outs depends on the state of the market in a particular trade or a particular undertaking. When business is good and the demand for labour is increasing, the chances for a strike to succeed are greater than at a time when the supply of labour in the market is in excess of the demand.

COMBINATION OF LABOUR. In dealing with the money market we noticed that small amounts of capital were collected together for the purpose of executing some economic project requiring a large capital, so in the labour market we also find the workers in similar trades and callings combining in order to obtain better conditions for the employment of their labour. This combination of labour has grown especially since the development of industry on a large scale, which of itself imposes upon labour the necessity to combine. In view of the fact that the worker seeking a market for his labour-power confronts the employer as the economically weaker party, support is offered by the combination to the individual worker whose position is thus strengthened in his dealings with the employer. For a number of reasons, however, the combination of the workers is associated with great difficulties and therefore does not take place with the speed required for the creation of the best possible conditions of supply in the labour market. Competition in the labour market is still so great that a standardization of the general working conditions is almost impossible, even in regard to a single trade. The greatest advance so far has been made in the textile, engineering, and building trades, and in the printing, coal-mining, and transport industries, where the working

conditions have been uniformly regulated in most undertakings. This end has been achieved by the co-operation of the workers and the employers through their organizations; after long and bitter struggles they have agreed to the recognition of a standard tariff, the result of which has been the systematic regulation of the working conditions for all undertakings engaged in the same branch of trade.

TARIFF AGREEMENTS. A tariff agreement signifies an arrangement between an employers' organization and one of workmen in the same trade in which are laid down the conditions of work which constitute the basis of future contracts between employers and employed. The primary condition for the conclusion of a tariff agreement is the existence not only of a strong workers' organization but also of a strong employers' organization. The influence of such strong organizations can alone give a guarantee that the conditions and work agreed upon are carried into effect. From an economic standpoint a tariff agreement leads to the fixing of certain working conditions for a large number of undertakings in a similar trade, and where the agreement is a national one, it extends to all the undertakings in the particular country. Prior to the introduction of tariff agreements the price of "labour" varied from one undertaking to another, or between similar undertakings in different localities, and this exercised a very unfavourable influence upon competition in the labour and also in the produce market. The introduction of the tariff agreement has brought about a considerable mitigation of this competition. The services of a worker in a certain trade are to be remunerated on the principle of "equal work, equal pay." The remuneration of labour must not fall below a certain minimum, and a definite relationship ought to exist between work and wages so that in calculating the price of the finished article the expenditure on wages—assuming a similar working process—must be approximately the same.

CHAPTER XX

THE PROBLEM OF SWEATING

THE sweating problem consists of a series of complex evils, including the difficulty of enforcing reasonable hours of labour, the danger of insanitary conditions and irregularity of employment, and primarily the difficulty of low wage rates.

Obviously the problem of irregularity of work is closely connected with that of inadequate wage rates. It is necessary to raise the *real* income of the worker, and this will not be secured unless continuity of employment is obtained. To some extent, the problem of hours and sanitation may be met by the existing Factory Acts, but the difficulty lies in enforcing such legislation under the peculiar circumstances of work done in the home. For that reason it has been proposed that there should be some kind of wage board or factory law which would substantially suppress all forms of home-work in which any evil conditions existed. One of the effects of the Arbitration Board in New Zealand and the Wages Board in Victoria has been to reduce the number of home workers in relation to factory workers, and such legislation has been approved on the ground that the enforcement of factory inspection has been made easier.

CAUSES OF UNDULY LOW WAGES. The central feature of the problem of sweating is the payment of unduly low wages. Before we can interfere with wages by a wages board, we must understand the forces by which wages are determined at the present time. In general, it is said that wages are determined by the efficiency of the worker; in other words, wages are "relative to efficiency," so that a worker may be said to get "what he is worth." These are phrases which occur frequently in modern works on economics; the conclusion that the labourer gets what he is worth is, of course, a very simple deduction from the assumption that the law of substitution operates freely and completely. The reasoning is as follows: Assuming a number of employers in competition, they will offer a wage rate which will attract to their service such a number of work people as is necessary to provide goods which will find a market for sale at the nominal profit. Supposing that the

different trades of a country are staffed by employees who move freely in search of the best conditions of employment and the highest wage. It is obvious that the mobility of labour will result in everybody settling down in the best job for which he has the opportunity. Supposing that employers are paying lower wages than they can afford in a certain place, that is, they are making a surplus profit. The consequence would be either—

1. There would be a tendency for other employers to come into the industry and force down the price of goods ; or

2. The original employers would devote this excessive profit to an extension of their business, which would lead to an increased demand for labour, and in turn to a rise of wages to the employees.

If we assume the complete mobility of labour and capital we get the simple conclusion that profits will tend to a minimum, that wages will be proportional to the efficiency of the earners, and that any attempt to force up the wage rate would be to diminish the profit of the employer, and to throw a number of people out of employment who would be faced with the alternative of non-employment or re-absorption at the old rate.

CLASSIFICATION OF SWEATED WORKERS. Assuming that wages are proportional to efficiency, we are now to seek for an explanation of the low wages in sweated industries, and this leads us to classify the sweated workers. These may be divided into—

1. The aged and the invalid. In every large city there are many people who are too old or infirm to undertake regular work in a factory but who can perform work at irregular intervals. It is in relation to these people that the problem of an adequate or a living wage is based upon the fact that they are not capable of putting out the normal output. If their wages were increased 50 per cent, there would still be large numbers of them unable to make a decent living. One result of increasing their wages rate would be to cut out from employment many of these people, because of their inefficiency. From the nature of the case these people must remain satisfied with earnings which are far below the normal efficiency earnings in an industry, or they must be excluded altogether from employment and then be provided for by sickness insurance or in some other way. The Old Age Pensions Act, combined with the National Health Insurance Act, will tend to reduce the supply of such casual workers.

2. A class consisting of the wives or daughters of unemployed workmen. This class is a form of casual labour.

3. Those persons who are physically fit and who, perhaps, are willing to follow continuous employment, but who for some reason or another cannot work in a factory. For example, the class of persons engaged at home in the tailoring trade consists largely of widows who have other people's children to mind. When working at home, in an industry normally carried on by means of machinery in a factory, it is obvious that the employer will only pay a wage equivalent to the normal output of a factory hand who is given the benefit of a machine. Thus, the person working under a system of hand-work has to compete with the machine worker, and the fact that they have to work at home compels them to submit to poorer conditions.

Turning from low wage rates, which can be traced primarily to low efficiency, we come to another argument frequently advanced, viz.: that low wages are due largely to lack of *bargaining power*. The home worker is a good instance of this. The home worker is usually an ignorant person, working long hours, too poor to join a trade union and quite defenceless in face of the middle-man or employer with whom the wage contract is concluded. This lack of bargaining power is one of the greatest evils at the back of the sweating system. However, in the face of an over-supply of labour, bargaining power cannot raise wages. Where there is a large number of people anxious to obtain work, it is useless to endeavour to raise wages. Such an action would be defeated by the workers concerned offering their services at a rate lower than that of the Wages Board, or else a large number of workers would be thrown out of employment with bad consequences.

Again, take the case of agriculture. The agricultural labourer receives very different rates of wages in different parts of the country. In Durham he receives, say, a pound a week, in Dorset fifteen shillings. What is the reason for this discrepancy? The answer is complex. It is partly due to the fact that the methods in the north of England are more up-to-date and efficient than those in the west, and that this efficiency reacts upon the wages of the worker because he is worth more. But it is also due to the fact that there is greater mobility of labour in the north. The occupation of mining and of manufacture influences the agricultural wages so

as to force them up in those districts. But there is insufficient mobility of labour to bring about an increase of wages in Dorset. Furthermore, the fact that wages have remained low in the Dorsetshire district has caused the abler elements to be drafted off whilst only the older workers remain. Hence, the methods of production, the efficiency of labour, and the fact that wages are lower in one district than in another are here the chief determinants of the standard of living.

EVILS OF THE PRESENT SITUATION. We will now turn from the cause of low wages to the evils of the present situation. The most obvious evil is that, so long as low standards of living are perpetuated, so long shall we have that vicious circle of unemployment which means that children are being brought up in poor surroundings with health and strength undermined. Apart from the sufferings of the present generation we are producing a further supply of feeble persons who will in turn produce low social conditions and will thus perpetuate the problem.

Another evil of a different kind is that during the last few years there has been an increase of attempts to force up the standard of living among the workers to a decent minimum. There have been housing laws, health regulations, and legislation concerning children in schools; attempts have also been made to deal with unemployment and to enforce responsibility, but every form of social interference of this kind involves us in a dilemma. If we merely give the sweated worker the means to produce a higher standard of comfort we undermine the responsibility of the individual and take upon our own shoulders the burden of the person whom we are helping, and by whatever instrument we convey the relief, every problem of relief involves us in the dilemma of responsibility and relief. If we neglect to give relief in order to stimulate responsibility we have the evil of low conditions. If a decent standard is enforced from without, the stamina of the people might become undermined. The problem of recent legislation has been to meet the demand for relief on the one hand and to compel the responsibility on the other. Almost all the social problems of this kind bring us to the central problem of wages, and the attempt to enforce a minimum standard of comfort must have as a basis the fixing of an adequate standard of money-income.

REMEDIES. The remedies for sweating might be classed into

two main headings, viz.: (1) Voluntary action, and (2) Compulsory action.

I. Voluntary Methods. Under this heading may be included—

(*a*) TRADE UNION COMBINATION. This method has been partially successful in certain instances, and the wages of workers in some industries have been improved by the organization of the workers into trade unions. However, this cannot be regarded as a general remedy because workers cannot improve their conditions as long as wages are so low. Better remuneration frequently leads to combination.

(*b*) CONSUMERS' LEAGUES. Voluntary action may be exerted through the formation of consumers' leagues. These may enable consumers to decide by inquiry which are the employers who pay good wages and enforce good conditions. In this way, customers will patronize only those employers who observe the prescribed standards. Obviously, if the body of consumers is sufficiently large, they will condemn every employer who fails to provide proper conditions. If it is to be effective, a consumers' league must include within its ranks all the consumers. If the portion of the trade which it affects is small, it will not exert much influence over the employer. In America, the trade union label has been adopted, and this consists in affixing a label to every article manufactured by the workers—the label being fixed only to articles manufactured by standard labour. It is an attempt by the workers themselves to enforce in their capacity as consumers, standard conditions for producers. The difficulty, however, is that the trade unionist, when he becomes a consumer, will buy the cheapest thing although it does not bear the trade unionist label.

(*c*) THE CO-OPERATIVE MOVEMENT. No great advance in the abolition of sweating can be expected either from trade union organization or from consumers' leagues; probably the most hopeful method by which voluntary action could be increased is by an extension of the co-operative movement, which is an organization of consumers. If this movement were to become really general, as in the industrial villages and smaller towns in the north, much could be done through this instrument to enforce conditions of employment.

II. Compulsory Methods. Owing to the absence of equality of bargaining power between the employer and the employee, the

State has been led to intervene by the passing of the Trade Boards Acts. The object of Trade Boards is the regulation of wages or working conditions in any industry with the object of—

(*a*) Preventing disputes, strikes, or lock-outs.

(*b*) Protecting labour in cases where, through ignorance, apathy, or helplessness, it is unable to combine and force payment of higher wages. Trade Boards, as such, hardly existed before the Trade Boards Acts of 1909 and 1918. Previous to 1909, many trades, such as chain-making, chip-box making, and the ready-made clothing industry, were quite unregulated in any way. Labour was exploited and many workers were paid wages which were insufficient to maintain them. The prices, however, of sweated articles were no lower than those produced by well-paid labour, which pointed to unfair remuneration for the employee. The raising of the standard of living of underpaid workers and the enforcing of the payment of fair wages were the main objects of the Trade Boards established under the Acts of 1909 and 1919.

Trade Boards consist of committees formed of representatives of the employers and representatives of the employed—an equal number of each. Each controlled industry has its own Trade Board. The Trade Board fixes the minimum wage to be paid in the industry for a certain period. Any employer who does not comply with the regulations is subjected to a heavy fine.

CHAPTER XXI

JUVENILE EMPLOYMENT

THE PROBLEM OF THE JUVENILE ADVISORY COMMITTEE. Between the ages of 14 and 17 years—a period which covers the years of adolescence—there is in Great Britain a vast army of juveniles, which in London alone amounts to about 210,000. The vast majority of these are engaged in work of some kind or other. The problem of the Juvenile Advisory Committee is to sort and re-sort these juveniles during the three years that they are juveniles, in the hope that on reaching 17 years of age they may be successful in finding more or less permanent employment in some occupation. At some period of their career, half of these juveniles come in contact with the labour exchanges, and the question naturally arises why there should be need for this process of the sorting out of juveniles. At first sight it seems as if it were work which need not be done, especially since the State provides training in elementary and secondary schools. It is in the interest of parents to get the most suitable occupation for their children and at times it is quite possible that there will be a clash between the interest of the employer and that of the parents. Although the boy may be suitable for the employer, the employer may not provide a suitable career for that particular boy. Even if there be no clashing of interests, the employer may know just the kind of boy he requires but is unable to get; in the same way a parent may know the kind of work which he requires for his boy and not be able to get it. Hence the present sorting out of juvenile labour is unsystematic and generally regarded as unsatisfactory.

PARTICULAR FACTORS OF THE PROBLEM. The first factor to be borne in mind is the decay of the old indentured apprenticeship system. This system had certain merits of its own, viz.—

(*a*) It provided an obvious way of entering a skilled trade. A parent who was anxious for his boy to enter a skilled trade knew what procedure to follow.

(*b*) After the training, the apprenticeship led on almost automatically to employment in the ranks of adult labour usually

leading to the position of journeyman. This system has been gradually disappearing, and with the exception of the printing trade, it has disappeared almost entirely, and with it has passed away the straightforward method by which the parent could enter his child for an all-round trade.

The second factor is the steady increase of sectional employment. This takes two forms, viz.—

(*a*) The immense division of labour in the ranks of adult labour, i.e. the increasing tendency for one piece of work to be separated from another. The employer in our days requires an adroit workman in a particular kind of work and not an all-round jack-of-all-trades. This extensive sub-division of tasks implies that any boy who desires to obtain an all-round training must supplement his specialized training in the workshop with some form of training outside. The boy entering an engineering workshop has to realize that, although he may have entered in the hope of picking up his trade, he has no assured prospects in the ranks of skilled labour.

(*b*) The separation of boys' work from that of men. Many forms of industry are carried out almost entirely by boys with a handful of men to look after them. Errand boys are very plentiful. Returns have shown that half the boys as they leave the elementary schools, enter one of the numerous forms of errand boy vocation, but we also find this separation of boys' and men's work in branches of engineering—some boys looking after machines with a man to supervise them. These boys have simply to watch the machine, drill a hole in a piece of iron, etc. These are known as blind alley occupations because they lead nowhere. Often they lead nowhere because the juvenile has not taken the opportunity of receiving a training in a technical school. A large number of boys do not possess the particular qualifications to lead them on to better positions.

The third factor is the growing demand for boy labour, especially in these blind alley occupations. The result has been a considerable rise in the boys' wages for work of this kind with the natural result that, while an employer might not give high wages at the outset but offer better prospects, he will fail to draw the boys; on the other hand, the employer who gives immediate wages although there may be no prospects, is successful in drawing the boys.

Indeed, blind alley employments generally offer large initial wages which naturally act as an attraction.

THE NEED FOR JUVENILE EMPLOYMENT COMMITTEES. These are the dominant factors which must be remembered when considering this problem. We will now proceed to examine the prevailing difficulties which have given rise to the need for juvenile employment committees. These are—

1. **The Employer's Difficulties.** The employer finds it difficult to choose the boys wisely—the result of compulsory elementary education has been to make them look very much like one another. An employer has also a difficulty in choosing the boys because of his lack of experience.

Employers are willing to give to juveniles the prospects of learning, although it is not possible to offer them initial prospects because at the beginning a boy spoils more work than he is worth. Again, it is difficult to get boys to enter as learners because of the lack of machinery for directing them. But even when the boys have been admitted, they may soon throw up the work when irritated, especially when they can easily find employment elsewhere.

2. **The Parents' Difficulties.** The whole industrial situation is complicated on account of the sectional employment which characterizes the present day. It is quite possible for the parent to know his own particular trade, but have little knowledge of any other trade, and consequently it is difficult for the parent to get advice. Again, the parent desires to have some guarantee of future prospects in case the boy is offered only low wages at the outset. Economic pressure, on the other hand, compels many boys to accept the highest earnings offered at the very beginning.

3. **The Boy's Difficulties.** At first, when the boy starts, the position is rather pleasant. He leaves school and finds that his parents are unable to obtain work for him. He finds his own work and thus, to that extent, becomes his own master. For the first year or so his position is satisfactory. He has more money, to some extent is his own master, and should he lose work one day he can easily get another position the next day. But he gets older; he finds that it is necessary to consider his prospects since there tends to be no room for him in the workshop. It is necessary to get training to fit him for a higher position, but he has no one to

advise him for the particular kind of trade. As he gets older, it is not so easy to get into another position.

4. **Administrative Difficulties.** The only kind of work for which a boy can be prepared in the elementary school is the blind alley occupations. Intelligence, regularity, and obedience are provided in the boys of the elementary school, and these are the only qualifications called for in the blind alley occupations. Elementary education does not prepare boys for the skilled trades, but only for the fundamental requirements of all trades. Persons interested in elementary education find that the more they improve that kind of education the more they cater for this particular kind of employment. As a result, a vast amount of money spent on education is wasted simply because the boys are allowed to drift into blind alley occupations. These lead nowhere, and many of the recruits are physically unfit for the work. If education is to be efficient it must be continued beyond the elementary stage, but the immediate difficulty is to get hold of boys when they are leaving the elementary school. As a result of the industrial situation the educationalist is confronted with a real difficulty.

Thus the employer wants to know the qualifications of the boys, the parent desires to know the particular trades and the prospects they offer, whilst the educationalist wants some kind of knowledge of the various occupations into which the boys are actually going so that he can communicate with them so as to induce them to attend the right kind of classes in the evening.

As a rule, the teacher knows the qualification of the boys, and should know the occupations for which they are fitted ; the labour exchange knows approximately the particular openings there may be among employers at the present moment. What is wanted is an institution by which the school and the labour exchange can be brought together. There are two methods by which this has been done, viz.—

(1) The Juvenile Advisory Committee, and (2) The Choice of Employment Scheme.

The Juvenile Advisory Committee is a committee appointed by the Board of Trade for giving advice on all matters connected with juvenile employment. It works in close connection with the labour exchange. Under the *Choice of Employment Scheme* boys and girls on leaving school are registered at a bureau which is maintained by

the Education Authority. Advice is given to juveniles, but the bureau does not come in direct contact with the employers themselves. The labour exchange deals with the employers whilst the education authority is concerned only with the giving of advice to juveniles. Both these methods are desirable, for there is certain work which the Education Authority and certain work which the Juvenile Advisory Committee can do.

The Employment of Women, Young Persons and Children's Act, 1920, now forbids the employment of children under 14 in any industrial undertaking, unless they are legally so employed on 1st January, 1921. The Majority Report of the Royal Commission on the Poor Law, 1909, recommended the establishment in connection with labour exchanges of a special organization for giving boys, parents, teachers, and school managers, information and guidance as to suitable occupations for children leaving school.

The Labour Exchanges Act, passed in August, 1909, provided the labour exchanges which were to be the centre round which the organization for the direction of juvenile labour was to be formed, and gave power to establish the Advisory Committees which such an organization required.

In 1910, *The Choice of Employment Act* enabled local education authorities, with the approval of the Board of Education, to form committees designed to assist children on their entry into employment. By arrangement between the Board of Trade and the Board of Education " Juvenile Employment Committees " have been formed in practically all industrial areas of importance by the Board of Trade (from February, 1919, by the Ministry of Labour) under the Labour Exchange Act, or by the Local Education Authorities under the Choice of Employment Act. Fifty-two such committees had been formed in July, 1914, and at the beginning of 1921 some 250 were in operation. The committees consist of representatives of local employers and workpeople and the Local Education Authority, and generally include independent persons with a knowledge of questions affecting juvenile employment.

TEST PAPER IV

1. In what sense is labour regarded as a commodity? In what important respects does it differ from ordinary commodities?

2. Consider the correctness and explain the significance of the expression "the labour market." Contrast the market for securities with the market for labour.

3. Distinguish between various forms of wage-payments, such as task wages, piece wages, etc., and state the reasons which render them respectively suitable for various trades.

4. Consider from the standpoint of both employer and employed, the relative advantages of time wages and piece wages as applied to—

(*a*) Coalmining;
(*b*) Brick-laying;
(*c*) The making of cloth buttons.

5. Explain the principle of the Premium (or progressive wage) system in industrial remuneration. What are the theoretical objections or practical difficulties in the way of its introduction?

6. Estimate the value of Profit Sharing and Sliding-scale remuneration as expedients for obviating labour troubles.

7. Discuss the possible causes of opposition on the part of wage earners to (1) piece rates, and (2) scientific management.

8. Analyse the problem of unemployment, and state the means which have been, and the means which in your opinion might be, adopted for dealing with it.

9. Show what is meant by the "imperfection of a market," and connect the imperfection of the labour market with the problem of unemployment.

10. Consider the importance of labour exchanges in an industrial system.

11. How far is a strike a moral and useful weapon? Discuss the morality and use of a sympathetic strike.

12. With the aid of the subjoined particulars describe the immediate economic results of the Coal Miners' Strike in the United Kingdom in 1921.

Strike began, 1st April. Work resumed 4th July.

Production of Coal.

	Tons per Week.
Average for 12 weeks, 1st Jan–26th March	4,362,200
,, 13 ,, 4th April–2nd July	13,777

Percentage of Members of Trade Unions Unemployed.

	1913.	1920.	Highest before Recorded.	1921.
In January .	2·3	2·9	10 in 1893	6·9
,, February .	2·0	1·7	9·5 in 1893	8·5
,, March . .	1·8	1·1	11·2 in 1912	10·0
,, April . .	1·7	·9	8·1 in 1909	17·6
,, May . .	1·8	1·1	7·9 in 1909	22·2
,, June . .	1·8	1·3	7·9 in 1909	23·1
,, July . .	1·8	1·5	7·9 in 1909	16·7

Unemployed Workpeople Registered at Employment Exchanges (whether Members of Trade Unions or not).

	Totally Unemployed.	Partially Unemployed.
On January 28 . . .	1,065,000	637,000
,, February 25	1,218,000	744,000
,, March 24	1,414,000	839,000
,, April 29	1,854,000	1,077,000
,, May 27	2,122,000	1,187,000
,, June 24	2,178,000	1,152,000
,, July 29	1,780,000	534,000

Value of British Exports (manufactured goods only).

	£
For the month of January, 1921 . . .	79,745,506
,, ,, February ,, . . .	58,176,515
,, ,, March ,, . . .	56,968,867
,, ,, April ,, . . .	52,018,563
,, ,, May ,, . . .	38,662,212
,, ,, June ,, . . .	33,658,121
,, ,, July ,, . . .	36,704,757
,, ,, August ,, . . .	39,935,627
,, ,, September ,, . . .	44,009,013

Railway Traffic Receipts.

	Passengers.	Goods Traffic.
	£	£
For the month of January, 1921 .	8,267,062	11,366,699
,, ,, February ,, .	6,893,420	9,964,784
,, ,, March ,, .	9,800,224	10,876,912
,, ,, April ,, .	7,542,634	6,978,440
,, ,, May ,, .	7,344,258	5,737,833
,, ,, June ,, .	7,809,613	6,165,108
,, ,, July ,, .	11,242,813	9,291,827

13. (*a*) " The produce of labour constitutes the *natural* recompense or wages of labour."

(*b*) " The *natural* price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their species."

Contrast the theories of wages set forth in the above-quoted passages, noting the meaning to be given to the term " natural." What other theories of wages have been propounded ?

14. If you find that labour in a particular industry is strikingly underpaid, what measures would you propose with a view to a remedy, and what difficulties would you expect to encounter in carrying out these measures ? Give any actual instances known to you.

15. What do you know of the regulations dealing with juvenile labour ? What has been, and what is likely to be, the result of such regulations ?

SECTION V

THE PRODUCTION OF GOODS

CHAPTER XXII

THE ORGANIZATION OF THE UNDERTAKING

CO-OPERATION OF CAPITAL AND LABOUR. In the modern system of industry the co-operation of capital and labour is necessary for the production of goods. Of course, there are still areas which are not subject to private ownership and where, for that reason, the appropriation of some goods can still take place, although this form of acquisition is not typical of our modern economic system. Goods may be purchased by money which, when expended, loses the character of capital. But capital can produce goods and supply the market with new commodities only by entering into an alliance with labour. On the other hand, labour also needs the assistance of capital in order to produce goods. Thus, if the aim is the production of goods, then both factors are mutually dependent. Of course, it is clearly apparent that labour requires the assistance of capital to a greater extent than capital requires the assistance of labour. Capital represents the power to control the existing stock of goods. Assuming the occurrence of a stoppage in production capital would be in a more favourable position than labour, for it would still have the power for some time to use up the existing stocks in so far as they are in such a state of manufacture as to render them fit for the direct satisfaction of human wants. But apart from this advantage, capital and labour work hand in hand and co-operate in the production and distribution of goods.

THE UNDERTAKING. The production of goods takes place in the form of economies which have been described as undertakings. In the undertaking, likewise, one or more persons will be responsible for the acts and omissions connected with the execution of business. The person or persons who undertake this responsibility are known as the *entrepreneurs*. However, it is not necessary for the *entrepreneur* to direct the undertaking personally;

he may delegate this duty to a third person. In using the term undertaking, we are also led to think of the risk which every economy has to incur under the modern system of industry. If we confine ourselves to the aspect of industry which is concerned with the production of goods, we call the place in which the goods are produced or manufactured, a business. In an undertaking several businesses may be included. It is the function of the undertaking to produce goods and to sell them in the market in such a manner as to leave a profit to the *entrepreneur*; in other words, the selling price must exceed the cost of production. For this purpose the *entrepreneur*, or managing director of the undertaking, must make the necessary arrangements to effect a certain revenue; that is, the sum total of all receipts should exceed the sum total of the expenditure. What has been observed in the case of the private household economy may also be seen in that of the undertaking. On the one hand, there is the desire to incur as little expenditure as possible in the production of the goods, and, on the other hand, to obtain from other undertakings or economies the highest possible amount in the shape of money for the goods produced. This fundamental characteristic of the undertaking determines its method of operation.

ORGANIZATION OF THE UNDERTAKING. Every undertaking engaged in production, whether it be small or large, is founded ultimately upon commercial activity, i.e. upon buying and selling. Of course, the acquisition or the manufacture of goods is the main object of the undertaking, but the goods themselves must be sold, for production takes place for the market. The preliminary conditions for the manufacture of goods are likewise based upon commercial activity, although this may be but slightly manifested in the case of small undertakings. Nevertheless, it must always be the case. The acquisition of the raw materials, the tools and equipment, the money and other forms of capital as well as of labour —all these pre-suppose commercial deliberations and calculations as to the probable amount of the expenses of manufacture which must be less than the anticipated market price of the finished articles if the undertaking is to meet with financial success. Commercial activity also takes a share in the sale of the goods. Commercial activity is, indeed, the Alpha and the Omega of every undertaking. The success of the undertaking frequently depends

more upon the buying and the selling than upon the technical process of manufacture itself. In view of the fact that the desire to offer the cheapest possible goods results in the manufacture of inferior articles, commercial considerations often lead to the neglect of the quality of the goods to be produced. The organization of the undertaking, therefore, is based upon commercial activity even in the sphere of manufacture. This remark also applies to agricultural undertakings, although in this case the commercial activity, especially the pricing of the goods, is confined to certain limits resulting from the growing process, etc. Nevertheless, this kind of undertaking also produces for the market and is therefore based upon commercial considerations.

ORGANIZATION OF A MANUFACTURING UNDERTAKING. The development of large-scale industry has led to the creation of an organization which follows the process of manufacture in all its stages and which attends to the registration of the costs incurred in the various processes of manufacture. Thus we find a series of special departments with independent and responsible managers, each of whom has to report to a central administration concerning the progress and state of the work done.

The organization of the manufacturing undertaking calls for the harmonious arrangement of the technical, commercial, and administrative work. The activities of each employee must be carefully co-ordinated and systematically arranged so that the management may be informed of every occurrence in manufacture. A typical scheme of organization for a large manufacturing concern is shown. From this it will be seen that the personnel is controlled by three executive officials directly responsible to the Managing Director, viz.—

1. *The Manager of the Administrative Department,* who has control of the general office staff and is entrusted with matters of general administration.

2. *The Technical Manager,* who deals with the processes involved in the actual manufacture and construction of the goods. In the concern in question there are special departments for stock and store keeping, erecting, costing, wages, and time-keeping, and also a department for that useful person known as the works manager. This individual must needs be thoroughly expert in his work, a strict but just disciplinarian, as upon him inevitably depends the

efficiency of the workers. He should set a high standard in his own example of quickness and punctuality, and should give reasonable consideration to the men, their pay, comfort, and general welfare. Instructions to the factory hands should pass from the technical manager through the works manager, as otherwise the latter's authority over the men would sooner or later be impaired.

3. *The Commercial Manager*, who is entrusted with the distributive activities of the business. These are divided into the buying operations, book-keeping, invoicing, and the checking of statements, the travellers' department, forwarding, cash transactions, and attending to the commercial correspondence.

Of course, there is no particular scheme of organization which will meet the requirements of every undertaking, and the type of management must naturally depend upon the size of the undertaking and the nature of the work.

THE VARIOUS TYPES OF UNDERTAKING. When an undertaking belongs to a single individual it is known as a sole trading concern. In this case, however, it is possible for the *entrepreneur* to set up and to manage the undertaking by means of borrowed capital. Nevertheless, he is the owner and master of the undertaking. A large proportion of the present day undertakings are included in the class of *sole trading concerns*. The undertaking may be so small that the *entrepreneur* may employ his own labour-power in it, not merely as manager but also in assisting with the routine work. He can also delegate the management to an employee. All these variations occur in the case of the sole trading concern. However, the sole trading concern has lost in importance in comparison with that type of undertaking in which a number of persons supply the capital for the establishment and management of the undertaking. The development of the modern system of production and distribution of goods has created the necessity for undertakings with large capital, for the capital of the individual was too small or the undertakings became too risky for a single capitalist to be willing to sacrifice the whole amount of the necessary capital. The provision on a large scale of capital and the possibility of employing small items of capital in large undertakings, together with the distribution of the risk, led to the formation of companies, the principal but not the only type of which is the Public Limited Company. From the legal standpoint a distinction is drawn

between the *Partnership*, the *Limited Partnership*, the *Private Limited Company*, and the *Public Limited Company*. These concerns may also be divided into capitalistic and personal companies, and according to this distinction the ordinary partnership represents the type of the personal company and stands nearest in form to the sole trading concern. Capitalistic companies are undertakings in which the persons who participate in the capital investments are not directly concerned in the management of the company and to some extent have no desire to be so concerned.

Along with company undertakings mention may also be made of *co-operative concerns* which aim at the improvement of the domestic economy of their members by means of a democratic system of business management. In regard to the production and distribution of goods co-operative societies do, at any rate, play an important part, especially Co-operative Consumers' Societies which will be referred to in a later chapter. A distinction is drawn between co-operative societies engaged in the raising of credit, in the production of raw materials, in buying, in manufacture, in warehousing, and in milling; societies of consumers, building societies, housing associations, etc. On the whole, they are engaged in the furtherance of the mutual economic interests of the poorer classes. A fourth type of undertaking is that conducted by the municipality or the State, which is known as a *public undertaking*. This form of undertaking tends to assume an increasing importance in our modern economic system. Public undertakings are correctly described as undertakings since they, too, work for the open market and aim at earning a revenue; their method of economy is based upon the principle of profit—in other words, they strive to obtain the greatest possible return with the smallest expenditure of capital and labour. The public undertaking becomes a necessity where company undertaking has reached a certain stage of development, or where it is not in a position to set up a uniform technical organization over a certain area. In this category might be included the British postal system, and in some countries the nationalized railway systems.

DIFFERENCE IN THE SIZE OF UNDERTAKINGS. The mass of present-day undertakings presents an entirely different picture from that of the host of private household economies. In the case of the latter the number of persons belonging to an economy

is limited, the typical form being that of the family household, whereas in the case of undertakings the differences in size are immense. In order to form some idea of these differences, undertakings have been divided according as they are worked on a small or on a large scale.

This differentiation, however, which is based on purely external characteristics, is inadequate, for it leaves out of consideration the potential power of development on the part of the undertakings. Since the undertaking produces for the market, it depends primarily on the extent of the selling possibilities whether a concern can develop into a large-scale undertaking. A small market area will not afford the possibility of survival to a large-scale undertaking. But even the largest possible market area will not offer scope for a large undertaking where the working process is unsuited to large-scale management, or where the distribution in private hands of the factors of production makes it difficult or even impossible for a large-scale undertaking to develop. It is often said that the development of machinery has created the large-scale system of industry, and, in consequence, the modern large-scale undertaking; but it would be more correct to say that the extension of the market area has really created the possibility for the economic employment of machinery in the technique of production. The great diversity in the forms of undertaking can be explained only on historic grounds, and the predominance of one or the other form is determined by factors which result largely from the method of financing the undertakings, the methods of marketing, the degree in which scientific methods of business organization have been adopted, and also from the amount of competition which exists between them. In addition there are many causes which are connected with the progress of industrial technique.

LOCALIZATION OF UNDERTAKINGS. Undertakings do not settle arbitrarily in certain districts but their localization is dependent on certain well-defined preliminary considerations. It is obvious that the undertakings engaged in the production of raw materials must follow the soil on which the acquisition of the raw material depends. Typical of this is the settlement of *agricultural undertakings* in villages where the land is divided into a certain number of allotments which are cultivated by the villagers. Here village after village is found according to the extent of the soil which is

under cultivation. This extensive system of settlement can be explained on purely economic grounds. *Mining undertakings* are likewise bound to the soil under which the mineral wealth is found. Somewhat different, however, are the conditions which prevail in the first stages of *manufacture*. In the iron and metal industries the proximity of coal or iron mines acts as a great attraction, whereas in the case of the textile industry in these countries in which the raw materials are not grown, the proximity of the raw materials does not enter into consideration. In this case other reasons determine the locality of the undertakings, such as the facilities of transport, humidity of the climate, cheap motive power, or low wages. The tobacco industry, for instance, settles preferably in places where labour is cheap. From this point of view one can trace directly the migration of the undertakings.

There are industries, however, for which the locality of the undertakings may be chosen without regard to the aforementioned factors. Mention should also be made of the large mass of undertakings which cater for local wants; here is included a host of small and medium-size undertakings engaged in the manufacture of partly finished goods, such as the building and other affiliated trades which supply building and auxiliary materials. Moreover, most of the undertakings engaged in the manufacture of foodstuffs as well as in the clothing trade come under this category. Almost every locality requires a certain number of such small undertakings to meet the local demand. The number grows with the size of the local market area and thus admits of the development of larger undertakings such as could not have survived in the small market area. This process of localization of undertakings can be clearly observed in all industrial areas. It should be noted, however, that, other things being equal, the manufacture of raw materials at a great distance from their source of origin is bound to raise considerably the expenses of production. Hence there is a tendency to work up the raw materials as near as possible to their source of origin. Indeed, in the textile industry this tendency is very strongly marked. The rise of the American cotton industry and its export capacity is inseparably connected with the advantages which result from proximity to the raw materials. Of course, this advantage may be neutralized by other factors such as dearer labour, but in the long run competition will find it impossible to

drive from the field the advantage of proximity to the raw materials.

Although in the textile industry the advantage is not so important as, for instance, proximity to the coal and iron fields in the iron industry, yet the aspect ought not to be overlooked. On the basis of these natural motives for the localization of undertakings there has arisen a certain international concentration in some of the most important branches of industry.

FACTORS OF PRODUCTION. Amongst the factors of production must be included in the first instance, land, and then the whole technique of production. It is as much in the interest of the owner of labour-power as in that of capital, that the factors of production should be employed economically and that their efficiency should be maintained. Under present-day conditions of ownership it is not inconceivable that the factors of production may be employed uneconomically by paying more attention to the temporary success of an undertaking rather than to its permanent results. Perhaps this is not so much the result of deliberate injury being done to the factors of production as to a lack of understanding of the proper treatment of these factors. Although this lack of understanding is diminishing in the case of large-scale undertakings, yet in view of the mass of small-scale concerns which in their entirety play an important part in the production of goods, the amount of ignorance is still very great. The factors of production depreciate through use, and therefore reserves must continually be set aside for replacing them and also to meet the sudden changes in the methods of production which frequently occur. In the case of agricultural undertakings, this remark applies not only to the technical equipment but also to some extent to the area under cultivation. Substances are withdrawn from the soil, and these have to be replaced. Where this is not done in a sufficient measure, actual depreciation takes place ; although for other reasons as, for instance, the excess of demand over supply, the price of such areas may increase. Production for the market leads only too easily to the undertaking itself being regarded as a speculative object which must be sold as favourably as possible. Out of this conception there emanates a far-reaching neglect of the factors of production.

FINANCING THE UNDERTAKING. The undertaking had its

rise in the soil of private ownership and even to-day it is still based upon it. Hence, in the background of the undertaking we find an owner or a number of owners. It is not necessary for the manager to be the owner, and indeed the larger the undertaking, the more seldom is this the case. With the great majority of small undertakings the formal ownership usually coincides with the actual management. In many cases, however, this is only a formality. Take, for example, an agricultural undertaking; the farmer may own the soil and also the whole of the stock which is necessary for the conduct of the business. However, it is rarely the case, perhaps never, that the land is free from obligations. Frequently there is a mortgage upon it which economically represents a claim to ownership on the part of the lender. Under these circumstances the farmer, to a certain extent, remains the owner of his factors of production, but by the introduction of outside capital his undertaking is brought into economic dependence on the money market. The modern undertaking which has not been inherited is from the outset financed by means of borrowed capital. The promoters apply to the money market in order to take up such capital as is necessary for bringing the undertaking into existence, and also for its management as a going concern. Private investors participate in the financing of the undertaking, but not in the sense of remaining permanent shareholders of the concern; owing to the evolution of the organization in the money market, they are in a position to sell their shares in an undertaking so that the actual owners might change from day to day. This stage of development is seen in the public limited liability company.

THE OWNERS OF UNDERTAKINGS. Here it is necessary to point out the increasing estrangement which is taking place between the owners of a business and their property—a fact which is clearly demonstrated by the joint-stock form of undertaking. Where shares are dealt in on the Stock Exchange, the owners—if the shareholders can be so described—change from day to day. It would be an impossible task to ascertain the identity of the shareholders on any one day and to bring them together for united action. In the general meeting of limited companies it is likewise not the actual shareholders, but mostly the representatives of certain well-defined interests who pass the resolutions. In like manner, the shareholder has usually no interest in the factors of production

of his company, his sole interest being concentrated on the market price of the shares and the dividends. He is owner of a company only according to the magnitude of his present holding of shares, which he intends to unload with profit when the opportunity presents itself, and thereupon to acquire shares advantageously in another company. Thus, the mobilization of the capital tends to deprive the owners of any special interest in the actual property as represented by the factors of production. Hence, the safeguarding of the interests of the implements of production themselves is relegated more and more to the officials and the employees, especially to the latter, since their existence depends on the success of the undertaking in a greater measure even than does that of the persons engaged in management. This tendency is characteristic of the ultimate consequences of the capitalistic system of ownership; the owner has virtually no longer any real interest in his temporary property, nor does he feel himself to be the owner of an undertaking by his possession of shares. Capitalistic property has rather become impersonal, and in its naked monetary form it has become the subject for dealings on the Stock Exchange.

COMPETITION BETWEEN UNDERTAKINGS. The undertaking must dispose of the goods produced at a certain price on the market. A whole series of undertakings enter the market with the same kind of goods. The more closely the supply of goods corresponds to the demand, the less keen will be the competition amongst the suppliers. But for several reasons this favourable relationship rarely exists. Where competition amongst the sellers is keen, there is a fall in the price of the goods. In this connection it must be understood that the expenses of production incurred by the different undertakings are by no means the same but differ considerably, so that the undertakings which can produce cheaply still make a profit at a price at which other undertakings are incurring more or less large losses. Owing to this continuous competition among the undertakings in the sale of their goods, there is a desire on the one hand to produce the goods as cheaply as possible, whilst on the other hand, those undertakings which, in the long run, are unable to make their income balance their expenditure but incur continual losses, will be eliminated from the ranks of producers by simply disappearing. In this way, with the advent of the modern factory a portion of the small craftsmen were eliminated since the efficiency of the factory

was so much superior to the craft system of production that undertakings under the latter system were for the most part speedily ruined. The causes of this superiority are manifold, but it is safe to assert that the modern technique of production plays an important part. At least, this technique is a characteristic feature of the superiority of the modern industrial system.

CHAPTER XXIII

CONSOLIDATION AND INTEGRATION OF UNDERTAKINGS

THE COMBINATION OF UNDERTAKINGS. Undertakings which produce the same kind of goods enter into competition with one another. The larger the undertakings and the more equal they are in power, the greater is their desire to refrain from injuring each other through competitive action. Their desire is to share out the market and to work it in common. There may, however, be another motive which might favour the combination of undertakings. Every business tries to expand and to increase. However, if there are sufficient undertakings in a certain line of business it may be more economic under certain circumstances for a large undertaking to amalgamate with an existing undertaking rather than to expand its own works. Especially is this the case where companies possess valuable mineral deposits such as coal and iron ore. Thus, there are various motives which may induce an undertaking to enter into closer relationship with a similar or allied undertaking. Where the combination takes place in such a manner as to incorporate or amalgamate with other undertakings, this form of combination, i.e. *fusion*, must always be regarded as a single business undertaking. It is the extension and expansion of a single undertaking, whereas in other forms of combination the individual undertakings remain independent. The separate management of the undertakings comprising the latter form of combination continues until such a time that the alliance becomes so close that even the last claims to independence of the individual undertakings must disappear. This form of combination in which each business undertaking retains its separate identity is known as a cartel. Both the fusion and cartel are means by which a uniform organization of production and of distribution is effected. The main forms of development in business are given in the table inset facing page 194.

THE CARTEL. The lowest stage of a cartel in one and the same trade begins with the regulation of the conditions of delivery, or the terms of payment. This is known as a *Condition Cartel.* A higher stage is represented by the *Price Convention* which aims not

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only at uniform conditions of delivery and of payment, but also at the regulation of prices. The participants in the price convention, however, soon discover that a uniform price cannot be fixed and maintained so long as the undertakings in question effect the sale of the goods themselves. Hence, there arises the desire to take away the sale from the individual undertakings and to hand it over to a special selling centre. The *Selling Syndicate* now develops, but is very difficult to maintain, since it exposes the undertakings to the fluctuations of the market in a highly unsatisfactory manner. A certain safeguard against these fluctuations is therefore demanded from the selling bureau, which is obtained by the latter also regulating as far as possible the production of the combined undertakings, and the selling bureau now stipulates what percentage of each member's goods can be sold in a given period of time in proportion to the total turnover of all the members. When the organization of the cartel has attained this stage it is known as a cartel for the *Limitation of Output.* With this, however, we have by no means reached the full height of development. The selling functions are of course taken away from the individual undertaking and its output is controlled, but there still exists the influence of the various undertakings upon the expenses of production, and it so happens that the undertakings working under favourable conditions sort themselves out more and more from the others so that the less efficient undertakings are subjected to close consideration. Apart from this the cartel for the limitation of output is a ponderous structure, a fact which shows itself especially in international competition. The uniform arrangements in regard to the technique of production leads to inelasticity, so that the largest undertakings often enter into secret amalgamation with other works and thus endeavour to secure for themselves all the advantages resulting from an improvement in technique. It is only by the combination of all the works concerned into a single undertaking, with the elimination of the financial and technical independence of the respective undertakings, that a uniform and homogeneous technique of production, a systematic output of certain goods and the control of the supply of such goods in relation to their demand, can be created in a certain trade. This stage of combination provides us with a form of trust such as is characterized in the organization of the American Steel Trust. The organization

of production and of distribution has then reached such a stage that it can be carried on from a centre and the economic activity of the existing installations can be developed and made to supplement one another. Cartels and trusts evolve at first with the national economic area, but they tend to spread beyond the national frontiers. Already there are in existence a number of international cartels. The tendency towards combination on the part of large undertakings engaged in the production of the same line of goods which are of importance in the world's trade is becoming more and more strongly noticeable, although certain limits to the attainment of combination render the realization of the object difficult or even impossible. In the long run only such undertakings can be cartellized which produce goods of a similar kind or which have interests in common. Where it is a question of establishing an international cartel, the preliminary condition is the existence of a national cartel.

TRADES SUITABLE FOR CARTELS. The higher stages of cartels cannot be reached in all trades. The more the undertakings produce raw materials fit for the use of consumers, the more difficult it is for the large undertaking to succeed and the easier for the small undertaking to predominate. Under these circumstances it becomes increasingly difficult to form a strong cartel over a large market area. On the other hand, cartels take root in those trades which supply raw materials for manufacture and also in those trades which produce partly finished goods. Agricultural undertakings, of course, do not belong to the latter category. Amenable to the cartel form of organization are nearly all branches of the mining industry—coal, iron, and other metals, and the conversion of iron ore into pig- and sheet-iron. Beyond this stage, the formation of cartels becomes more difficult. In trades in which only a few large undertakings produce a certain article, cartels may be formed; this is especially the case where such goods have a large market, possibly exceeding the national market area. The goods whose production, price, and sale are suitable for a cartel must be similar in nature, offer a large market, and must be produced in a relatively few large undertakings. These are indispensable preliminary conditions for the formation on a large scale of successful and durable cartels. In this way alone can there exist the possibility of equalizing the expenses of production. If these show too great a deviation, the competitive struggle will first of all choke off those

undertakings which do not succeed, or which find it impossible to reduce the expenses of production so as to bear a proper relationship to the price prevailing in the world market. In this connection it must be remembered that, for various reasons, the amount of the expenses of production within the respective national areas may be very dissimilar.

THE ECONOMIC POLICY OF THE CARTELS. The economic policy of cartels is guided by the desire to effect, with united forces, a satisfactory sale of goods or services for the various undertakings included in the cartel.

The Aim of the Cartel. The aim is to control, as far as possible, the supply of the goods so that prices may be regulated by the cartel. Thus, the cartel is opposed primarily to the purchasers of the goods. During the period prior to the establishment of the cartel, competition among the undertakings led to such a depression of prices that an improvement could be expected only by a restriction of competition. The cartel aims at securing this restriction, but in its lowest stages of development it does not attain this end. There are always loopholes which cause internal competition to become active or which renders possible outside competition. Not until a higher stage is reached does the cartel become a weapon for influencing prices, for the regulation of the turnover, and finally for the regulation of the output. Of course, it is a preliminary condition for the existence of a cartel that it should have complete control over a fairly large proportion of the production of the commodity. It arranges the scale, fixes prices, and decides upon the extent and quality of the production

Loss of Independence. Thus, the policy of the cartel is to interfere in the first instance with the independence of the affiliated undertakings to such an extent that the former character of the undertakings is completely changed. The organization of the cartel takes over the whole selling activity for the affiliated undertakings and controls the extent of production. The autonomy of the individual undertakings is thus lost to some extent. Still more significant is the economic policy of the highly developed cartels in their relations with customers.

Power over Customers. Since the greater part of the total supply of a certain commodity is concentrated in the hands of the cartel, it assumes a position towards the individual customers which is

the stronger, the more scattered is the demand. Thus, it obtains the power to fix prices one-sidedly. The customers have simply to submit to the price policy of the cartels.

The Middleman. However, this by no means exhausts the economic power of the cartels. Cartels of producers aim at bringing the middleman into a dependent position and at eliminating him wherever possible. In many cases the attempt is made to bring the whole process of distribution within the sphere of the cartel. Not only is the technique of production as represented by the undertakings brought under the control of the cartel, but also the whole process of distribution down to the direct consumer. In the endeavour to carry out these aims obstacles naturally present themselves.

The Outsider. Especially do the cartels find it very difficult to induce all undertakings in question to become affiliated. Frequently outside undertakings enjoy all the advantages accruing from the cartel without being compelled to submit to the restrictions entailed by membership. Thus the so-called *outsiders* become a great danger to the policy of the cartel. It therefore becomes incumbent upon the cartel to induce the outside undertakings to enter into affiliation. This often takes place by the adoption of questionable practices. Violent competition may arise between the cartel and outsiders, which is fought out principally through the regulation of prices.

Foreign Competition. The outsiders, however, are not the sole opponents of the cartels. Competition with the cartels also develops from another side. Where the cartel embraces the whole of a national economic area, foreign competition may enter into consideration. Where the cartel is only national, in the event of its success, new competition may arise within the national economic area. The policy of the cartel must be to fight against or in some way to prevent this opposition.

Cartels make a distinction between those market areas in which they are the undisputable masters of the supply and those in which their mastery is disputed. Within the former they can impose their one-sided prices, whilst in the disputed areas they must have regard to competitors. The possible losses from the sale of goods in disputed areas are made good as far as possible by the charging of higher prices in the indisputable areas.

ADVANTAGES OF CARTELS. Through their price policy, however, cartels exercise an influence far beyond the radius of the undertakings with whom they are in direct relations. They influence the price of goods down to the private economy, i.e. the final consumer, and they also exert a far-reaching influence on the relations of the undertakings of the cartel in regard to the money and labour markets. Stability of prices leads to stability of returns and of wages, and these are differently regarded by the parties affected. The success of the cartel benefits the affiliated undertakings, the same as failure, in the last resort, has to be borne by them. The cartel organization does not represent a separate undertaking, though it may be constituted as such, for it only carries out a portion of the business which was formerly carried out by the various undertakings. The cartels themselves, in the execution of their policy, very soon become conscious of the weaknesses which are inherent in all forms of cartel organizations, in which the individual undertakings still confront one another as independent undertakings. Competition is restricted and limited, but still there is always the possibility, which may be exerted indirectly, of producing tension between the various interested undertakings to such an extent that the existence of the cartel becomes a burden and is felt to be a handicap by the most efficient undertakings. Internal competition does not cease entirely until the stage of the completely developed trust has been reached, for at that stage all undertakings are amalgamated into one single undertaking. At this stage of development, the economic policy of the cartels assumes a different character. The trust unites within itself a wealth of economic power in consequence of which there is no longer any need to apply the mean measures against its opponents which the cartel, at its lower stages, had to employ.

THE TRUST AND OPPOSITION. The power of the trust competes even with the influence of the State in a manner which frequently shows the superiority of the former. Only by the creation of opposing organizations, and the combination of the interests affected by the overwhelming power of the trust, does it become possible to bring forces against the trust, which the latter will respect. However, this coalition of counter forces does not take place until the overwhelming power of the trust has become irksome and until it challenges, not only temporary, but permanent opposition. In

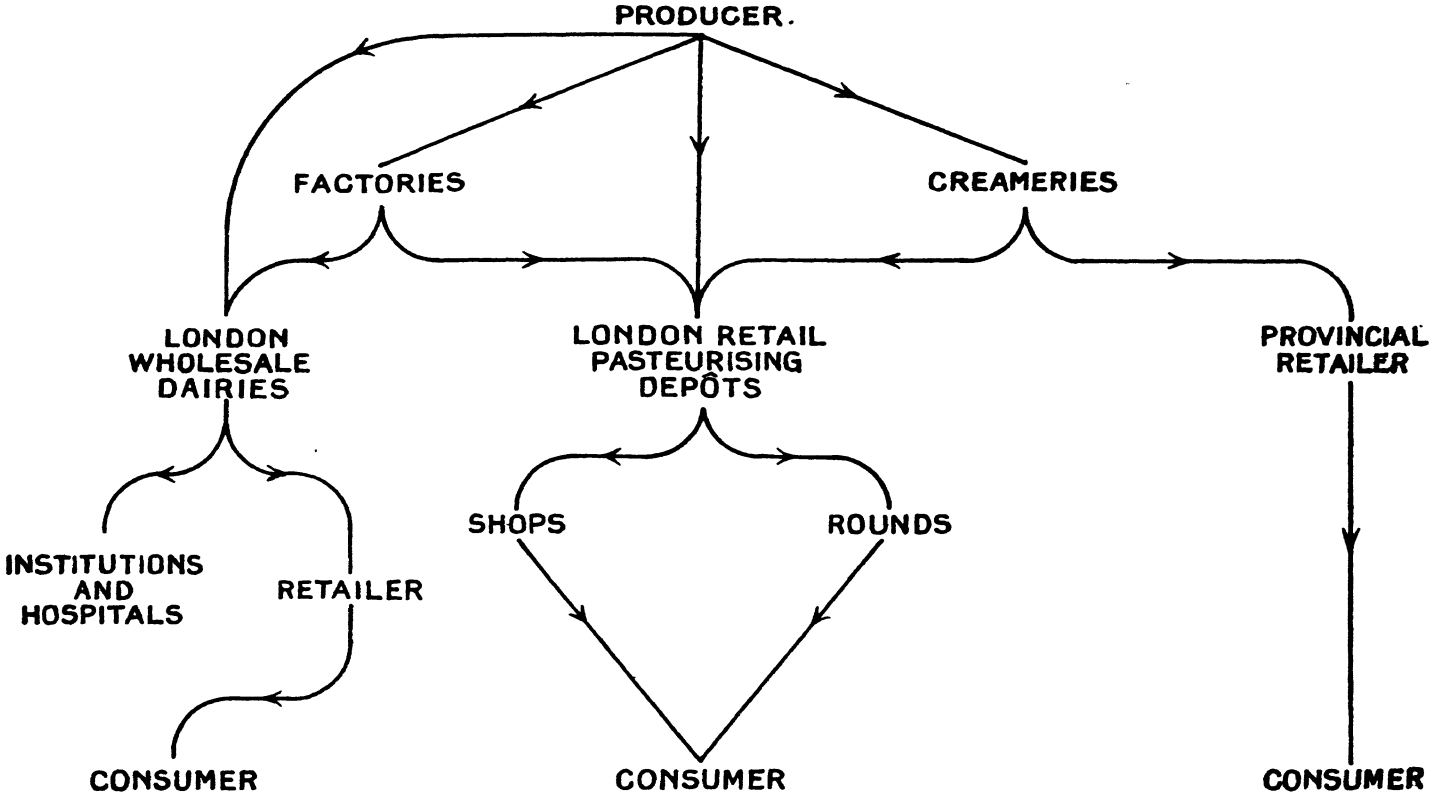
particular, the concentration of supply must be opposed by the concentration of demand. This organization of demand, however, is rendered difficult by the fact that, as a rule, it is exceedingly scattered. The impetus to the formation of a cartel usually emanates from those industrial groups in which the supply is already in the hands of a relatively few large undertakings. The circle of undertakings which enter into consideration as buyers is very much larger, and is by no means composed merely of large undertakings. In consequence, the combination of demand is much more difficult. Strong and continual pressure, combined with violent competition, is needed to bring about a combination of the opposing forces of demand. The large cartels and trusts tend to exploit their dominating position in such a manner that opposition arises on the part of the customers. It can continue to operate as a permanent business undertaking only by an amalgamation of the parties interested. Thus, the economic policy of the cartels leads to a complete fusion not only of supply but also of demand in the sphere of production and distribution.

EXAMPLE OF A FUSION. An interesting example of a fusion is mentioned in the Interim Report on Milk and Milk Products, issued by the Departmental Committee on the Distribution and Prices of Agricultural Produce.[1] This is the United Dairies, Limited, which has the direct control of about 65 per cent of the total milk supply of the Metropolis. The company was formed in 1915 with a capital of a million pounds, for the purpose of acquiring some of the principal London wholesale milk businesses and their country creameries.

It now owns forty-five creameries in England and Wales, which have been described as the reservoirs for the London trade; a London wholesale milk business; numerous London retail milk businesses; five condensed and malted-milk factories; a dairy utensils and machinery business; and a Smithfield provision business for home and imported produce. The company owns its own saw mills, and also its own factories for the manufacture of condensed milk tins. All these different businesses are worked through subsidiary companies, the United Dairies, Limited, operating purely as a holding company. The reason given for the amalgamation was the desire of the interested parties to keep

[1] Cmd., 1854.

UNITED DAIRIES LIMITED CHANNELS OF MILK DISTRIBUTION.



milk at a fairly level price and to effect economies in men, horses, and material.

In 1917 the United Dairies, Limited, decided to enter the London retail milk business, and some of the largest milk distributing businesses were acquired; to enable this transaction to be completed, the issued capital was increased to about £2,300,000. In 1920 the issued capital had reached £3,280,000, through the absorption of numerous other companies and private traders, and to-day the issued capital stands at approximately £4,000,000. In the process of absorption of all these businesses, the policy has been to reduce the number of functioning concerns, so that at the present time the company's interests in the liquid milk trade are worked through sixteen functioning retail companies and one wholesale company in London. The diagram printed on page 200 is interesting as showing the various channels along which milk flows under the company's organization. It will be seen that the adjustment of supplies to consumption involves a highly complicated and sensitive system of reservoirs and out-falls.

In the case of the United Dairies, Limited, the whole of the share capital in the subsidiary companies is held by the parent company, and, as it largely finances the operations of these companies, the share capital of the subsidiary companies cannot be taken to indicate the actual amount invested in the respective concerns. As private companies within the meaning of the Companies (Consolidation) Act, 1908, the balance sheets of the subsidiary companies are not required to be filed at Somerset House. The balance sheet of the parent company, which has to be filed, gives no information as to the book value of the goodwill, the fixed and floating assets or the amount of liabilities, reserves, and undistributed profits standing in the books of the subsidiary undertakings. It will be realized that the value placed on goodwill and other intangible assets has a bearing on the profits required to be earned in order to maintain dividends, and these have to be provided out of the margin between the price paid to the producer and that paid by the consumer.

The Departmental Committee on the Distribution and Prices of Agricultural Produce therefore recommended that the Government should consider the advisability of introducing legislation to require holding companies which stand in a position similar to that of the

United Dairies, to file with their annual returns at Somerset House a co-ordinated balance sheet showing *inter alia* how much of their capital is represented by (*a*) goodwill and other intangible assets ; (*b*) fixed assets ; and (*c*) floating assets, and the aggregate amounts of their (*d*) liabilities ; (*e*) reserves ; and (*f*) profits.

CHAPTER XXIV

THE RISKS OF THE UNDERTAKING

THE risks of the undertaking embrace all those unforeseen and unavoidable occurrences which threaten the life history of a business. These contingencies are the unfavourable effects of a number of causes, the operation of which cannot be clearly foreseen. At all events they influence the business adversely and endanger its success. These unfavourable effects manifest themselves in two ways, viz., directly and indirectly.

Direct Losses may be entailed, for instance, by the inclemency of the weather, the occurrence of fraud or theft, the loss of goods during transit or warehousing, depreciation of plant and machinery, bad debts, etc. Expenditure may also be rendered necessary by law as in the case of the Employers' Liability Act, the National Insurance Acts, etc.

Indirect Losses consist of a diminution of profits in consequence of a fall in market values. For instance, where a dealer or manufacturer sells his goods for future delivery at a price fixed in the present and a rise in the market price takes place after the contract has been concluded, there is an indirect loss caused by the risks of the market.

The majority of these risks are unforeseen. Their occurrence is uncertain, but there is always the probability that they will occur and thus influence the prospects of the undertaking. The occurrence of such events is quite independent of the will of the business man and hence may be described as accidental.

In addition there are some events which are sure to occur without our knowing precisely when they will take place, such as the loss by death of labour-power.

The risks of the undertaking are rooted for the most part in economic and social phenomena, or else they are due to natural causes which are beyond human control.

I. BUSINESS RISKS. These are due to acts, omissions, or occurrences within the undertaking itself, and may be sub-divided into—

(*a*) **Subjective Risks,** which may be found, for instance, in the extravagance of the *entrepreneur*, the illegitimate speculation of a

director of a company at the expense of the undertaking, the inefficiency or carelessness of an employee, the inability of customers to pay their debts, or the incorrect delivery of goods by creditors.

(*b*) **Objective Risks,** which include the premature depreciation of the factors of production, the quantitative loss of goods during the period of warehousing, and, in general, the risks attaching to the administration and employment of the inorganic factors in the business.

II. SOCIAL RISKS. These embrace all those risks which are independent of the management and control of one's own or any outside undertaking. They affect the individual undertaking merely in so far as it represents a unit in the social organism, such risks being the outcome of social phenomena. Social risks include the sum total of those market conditions beyond the control of the manager of an undertaking which exert an influence upon the state of business, such as the risk involved in the falling off in demand, a slump in prices, the rise in the price of raw materials, and changes in the rates of exchange.

Again, the risk of war has its effects upon the individual business, the nation, and upon the world market—the decline in imports and exports, the loss of markets, the postponement of international payments, and the restriction of credit and the general interruption of trade which can be re-established only after the resumption of normal intercourse. Changes in the fiscal policy of a country may so dislocate trade as to increase the various risks within the business community and thus render unprofitable the operations of the undertaking.

III. NATURAL RISKS. Beyond the control of human agency are to be found disturbances and losses which are the result of natural events. These are generally known as "Acts of God." Such risks may be due to fire, lightning, storms, floods, earthquakes, etc. Risks arising from natural events may easily be insured against, since the probability and frequency of their occurrence may be gauged from the statistics which have been collected and which cover a number of years. Hence, the extent of the probable loss may be calculated in each individual case.

TYPES OF BUSINESS RISKS. We shall now consider a few of the most important business risks.

1. **Risks of Under-capitalization.** These may be due to a lack of capital and the raising of loans which cannot be repaid at the date of maturity. Again, there is the risk of the premature withdrawal of credit, by the death or failure of the creditor. The risk of under-capitalization is run where an undertaking is unable to command credit or where its ability to attract outside capital is restricted, thus resulting in a fall in the revenue. This may lead to a state of insolvency on the part of the undertaking.

2. **Credit Risks.** These comprise all those risks which arise from the giving of credit such as the total or partial loss of an outstanding debt; delay in payment on the part of the debtor with a corresponding loss of interest or reduction in revenue. Such risks naturally vary with the class of business. Apart from the large stores and a few retail concerns, the various branches of trade tend to have a compact circle of customers with varying capacity for purchasing and for credit. Trade customs, the fixing of the terms of payment by convention, and in some trades, again, the trade protection societies with their system of issuing black lists, all these have largely contributed towards an improvement in credit conditions.

3. **Technical Risks.** These consist of the danger that production may be a failure because of technical defects. However, these can frequently be minimized by a careful system of costing and improvements in the technique of production.

4. **Quality Risks.** These may be due to the delivery of faulty material which does not correspond to the order such as difference in colour, shape, weight, or chemical consistency, degree of hardness, behaviour of the material in manufacture, etc. The quality risk is borne by the seller and is of the greatest importance to the manufacturer, although it is also of importance to the dealer and exporter. The quality risk is minimized in the case of certain commodities where quality limits are fixed, as in the grain trade, future dealings in coffee and sugar. In these cases the obligation to take delivery of the goods within the prescribed limits is imposed upon the buyer.

Where goods are sold *tale quale*, i.e. without any condition as regards quality, measurement, or weight, the quality risk is entirely eliminated.

5. **Risk of Breach of Contract.** Losses may arise through the

other contracting party attempting to break the contract: failure to keep to the time of delivery; refusal to pay the contract price, or deviation from the terms of credit. Other examples are the shipment of goods by a more expensive route, and the sale of goods to competitors in spite of the assurance of sole agency.

6. **Price Risks.** These are largely due to economic conditions such as the fluctuations of the market. It may also result from the cutting of prices by one's competitors, or even from causes inherent in one's own undertaking. In the latter class are included the low efficiency of the manufacturing plant, and excessive cost of production in comparison with that of competitors.

Can the various risks of the undertaking be expressed in figures, and are they capable of measurement? Risk signifies the probability of loss, that is, the loss of capital value, or the expenditure of capital. The losses which have already occurred are the expression in figures of the effects of various risks.

In the accounts of a business undertaking the losses are to some extent shown directly as in the Profit and Loss Account on the debit side, and partly in a reduced profit. Thus, losses on sales, losses due to market fluctuations, etc., are set off against the profits on sales.

However, the losses of wealth shown in figures in a well-kept set of books do not always correspond to the total loss. Included in the term "loss" is that profit which might reasonably have been anticipated in the ordinary course of business. Such loss of profit as is due to unexpected events cannot be entered in the books of account. In the sphere of accounts that which might have been, but is not, finds no place. The accounts, and especially the Profit and Loss Account should be carefully compiled from documentary evidence which forms the material for an examination of the risks of the undertaking. When we take into account, however, the manipulation which often takes place in the preparation of the final accounts of a company, and the many different ways in which losses can be spread over a period of years, it can easily be perceived that a statistical examination of the risks of the undertaking on the basis of the published accounts can have only a relative value for purposes of economic investigation.

CHAPTER XXV

THE TECHNIQUE OF PRODUCTION

In the undertaking there takes place a combination of capital and labour. Capital affords the means of obtaining the factors of production for the carrying on of the undertaking. The great aim of production is either to increase the fecundity of nature or to convert the raw materials obtained from nature into a state fit to satisfy human wants. This is effected by means of labour-power assisted by some kind of technical appliances. In the course of time these have become highly developed, as may be seen in the various kinds of tools, machinery, and equipment which are continually undergoing improvement. Through the employment of these improvements in technique the products of nature are increased and, on the other hand, there is a considerable saving in human labour-power. Machinery generally displaces a number of human beings, although it must not be forgotten, on the other hand, that the construction and future replacement of this machinery will involve a considerable expenditure of labour. One can thus easily see how an undertaking which is superior to other undertakings in its technical equipment, can produce an article more cheaply and in larger quantities, and therefore can sell it more cheaply in the market. Where a technical equipment is unquestionably superior to the one formerly in use the undertakings which continue to employ the old technique, seeing that their cost of production is too high, must either install the new process or become inefficient. Hence, competition between the various undertakings will naturally lead to continual improvement in the methods of production. The undertaking, which for want of capital or for other reasons is unable to remain at the highest level of technical efficiency, cannot hope to retain itself in the economic sphere.

THE SUCCESS OF THE UNDERTAKING. The preliminary conditions under which an undertaking is established—its size, technical equipment, commercial organization, the competition of similar undertakings, the price of and the demand for the finished goods, and the conditions of wages and of capital are so diverse in

regard to individual undertakings, that an equal success on the part of undertakings producing and selling similar goods is inconceivable. Still less can the same success be expected in regard to the totality of undertakings. We can calculate average success, however, from the examination of a certain number of similar undertakings; deviations from this average admit of a conclusion as to the causes effecting a greater or smaller success. Here it must be borne in mind that, when compared with the great differences in success, the wages in the trades concerned and the interest on capital are by no means the chief determinants, but that other factors are of much greater weight. If two undertakings manufacture the same class of goods and one of them works for a small market and the other one for the larger market, given the same selling price, the undertaking with the *larger turnover* will show, of course, a greater financial success under otherwise similar conditions. The size of the market area and in conjunction therewith—the turnover, plays an important part not only in the success but also in the possibility of expansion of the undertaking. Undertakings which cater only for local needs cannot exceed certain limits; they always remain small and therefore have not the chances of undertakings which supply large market areas. The capacity for undertakings to expand will also, as a rule, decrease the more the undertakings produce *directly* for the consumers, since the diversity of the public taste, consideration for the individual wishes of the various classes of consumers, and the demand for new goods, all make it difficult for the large-scale undertakings to dominate permanently a certain market area. But the small undertaking is unable to show a similar financial success per unit of turnover as the large undertaking since it is exposed to more competition. It is the large market alone which makes possible the large undertaking and the employment of a technical equipment which, in its turn, propels the expansion of the undertaking. This industrial technique, especially in mining and the iron and steel trades which furnish raw materials and equipment for other industries, confers on the large undertaking not only a complete pre-eminence but also ensures a financial success founded upon commercial and technical efficiency. Commercial superiority is expressed in its influence upon prices, technical superiority in the employment of machinery which reduces the cost of production to the lowest possible level. Financial success secures for the

undertaking the easiest method of meeting the need for money for the continual expansion of its production and for the continual improvement and elaboration of its technical equipment. It cannot be denied that in its initial stages of development, in the financial success of an undertaking an important and even decisive rôle is often exercised by the personality of the promoter or managing director, although the activity of such persons varies greatly. The *managing director* of an undertaking may be likened to a steersman, the value of whose services varies with his ability to pilot his vessel safely through every danger and difficulty. If the passage is through calm and peaceful waters, the art of steering represents no particular achievement.

THE PROFIT OF THE UNDERTAKING. All economic goods have a value resulting from the fact that labour-power has been invested in them, but this labour-power can become effective only with the assistance of capital. The amount of labour and of capital embodied in a commodity tends to determine the value of that commodity. Here it is necessary to remind the reader that capital, in its final analysis, is nothing but the product of labour. One is apt to assume that the estimation of the amount due to labour, and the share which reverts to capital is a comparatively simple matter, whereas in reality the determination of these items is extremely complicated. The production of similar goods in different economic areas entails a different expenditure of labour-power and a different rate of interest for the capital employed.

Of course, the differences in the return to various units of capital are on the whole not so great as the differences in the return to the expenditure of labour-power. In a country which has undergone a high degree of technical development, the expenditure of labour in the production of a commodity is relatively low, whilst in a country with a low level of technique it is comparatively high. The conditions may also be reversed; an area may yield natural raw materials with such a small expenditure of labour and capital that the commodity represents a low value. In another district, however, the natural fertility is of such a nature that the same raw material can be obtained only by a very great expenditure of labour-power and of capital. There are, therefore, many different values for the same class of goods according to the amount of labour and capital expended thereon. Hitherto we have spoken of the expenditure

of labour-power in a quantitative sense only. The determination of value, however, becomes still more complicated when the cost of the reproduction of labour-power is taken into consideration. The value of similar goods differs not only because the expenditure in time of labour-power varies, but also because the expenditure on the cost of reproduction of the labour-power presents even greater contrasts. If, for instance, a Chinese coolie carries out a certain task in ten hours, and an unskilled English labourer executes the same task in the same length of time, that is, if both do work that is very little, if at all, influenced by the greater or smaller amount of intelligence, the expenditure in time is the same, but the costs of reproduction of labour are entirely different, being very much greater in the case of the English workman than in that of the Chinese coolie.

The share of labour in the production of the commodity in question is therefore much less where the Chinese coolie is employed than in the case of the employment of the English workman. The value of the same commodity, therefore, presuming that the expenditure in labour and in capital is unequal, cannot be the same. However, the price of the goods when placed on the market may be the same. If the prices of the goods are the same, but the expenditure in labour-power and in capital differs, then the seller whose goods have entailed the smallest expenditure of labour-capital-effort will receive a counter value with the greatest surplus over the cost of production. What then, are the decisive factors which determine the price of goods? The costs of production of the goods? We have seen that these are unequal and will remain so for a long time to come. Of course, the costs of production play an important part in the determination of prices since they greatly influence the supply of goods. For if the price of goods sinks below the cost of production in a number of undertakings, these undertakings must in the course of time cease to produce so that supply will be restricted. More important, however, is the intensity of demand for a commodity at a given time and the extent of the effective demand produced thereby. If an area, where the cost of production is relatively low, is able to meet the whole of the demand for a commodity, the price will exceed by only a small margin this cost of production. However, should the demand be greater than the supply, then the price of the commodity will rise. The price will be such as to cover the

cost of production of the marginal producers so that the area with the relatively lower costs will obtain a price far in excess of its own cost of production. The difference in gain which thus accrues to the latter area is the *profit* of the undertaking, because it reverts neither to labour-power nor to capital. But since the *entrepreneur* and the capitalist are frequently one and the same person, the profit of the undertaking reverts to capital. The profit of the undertaking however, also originates in another manner. If, owing to the difference in natural productivity, two agricultural undertakings of similar character show a different quantitative return, and if the price of the goods produced is the same for both, the undertaking with the greater yield has a surplus which, after deduction of all costs for labour and for capital, reverts to the undertaking. Here likewise there results a profit for the undertaking due to circumstances which economic management alone does not explain. In the present era of world market prices, the diversity of strength, the influence of the natural forces of production, and the difference in the costs of reproduction of labour-power make it possible for undertakings to obtain special profits which may be designated " undertaking profits." These are the principal sources of the profits which accrue to undertakings engaged in the production of goods.

INDUSTRY. The sum total of these undertakings engaged in the production of the same or similar goods with the object of placing them on the market are known as an industry. Establishments devoted to agriculture are frequently excluded from this heading. The official statistics of the British Government, for instance, separate agriculture from industries. We cannot agree with this classification. It would be much better to regard as an industry every combination of undertakings engaged in the production of particular goods. So long as an economy produces for its own consumption only, then it cannot be called an industry. However, as soon as an economy produces more than it consumes and thereupon sells its productions either in the raw or finished state in exchange for money, the economy becomes an undertaking and the undertakings form an industry. But not only the undertakings engaged in the production of goods may be classified into a definite number of industries but the undertakings engaged in the distribution of goods must likewise be included in the term " industry,"

at least so far as private undertakings are concerned, and we also speak of a commercial industry or a transport industry. The far-reaching division of labour in the process of production and distribution of goods has led to the evolution of an exceedingly large number of industries which can all be traced back to a few principal kinds. The occupations of a country do not quite coincide with its industries in the above sense. The term "occupation" is the wider term, and proceeds from the activity of a person in the economic process as its starting point. The undertaking may embrace a variety of different occupations, whereas an industry consists of a group of undertakings engaged in the production of a certain commodity, e.g. the cotton industry. A business consists of the uniform working process which is determined by the technical conditions of production. The term business is sometimes used incorrectly in the same sense as undertaking, but it should be remembered that many businesses may constitute an undertaking, e.g. spinning, weaving, dyeing, and bleaching businesses are grouped into undertakings which constitute the cotton industry.

ORGANIZATION OF THE PRODUCTION OF GOODS. The production of goods takes place in such a manner that raw materials must be obtained, then by the process of manufacture they are so transformed as to render them fit for human consumption. Accordingly, it is necessary to draw a distinction between the procuring of raw materials and the process of manufacture. At the same time this differentiation presents a contrast which is of fundamental importance for the proper understanding of human economy. The extraction of raw materials is based pre-eminently, though not entirely, on the productivity of nature. In the acquisition of raw materials the chief object is to stimulate as favourably as possible the productivity of nature so that the soil, and afterwards the stock, may show the best possible results. Here also there is evinced the desire to obtain the maximum returns with the minimum expenditure of labour-capital-effort. There also exists the desire—far reaching in importance—to increase the natural productive powers, and to make the preliminary conditions of natural fertility such that the highest yield possible will result. On the other hand, the further acquisition of raw materials and the working up of the raw materials into finished goods must aim solely and entirely at the production of commodities as economically as possible, that is with

the minimum expenditure of labour-capital-effort. The manufacturing process calls for a change in the form of the raw materials which may be used with a greater or smaller expenditure of labour-capital-effort. The smaller this expenditure, the more economic in effect is the working process ; the greater the expenditure, the higher must be the costs of production of a commodity to the undertaking.

CHAPTER XXVI

THE COSTS OF PRODUCTION

FORMS OF COSTING. Costing is the process of calculating the expenses involved in the manufacture of an article. After having ascertained the expenses incurred in the manufacturing process, or in obtaining the commodity from the manufacturer or wholesaler, the selling price is then fixed. Costing is thus necessary in order to ascertain the minimum price which must be charged for an article, so as to avoid selling under prime cost.

As in the case of the State or municipal undertakings, the manufacturer and the merchant begin with an estimate of their expenses in which they include the cost of their raw materials, expenses, profits, interest on capital, etc. Further, they include the expenses incurred during the period of manufacture and even those which may be incurred after the work has been completed. The activities of every business should be based upon a system of costing. In a narrow sense, costing is the ascertainment of the prime or manufacturing cost of a commodity.

I. CLASSIFICATION ACCORDING TO FUNCTION. According to the object of costing we speak of—

(1) **Manufacturing Costs.** These are the expenses which are incurred in the manufacture of a commodity.

(2) **Buying Costs.** These consist of the expenses incurred in procuring a commodity—whether raw materials, partly manufactured or finished goods.

(3) **Selling Costs.** These are the expenses which must be added to the prime cost or to the buying costs before ascertaining the selling price of the goods

Although all these three forms of costing occur in a manufacturing business, the trader has to deal only with the forms mentioned under (2) and (3).

II. CLASSIFICATION ACCORDING TO TIME. According to the period at which the expenses are incurred a distinction may be made between—

(1) **Estimated Costs.** These are the expenses prior to manufacture or prior to purchase or sale. A calculation is made of the expenses

anticipated in the execution of an order or in connection with buying or selling.

(2) **Actual Costs.** The prime cost is ascertained on the basis of the expenses actually incurred. A subsequent calculation acts as a check of the estimated costs showing the difference in the items of which it is composed. Although nothing can be changed in regard to transactions that have already taken place, experience which has been gathered in one transaction may be utilized on future occasions. Hence the use of actual costs is to teach us the cost of a manufactured article if it is to be made again, assuming that the conditions do not change However, the necessary allowance must be made for any changes in the conditions.

III. CLASSIFICATION ACCORDING TO NUMBER. According to whether one or several articles are manufactured, bought, or sold, we speak of single or multiple costs. If the buying expenses of a particular article are shown unseparated in an invoice, the right constitution of the expenses should be ascertained. If in the manufacture of an article, various departments of the same undertaking enter into consideration, then the wages and general expenses of each must be carefully apportioned. Where an undertaking is engaged in the manufacture of a combination of different kinds of commodities, the exact apportionment of the expenses over the various articles is frequently very difficult and a more or less crude method of distributing the costs is frequently adopted.

Ad Valorem Costs. These are expenses which vary according to the value of the goods. In this category are included, brokerage, selling commission, interest, rebates, *del credere*, insurance premiums, depreciation of goods during transport or warehousing. Supposing out of 100 gallons of wine, 1 gallon is lost in transport through ullage or evaporation, this means that the loss is equal to 1 per cent, whether the price of the wine is 100s. or 1,000s. *Ad valorem* expenses may therefore be expressed as percentages.

Specific Expenses fall or rise in the same ratio as the change in quantity or weight; for example, the expenses of freight, cartage, loading or unloading. Whether the goods cost 100s. or 1,000s. per cwt., the freight and cartage remain the same.

General expenses connected with the business are not dependent

on the value or the quantity of the goods; for example, postages, telegrams, samples.

In regard to the relation of the expenses to the *total turnover* a distinction is made between—

(1) Fixed Expenses, and (2) Variable Expenses.

Fixed Expenses. Amongst the expenses which remain the same irrespective of the extent of production, are to be included the expenses for rent, lighting, and heating of the business premises, salaries of the directors, and of the permanent staff, etc.

Variable Expenses. These expenses vary according to the extent of production—

1. Expenses which vary with the quantity of output at any given time. In order to increase tenfold the output of a factory, ten times as many workers must be employed; thus, the wages are increased tenfold. If the cost of 1,000 units is £20,000, then the cost of 2,000 units will be £40,000. Again, a grocery business which uses 1,000 paper bags for the packing of 1,000 single lbs. of flour, will require 10,000 bags in selling 10,000 single lbs.; that is, it has to expend ten times as much on the bags.

2. Expenses which fall relatively to an increase in turnover, that is, the increase of expenses is less than the increase of output. For example, a salesman obtains a turnover of £1,000 per month; if, at the same prices, the turnover should rise to £5,000, as the energy of the salesman was not fully utilized, there may only be wanted three salesmen for the increased turnover and not five. Again, in the manufacture of 100,000 pieces of cloth the cost might be 115,000s.; for the next 20,000 pieces, 18,000s.; a further 20,000 pieces only 17,000s., etc.

3. Expenses which increase per unit of output, as production increases. This may be due to the excessive employment of capital and labour, to whom high overtime rates must be paid. Progressive expenses, which arise with abnormal employment, are of a temporary nature.

MANUFACTURING COSTS. The calculation of prime cost in a manufacturing concern would be rather simple if the wages and materials necessary for the production of a certain article always remained the same. The considerable fluctuations of wages, of the output of the workers, and of the machinery and also of the prices of raw materials, make the costs of a manufacturer

more difficult to calculate than in the case of a trader's business.

In normal times, the price of an article is regulated by demand and supply. It will be offered permanently only if the persons demanding it are prepared to pay a price which covers the cost of manufacture, and leaves an adequate margin of profit. As a rule, it will not be necessary for the customer to give more than this amount, as competitors take care that the selling price does not exceed a figure which results from the addition of the cheapest cost of production, the expenses of distribution, and a suitable profit.

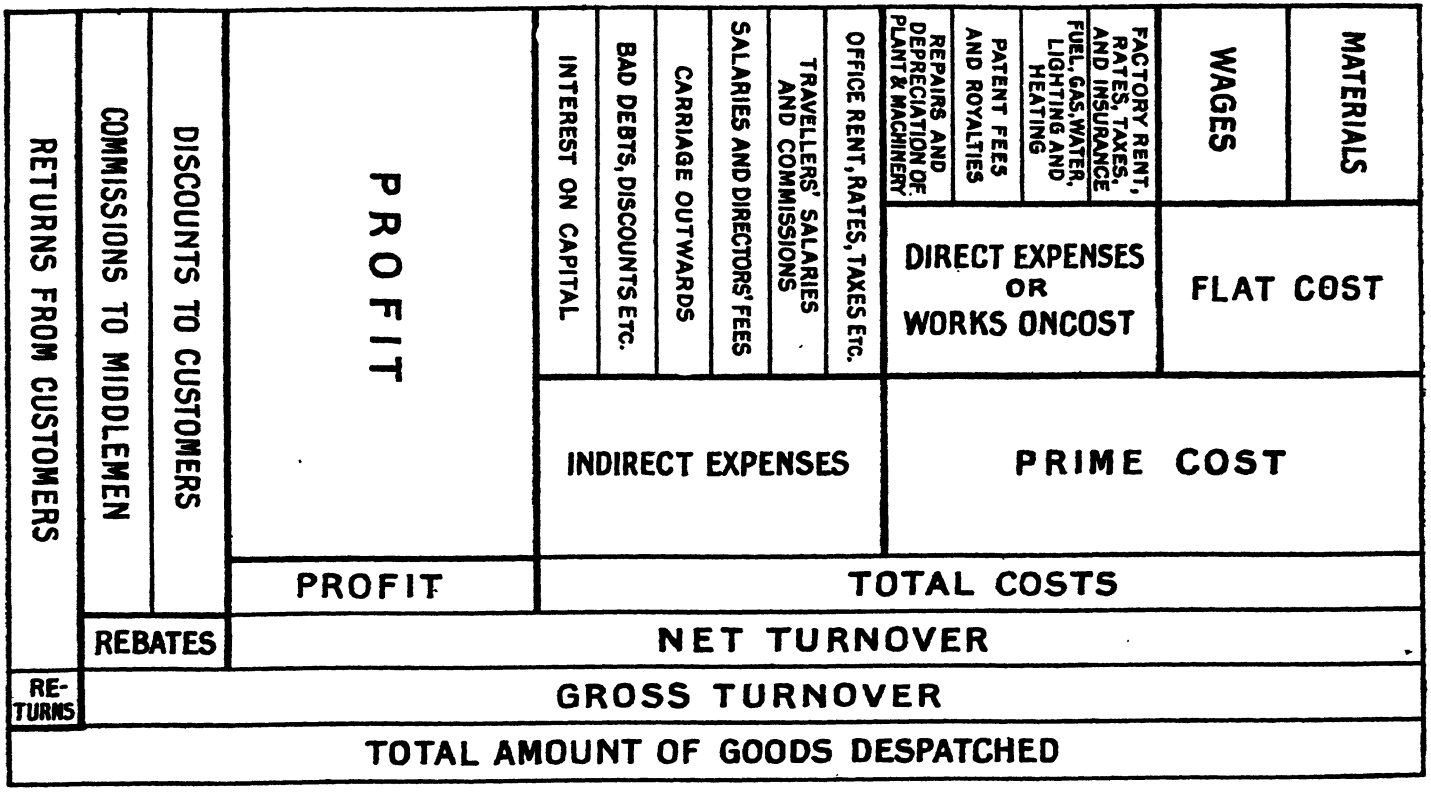
The manufacturer, therefore, in his own interest, must make an exact calculation of his total cost. In a factory undertaking this consists of all the expenses incurred in the production of a manufactured article together with the expenses of sale.

The amount added for profit must frequently be adapted to the prevailing market prices; the total cost constitutes the basis; the additional amount representing profit calls for adaptation to market prices. In price lists and catalogues price alterations are usually expressed in percentages; for example, "Prices are subject to 15 per cent increase." In order to procure orders during a period of slack trade, the calculation has to be made so as to realize the best possible price.

FACTORS OF PRIME COST IN MANUFACTURE. The diagram on page 218 shows the relation between Prime Cost, Turnover, and Profits. From this diagram it will be seen that the three principal items of cost are raw materials, wages, and expenses, and the leading principle is to debit all expenses as directly as possible to the particular article to which they refer. In this way a general survey may be obtained over the estimated prime cost and of the items debited to the respective workshops. One of the great aims of costing will thus be achieved; that is, the expenses of manufacture will be reduced to the smallest possible dimensions.

Raw Materials. Every manufacturer requires raw materials which form a part of the substance of the new product, and auxiliary materials which do not appear in the product. To the price of raw material must be added the expenses of obtaining it, the buying commission and the freight and cartage; on the other hand, a deduction must be made for discount, rebates, or similar

MANUFACTURER'S EXPENSES, TURNOVER & PROFIT.



allowances, and also for the revenue resulting from the sale of by-products and waste. For example—

	£	s.	d.	£	s.	d.
Purchase Price of Raw Material				280	–	–
Less 2 per cent Discount				5	12	–
				274	8	–
Add Carriage	24	6	–			
Cartage	3	7	–			
Unloading Expenses and Storage	1	16	–			
Trading or Establishment Charges		18	–			
				30	7	–
				304	15	–
Less Proceeds from Sale of Waste				4	12	–
				£300	3	–

Wages. The Flat Cost of a manufactured article consists further of the wages which arise in the course of manufacture, that is, the productive wages—the wages of those workers who are directly engaged in the production of the article in question. In a well-organized business both materials and wages may easily be ascertained for each manufactured article from the Purchases and Stores Books and from the Wages Analysis Book. When the direct expenses of production are added to the Flat Cost, the total is known as the Prime Cost.

Expenses of Production. In contrast with the above items, the productive expenses do not always bear a direct relation to the magnitude of production, but they are in part fixed expenses. The following are to be distinguished—

1. Expenses which arise only in course of manufacture, but not when the factory is closed—

(*a*) Expenses for power, where the power is generated by the manufacturer. (For example, consumption of coal and other fuel; wages for stokers and firemen; consumption of water.) Otherwise these expenses would have to be paid to the electricity works.

(*b*) Lighting, heating, and water.

(*c*) Auxiliary materials, e.g. lubricating oil, cotton waste, for the maintenance of the machinery during the working period.

(*d*) Expenses incurred in the preparation of workshop drawings, models, etc.; also laboratory expenses connected with the

testing and examination of raw materials and finished goods.

(*e*) The maintenance of motor cars, e.g. benzine, rubber tyres.

(*f*) Insurance contributions under the National Insurance Acts.

(*g*) Unforeseen expenses.

2. Expenses which arise whether the factory is working or not; (Fixed establishment charges).

(*a*) Rent of factory premises, workshop, hire of machinery, etc. In case of ownership of all these items, then the interest and redemption of the capital invested in the buildings, machinery, tools, motors, etc.

(*b*) Cost of maintenance of the factors of production.

(*c*) Unproductive wages, e.g. watchmen, porters, etc.

(*d*) Salaries of the manager, foremen, stock-keeper, and of the clerical staff.

(*e*) Insurance contributions in respect of unproductive wages.

(*f*) Rates and taxes.

(*g*) Unforeseen expenses.

3. Expenses caused by depreciation and obsolescence. In this connection consideration should be given to the difference between fixed and working capital. Depreciation must be written off machinery, tools, buildings, etc.

4. Expenses of Distribution. To the establishment charges are to be added the selling expenses which are divided into—

(*a*) Impersonal items such as rent, heating and lighting of the office, sale, stock showrooms; insurance premiums, rates, advertising, packing materials, forwarding expenses, travelling expenses, postages, bad debts, etc.

(*b*) Personal items, such as the salaries and bonuses of the commercial staff, including the commercial manager.

SELLING PRICE OF AN ARTICLE. An excellent example of the expenses involved in the production of a standard product is given in the example on page 221, which is taken from Carter's *Advanced Accounts* (Pitman). From this illustration it will be seen that the selling price of an article is composed of—

1. The Flat Cost, consisting of the cost of raw materials, including all charges thereon, plus the amount paid for productive wages.

2. The Direct Expenses of production, including the amounts to be written off for depreciation of factory items.

COST OF PRODUCTION OF A STANDARD PRODUCT (SAY) BESSEMER STEEL

	January, 19..... Output : 1,000 Tons.						
	Expenditure.			Cost per Ton.			Percentage on Selling Price.
	£	s.	d.	£	s.	d.	
Materials—							
Purchased direct (particulars from Analysis Purchase Book)	525	–	–		10	6	10·50
Requisitions of Stores (particulars from Stores Requisition Book)	950	–	–		19	–	19·00
Labour—							
(Particulars from Wages Book analysed according to the various operations of labour) Operation No. 1	250	–	–		5	–	5·00
,, ,, 2	304	3	4		6	1	6·08
,, ,, 3	325	–	–		6	6	6·50
,, ,, 4	287	10	–		5	9	5·75
,, ,, 5	337	10	–		6	9	6·75
,, ,, 6	304	3	4		6	1	6·08
,, ,, 7	216	13	4		4	4	4·34
Flat Cost	3,500	–	–	3	10	–	70·00
Direct Expenses—							
1. Rent, Rates, Taxes, Insurance of Works	25	–	–			6	0·50
2. Motive Power, Fuel, Gas, Water, Lighting	275	–	–		5	6	5·50
3. Royalty	50	–	–		1	–	1·00
4. Non-Productive Wages and Salaries	150	–	–		3	–	3·00
5. Repairs, Depreciation, etc., of Plant and Machinery	100	–	–		2	–	2·00
6. Interest on Capital, Outlay on Plant, etc.	25	–	–			6	0·50
Prime Cost	4,125	–	–	4	2	6	82·50
Indirect Expenses—							
1. Rent, Rates, Insurance, etc., of Offices, Warehouses	12	10	–			3	0·25
2. Lighting, Heating, Water	8	6	8			2	0·16
3. Salaries of Office Staff, Manager	250	–	–		5	–	5·00
4. Bad Debts Discounts	50	–	–		1	–	1·00
5. Depreciation of Fixtures, etc.	4	3	4			1	·09
6. Interest on Capital, Loans	50	–	–		1	–	1·00
Total Cost	4,500	–	–	4	10	–	90·00
Percentage of Profit—11⅑ per cent (which gives a 10 per cent profit on the selling price)					10	–	10·00
Selling Price per Ton				£5	–	–	100·00

3. The Indirect Expenses, i.e. the costs for selling and administration.

To the total of these expenses must be added the *entrepreneur's* profit, and possibly also the *entrepreneur's* remuneration, in case these have not already been included in the personal expenses. Hence, as will be seen from the diagram on page 218, net turnover – total costs = the profits of the business.

CHAPTER XXVII

MODERN DEVELOPMENTS IN PRODUCTION

GENERAL CHARACTERISTICS. The great technical inventions which the eighteenth century had prepared, and which were put into practical application during the first half of the nineteenth century, have come to fruition only during the last fifty years; and their exploitation and development have led to still further inventions. Moreover, the increased results of scientific research were utilized by industry in catering for wants which had hitherto been unknown, and close relations were established between the natural sciences and the technical branches of industry. The more science, under the influence of natural powers, succeeded in revealing its secrets, the more zealously and successfully did industry endeavour to force these natural powers into the service of man and thus made them subservient to economic ends.

TRANSPORT. The application of steam to transport led to a development of communication such as was formerly considered impossible. The significance of this invention—in its application to land transport in the form of railways, and to sea transport in the form of the steamship—is to be found in its power to surmount the hindrances of time and place, and also in its capacity to move speedily large quantities of goods. The employment of ingenious machinery rendered possible mass production; the introduction of intensive methods in agriculture and the opening up of wide agricultural areas and of colonies, led to increased cultivation and to the safeguarding of the needs of the rapidly increasing population.

The facilitation of transport, the production of goods *en masse*, and the increased output of foodstuffs led to a cheapening of production and thus improved the standard of living of the people. With the increase of their purchasing power was linked a capacity for greater consumption, so that new wants were introduced, and thus in turn was wrought the increase of population in countries with a progressive economic system.

In 1825 the railway system of the earth measured 5,400 miles; and in 1870 it had risen to 129,900 miles; in 1890 to 385,770 miles; and in 1918 it had reached a total of 750,770

miles. In a similar manner the number of steam vessels has increased. Since 1870 the tonnage of the British mercantile marine has risen from 1,113,000 tons to 7,739,798 tons at the end of the nineteenth century, and in 1912 it amounted to 12,025,490 tons. In Germany, we find in 1870 a tonnage of 81,998, which by 1900 had increased to 1,347,875 tons and in 1913 to 2,832,312 tons. The United States of America possessed in 1875 a tonnage of 2,213,000 tons and in 1912, 2,632,859 tons. The Japanese fleet increased from 543,365 tons in 1900 to 1,386,047 tons in 1912, and those of the British Possessions for the same period show an increase from 532,182 tons to 1,093,417 tons.

IRON AND STEEL. The gigantic extension of the means of communication coincides with the development of the production and distribution of goods, which could be achieved technically only by the increased output of iron and steel. This was not effected however, until the middle of the nineteenth century, when Henry Bessemer introduced an invention which made it possible to produce in twenty minutes approximately 3 tons of pig iron—a task which, under the former puddling process, had occupied twenty-four hours. However, only certain kinds of ore were suitable for the Bessemer process, and it was not until 1870 that the two Englishmen, Thomas and Gilchrist, succeeded in improving the Bessemer process so as to eliminate the phosphorous from the phosphoric iron ores.

Hitherto it had been impossible to utilize fully the brown ironstone in the Cleveland district and also in the region of Lorraine and Luxembourg. Alongside these two processes, the Siemens Marten process also takes up an important position in the manufacture of iron. In consequence of the practical exploitation of this important invention, a remarkable development has been experienced in the output of pig iron, especially in Great Britain, Germany, and the United States. In these countries, and also to a certain extent in Belgium and France, those great iron works have come into existence which carry on simultaneously the production of pig iron, steel bars, rolling mill products, and finished articles. In Great Britain, the production of pig iron between 1870 and 1912 was increased from 286,797 tons to more than 9,000,000 tons; in Germany from 170,000 tons to 17,617,000 tons. Since 1903 the German production of pig iron has surpassed that of Great Britain.

The greatest increase, however, is that of the United States, the figure for which in the same period rose from 1,691,000 tons to 60,440,000 tons.

The rise of the iron industry produced a gigantic increase in the output of coal and its by-products. Only in those countries which possessed large coal deposits could there be established a highly developed iron industry. Great Britain, Germany, and the United States were in possession of such coal deposits, and for that reason they rose to the head of the iron producing countries.

The production of iron is a very ancient industry, but the newly discovered processes of production and the employment of coal in the place of wood give it an entirely different character from that which it assumed in former times.

OTHER MANUFACTURES. As in the production of iron, a remarkable increase of production was also experienced in other ancient branches of industry; as, for instance, in the textile industry, and in the paper, leather, wood-working, and ceramic industries. The reasons for the increased production, however, were not the same in all cases; in fact they were based, as in the textile industry, upon the introduction of power and machinery, or as in other branches of manufacture, upon the manifold possibilities for the employment of the raw materials to meet the increased demand, and which admitted of the greatest variety of production. The place of timber, which was formerly used in the construction of ships and houses, and also as fuel, has been taken by other materials such as iron and coal; nevertheless, the employment of wood has not diminished but has even increased, and only its uses have been changed. To-day the importance of timber lies in its use as raw material for paper-making, for constructive purposes in mines, for use as sleepers on railways, and as telegraph poles, whilst at the same time its employment in the furniture trade and in the making of barrels and cases has experienced a great increase. With the growth of a system of intelligence and of the Press, the consumption of paper has risen in an extraordinary degree, whilst at the same time paper serves as packing material in various forms. For technical purposes leather has conquered a wide sphere of usefulness, and the same may be said of porcelain, china, and earthenware which, in former times, were employed almost exclusively for articles of household use.

The Rise of New Industries. More outstanding, however, has been the rise of new industries which, in fact, are still in a stage of evolution. The most important of these branches are the *electrical* the *chemical*, and the *rubber* industries; the production of *motor cars* and *bicycles*, and the *aeroplane* industry. All these new branches of industry have one characteristic in common—they utilize the old industries in order to obtain their partly-finished articles and thus exert a beneficial effect upon them; they have also brought into existence new auxiliary trades. The modern ship-building industry, likewise, can no longer be compared with the old one. A modern ship resembles in its whole equipment rather a small town, furnished with machines, electrical installations, hydraulic cranes, and rooms furnished completely with all household requirements. There is scarcely a branch of industry which does not contribute some product or other for the steamship. The chemical industry, which is based upon natural science is able, by means of synthetic processes, to produce from a few basic materials an immense number of products; these, in the shape of half-finished goods, find employment in the most varied branches of industry and in medicine.

All these old and new branches of industry require, in addition to the most varied raw materials derived from the vegetable, animal, and mineral kingdoms, the means of production in the form of *tools*, *machinery*, and other *apparatus* of manufacture. Their development therefore depends on the simultaneous growth of the engineering industries. With the continual improvement of inventions, ingenious machinery was adapted to the requirements and peculiarities of those trades and with the greater utilization of iron and other metals, they contributed largely to the further development of the iron and metallurgical industries.

THE CYCLE OF PRODUCTION. Starting with the extraction of raw materials and passing on to the production of partly-finished and the most highly finished articles, such a close relationship was established between every branch of production as to resemble a *cycle of production*, which bound the various trades in the closest sympathy, but at the same time resulted in the development and prosperity of one trade being dependent on that of another.

Every fluctuation in the state of the market, every change in prices, every rise or fall in demand, or increase of supply caused

by the establishment of new undertakings, was reflected in the market for raw materials and finished goods and even brought within its sphere the whole economy of a country and that of neighbouring countries.

The remarkable increase of production, the introduction of new and the extension of old trades, influenced by the endeavour to produce as cheaply as possible under a large-scale system of industry called for the employment of large amounts of capital, and thus led to the extension of the banking and credit systems.

With the extension of business undertakings, however, the masses of workers also increased in numbers. Although the origin of the class of factory workers is to be found in an epoch prior to the Industrial Revolution, we can trace how the working classes had to pass through serious crises. The introduction of machinery and of international competition manifested themselves in the discharge of workers, in revolts and rebellion, and in a low standard of living. What distinguishes the workers of the last few decades from the worker of the first period of rising industrialism is the formation of a compact class which has become fully alive to its place in society, its common feeling and its class-consciousness. Out of this consciousness the worker has endeavoured to improve his standard of life and to acquire economic and political power through organization. Thus, since the middle of the last century there has arisen in every Industrial State a socialistic movement which, on the one hand, has pursued purely political aims, and, on the other hand, has striven for the regulation of the economic activities of the worker by an improvement of the working conditions and of the standard of life.

INTERNATIONAL DIFFERENTIATION OF PRODUCTION. With the rise of the Industrial system, great changes have taken place in the economic structure of the various states during the last few decades. They are marked by the alteration of relationships existing between the fundamental industries—agriculture and manufactures—and the increasing differentiation of commercial relations due to the mediation of exchange on a large scale.

All the countries which are now described as industrial states, because in them the majority of the working population finds its maintenance in industry and commerce, have originally been those

in which agriculture was predominant; and to-day there is a whole series of other countries in a state of transition from agriculture to industry. The development of industry in a country is always linked with an increase in the density of population. The area in which factories develop invariably affords maintenance to a larger number of people than agriculture. At the same time industry affords greater variety and more lucrative opportunities for making a livelihood than agriculture. Hence a continually increasing number of persons in search of employment find their way into industry, where there are greater inducements.

The Opening Up of the New Countries. With the rapid increase of population, however, the home-grown supplies of food-stuffs soon become insufficient. Up to the second half of the last century, the agriculture of the Western European countries experienced severe crises in consequence of the keen competition of oversea countries and of Russia.

The increasing demand for agricultural products in the rapidly developing industrial states, in conjunction with the improvements in the means of transportation, led to large quantities of those products being brought to Great Britain, Germany, and other Western European countries. It was not until after the course of many years, when the agriculture of these latter countries had succeeded in adapting itself to the changed economic conditions, and when in consequence of industrialization, the population of those countries was in a position to pay higher prices for agricultural produce, that the agriculture of the industrial countries could again secure a firm footing, and take their share in the supply of articles of food in competition with the new agricultural countries. At the same time, the agriculture of the industrial countries, owing to the rise in prices caused by the increased demand, could resort to intensive methods of cultivation and thus obtain greater yields from the soil of the home country.

Hence in all industrial states intensive cultivation combined with stock-raising was introduced, whereas in the new agricultural countries, the extensive form of cultivation still proved adequate. Nevertheless, the import of foodstuffs into the Western European industrial states remains a necessity, and it increases in proportion to the development of the population and industry.

COMMERCIAL RELATIONS. Although the exportation of grain and other agricultural products from such oversea countries as the United States, the Argentine, Canada, India, Russia, and Roumania to the north-west European markets contributed to an increase of the commercial relations of the countries with each other, these large importations had to be compensated by the exportation of European manufactures. The new agricultural countries became more willing to receive these manufactures because they in turn found a market for their own productions.

In the production of manufactures, the industrial countries were at first dependent on home-grown raw materials, in so far as they could be found in the home country. In this connection, however, they were dependent on climatic conditions for materials of animal and vegetable origin. Where climatic conditions did not permit the production of certain raw materials such as cotton, jute, tanning materials, etc., the raw materials had to be procured from other countries. However, where the home agriculture could supply such materials as wool, flax, hides, skins, and timber, the restricted areas which had been used for other economic purposes were no longer sufficient to meet the increasing demand for the raw materials of industry. The pastures which had been indispensable for the grazing of sheep and cattle, shrank more and more in extent, and in the course of time were transferred to those wide oversea countries which still offer unlimited space. A large number of other raw materials entered into the economic sphere in order to cater for the most manifold demands; oil and fatty substances, rubber, resin, etc., were sought after in increasing quantities. The demand for all such oversea raw materials as well as for cotton, wool, tea, coffee, cocoa, medicinal plants and spices, gave rise to the opening up of far distant areas and to the establishment and extension of a system of plantation cultivation.

The metal industry in the principal industrial countries of Europe and the United States, were founded upon the chief raw materials of home production—coal and iron ore. However, in regard to the latter, the supplies are inadequate to maintain the efficiency and to satisfy the needs of the increasing number of furnaces in the most important countries of Europe. For the last fifty years increasing quantities of iron ore have been exported from Spain, Sweden, southern Russia, and oversea countries. The United States alone

have still enormous deposits of ore which are adequate to meet home demands. Other ores such as tin, copper, and silicates, lead, precious metals, nickel, etc., are chiefly imported from abroad. The position of other minerals is similar. Stone and clay are to be found in most countries for use in the ceramic industry, in the manufacture of cement, lime, stone-ware, porcelain, and glass. Nevertheless, the number of mineral substances such as kaolin, asbestos, sulphur, etc., are imported because they cannot be obtained in sufficient quantities in European countries.

World Intercourse. All these new countries entered into mutual commercial relations with the large and small industrial states, especially with those in Europe, but also with the United States whose industrial development proceeded at a very rapid rate without any interference with its agricultural development. Thus there arose a highly developed system of world intercourse. Intercourse between countries has, of course, always existed, but during the last few decades it has assumed an entirely different aspect.

It is not the greater intensity of these commercial relations as compared with those in former periods which constitutes the decisive characteristic, but its systematic and contractual nature. It is *systematic* in so far as a certain international division of labour has developed. A certain group of countries is engaged preponderantly in the production of raw materials of animal, vegetable, and mineral origin, and another group utilizes these in the manufacture of partly-finished and finished goods. The former supply the raw materials and in exchange receive finished products. However, the industrial nations themselves also supply one another with finished products. To outward appearances these products are of the same kind, but a closer inspection will reveal differences in quality which are rooted in the methods of manufacture prevailing in the various countries. There is a complementary system of production which leads to a preference being given to goods of foreign origin rather than to similar goods which are produced at home. All these goods are exchanged by means of a *large scale* system of commerce. With the aid of the intelligence service and the compilation of statistics there has been created a remarkably complex organization. Trade has been moulded into definite forms, and commodities have been graded into types, which enables goods to be procured in accordance with certain

prescribed qualities and standards. Moreover, by carefully observing where there is a surplus or scarcity of raw materials and manufactures, the wholesale trade ensures an equalization of demand and supply with a consequent levelling of prices, and by the utilization of the institutions of trade, every want can be supplied in the shortest possible time, every demand satisfied and every congestion removed.

The contractual nature of modern commerce manifests itself in the inter-State treaties which were designed to relieve international exchange of those restrictive interferences which were in existence in former times. Although at the present day there is by no means a complete freedom of trade, yet there are contractual agreements within the limits of which the exchange of goods can take place without interference and along certain secured lines.

TEST PAPER V

1. Economists say that in a well-organized community there should be harmonious production, equitable distribution, and temperate consumption of wealth. Certain groups of reformers consider class warfare inevitable. Examine these two views and draw some practical conclusions bearing on present-day industrial conditions.

2. " Every undertaking engaged in production, whether it be small or large, is founded ultimately upon commercial activity." Criticize and discuss this statement.

3. Enumerate the main types of undertakings according to their legal constitution. Selecting either (*a*) a public swimming bath, or (*b*) a large general drapery establishment, argue on the basis of facts, as far as possible observed by yourself, the question whether it is most likely to be successful if undertaken by the municipality, a joint stock company, or a private individual.

4. Account for the difference in size of business undertakings. Indicate the various causes which are tending to increase the size of the representative business unit.

5. What causes lead to the localization of undertakings and what advantages and disadvantages result from this localization ?

6. " A people who have once adopted the large system of production either in manufactures or in agriculture, are not likely to recede from it." Comment carefully on this statement. Can you indicate any circumstances under which a return to small-scale production would be economically advantageous ?

7. Discuss the methods employed in modern industry to obtain capital required for expansion. Compare the position in this respect of the private business and the joint stock company.

8. Discuss and illustrate the principal influences that tend to bring about the formation of large industrial combinations.

9. Consider the practical difficulties in the way of the maintenance of a great industrial or commercial combination.

10. Outline the aim and methods of cartels, making a comparison wherever possible, between the cartel and the American trust.

11. Classify the risks of the undertaking under the headings of—

(1) Business risks;

(2) Social risks;

(3) Natural risks.

12. Enumerate six of the most important types of business risks to which a business is liable.

13. "The size of the market area and, in conjunction therewith, the turnover, play an important part not only in the success but also in the possibility of expansion of the undertaking." Explain.

14. Analyse "cost of production" and consider its connection with price.

15. How would you classify "costs" for the purpose of cost accounts? What are the principal objects of accurate cost accounting? Illustrate your remarks by reference (*a*) to a highly specialized business, and (*b*) to a firm turning out a considerable variety of products.

16. Give an account of the main features of the iron and steel industries of the United Kingdom since 1870.

SECTION VI

THE DISTRIBUTION OF GOODS

CHAPTER XXVIII

THE NATURE OF DISTRIBUTION

DISTRIBUTION signifies the transference of commodities from person to person or from place to place, or the dividing up of large quantities of commodities into smaller quantities with the object of meeting the needs of consumers.

THE PRODUCTION AND DISTRIBUTION OF GOODS. Goods are produced chiefly in undertakings specially devoted to manufacture. Before goods can be manufactured, however, the raw materials, equipment, and other factors required in the process of manufacture, must be brought to the place of production. Undertakings devoted to the extraction of raw materials pass these on to the various branches of manufacture. There the production of goods itself calls for a far-reaching distribution of the manufactured goods from one undertaking to another according to demand and supply. With this, however, only one side of the distribution of goods is touched upon. The raw materials within the various undertakings in which they are required gradually assume the shape necessary for final consumption. When the goods are ready for the use of the various private household economies, the next step is to distribute them from the place of production to the markets where they can be bought by the members of the private economies. This continual distribution of the mass of goods brings into existence a large number of establishments which are engaged in the distribution of goods all over the world, according to the demand of the various market areas which reflect the needs of the ultimate consumers. In this connection, it is the function of trade not only to carry out the distribution but also to stimulate demand and to create new markets. It is the function of transport to carry the goods from one place to another and from one country to another. The trader directs not only the buying and selling of goods, but also

the operations connected with their finance, transport, insurance, and warehousing. These operations involved in the distribution of goods are collectively known as " Commerce."

AN EXAMPLE OF DISTRIBUTION. We will illustrate the process of distribution by means of an example. Let us take the case of a cotton shirt as an instance of a finished article. The raw material, i.e. cotton, must first be supplied to the undertaking devoted to spinning the cotton. For this purpose it is necessary that the American cotton be carried from the firm by which it has been grown to a port, whence it begins its journey across the Atlantic. We will refrain from describing the process of distribution which is the preliminary condition for the growth of the cotton, but simply take the raw cotton as our starting point. After its journey across the ocean it arrives, say, at Liverpool, whence it is carried to the locality in which the mill is situated. In order to carry on the spinning of cotton the mill must have a supply of other materials necessary for the operation, such as coal. The cotton is now converted into yarn and is then ready for its journey to the weaving shed. From this undertaking the goods have to pass on to another undertaking in which the cotton fabric is converted into a shirt. Each of these undertakings requires further auxiliary materials which must be supplied to them before their particular branch of work can be undertaken. We have now arrived at the point where the shirt leaves the sphere of manufacture, but it should be observed that the raw and partly finished materials pass by no means direct from one manufacturing undertaking to the other, but that the distribution is frequently mediated by a commercial undertaking which intervenes between the concerns engaged in manufacture.

After the finished article leaves the sphere of manufacture, it passes into that of commerce, and here again it undergoes a process of distribution which is roughly as follows. From the last undertaking engaged in manufacture the goods pass into the possession of a wholesale dealer, then to a middle-man and ultimately to the retailer from whose hands they finally pass into the possession of the consumer for whom the shirt possesses a value-in-use. Thus we see that the original article which was subjected to the process of manufacture must travel a long way and be sent hither and thither before it finally acquires its finished form, but that at this point the process of distribution is not yet complete, but starts

again until the goods finally reach the spot where they are consumed. From this example we can clearly see the important function which commerce or distribution performs in the economic system, and how this multiform distribution results from the needs of the individual undertakings engaged in manufacture.

So far, however, we have traced only the distribution of the commodity itself. This distribution entails an almost equal number of financial operations which likewise make demands upon the machinery of distribution although to a smaller degree. No doubt the capacity of the modern machinery of distribution is able to effect the exchange of commodities at a relatively low cost, but nevertheless, it is quite obvious that the additions for transport constitute a considerable portion of the price of goods. The lower the costs of transport can be kept and the more economical the distribution of goods can be carried out, the more favourable is the determination of the price of the goods. The greater the number of stages through which the goods have to pass and the farther the way from the extraction of the raw material to the final consumer, the more must the expenses of distribution tend to enhance the price of the goods.

FOREIGN TRADE. To-day the market has become world wide, and it is impossible to isolate any particular market. The nationally restricted economic areas stand rather as rivals in the exchange of goods—an attitude tending to create relationships and conditions of dependence which manifest themselves right down to the last private household economy. In the morning, a person dresses and perhaps makes use of cotton clothing. The raw material for these clothes emanates from a foreign country. He drinks coffee from Brazil, and eats bread which has perhaps been made of Canadian corn. At every step we are confronted with the fact that foreign countries supply us with raw materials and manufactured goods wherewith to satisfy our wants. Capital and labour are engaged in foreign lands in the production of these goods for us. They are brought over long distances not only to us but to other countries, because they cannot be obtained elsewhere or not so advantageously as in that area which supplies many countries with a particular commodity.

Foreign Trade Payments. The goods with which the undertakings abroad supply us, through the intervention of trade, must,

of course, be paid for. It would be impossible to pay for all these goods in money, and payment is possible only through the fact that foreign countries buy goods from us which must also be paid for. The importation of foreign goods therefore corresponds to the exportation of home products to foreign countries. It will be seen that there are countries whose exports are less than the imports, and other countries where the reverse is the case. Countries in which the imports are greater than the exports are said to have an *unfavourable balance of trade* and those whose exports exceed their imports are said to have a *favourable balance of trade.* For long, the opinion was held that an unfavourable balance was a disadvantage to a country, the conclusion drawn being that this implies a state of indebtedness to foreign countries which must be paid. It is correct to say that a higher value of imports means that we have to pay to foreign countries more than the foreign countries pay to us for goods supplied to them. The *balance* of trade, however, does not coincide with the balance of payment.

Invisible Exports. A country receives from other countries not merely goods but also other values. If, for instance, the capitalists of one country have made extensive investments in another country, large sums of money in the shape of interest or profit will flow to them without any regard to the balance of trade. These are the more important items for forming a judgment on the balance to be paid by one country to another, for in the economically more highly developed countries the export of capital to foreign countries tends to increase. At any rate the dividends from these investments are no less important to a nation in determining the balance of payments than is the balance of trade.

CHAPTER XXIX

DETERMINATION OF DEMAND AND SUPPLY

THE activities of production are incessantly engaged in the extraction or manufacture of the goods which the private economies require to meet the wants of their members.

COSTS OF PRODUCTION. Every undertaking participates in this activity. No undertaking, however, can anticipate exactly the demand for goods within a given period, nor can it anticipate the prices which will be paid for the goods produced. On account of the division of labour in this sphere, the whole structure of the undertakings is such that only a certain number of the undertakings finish the goods for consumption. Some of the undertakings turn out the raw materials, some the partly finished goods, whilst others produce the huge output of equipment. But all these various undertakings do not work together in accordance with a pre-conceived plan, but each undertaking works separately for the market. Here the necessary raw materials are offered, and are purchased either directly or through a dealer by the undertakings which have need of them. These undertakings produce finished and partly finished goods which again have to be disposed of by sale. Thus, in regard to the sale and the selling price, there is considerable uncertainty, whilst on the other hand, the costs of production of the finished articles remain a fairly fixed quantity. The undertaking must incur all the expenditure necessary to procure certain materials or to manufacture them, or to treat them in a certain manner. When the goods issue from the productive process they have a certain definite value which can be expressed in money. This represents the expenses of production which, to the individual undertaking, form the limit below which the sale price must not drop, if loss is to be avoided.

DEMAND AND SUPPLY IN THE MARKET. In their totality, undertakings are continually offering an ever-increasing supply of goods without knowing precisely the demand for the various kinds of goods. Between the time when the goods are produced and the time when they reach the final consumer there intervenes a

greater or lesser space of time during which the demand of the final consumers may have changed considerably, and actually does change. Here we will cite an example to illustrate the fluctuations in demand. The demand of the private household economies engaged in agriculture, which had hitherto been good, experiences a reduction owing to some influence or other of the natural forces of production. The producers of goods have counted upon a continuation of the increasing demand, and on this assumption, goods have been produced and placed on the market in the expectation of such a demand. After a time the reaction consequent on the reduced demand becomes apparent, and the result is that the supplying houses become engaged in an accentuated competitive struggle which presses on the prices of the goods to such an extent that they fall below the expenses of production of many undertakings. This in turn induces the undertakings affected to reduce their output—in short, a disparity between demand and supply occurs, which, according to its magnitude, is reacted from one market area to another, and is finally reflected in the world market.

On the other hand, if the demand is increasing so that the supply cannot keep pace with it, the supply on the market will influence the position by raising prices ; the consequence of this will be that undertakings engaged in the production of the goods in question will either increase in number or be enlarged in order to meet the increased demand. The initial effect of this increased demand will be to raise prices which will make the goods dearer for the final consumer, and this in turn will reduce consumption. If a reduction in consumption of the particular goods is not possible, money will have to be saved in other directions by the private economies—that is, by restricting the consumption of other goods or services.

Such, then, is the course followed, if private economies with an unchanged income have to buy goods at a higher price than formerly. From these effects of great changes and modifications in the relations between demand and supply on the market, where prices are determined, there results dislocation on a smaller or larger scale in the individual undertakings and private economies.

Crises. Where the disturbances are of such a magnitude as to affect the whole of the undertakings and private economies of an area, we are confronted by those fatal phenomena known as crises. Experience teaches us that modern economic life is subject not only

to spasmodic but to regular fluctuations, that certain fluctuations occur periodically, and that a period of prosperity is followed by a period of adversity. In comparison with this periodicity in the course of market conditions, the fluctuations in individual trades and in individual undertakings are of small importance. The general fluctuations, however, are not restricted to a single political area but embrace the whole of the world market.

DETERMINATION OF PRICES. Although the organization of international trade has already reached a high stage of development, yet we have to take into consideration that the extent of demand and supply, such as it presents itself all the world over at any given time, is an unknown quantity. The prevailing market tendencies alone are of significance to the interested buyers and sellers in the determination of prices. The fact that these market tendencies are not always reliable is due partly to the lack of knowledge and partly to the biased interest of the buyers and sellers. The buyers utilize every possible chance of determining prices in such a manner that they can buy with the utmost advantage whereas, on the other hand, the sellers have the greatest possible interest in the maintenance of high prices. Thus the conflict of the market price endures from day to day, or even from hour to hour, and it is waged with every means which promises business success. Among such means must be included, in particular, the market reports which are essentially for the use of the interested parties, and which make it almost impossible for market tendencies to exist which are not based upon false or prejudiced opinions. The more the machinery of reporting on markets became developed the better have interested groups succeeded in influencing and manipulating this machinery in their own favour. Thus the determination of prices may take place under circumstances which reveal the absolute impossibility of disentangling the numerous relationships existing between buyers and sellers in the vast sums of the various markets. The world market price is to-day the regulator, although a very dubious regulator, for the price measurement of all commodities with the exception of labour. It is a relentless tyrant whose sphere of domination no country can escape.

SPECULATION AND RISKS. Economic activity in preparation for the market involves a number of risks for the undertaking which

may be summarized under the expression "business risks." The greatest risk which human economy has to bear is that which results from the variation in the productive forces of nature. We can never know how the harvests will turn out, and what natural conditions will threaten them; we can never tell how the offspring of the live-stock will turn out, or what unexpected diseases might threaten the stock. But there are other events which endanger economic life. Foremost amongst these we may mention war and internal political disturbances which cannot be foreseen. This, however, does not exhaust the factors which adversely interfere with human economy. The mass of economies in all parts of the world in their mutual relations and interdependence are so little known to us, that the effects resulting from a certain current find us entirely unprepared. These effects are experienced chiefly in the markets of the world, where they find expression in the form of changes in prices. We know very little about the demand of the various human economies for any particular commodity, and the little we know is still very inexact. Moreover, we do not know why, in the vast number of economies, sudden changes in demand should, occur. For example, a decrease in demand may be experienced which, at first, goes completely unnoticed until suddenly it creates attention by producing a stoppage in the regular working. This immediately brings down the price of the particular class of goods and that of other goods which fall in sympathy.

On the other hand, undertakings manufacture goods without knowing whether the market will be in a position to absorb them. The price alone, at a given time, gives us some clue as to whether a profitable production of the goods is possible. It is not until the manufactured goods come into the market that the undertakings become aware that the supply is in excess of the demand, and this leads to a slump in prices and a reduction of the prices below the profitable level. Thus considerable risks arise from the existence of market economy which embraces every part of the world; these risks become minimized the more one can ascertain and anticipate the present and future supply of goods, and on the other hand, the present and future demand for such goods. Attempts are now made to safeguard against these risks by a variety of expedients—partly by insurance, but to a greater extent (seeing that insurance can scarcely take cognisance of unknown risks) by transactions

which are calculated to reduce unexpected risks. Such transactions are known as speculations.

An Example of Speculation. As an example of such a transaction, we will take an illustration from the business of the cotton broker. Let us assume that the price of raw cotton at the moment is high, and that there is still a long interval before the new harvest, concerning which opinion is divided. At any rate, it is possible to enter into a contract to-day for the new crop at prices considerably lower than the present quotation for immediate delivery. Our cotton manufacturer or broker has bought, at a high price, the cotton which he will require until the arrival of the new crop, and he has to calculate the possibility that, presumably, the cotton of the new crop will be much lower in price than the cotton of the old crop, such as he has bought. If this should be the case the prices for cotton yarn and cotton fabrics will soon drop in sympathy with the price of cotton and without any regard to the fact that our cotton merchant has still a large quantity of cotton of the old crop which he has bought at a high price. He may, therefore, be compelled to dispose of his stock at a considerable loss in order to avoid this probable loss. Hence he forms a market opinion as to the probable price movements of the new cotton which, of course, is a risky game. If he is of opinion that the price for the new cotton is low and that soon after the harvest a higher price will prevail, in order to equalize his loss he will buy a large quantity of the new cotton, deliverable in a few months, at the price which is quoted to-day. If his speculation—that is, his judgment of the market—turns out to be correct, he will be able to sell this large quantity of cotton, which he has bought at a low price, at a higher price, perhaps even before the time when he has undertaken to accept delivery. However, if his opinion of the market is wrong and the price continues to fall, he will jump from the frying pan into the fire. In this case, the better method of speculation would be to sell new cotton at the low price for future delivery and to buy after the price had further declined in order to be able to deliver or to cover himself. In this way he would be able to cover his expected loss from the difference between the selling and the buying prices of the next crop of cotton. Our cotton dealer, in order to avoid a loss, enters into a transaction in futures according to which he can reduce or minimize his loss or even convert it into a gain by buying

goods which, at the time when he has to take them up, he can sell at a higher price, or by selling for future delivery goods which he does not possess with a view to buying these goods in the meantime at a lower price. This kind of transaction is known as speculative dealing, the idea of which is to protect oneself against expected losses.

THE WORLD MARKET. There are no longer any self-contained markets, but all markets throughout the world are closely interconnected and interdependent. Prices prevailing in the smallest village, even in places which have but little connection with the outside world, are to a certain extent dependent on the movement of prices in the world market. The prices of cotton cloth, and of leather, the interest on capital and even the price of bread are dependent on the movement of the prices of raw materials, such as have been determined in the world market. The term " world market " is an abstraction which signifies that the determination of the prices of the most important articles—and, since the majority of other goods is dependent on the prices of the most important ones, the total quantity of goods—is no longer effected locally or nationally, but internationally ; the markets for the various goods are world wide and in them we can daily observe and estimate the events and phenomena which influence the demand for and supply of a particular commodity. This valuation is effected by two sides—that of supply and that of demand. The actual result of this process of valuation—in which the relative strength of the buyers and sellers plays a great and sometimes a decisive part—is expressed in the price. International market areas are in continuous communication with one another in consequence of which changes in price at one point are immediately reflected in the corresponding prices in other places. Since both buyers and sellers are interested in the determination of prices, it is only natural that these interested parties leave no stone unturned to influence the opinion of the market in their own favour.

CHAPTER XXX

PRODUCE MARKETS AND EXCHANGES

MARKETS. Wherever exchange, i.e. the purchase or sale of goods, has become a permanent necessity, buyers and sellers meet together at certain times and places to equate demand and supply. Markets evolve as permanent institutions such as we still find in the wholesale and retail trade. For the most part these institutions are under the control of the local authorities since they are regarded as being for the convenience of the public. Thus, there still exist daily retail markets for the supply of victuals; weekly, annual, and special markets for fruit, cattle, fish, etc., which are of great importance in certain districts, although it cannot be denied that they do not play the same important rôle to-day that they did formerly. Most of these markets serve the retail trade, but the retailer's opportunities of covering satisfactorily his requirements are continually increasing with the introduction of better and cheaper communications between town and country and with the increase in the number of retail concerns. Hence the importance of the retail markets is undoubtedly on the wane. In the large cities attempts have been made to centralize the market for the retail of food-stuffs in special *market halls*. A market is held daily in these places, which are protected against the inclemency of the weather. Nevertheless, the ordinary retail business, the departmental store, and especially the co-operative society, have done much harm to this institution. Only the central markets which mediate the trade between wholesalers and retailers play a really important part in the distribution of goods. The great mass of private economies have become accustomed more and more to satisfy their daily requirements through the nearest retailer, departmental store, or co-operative society.

FAIRS. A higher form of market organization confronts us in the form of the fair, which, however, is of importance only in those areas in which the modern means of communication are more or less absent. Wherever else fairs are in existence, they serve rather as clearing houses or as simple exhibitions.

EXCHANGES. The development of modern commerce with its

huge turnover made it possible for sellers to bring their goods to the place of sale, where demand and supply meet, and where prices are determined. Moreover, buyers were unable to take immediate delivery of the whole quantity bought, since their requirements were spread over a long period and delivery had to extend over the same period. To surmount these difficulties which resulted from the development of trade on a large scale, at the important centres goods began to be sold more and more on the basis of samples or patterns. Certain customs evolved for dealing in certain classes of goods and regular meetings took place between the parties interested. In regard to commodities of special importance *world markets* developed which kept in close touch with one another and dominated the regulation of prices. Mention has already been made of the institution of Stock Exchanges, but exchanges have been organized for important goods also, and for such branches of trade as insurance, shipping, forwarding and warehousing. Sonndorfer[1] provides us with the following definition of an exchange. "An exchange is the periodical meeting of traders, underwriters, ship-owners, and forwarding agents or their representatives for the direct transaction of business with each other on the basis of certain fixed standards, such business embracing dealings in stocks and shares, bills of exchange, in material commodities, and in such branches of trade as insurance freight, forwarding, and warehousing." On the Stock Exchange, transactions are effected in securities, bills of exchange, cheques, and other forms of paper money. This type of exchange has already been discussed in Chapter XIV. On the produce exchanges business is effected in corn (wheat, rye, maize, barley, and oats), rice, oil-seed, pulse, potatoes, onions, eggs, wine, honey, hops, fruit, nuts, hay, straw, and also in articles manufactured from these materials such as flour, bran, barley, malt, oils (made from oil-seed), oil-cake, jam, alcohol, and yeast. Alongside these, trade is conducted in insurance, warehousing, and forwarding. Lastly, there are special exchanges which are confined to trade in one of several kinds of goods all belonging to one and the same category. There are special exchanges for cotton, coal, iron, metals, wool, timber, etc. The organization of the exchanges is such that they are either free combinations of business men or, as on the Continent, that they are under the special

[1] *Lehrbuch der internationalen Handelskunde*, p. 12.

supervision of the State, which more or less determines the regulations for the conduct of business. On the exchanges buyers and sellers utilize the services of middlemen known as brokers, and these are divided into two classes—sworn brokers, who are not supposed to do any business on their own account, and private brokers.

Transactions on the Produce Exchange. Every transaction is embodied in a Contract Note which is exchanged between the seller and the buyer. The contract note must stipulate precisely the nature of the business; that is, it must give a description of the goods sold—their kind, quantity, quality, and sometimes their source of origin. It must also be noted where and when the goods have to be delivered and the method of payment. In regard to the time of delivery various distinctions between the transactions have developed, and these are of great importance. If the goods have to be delivered forthwith, the transaction is said to be for *prompt* or *spot*. Where the goods have not to be delivered until a later date, it is referred to as a *future* transaction. Suppose, for instance, a farmer desires to sell in August his crop of wheat which is not yet grown; because he is of opinion that the August price will be more favourable to him than the November price which he presumes will be lower, he will conclude a contract in August according to which he has to deliver his wheat in November. Modified forms of future transactions are those in goods *to arrive*, which means that the goods are to be delivered on arrival of the vessel by which they are being conveyed from the foreign port, and transactions in goods *for shipment* at a certain future time. By the method of quoting "*to arrive*" it is possible for goods to be forwarded before they are sold, the sale taking place during transit. In the meantime the goods are directed to an intermediary port from which they are sent on to their place of destination. In the case of transactions for "*shipment*," the goods are to be shipped on board the vessel not later than the date stipulated in the contract note. For example, "10th June shipment" means shipment on board not later than the 10th June; "June-July shipment" means shipment any time from 1st June to the 31st July. From these future transactions has arisen the dealing in futures on the Produce Exchange.

Exchange Dealings in Futures. Dealing in futures involves the

risk that the buyer as well as the seller might make a serious miscalculation. Let us place ourselves in the position of the buyer who enters into a future transaction for goods at a price fixed to-day, delivery of which has to take place in three months time. In the meantime, the price falls considerably, and, in comparison with the present price, he has bought too dearly. However, he has to bear the loss resulting from this transaction, and has no remedy against the other party to the contract. But if he should enter with another contracting party into a transaction of an opposite nature by which the loss could be made good, the risk connected with the first transaction would be eliminated. Such a transaction would be found in the sale of a quantity of the same goods at a price in excess of the price at which he has bought from the first contracting party. In this way he would greatly reduce or even eliminate his loss. The desire on the part of business houses to minimize the losses connected with the risks of fluctuation in prices has led to the institution of dealing in futures on the exchange. The advantages of this system consists in the fact that it is no longer necessary to deliver certain goods of a stipulated quality and origin, but merely a grade of goods whose character is fixed for the purpose of the exchange by the Exchange Authorities. Thus, in the cotton trade " futures " always have reference to a given range of grades, and to quantities which are multiples of 100 bales. Egyptian futures for instance, are for " Fully Good Fair," whilst American futures are for " Middling." Deviations from this normal quality are adjusted at the termination of the various transactions. The goods must be gradable and must be dealt in according to the custom of the market.

Transactions in futures are made under the regulations of the particular exchange, and are for delivery within a specified future period of a definite quantity of produce either of a definite description and quality or, under prescribed limitations, of other description and quality, subject to a definite allowance. Thus, a sale in January under the Regulations of the London Produce Clearing House, Ltd., of 250 bags, i.e. about 290 cwt. net, of Santos Coffee to be delivered in March, i.e. in March to be placed at the buyers disposal in a bonded warehouse of one of the usual docks or wharves in London, at a particular price per cwt. net delivered, is a sale of " futures," it being understood that the coffee to be delivered

is " Good Santos," Type 5 or Santos Coffee of superior or inferior quality (within definite limits) subject to a definite allowance for quality to the seller or buyer, as the case may be. The simplification of dealings in the futures market affords much scope for purely gambling transactions in addition to the legitimate business.

The conclusion derived from the foregoing is that in future dealings there are, on the one hand, a large number of purchases which need not necessarily result in the actual delivery of the goods purchased, for up to the time of the stipulated date of delivery the buying transactions are compensated by the number of selling operations which render unnecessary the actual delivery of the goods. The total number of the buying transactions is off-set by the number of the selling transactions and payment has to be made only for the differences. Only that which has been sold or bought in excess must be delivered or taken up in actual goods. Let us take an example from the corn trade. On the Liverpool Corn Exchange during the months of March and April A buys successively 120 units (or centals) of corn for delivery in May at various prices, and during the same period he successively sold 110 units, likewise for delivery in May. At the date when the transaction is about to be executed, A has therefore ten units for his own account, since the 110 units sold are off-set against 120 units bought, and he has therefore to take up and pay for 10 units of corn, whilst in regard to the units which cancel each other, only the differences have to be paid. Altogether A has bought for delivery in May $120 \times 100 = 12{,}000$ lbs. of corn, but actually takes up only $10 \times 100 = 1{,}000$ lbs. A has concluded 230 different transactions each on the basis of a contract note, but by no means with the intention ultimately of taking up these 12,000 lbs. of corn himself, any more than there was any such intention to deliver in the case of the 110 selling transactions. It is possible that A carried out these transactions in order to avoid a loss on a former transaction, or probably for the purpose of deriving benefit from the mere fluctuations in prices. Through the development of such dealings on the exchange goods are sometimes dealt in in quantities which are actually *not* in existence.

The Clearing House. The settlement of the contracts is usually carried out by a special institution known as the *Produce Clearing House*, the chief objects of which are—

1. To settle the differences caused by the rise and fall in prices; and

2. The elimination from each contract of all the intermediate parties between the first seller and the last buyer, and the settlement of the contract between them.

Let us illustrate the procedure by means of imaginary contracts for a certain 100 bales of cotton; and, in order to simplify the case, let us suppose that the value of this 100 bales of cotton is £1,000.

Brown sells to Green for £1,000.

The market rises and Green sells to White for £1,100 what he bought from Brown for £1,000, making a profit of £100.

The market again rises and White sells to Gray for £1,130 what he got from Green for £1,100, making a profit of £30.

The market then falls and Gray sells to Jones for £1,030 what he bought from White for £1,130, making a loss of £100.

If there was no clearing house it is quite clear that Brown would have to settle with Green by delivering the 100 bales and obtaining from him £1,000; Green on his part would have two contracts to settle—one with Brown paying him £1,000 and obtaining delivery of the 100 bales, and one with White delivering to him the same 100 bales, and obtaining the amount of £1,100, which includes his £100 profit. White also would have two contracts to settle, one with Green paying him £1,100 for the 100 bales, and the other with Gray, who pays him £1,130 in which his profit of £30 is included. In like manner Gray would have two contracts, one with White whom he pays £1,130 for the 100 bales, and the other with Jones who may be a spinner and requires the cotton for spinning purposes. But as Gray had to pay White £1,130 and only gets £1,030 from Jones, he makes a loss of £100 which he has to find and add to the amount received from Jones.

In this imaginary example there would therefore be no less than eight different contracts to settle. Under the Produce Clearing House system, however, the procedure would be for Brown to issue a "ticket," representing the 100 bales for which Green has to pay £1,000, but instead of paying, Green passes on the ticket to White, who in turn passes it on to Gray, and Gray again passes it to Jones. The Clearing House now brings Brown the first seller, into contact with Jones, the last buyer, without the intervention of Green, White and Gray, who, to all intents and purposes, fall out of the

settlement, except that they draw from the Clearing House the profits they make, or pay in the amount of their losses.

Are "Futures" Desirable? The economic advantages which arise from the business of dealing in futures is a subject of much controversy. The justification of dealings in futures is frequently obscured by the fact that this form of business has led to a great extension of unsound speculation, since the majority of those who engage in such business aim solely at the making of a profit out of the price differences. For this reason, in many countries attempts have been made by legislative enactment to prohibit or, at least, to restrict considerably the dealings in futures, although in this respect it must be freely recognized that even the legitimate forms of dealing in futures are merely the manipulation of price fluctuations with the object of realizing a profit.

CHAPTER XXXI

FORMS OF WHOLESALE AND RETAIL TRADE

THE TRADER'S UNDERTAKING. In the case of undertakings engaged in trade, the trading operations are neither the beginning nor the end of the economic activity, although they are an end in themselves. The trader buys goods from others in order to resell them at a profit. At the moment when he is buyer, he tries to depress the price of the goods in order that he may raise the price when selling them shortly afterwards, or even before he has bought them. He estimates the value of the same goods differently according to whether, for the time being, he is the buyer or the seller. This differential valuation of one and the same article by the trader is the essential basis of his calling, and constitutes the specific distinction between vocational and non-vocational trade. Others sell their wares in order to procure another kind of goods with the proceeds. The trader, however, buys goods with the idea of re-selling the same goods. He takes up an attitude towards the goods entirely different from that assumed by the worker to his labour-power or the manufacturer to the goods produced in his establishment. These have to be sold by the manufacturer at the highest possible price, and that is the end of them. In the valuation of his goods the manufacturer will never be unfaithful to himself. With the trader, it is entirely different; he buys and sells the same goods as a profession; he is buyer to-day and to-morrow he is seller, and from this two-fold attitude there results the difference in the valuation of the same goods.

The vocation of the trader owes its existence to the separation of the production of goods and their consumption and also to the extension of market areas. If division of labour in production and the separation of production from consumption are regarded as a necessary development, then the evolution of a special class engaged professionally in the exchange of goods must also be accepted as inevitable. The modern distribution of goods is impossible without the professional trader, and it is futile to enter into the dispute as to whether trade is productive or unproductive.

COMPARISON OF LARGE-AND SMALL-SCALE UNDERTAKINGS

LARGE-SCALE MANAGEMENT.	SMALL-SCALE MANAGEMENT.
1. It has control over extensive capital—either its own or borrowed.	1. It has control over a relatively small amount of capital of its own and seldom avails itself of outside capital.
2. The number of employees may be increased at will.	2. For the most part it provides its own labour-power and hires outside labour only on a small scale.
3. Both the internal and external organization of labour may be based upon a rational system of division of labour.	3. There is but little division of labour.
4. The business may be extended in accordance with demand and the state of the market.	4. It is restricted to a limited stock and turnover and cannot take advantage of changes in the state of the market.
5. A rational and economic application of the factors of production (e.g. labour, capital, credit) can be made.	5. A rational application of the factors of production is scarcely possible.
6. Since it is based on capital, it can always enlist organizing capacity : hence the management will not be disturbed by the death of a director or other official.	6. It depends on the personal qualities of the proprietor, and as a rule the business is terminated on the death of the owner.
7. With the integration of a number of businesses engaged in different branches of trade in different places, it is possible to organize a compensatory business and thus avoid violent fluctuations in the profits.	7. It is not able to organize a compensatory business, and is therefore deprived of the advantages of a steady revenue.
8. The profits of the business are distributed as dividends to persons who, for the most part, are not engaged in the undertaking (e.g. shareholders and limited partners).	8. The profits of the business go to the owner and may be regarded as payment for his services as an entrepreneur.

At present, conditions are such that the transportation of goods from the places of production or of storage to the places of consumption is an economic necessity. In reality trade is no less productive than is the so-called production itself. The trader's undertaking also aims at the realization of the highest possible profit with the least possible expenditure. But it buys finished goods in order to resell them without any alteration. The trader's undertaking needs for its operations much less labour-power than the production of goods. On the other hand, in proportion to the size of the undertaking, it requires much more capital.

Kinds of Trading Undertakings. There are many distinctions to be drawn between the various undertakings engaged in trade. Here, also, a distinction is made between *large-* and *small-scale* undertakings, although in this respect the differentiation is more difficult to carry through than in the case of the undertakings engaged in the production of goods. Much more important is the differentiation according to the relations in which the undertakings stand to those engaged in production, or in which the trader stands to the private household economies. Undertakings which effect the sale to the private economies are to be regarded as retail businesses, but in this connection it should be pointed out that here, likewise, there are large-scale undertakings, such as departmental stores. Those trading concerns which deal only with manufacturing undertakings or with other trading undertakings are known as *wholesale traders*. Here, also, there are various intermediary links which find a place in the distribution of goods, which are known as *middlemen*. In this sphere also division of labour has created a far-reaching system of specialization.

THE WHOLESALE TRADE. In a highly developed economic organism, the exchange of goods cannot be effected directly between the manufacturer or producer of the goods and the retailer, but a special form of business is necessary which is known as the wholesale trade. Historically, the wholesale trader first makes his appearance as an importer and exporter. But apart from his historical origin he will always be found where direct intercourse between the producer and the retailer is impossible, and where he is able to mediate and facilitate this intercourse. In Great Britain alone there are more than 50,000 localities in which retail trade is carried on. The demand for goods on the part of the

large number of different kinds of businesses which spread over the whole of Great Britain cannot be satisfied by the producers themselves. The retailer is not in a position to pick out from the enormous number of undertakings engaged in the production of goods those which enter into consideration for his own business. Likewise for the manufacturer, it is generally impossible for him to sell his goods to the retailers over an excessively large area. This would be possible only in a market area which was small and easily surveyed. Modern mass production, however, creates a wealth of goods with which it would be impossible for the majority of retail traders to keep in touch. On the side of the retail trader, the need for a middleman is felt just as much as it is by the producer of goods, and this professional mediation is effected by the business of the wholesale trader or merchant. From thousands of channels the wholesale trader draws his goods in order once more to divert them into as many different channels. The wholesale trader assumes an entirely impersonal attitude towards the goods; he rarely, if ever, comes into real contact with them. He is but the uppermost director of large-scale buying and selling operations.

In order to concentrate the diffused supply of goods, and to collect them in such quantities that large purchases can be effected, special auxiliary services belonging to other branches of commerce are necessary, and these in turn may themselves be organized in separate undertakings. The same may be said of the concentration of demand or for the sale of finished and partly-finished goods. These intermediary forms of trade are to be found not only between the wholesale merchant and retailer but even to a greater degree between the manufacturer and the retailer, and between the manufacturer and the wholesale merchant. These intermediary forms of trade are of great diversity and are adapted to the temporary requirements of the particular industry. As is the case with large-scale undertakings, the *turnover* of the wholesaler is very considerable. The expenses of the business are distributed over the large number of goods sold. The financial success of the wholesale business depends largely on the degree to which the wholesale merchant is able to increase his turnover. In other words, his success depends on an increase of turnover combined with a decrease in the *rate of profit*. The more a wholesale merchant succeeds in dominating the supply of a certain class of goods, the

greater is his influence in the determination of prices. He will thus be able to exact more favourable terms in buying and selling, and will be able to eliminate undesirable competition. A large turnover admits of a lower selling price without reducing the *total profit.* This position in the process of distribution confers upon the wholesale merchant superior advantages.

THE MIDDLEMAN. There are many trading undertakings which intervene as mediating links between the wholesale and the retail trade, and these we describe as the *intermediary traders.* Such intermediaries are brought into existence by a whole series of causes. It may be that the wholesale undertaking, in view of the large number of retailers, is unable to cope with the market without the aid of such independent middlemen, or else the middlemen may arise in consequence of the peculiar requirements of the retail trade in a certain locality. This is especially the case where the retail trade has only a weak basis of existence and therefore runs the risk of becoming dependent largely on the middleman.

Again, the strong differentiation in the manufacture of finished goods, and also in the retail trade, may occasion the need for special intermediary links between the wholesale trade and the manufacturer, and between the wholesale trade and the retailers. At all events, the intermediary trade always arises where the exchange of goods between the wholesale merchant and the retailers, or between the wholesale merchant and the manufacturer, or between the latter and the retailers, cannot be effected smoothly owing to the fact that their knowledge of the market conditions is inadequate, and because the supplying houses are unable to meet the needs of the buyers without the aid of the middleman. The conditions of trade are still too confused and too unorganized to dispense with these independent middlemen. So long as there are reasonable grounds for the existence of these intermediary links, so long will they continue to be an integral part of the economic system.

THE RETAIL TRADE. In the retail trade the small undertaking is still predominant. The large-scale undertakings in the shape of the departmental store, the specialized retail shop, and the co-operative society have developed only in places with a large population. Alongside these forms of large-scale undertakings, however, the small retailer still finds a large field for his activities in the sphere of distribution. He enters into direct contact with

the individual consumer. He obtains his goods from the wholesale merchant, the middleman, and sometimes also from the manufacturer, and these he resells to the consumer with an addition to the purchase price sufficient to cover his expenses and yield him an income. In general, the competition between the retail undertakings is very keen, because on the one hand these undertakings are very numerous and, on the other hand, there is a strong competition on the part of the departmental stores and the co-operative societies. The retail trade is still largely associated with the small-scale undertaking, especially in small places. We have only need to point to the baker, the butcher, the bootmaker, the bookbinder, etc. In the large cities, of course, this characteristic tends to vanish more and more. Here the small-scale undertaking is typical only in the case of the baker, although in this trade, too, there are already a number of large-scale undertakings which produce the goods centrally and then distribute the finished goods through a system of branches, i.e. the multiple shop system. The table on page 74 shows the different types of undertakings engaged in retail trade.

The chief factor in the determination of the kind of undertakings in the retail trade is the size of the local market area. In the large cities the large-scale undertaking tends to assert itself in an increasing measure, whilst in the small towns and villages the small undertaking in the retail trade still offers a fairly safe, though on an average bare, basis of existence. In general, it may be said that there is too much over-crowding in the retail trade.

THE CO-OPERATIVE CONSUMERS' SOCIETY. The co-operative consumers' societies are to be included amongst the forms of undertaking engaged in the retail trade. They are combinations of private economies for the purpose of obtaining household goods at a relatively cheap rate and of wholesome quality by the elimination of the independent retailer. With the introduction of the co-operative society, the economic activity involved in consumption is not dispensed with by the private household, but the independent retailer is rendered unnecessary. The society takes the place of the independent retailer whose aim is to realize a profit, and the profit of the co-operative society reverts to the private economies in their capacity as consumers. The co-operative societies are the better able to effect their object of supplying the consumers more

cheaply than the retail trade. The greater the number of their members, the more accurately they can control the demand for their goods and the more the organization of the society can succeed in eliminating middlemen in the purchase of the goods. Although the ordinary retail trade has been adversely affected by this development, yet we must not exaggerate the injury which has been done. The development of co-operative societies takes place gradually, so that the retail trader can adapt himself to the changes which occur by taking care not to increase the number of existing undertakings beyond the most necessary requirements and by restricting himself to spheres in which the co-operative society does not enter into competition.

Moreover, in spite of all the progress made by co-operative societies, we must not overlook the fact that in the total turnover of the retail trade with the private economies, the independent small retail business still holds the first place. The departmental stores and the co-operative societies only follow at a great distance.

CHAPTER XXXII

THE INTERMEDIARY TRADE

THE FUNCTIONS OF THE MIDDLEMAN. In many cases an undertaking, which acts as middleman, is sandwiched in between the wholesale and retail trade, and sometimes between the manufacturer and the wholesale trade. The forms of these undertakings are very diverse, and they become necessary in cases where direct intercourse is impossible—that is, where the wholesale undertaking is incapable of supplying direct the mass of small retail undertakings. The middleman still performs an important rôle in the distribution of goods. There is a desire to restrict his operations and to seek the most direct route in the distribution of goods. For this reason, the middleman will always be exposed to attacks. Wherever he can be dispensed with, the undertakings which avail themselves of these middlemen will try to eliminate him ; on the other hand, however, the middleman will strive to protect this position. The strength of the intermediary trade varies considerably in accordance with particular circumstances. The magnitude of the turnover and also the position of the middleman between the sources of supply and those of demand are vital factors in the economic success of his undertaking. With the improvement of the conditions of transport and the rise of the postal, telegraph, and telephone system, it is obvious that the middleman tends to be ousted in many spheres. Such elimination, however, is advantageous and permanent only in cases where the direct route involves a smaller amount of labour and capital than the roundabout way through the middleman. It must be admitted that, theoretically, the attainment of a direct route is desirable. In practice, however, we must examine whether, in individual cases, the elimination of the middleman does actually produce the theoretical advantages aimed at. Every unsuccessful attempt in this direction will offer scope for the recrudescence of the middleman. Wherever the trade of the middleman has once established a firm foothold, however, it will be difficult to restrict his activity, even though, economically, he could be dispensed with. In too many cases does there arise

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a relationship of economic dependence between the middleman, on the one hand, and the suppliers or customers on the other; this affords the middleman a certain security of tenure even when the need for his services no longer exists. This is especially the case in the execution of business with the great mass of small-scale undertakings. Pre-eminence rests chiefly on the ability to extend credit in both directions.

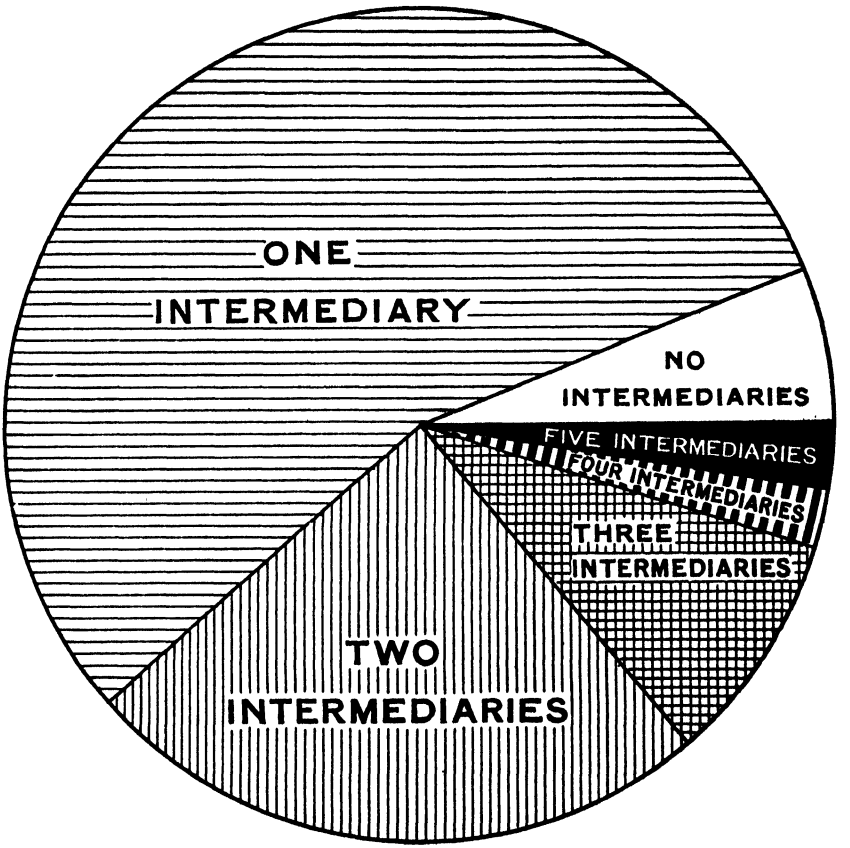
This method of business may be employed in a perfectly legitimate manner, although it is often open to abuse, and the customers as well as the supplying houses are almost compelled to remain in permanent business relations with the middleman. This state of dependence may do much to preclude competition, and thus influence the determination of prices, especially if the undertakings with whom the middleman deals are obliged to yield. As a rule, middlemen who, for such reasons, are able to safeguard their position meet with remarkable success. However, they are not only a hindrance in the distributive process, but they also exercise a detrimental influence upon the level of prices, to the disadvantage of the consumers. It would be fallacious to infer that middlemen, as such, are unnecessary; but it must be admitted that intermediary undertakings often exploit their position for their own advantage to a degree which is out of all proportion to the risk and services rendered by them. From a business standpoint this is easily understood; indeed, it would be a mistaken policy if the undertaking did not exploit to its own advantage all the whims of the contracting parties. But viewed from a higher standpoint, there is just this danger for the undertaking of the intermediary trade—that it may postulate conditions which will tend seriously to weaken the strength of the other contracting parties.

EXAMPLE OF INTERMEDIARY TRADE. The fruit and vegetable industry is unique in the number and variety of intermediaries who may, at times, be engaged in handling the produce and whose sole service is that of distribution. In the case of other commodities, distributive services more usually include not only the operations of collection and distribution, but also the preparation or treatment of the produce to render it more adaptable to the consumer's needs.

Apart from supplies grown in the vicinity of consuming centres, the fruit and vegetable industry in Great Britain is, to a large

extent, concentrated in certain areas, where conditions of soil, climate, and labour are favourable to the consistent and cheap production of particular varieties. The concentration of production has many advantages from the standpoint of distribution, notably

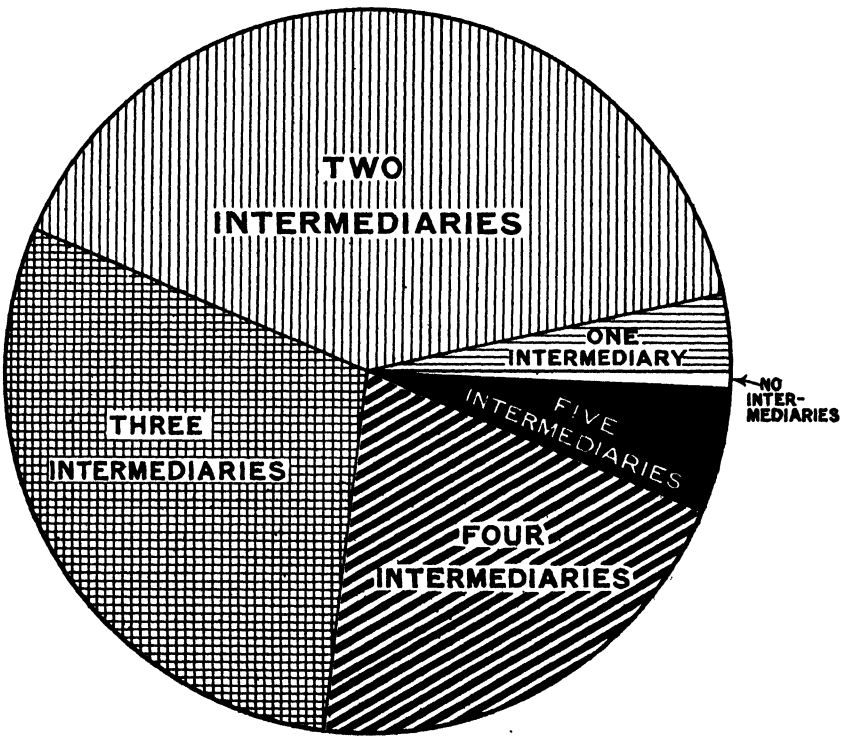
Intermediaries engaged in the Distribution of Produce grown near consuming centres.



as regards transport facilities. It has been estimated that considerably over one-half of the total production of fruit and vegetables in this country is raised in specialized producing areas. Growers in such cases, situated frequently at a considerable distance from large consuming centres, have found by experience that the most convenient method of disposing of their produce is to market it in bulk quantities through a middleman possessing an expert

knowledge of market conditions and requirements. On the other hand the larger of the growers situated in the vicinity of consuming areas, undertake their own marketing and personally dispose of their produce to wholesalers or retailers, as the case may be, while there is direct trade between grower and consumer in the case of

Intermediaries engaged in the Distribution of Produce grown in specialized producing areas.



smaller or specialist growers. The latter is the simplest, as it is also the oldest method of distribution.

In view of the additional cost which each handling involves, the Departmental Committee on Distribution and Prices of Agricultural Produce[1] endeavoured to ascertain the proportions of produce which pass through the hands of one, two, three, or more intermediaries, though any such information must necessarily be of an approximate character.

[1] Cmd. 1892.

Of the produce raised by growers in the vicinity of consuming centres, the greater proportion reaches the consumer through the agency of only one intermediary, the retailer. Of the balance, the greater part is sold through commission salesmen.

Of the produce raised in the specialized producing areas, some two-thirds appear to be marketed through commission salesmen in London, the greater part of the remainder passing through the hands of the provincial commission salesmen. Of that handled by London salesmen, about one-third is bought by retailers, and the remainder by wholesale dealers or commission buyers for reconsignment to the provinces either to wholesale dealers or to retailers. The diagrams shown on pages 259 and 260 show both for produce grown near consuming centres, and for that raised in specialized producing areas, the proportions handled by various numbers of intermediaries. They represent an average of the opinions expressed by leading growers and salesmen.

The diagram on page 263 shows the various routes which may be followed by home-produced fruit and vegetables in their passage from the grower to the consumer. The methods of distribution shown in the diagram are neither equally important nor equally used.

METHODS OF DISTRIBUTION. 1. **Grower to Consumer.** The first method is that of direct sale by the grower to the consumer. This method appears to be generally successful where the small producer hawks his produce in the nearest town, or, to a less extent, through the medium of a retail shop or a stall in the local market. Direct sale is mostly undertaken by growers situated within driving distance of a town of sufficient size to provide an adequate and regular outlet for the whole of the produce. The varieties raised must be sufficiently diverse to enable the grower to supply the greater part of the needs of his customers, but difficulties inevitably arise, such as non-continuity of supply and the unforeseen requirements of customers, which compel the grower at times to purchase produce, even sometimes imported, for resale in order to maintain his connection.

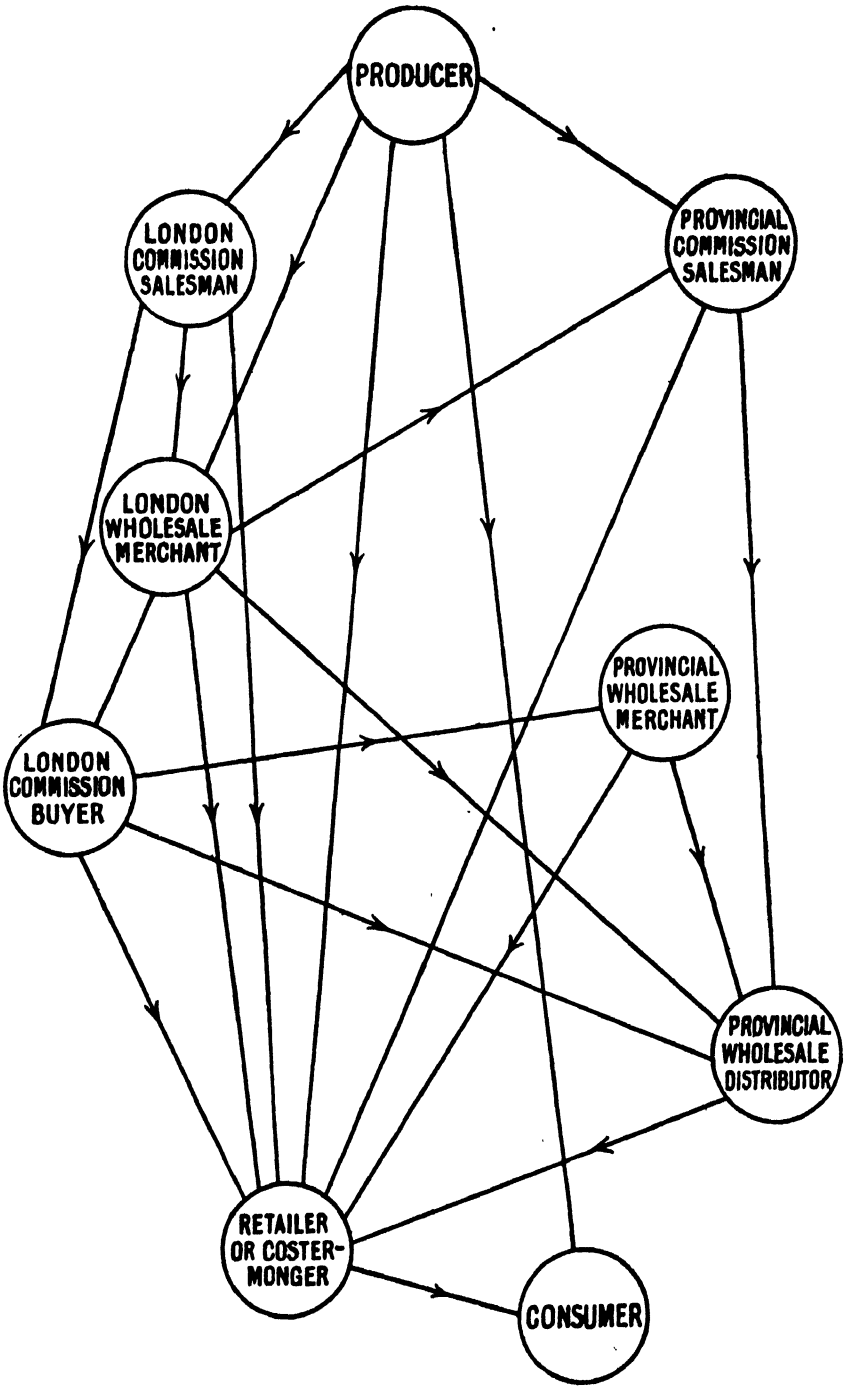
Direct sale from grower to consumer has also been attempted with varying degrees of success by growers in districts remote from consuming centres, particularly by specialist growers who produce a high-class article such as asparagus and certain varieties of fruit.

Produce so sold is dispatched by rail, road, or post direct to the urban customer. The essentials to success appear to be uniformity of quality and continuity of supply; but, above all, the value of the produce must be such as to admit of the proportionately higher transport charges for small parcels. It is very improbable, however, that the direct consignment of fruit and vegetables from the grower to the distant consumer will ever develop on a large scale. The return does not always compensate for the labour and trouble of selecting, packing, and consigning goods in small quantities. The lack of personal contact between vendor and buyer prevents the former from realizing the exact needs of the latter, while inspection of the goods by the buyer before purchase is impossible. Furthermore, buying direct from producers necessitates forward purchases and the ordering of larger quantities than those required to meet the day-to-day needs of the average household.

2. **Grower to Retailer.** This is a well-established custom for the larger growers of mixed crops within easy driving distance of large towns to organize the sale of their own produce and dispose of it to retailers at the wholesale markets. This appears to apply less to glasshouse produce than to other varieties of perishables. The introduction of motor transport has greatly facilitated this method of sale, which is on the increase. It is estimated that within a radius of 15 to 20 miles of London, 30 per cent of the growers in Kent, and 75 per cent of those in Essex, rent stands in one or other of the London wholesale markets. Indeed, surrounding practically all large consuming centres are to be found belts of intensive cultivation for the supply of the local retail trade. In the specialized producing areas, on the other hand, sale direct to retailer is necessarily much less usual. The lack of personal contact between seller and the purchaser, the risk of bad debts, and of failing to obtain a continuous and suitable demand or supply and the trouble of dispatching small parcels of produce to a variety of destinations have hitherto prevented any considerable extension of this method of sale.

3. **Commission Salesmen.** The last method was the system of distribution through the agency of one intermediary, the retailer. We have now to consider the cases in which the necessity for disposing of produce in bulk leads to the intervention of one or more

DISTRIBUTION OF FRUIT & VEGETABLES.



further intermediaries before the produce reaches the ultimate consumer. These may be—

(*a*) *Commission salesmen who act merely as selling agents* on behalf of distant growers, or

(*b*) *Wholesale merchants*, who purchase outright on their own account.

Both usually operate in the wholesale fruit and vegetable markets, and sell either to other wholesale dealers or direct to retailers, or through buying agents, to wholesale merchants or retailers in other markets or towns. Wholesale fruit and vegetable markets are situated in the principal consuming areas throughout Great Britain, and act as centres for the collection, division, and distribution of supplies.

The commission salesman's primary function is to strike the best bargain possible on behalf of his clients. In addition to the actual service of finding customers, the salesman usually supplies the grower with the bags, baskets, or other containers in which the produce is packed and pays on the grower's behalf any freight or other charges which may be due. In some cases he advises the grower as to the state of the market, warning him when the forwarding of produce is inadvisable ; he also accepts responsibility for any bad debts which he may incur in the process of sale. He makes the sale in his own name and accounts to the grower for the results. For his services, he charges a commission on the selling price, or occasionally a flat rate on a quantitative basis, this remuneration being deducted from the price realized, together with other incidental charges such as rail transport, cartage, porterage, market dues, and a charge for the use of empties. Sale on commission appears to be by far the most common method of making the first sale of fruit and vegetables in wholesale quantities, especially of those grown in the specialized producing areas.

4. **Wholesale Merchants.** Second only to the commission salesman in importance, and to a certain extent serving the same regulatory purpose, is the wholesaler. He operates, however, in more markets than the commission salesman, whose activities are practically confined to the larger distributive centres. The wholesaler differs from the salesman also in that he purchases outright and resells to the best advantage on his own account. The commission salesman in the wholesale market stands, as it were,

at the point of assembly of produce of diverse grades and quantities from numerous outlying sources and arranges a change of ownership there and then ; the wholesaler, on the other hand, is more definitely concerned with the sub-division and dispersal among retailers of the produce thus assembled, in the precise quantities and at the times desired by the retail trade. Normally, however, the line of demarcation is not clearly defined, as many sales direct to retailers are also effected by commission salesmen, and it is not usual for the two operations of selling on commission and of wholesaling to be undertaken by one firm.

Wholesalers obtain their supplies in a variety of ways. Frequently they reside in producing areas, and purchase direct from growers, disposing of the produce to retailers in consuming districts either direct or through the wholesale markets. Wholesale merchants in the principal distributing centres frequently purchase from the grower at prices fixed by individual bargaining, but more or less based on those current in the market. This method is most common in the case of potatoes, which are sold by the grower free on rail, the purchaser usually supplying bags.

An alternative and not uncommon method of sale to wholesale dealers is that of disposing of the crop outright while it is yet growing. The dealer in such cases undertakes all expenses in connection with the harvesting, packing, and marketing of the produce, and he assumes not only the market risks ordinarily borne by the grower, but also the risk of the crop failing, subsequent to purchase, owing to climatic conditions or other causes. The custom is not extensive, and though, no doubt, a financial convenience to many growers, its effect on the costs of distribution is negligible, as, in the end, the same total expenses are incurred as if the grower had harvested his own crops and the ultimate price to the consumer is, therefore, not affected.

The wholesaler's normal and immediate source of supply is, however, the commission salesman, from whom, as we have shown, he purchases goods in the large distributing markets and transfers them to other wholesalers or to retailers situated too far away to enable them to make their purchases direct. In this connection Covent Garden Market is of overwhelming importance in the system of distribution of fruit and vegetables throughout Great Britain.

5. **Commission Buyers.** The commission buyer operates chiefly in Covent Garden. His function is to act as buying agent for the provincial wholesaler or retailer, purchasing supplies on behalf of his principal from the commission salesman, wholesaler, or occasionally direct from growers, and usually making a flat-rate charge for his services; he also arranges for the transport of the goods to their destination. Where a commission buyer is acting on behalf of a wholesaler in a large provincial distributing centre, this wholesaler not infrequently resells to a second wholesale dealer in a smaller town, who in turn sells to a retailer for distribution to the consumer. *In an extreme case, the chain of distribution may be as follows: Grower, local dealer, commission salesman, commission buyer, wholesaler, second wholesaler, retailer, consumer, and the expenses incurred are multiplied accordingly, each intermediary taking his quota of commission or profit, and each stage in the passage of the goods involving additional costs of handling and transport.*

It will be clear from the preceding description of the existing marketing processes, that occasionally the services, costs, and profits of as many as six intermediaries may be interposed between the grower and the consumer. At each stage, the produce is handled two or three times by porters or railway employees making, in some cases, as many as sixteen to twenty different handlings, while between each stage long hauls by rail or road may increase the tally of carriage charges.

CHAPTER XXXIII

IMPORT AND EXPORT TRADE

THE IMPORT TRADE. During the past fifty years the whole structure of the import and export trade has undergone a far-reaching transformation. Steam transport, ocean cables, the telegraph and the telephone, the wireless, together with the rapid development of railways in every part of the world, have all had their effect on international trade. The rapid growth of population in Great Britain, and the consequent greater demands for imported foodstuffs and raw materials not only led our merchants and manufacturers to look for fresh sources of supply, but also opened up to our fellow subjects in the Colonies and Dependencies of the Empire new outlets for their productions. The almost unbounded demand in the British market for the various products of agriculture has led to the cultivation of vast areas in India, Canada, and the Australian Colonies as well as in the United States and the Argentine. A century ago, we were dependent on Russia for such supplies of grain as we could not grow for ourselves, but to-day we receive practically unlimited supplies from all parts of the world. The table below shows the estimated consumption of cereals and meat in the United Kingdom during the year 1920, together with the figures of the home and imported produce.

An examination of the following table will show the large extent to

ESTIMATED CONSUMPTION OF CEREALS AND MEAT IN THE UNITED KINGDOM IN 1920.

Commodity.	Estimated Total Consumption, 1920.	Proportions of Home and Imported Produce included.	
		Home produced.	Imported.
	Tons.	Per cent.	Per cent.
Wheat	6,715,000	18	82
Barley	1,950,000	62	38
Oats	3,364,000	86	14
Beef and Veal	1,140,000	59	41
Mutton and Lamb	520,000	35	65
Bacon and Hams	374,000	28	72
Butter	196,000	60	40
Cheese	178,000	26	74

which we are indebted to foreign trade for the amount of our food supply. We have learned to draw from distant parts of the globe not only our supplies of bread stuffs and dairy produce, but our scientists and mechanics have also enabled us to import and to use the meat supplies of the most distant countries, so that the carcases of the immense flocks of sheep pastured in Australia, New Zealand, and the Argentine are now placed at our doors. These are conveyed to us in the refrigerating chambers of the huge ocean steamers, while the rapid passages of steamships across the Atlantic have at the same time opened up to us large supplies of beef both dead and alive from the United States and Canada. What would have been the condition of the British food markets without these comparatively new supplies it is not for us to conjecture, but it may be fairly suggested that instead of such reasonable prices as we now enjoy, animal and cereal foodstuffs would have been normally at famine prices. Thus, the trade of Great Britain is to an immense extent of an external character, consisting of the exchange of such raw materials as we produce, principally of coal and iron, and of manufactured goods, for articles of food and raw materials for our manufactures.

PROCEDURE IN THE IMPORT TRADE. In addition to the direct importation of goods from abroad by merchants resident in this country, a large amount of the import trade is done on "consignment," that is, the actual property in the goods so imported remains with the exporter. For example, much of the wool of Australia is purchased from the flock masters by large mercantile houses and companies in the principal Australian cities, and is then shipped to Great Britain and other parts of Europe where it is disposed of for their account. In many cases these houses have agents in this country who take charge of and attend to the sale of the goods. On the other hand, there are many commission houses in this country which attend to the sale of produce on behalf of the foreign merchant, charging him a commission for their trouble, and on the same terms they undertake to purchase and dispatch such goods as the foreign merchant may desire. This method of business results in the constant exchange of account sales, invoices, and accounts current, the due and careful preparation of which occupies much of the time of the members of the staff in the office of a commission merchant.

Goods on Consignment. In the case of goods imported on consignment, the usual course of business is as follows—

On receipt of the bill of lading it becomes the duty of one of the clerks to acquaint himself with the probable date of arrival of the ship. The initial step with regard to the importation of any goods is the entry of the importing ship at the Custom House, technically called " reporting." This is the act of the master of the ship and consists of handing to the proper officers at the " Report Office " of the Custom House a detailed list of the cargo on board the ship, showing the marks and numbers on the packages, their contents, as far as possible, and where known, the names of the consignees or importers. This list is made in duplicate and the copy is at once dispatched from the Report Office to the Custom House officers at the place where the ship is to discharge her cargo.

When the master has reported his ship, it is the duty of each importer to enter his goods before he takes possession of them. Information concerning all goods imported, whether dutiable or not, must be given to the Customs authorities before the goods can be landed, and the particulars required generally include weight or measure and approximate value, together with the name of the importing ship and the place from which she has arrived, or the country of origin of the goods. The documents on which these items of information are given are called " Custom House Entries," and they vary slightly in form according to whether the goods are free or dutiable. When goods are free of duty the Customs officers make a more or less cursory examination sufficient to satisfy themselves as to the *bona fide* nature of the transaction, and the goods are then placed at the disposal of the importer or his agent. When the goods are liable to duty, however, they are weighed or gauged by the Customs officers, or under their direct inspection, and the weight or measure of each packet is recorded in a book, called a Landing Book, which then becomes the official record of the goods. Of course it must be remembered that duties are not imposed upon goods immediately on their importation but only as they are brought into consumption, and they may remain any length of time in the bonded warehouses, where they are under the control of the Customs authorities.

The Customs formalities having been completed, the goods are landed and are taken charge of on behalf of the importer by one of

the dock companies or wharfingers selected by him. These companies undertake in accordance with requirements of the various trades, the duty of weighing, measuring, gauging, sampling, etc., for which purposes they maintain large staffs of experts and specialists. After the goods have thus been prepared for sale with as much dispatch as possible, various accounts such as landing accounts, weight accounts, etc., as well as samples of the goods, are furnished to the importer. The landing accounts having been received, the importer makes arrangements for the sale of the goods, which is almost invariably effected through the agency of a broker. Various classes of produce have their special markets, each of which forms the centre round which the brokers dealing in the goods usually congregate. For instance, the Corn Exchange in Mark Lane is devoted to the sale of all sorts of cereals and agricultural seeds ; tea, coffee, cocoa, and rubber are disposed of principally at the Commercial Sale Rooms in Mincing Lane ; wool is sold at the Exchange in Coleman Street, London, and also at Liverpool and Bradford ; whilst fruit and vegetables find their chief sale at Covent Garden.

The samples drawn by the dock companies or wharfingers are dispatched to the sale rooms of the brokers in these various localities, and there they are inspected by the numerous buyers who frequent the special markets. The sales are usually by auction, the brokers taking care to arrange their sales that one does not clash with another. At these sales goods intended for home consumption or for re-exportation are sold with an almost incredible rapidity and in colossal amounts. Having effected the sale of the goods, the broker sends to the importer a contract note setting forth all particulars of the goods sold, with the price obtained for them, the terms on which they have been sold, and the date of " prompt," that is the date when the purchase is to be completed by the buyer of the goods. In the meantime the importer has taken the necessary steps to obtain warrants for the goods from the dock company or other warehouse proprietor who has housed the goods. The warrants are made to suit the " lots " in which the goods are offered for sale, and they afford a simple and effectual means of effecting the transfer of the goods. The importer endorses the warrants for such goods as have been sold, and hands them to the broker who in turn transfers them to the buyer of the goods.

Preparation of Account Sales. The broker will next make out and furnish to his principal an account sales on which he will show all necessary particulars of the merchandise he has sold with the price obtained and the amount realized. From this amount he will deduct any expenses he may have incurred or paid on the goods together with a charge for selling called brokerage. The balance remaining will represent the net proceeds which is handed to the importer of the goods. From the specimen Broker's Account Sales, given below, it will be seen that there are three weights given, viz.—

1. Gross, i.e. the weight of the goods and the package which contains them, or of any other article by which they are secured.

2. Tare and Draft. The ascertained or agreed weight of the package and packing is known as tare, whilst draft is an allowance made to guard against any difference in weight which might occur between the time of the goods being weighed at landing and the date of prompt.

3. Net, i.e. the result after deducting tare and draft from the gross weight. The price is calculated on this net weight.

BROKER'S ACCOUNT SALES

Account Sales of 100 Bags of Coffee, ex "Queen," @ Jamaica, sold by Brown & Son by order and for account of Messrs. Hammond Bros.

	Cwt.	qrs.	lbs.		£	s.	d.
H.B. 100 Bags Coffee—							
L. Gross Weight	125	–	–				
Tare and draft	3	–	–				
Net	122	–	–	@ 160/-	976	–	–

Charges.	£	s.	d.		
Sale Expenses and Advertising	1	1	–		
Brokerage, 1¼ per cent	12	4	–		
				13	5 –
Net Proceeds				£962	15 –

E. & O.E.

(*Signed*) BROWN & SON.

LONDON.
31*st March*, 1924.

On receipt of the broker's account sales, another account sales will be prepared by the importer for submission to the original and actual proprietor of the goods, that is, to the exporter in the

foreign country. This account will contain a transcript of the broker's account sales to which will be added a variety of charges and expenses on the goods such as freight, dock charges, fire and marine insurance. All these expenses will be added to the charges made by the broker and finally an addition will be made for the importer's own commission. The amount remaining will represent the net proceeds which will be credited to the shipper of the goods, thus closing the transaction.

THE EXPORT TRADE. The duties involved in the management of the shipping department of a large export firm are much more extensive than those of an import business, and to these we now propose to turn our attention. This department is not concerned with the ordering of the goods but with their actual shipment. As a rule, no particular line of ships will receive the exclusive patronage of a house, but shipments will be made by one line or another as may best suit the circumstances of the case. It is therefore the duty of a shipping clerk to keep himself well informed of the various lines of steamships trading with those ports and places to which his firm exports. He should also know the various rates of freight demanded by them, and the probable time of the respective sailings of the ships. Having made his arrangements with the brokers of the vessels by which he intends to ship, the shipping clerk will issue to the manufacturers and others supplying his goods orders to deliver the goods to the dock or other place where the ship is to load her cargo. Rough and heavy goods, such as coal, iron, cement, and salt will sometimes be sent by water alongside the export ship, that is, they will be sent in barges, and the servants of the shipowners will take the goods out of the barges and stow them in the ship's hold. Of course, large quantities of goods for export are also sent by rail from the great mining and manufacturing centres, and the railway companies charge for carriage, including delivery. All large shipping firms keep deposit accounts at the various docks, to which amounts due by them are charged. For goods shipped by water, a " Mate's Receipt " is required. This is a receipt for the goods named on it, signed by the chief officer of the ship, and stating that the goods are in good condition. If need be, the person signing the Mate's Receipt may make on it any qualifying remark he pleases, should the external state of the packages not be in order; if the receipt is signed

without any remark, it is called a " clean " receipt, otherwise it is referred to as a " foul " receipt. These receipts are always secured by the lighterman who is employed to take the goods to the ship, and are handed by him to the export merchant. Eventually the latter transfers them to the ship's broker in return for the bill of lading.

EXPORT PRICES. The chief methods of price quotation in the export trade are as follows—

1. **F.O.B. Shipments.** F.O.B. is generally understood to mean that the goods are provided free on board a vessel. When goods are shipped in this way the seller is required—

(*a*) To meet all charges incurred in placing the goods actually on board the vessel;

(*b*) To be responsible for all loss or damage until the goods have been placed on the vessel.

The buyer on his part is required—

(*a*) To be responsible for all loss and damage which may occur from the time that the goods are placed on board the ship;

(*b*) To be entirely responsible for all loss, subsequent movement of the goods, and charges.

The phrase f.o.t. is understood to mean " free on trucks "; and f.o.r. to mean " free on rail." They are interchangeable terms and have the same significance respecting the obligations involved. When goods are so sold the seller is required to deliver the goods free on the truck. On the other hand, the buyer is required to pay all the charges of transportation and to handle the subsequent movement of the goods.

2. **F.A.S. Shipments.** Contracts made f.a.s. are understood to mean that the goods are delivered free alongside the ship. When goods are sold f.a.s. the seller is required to pay all charges for placing the goods alongside the ship so that they can be handled by her. The obligations of the buyer under such a contract are—

(*a*) To be responsible for all loss or damage incurred thereafter;

(*b*) To handle all subsequent movement of the goods and be responsible for all charges;

(*c*) To pay all demurrage and other charges which may be incurred after the seller has fulfilled his contract to place the goods alongside the ship.

3. **C.I.F. Shipments.** In a contract for the shipment of goods

on a c.i.f. basis the goods are to be provided by the seller with all necessary charges and freight and insurance paid. In these cases the seller is required—

(*a*) To put the goods f.o.b. and pay all transportation charges to the agreed destination ;

(*b*) To be responsible for all loss or damage until delivery of the goods into the custody of the shipowner ;

(*c*) To take out and pay for all necessary marine insurance ;

(*d*) To deliver to the buyer or his agent a clean bill of lading to the agreed destination and a marine insurance policy or negotiable insurance certificate.

It is generally understood that the necessary marine insurance means insurance on the f.p.a. basis, i.e. warranted free from particular average, but this type of insurance should be mentioned in the contract, and where insurance, including particular average or covering war risks is wanted, the buyer is expected specially to stipulate for them.

The buyer on his part, is required—

(*a*) To be responsible for loss or damage thereafter and for making all claims to which he is entitled under insurance ;

(*b*) To take delivery and pay costs of discharge, lighterage, and landing at port of discharge in accordance with the bill of lading clauses ;

(*c*) To pay all import duties, Customs and wharfage, if any.

4. **C.I.F. and C. Shipments.** This means " cost, insurance and freight, and commission." Commission here represents the shipper's or supplier's commission or profit. It is generally used in trades in which the shipper is accustomed to execute indents, charging a commission.

5. **C.I.F. and C. and E. Shipments.** This means " cost, insurance and freight, and commission and exchange. The letter " E," signifying " exchange," includes the banker's commission for negotiating a draft. Thus, a contract on the c.i.f. basis specially including the shipper's or supplier's commission, and also banker's commission, would read " c.i.f. and c. and e."

6. **C.I.F. and C. and I. Shipments.** This means a contract on the c.i.f. basis and the shipper's or supplier's commission and interest. The letter " I " signifies interest and is applicable especially to Indian drafts, in the case of which the banks charge the shippers

interest from the time the draft is negotiated until the remittance arrives in London, which may be two or three weeks after the draft is paid in India.

INDENTS. An indent is an order sent by firms abroad, especially in India, the Far East, or Australia, to an export firm in Europe, or given direct to their branch abroad. As it is not easy to get reliable information about the standing of native firms in these countries, and as a great number of these firms cannot be trusted, the agent or seller is forced to take every precaution to safeguard himself against fraud. He does this, where necessary, by demanding the order in the form of an indent, which contains very precisely the conditions under which the transaction is to be carried out, and is often a very lengthy document. It is naturally worded to protect the agent or seller in every possible way, particularly with regard to payment.

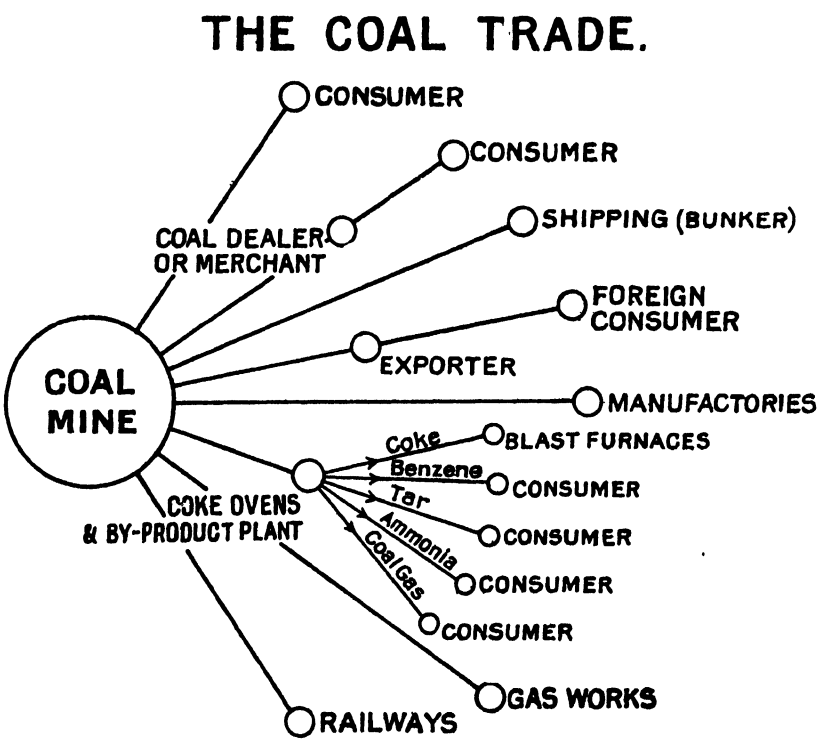
The word " indent " is another form of *Indenture*, which is a legal document stating an agreement between two parties, formerly written either in duplicate, or perhaps only once, on one piece of paper and then severed in two parts by means of an indented or wavy cut. Each of the parties received a part of the indenture, and the genuineness of either part was proved by the wavy edges, i.e. the indent(ure) from Latin, *dens*, a tooth, tallying or corresponding to one another.

Originally the orders made out by the factors of the East Indian Co. and sent to Europe were in the form of an indent(ure), also those sent by the English officials in Australia to the mother country for stores and provisions. Hence the word spread to the commercial language in the form of indent meaning an " order " on which the conditions of sale, delivery, and payment, were given more or less in detail as circumstances demanded. The indented edge is no longer legally necessary ; it is, however, occasionally found on some documents at the present day.

The Shipment of Coal. Great Britain is the most important country in the world for the export of coal. On the average the annual production of coal amounts to about 250 million tons of which nearly one-fourth is exported abroad, this figure including the amount used in the shipping and bunkering trade. More than a quarter is also used by the three great industries : iron-making, gas-producing, and railways. A large amount of coal is also

consumed in coke ovens and by-product plant. The chief by-products are ammonia, tar, coal gas, and benzene. The various channels through which coal reaches the consumer are shown in the diagram below.

Export of Coal on a C.I.F. Basis. When contracts are made on a c.i.f. basis for coal, coke, patent fuel in bulk, the seller undertakes to supply the stipulated cargo free on board the vessel at the



loading port. He undertakes further to provide a contract of affreightment and insurance in accordance with the conditions of the contract of sale or, if there be no such contract, on the customary terms. On the cargo being loaded the seller has to get bills of lading signed in the usual form as soon as practicable. These he endorses in favour of the buyer and sends them to him with an invoice at the c.i.f. price and a certificate of insurance. To illustrate the general procedure in the export trade, we shall now take an actual c.i.f. transaction from the coal trade. As a rule, such a transaction may be grouped under four main headings,

viz., the inquiry, the offer and acceptance, the shipment and the payment.

The Inquiry. When an exporter or merchant receives an inquiry from abroad, before quoting he would first find the true financial position of his prospective client from a banker or inquiry agent.

The Offer and Acceptance. Should the " report " be a good one, he would then obtain a " firm offer " of the required parcel of coal, coke, or fuel either from the colliery salesman, or from a merchant who may have previously booked a quantity on speculation. The exporter would then estimate the amount of freight payable for tonnage, and the amount per ton for insurance and wharfage. His offer would then be telegraphed abroad. In the transaction below it has been presumed that the buyer is an Italian at Genoa, and should he accept this offer he would probably open a credit through a large Italian bank, instructing them to pay to the exporter £11,750 on presentation of the shipping documents, viz., the Bill of Lading, the Colliery Certificate, the Insurance Policy, and the *pro forma* Invoice. When credit has been opened in London, the bankers would advise the exporter, who would then accept the colliery company's or merchant's firm offer. This he would confirm by a Purchase Note, and in return a Sales Note would be received from the seller. The exporter's next step would be to find a suitable steamer which could load in position with the Colliery " Stem."

The original meaning of " stem " seems to be the same as that given to the word in such a phrase as " stemming a stream." Stemming means, therefore, the stopping or directing of a stream of coal coming down from the collieries in wagons to provide coal cargoes. The provision of stems is carried out between the shippers and the collieries, who, in turn, will make arrangements with the dock authorities for the necessary facilities. Thus, while the exporter arranges with the owner of a ship to charter his vessel, he will also arrange with the colliery to provide the stem. He will also instruct an insurance broker to effect insurance on the cargo.

The Payment. After the shipment of coal has been effected, the exporter would forward the necessary documents to his bankers, instructing them to collect the amount of the *pro forma* invoice from the Italian bank. For this service the banker may charge a fee of 2s. 6d.

TRANSACTIONS IN THE COAL EXPORT TRADE. The actual procedure involved in the execution of a c.i.f. transaction would be as follows—

1. Request from the prospective buyer for quotations.
2. The written or telegraphic Offer.
3. The telegraphic or written Acceptance of the Offer.
4. The dispatch of the Purchase Note to the colliery company or merchant from whom the cargo is bought.
5. The receipt of the Sales Note from the colliery company.
6. The Charter Party.
7. The Stemming Note from the exporter to the colliery company.
8. The Insurance Policy.
9. Receipt of advice of credit having been opened by the customer's banker.
10. Notice of readiness from the shipowner or agent to the exporter, informing him that steamer is ready to load, and of the loading time as per charter party.
11. The Bill of Lading.
12. The Colliery Certificate stating that the coal has been shipped.
13. The " Sailing " Telegram to the importer.
14. Letter enclosing all necessary documents (required by the importer's bankers) to the exporter's bankers, requesting them to exchange for either cash, or guaranteed B/E (if arranged).

Inquiry for Quotation. A. Jones & Co. receive from C. Cortes the following—

GENOA,
16th March, 1923.

MESSRS. A. JONES & CO.,
CARDIFF.

Dear Sirs,

I shall be glad to receive from you a c.i.f. price for 5,000 tons of Rhondda Merthyr Large Coal, to arrive here during April. Payment to be made by three months Bill guaranteed by the Bank of Rome. Kindly let me have your offer before the 28th instant.

Yours faithfully,

C. CORTES.

On receipt of this A. Jones & Co. would obtain a "firm offer" from the colliery company, or a merchant, holding Rhondda Merthyr Large Coal. Assuming that the price quoted them was 30s. per ton f.o.b. Cardiff, Penarth, or Barry, A. Jones & Co. would then estimate (or obtain offers from shipowners) the rate of freight they would have to pay, also the cost of insurance, and rate of discounting the B/E. The estimate would be summed up as follows—

	s	*d.*	
Rhondda Merthyr Large Coal . .	30	–	per ton.
Freight (estimated) . . .	15	–	,,
Insurance	–	3	,,
Rate of Discounting Bill . .	–	6	,,
Wharfage (Dock Co. charge) . .	–	3	,,
Profit	1	–	,,
Total . . .	47	–	,,

Telegraphic Offer. A. Jones & Co. would then telegraph C. Cortes—

20th March

C. CORTES.
GENOA.

Offer 5,000 tons Rhondda Merthyr Large 47s. c.i.f. Genoa, shipment during April. Terms of payment as per yours 16th instant subject reply within seven days.

A. JONES & Co.

Assuming that C. Cortes telegraphs accepting this offer, he would instruct his bankers to hand over to A. Jones & Co. or their order, his B/E valued £11,750 on presentation of the following documents—

The Invoice.
Colliery Certificate.
Charter Party. (Copy if required.)
Insurance Policy.
Bill of Lading (stamped copy).

The Bank of Rome would then instruct their London House, who in turn would inform A. Jones & Co.

BANK OF ROME

LONDON,
27th March, 1923.

MESSRS. A. JONES & CO.,
CARDIFF.

Dear Sirs,

CONFIRMED CREDIT No. 4956, *Account C. Cortes, Genoa.*

We beg to inform you that we have been instructed by our Genoa Branch to open credit in your favour, valid to the end of April, Eleven thousand seven hundred and fifty pounds (£11,750) about ninety days sight against Invoice, Bill of Lading, Insurance Policy and Colliery Certificate, being the price of 5,000 tons of " Rhondda Merthyr " Large Coal at 47s. c.i.f. Genoa.

Kindly let us know if this is in order.

We remain, Dear Sirs,

Yours faithfully,

BANK OF ROME.

N. POLLINI, *Manager.*

A Bill of Exchange would be drawn up by A. Jones & Co. and sent with a letter of acknowledgment to the Bank of Rome requesting them to have the payment ready when the necessary documents are presented.

Purchase Note. On receipt of the letter from the Bank of Rome A. Jones & Co. would immediately book the parcel of 5,000 tons " Rhondda Merthyr " Large Coal, and would confirm the order by means of a Purchase Note.

PURCHASE NOTE

A. JONES & CO.

COAL, COKE, & FUEL EXPORTERS,
MERCHANTS, &c.
TELEPHONE 1427.

Cardiff, ...*28th Mar.*,..... 1923.

. .....*The Rhondda Merthyr Steam Coal Co., Ltd.*,.....

....*Cardiff*.....

Dear Sirs,

We beg to confirm the Purchase from you of about .....***Five*** ....*thousand* (5,000)..... tons of .....*Rhondda Merthyr Large*..... STEAM COAL for shipment at Cardiff, Penarth, Barry, or Alexandra Dock, Newport, Mon., for .....*Cargo*..... per S.S. .....*tonnage to be nominated*..... on or about.....***prompt***.....

Price .....*Thirty shillings* (30/-)..... per ton f.o.b.

Terms Net Cash in 7 days or prompt Cash less ¼ %.

Buyer to pay usual Wharfage and Export Duty (if any).

In the event of riot, strike, lock-out, or stoppage of collieries, workmen or other hands connected with the working or delivery of the said coal, or in the event of accidents to mines or machinery, obstruction on the railway or in the docks or in the event of flood, frost, or storm, resulting in a stoppage, diminution of work at the collieries, or any circumstances over which Sellers have no personal control, they shall not be called upon to deliver coal during such stoppage or hindrance.

Yours faithfully,

A. JONES & CO.

Sales Note. In exchange for this Purchase Note, Jones & Co. would receive a Sales Note from the seller or colliery company.

SALES NOTE

RHONDDA MERTHYR STEAM COAL CO., LTD.

Cardiff.....*28th Mar.*,..... 1923.

.....*Messrs. A. Jones & Co.*,.....

.....*Cardiff*.....

Dear Sirs,

We beg to confirm the Sale to you of about.....*Five Thousand* .....(5,000).....tons of.....*Rhondda Merthyr Large*..... STEAM COAL for Shipment at Cardiff, Penarth, Barry, or Newport, for .....*Cargo*.....per S.S.....*tonnage to be stemmed*.....on or about.....*prompt*.....

Price.....*Thirty shillings* (30/-).....per ton f.o.b.

Terms Net Cash in 7 days or prompt Cash less ¼%.

Buyer to pay usual Wharfage and Export Duty (if any).

Mixing Charges, if any, to be paid by you.

In the event of riot, strike, lock-out, or stoppage of collieries, workmen, or other hands connected with the working or delivery of the said coal, or in the event of accidents to mines or machinery, obstruction on the railway or in the docks, or in the event of flood, frost, or storm, resulting in a stoppage, diminution of work at the collieries, or any circumstances over which Sellers have no personal control, they shall not be called upon to deliver coal during such stoppage or hindrance.

Yours faithfully,

RHONDDA MERTHYR STEAM COAL CO., LTD.

ROBERT SMITH,

Director.

Tonnage Requirement List. Jones & Co. would then endeavour to find " tonnage " to deliver this cargo and would probably affix to their office door a tonnage requirement list to inform the Chartering Clerks. The latter higgle or work the market each day, and call on various exporters.

TONNAGE REQUIREMENTS.

CPB/Genoa. 5,000 tons. ppt, 600, 6½d. try 14s. 6d.

This would indicate to shipowners that tonnage is wanted and that A. Jones & Co. would pay 14s. 6d. for a prompt vessel to load at Cardiff, Penarth, or Barry; also, that the rate of discharge at Genoa will be not less than 600 tons per day at a cost of 6½d. per ton to the steamer.

Should the freight market rise, A. Jones & Co. would probably have to pay 15s. for a vessel to suit their requirements; should it fall they might obtain a lower price, say, 14s. Any difference between their estimate and the actual price would be either a loss or a profit to them, as the case may be. Presuming they find a suitable steamer a Charter Party would be drawn up and signed by both parties, the original being left in the care of the shipowner.

C. Cortes would then be advised of the chartering of the vessel and the expected date of sailing to enable him to arrange for the discharging of the cargo on arrival of the steamer at Genoa.

Stemming Note. When the definite date of arrival and readiness to load of the s.s. *City* could be ascertained, A. Jones & Co. would hand to the colliery company a " Stemming Note," see page 284.

On receipt of this, the Colliery Company would arrange to have the coal at the agreed dock by the date of readiness, and Messrs. A. Jones & Co.'s coal foreman would also get in touch with the Colliery Company and obtain a " tipping order," which he would hand to the Dock Company, at the same time arranging a loading berth.

STEMMING NOTE

CARDIFF.....*28th March,*.....1923

.....*The Rhondda Merthyr Steam Coal Co., Ltd.,*.....

.....*Cardiff*.....

Dear Sirs,

Please Stem the.....*s/s " City "*.....expected ready to load at.....*Cardiff*.....about the.....*30th inst*.....for about..... .....5,000.....tons of *Rhondda Merthyr Large Coal*.....on account of our.....*Sales Note dated to-day*.....

Time for loading.....180.....hours,.....*from 30th March unless previously commenced*.....

Yours truly,
For and on behalf of
A. JONES & CO.
A. LYONS.

When the vessel has sailed for the loading port, the sailing telegram is shown by the shipowner to A. Jones & Co., and definite docking orders would be given to her owners by them.

On arrival of steamer she would be ordered to commence loading, and a copy of the Charter Party would be handed to the Master by the owners.

Notice of Readiness. A " Notice of Readiness " would be served as follows—

MESSRS. A. JONES & CO.,
CARDIFF.

Dear Sirs,

Please note that s.s. *City* is now (9 a.m.) in the Roath Dock, Cardiff, all ready to load as per Charter Party, and time counts accordingly unless previously commenced.

Yours faithfully,
B. WILSON & CO.

It should be noted that in the Charter Party, A. Jones & Co. are allowed 180 running hours for loading, exclusive of time between noon Saturday and 6 a.m. Monday, also Bank Holidays, etc. Should the steamer occupy more time in loading, demurrage will have been incurred (with exception of strikes, lock-out clauses) at the rate of 6d. per gross register ton per running day, for which A. Jones & Co. will be called upon to pay.

Bill of Lading. When cargo has been shipped and the Dock Company's weights obtained, Bills of Lading are made out by the exporter which the master or his agent signs.

It should be noted that in some trades " hours purposes " are stipulated on the Charter Party instead of time for loading and a minimum rate of discharge, e.g. " 240 hours for loading and discharging." Where " hours purposes " are involved, in addition to demurrage, a " dispatch " clause is inserted. This signifies that should the steamer be loaded and discharged within the time allowed, the exporter can deduct from the Freight Account of the shipowner an agreed amount per gross register ton per running day, in lieu of the time unused.

Sailing Telegram. Immediately the s.s. *City* has completed loading the cargo and bunkers (coal for steamer's own use), by the terms of the Charter Party she is bound to proceed on the voyage.

When she has sailed, a " sailing " telegram is dispatched to C. Cortes—

4/4/1923.

C. CORTES,
GENOA.

Steamer *City* sailed 10 p.m.

A. JONES & Co.

The next step is for A. Jones & Co. to collect the B/E and to obtain an Invoice and a Certificate from the colliery that has shipped the coal.

COLLIERY CERTIFICATE

ALL QUOTATIONS, SALES AND CONTRACTS ARE SUBJECT TO THE USUAL STRIKE AND ACCIDENT CLAUSE

The Rhondda Merthyr Steam Coal Co., Ltd.

TELEPHONE : 6413 (TWO LINES)
TELEGRAMS:
"MERTHYR STEAM, CARDIFF"

CARDIFF.
4th April, 1923.

WE HEREBY CERTIFY that we have shipped per s.s. *City* at Cardiff Five Thousand Tons of Rhondda Merthyr Large Coal, and that same was fresh wrought at time of shipment.

5,000 Tons.

For and on behalf of
THE RHONDDA MERTHYR STEAM COAL CO., LTD.
ROBERT SMITH.

COLLIERY INVOICE

Shipping Ports—
PORT TALBOT, SWANSEA, NEWPORT, AND CARDIFF.

CARDIFF..... *4th April*, 1923

.....*Messrs. A. Jones & Co.*,.....

.....*Cardiff*.....

Dr. to

The Rhondda Merthyr Steam Coal Co., Ltd.

Date.	Particulars.	Truck No.	Weight. Tons.	At	£	s.	d.
April 4	*To Rhondda Merthyr LARGE Coal*		*5,000*	*30/-*	*7,500*	-	-
	Shipped per s.s. "City" at Cardiff.						
E. & O.E							

The following document is sent to C. Cortes in Genoa—

CARDIFF,.....*5th April*,.....1923.

.....*C. Cortes, Esq.*,.....

.....*Genoa*.....

In A/c with A. JONES & Co.

1923		£	s.	d.
April 4	*To Five Thousand Tons of Rhondda Merthyr LARGE Steam Coal, c.i.f. Genoa.*	*11,750*	–	–
	per s.s. " City "			

Lloyds Bank would then proceed to collect the B/E and would hand it to A. Jones & Co.; or should Jones & Co require ready cash, they would ask the Bank to discount it for them.

Payment of Freight. The question of payment of freight next arises. After delivering the cargo to the consignees, the master or his agent would see that the Bill of Lading was endorsed, and would forward it to Wilson & Co. who would exchange it for the amount of freight due for the voyage.

With many c.i.f. sales, freight is paid at the port of delivery of the cargo, and when remitting to the exporter the importer deducts the amount required to cover the freight; but should the steamer require one-third advance of freight, notice is immediately given to the importer who takes the necessary steps to place the exporter in funds.

Documents Sent to Bankers. Should A. Jones & Co. have no reliable agent in London, they would write to their bankers enclosing the required documents as follows—

CARDIFF.
4th April, 1923.

LLOYDS BANK, LTD.,
CARDIFF DOCKS.

Dear Sirs,

We beg to enclose herewith Invoice, Colliery Certificate, Insurance Policy, and Bill of Lading for cargo of Large Coal shipped per s.s. *City* now on passage to Genoa, cargo being consigned to C. Cortes, Genoa.

We shall be glad if you will obtain from the Bank of Rome, London, in exchange for the above documents B/E value £11,750, about ninety days sight, drawn on C. Cortes, guaranteed by the Bank of Rome.

Yours faithfully,
A. JONES & Co.

CHAPTER XXXIV

ADVERTISING AND OTHER PSYCHOLOGICAL FACTORS

EVOLUTION OF ADVERTISING. The expansion of the local market area into a national market, and finally the breaking down of all national barriers by the formation of the world market, has led to a transformation of trading relations which no longer permits the individual private householders or the individual undertaking to take a comprehensive survey of the conditions of the market. So long as the market area was dependent chiefly on goods produced in their own area, and so long as the market area was locally restricted, every private householder knew the origin and the quality of goods so precisely that demand and supply could easily be brought into a state of equilibrium. One's own experience and oral communication were sufficient. However, when the local market area became too large, it was natural that with the use of the daily press advertisement began to play an important part. One's own knowledge and experience was no longer sufficient, and the origin of the goods was no longer known to the buyer. However, if the market area expands into a national and international market, a large portion of the undertakings will want to sell their goods in all market areas both at home and abroad, and then the solicitation of the private economies and undertakings by novel methods becomes an urgent need.

Methods of Solicitation. There are two principal methods—

1. The personal solicitation of the public which is effected through the medium of the staff, commercial travellers, etc. ; and
2. Solicitation in writing through the medium of letters, printed matter, advertisements in the press, etc.

From this need for the solicitation of one's goods, there arises the need for advertising, which, under modern conditions is a necessary auxiliary means by which the undertakings make known their goods and services.

The Essentials of Advertising. Of course, the matter is not finished by simply advertising. As the number of undertakings which want to make their goods known is legion, in their capacity as buyers the public would remain quite indifferent to the huge

number of advertisements. The function of advertising, therefore, is to counteract this apathy and at the same time excel in their advertisements. Advertising must therefore be of such a nature that the attention is aroused and kept awake. In this competition which has arisen in the sphere of the advertising system, it is bound to happen that an undertaking with good quality goods, but with insufficient advertising, is either temporarily or permanently handicapped by an undertaking producing inferior goods but having an efficient system of advertising. Thus the solicitation of the buyers becomes an important weapon which entails immense expenditure. Of course, the burden of the advertising expenses ultimately falls upon the private economies since these expenses have to be added to the prices of the goods. Under modern conditions, however, it is impossible for the majority of undertakings to sell their goods without availing themselves of the services of advertising.

If an undertaking brings out a new article it must first take care that the novelty is made known in those circles which constitute the prospective buyers. It is difficult, however, even to arouse the attention of these circles, and more so to awaken their desire to buy. Only by a systematic and continual solicitation of the prospective customers is it possible to introduce the new article and to obtain the desired sale. Moreover, in order to maintain the sales and to increase the turnover, it is necessary that advertising should be undertaken continually if one does not wish to be displaced by competition. The public is not in a position to examine by itself or to assess the goods at their proper value and, even if this were possible, it would not be done in most cases ; the same remark also applies to a large number of undertakings. Here, in many cases, the undertaking which can advertise most effectively is successful. This is undoubtedly the case where two undertakings sell goods of the same quality, one of which displays greater efficiency in advertising. Of course, even the art of advertising may be carried to excess. It is sometimes taken so far as to offer such advantages to buyers as make it appear that the goods would be given away. It is true that certain undertakings may forego a share of their profit, but in this case the conditions will be made quite obvious. In general, it may be said that, in the last resort, the public has to bear the expenses of advertising—expenses which

are partly caused by the lack of control over the supplying undertakings and partly by the apathy of the public which results in the continual search for new and more expensive methods of attracting the attention of customers. To a certain extent advertising is a necessary evil which may be condemned in principle but which, as a rule, cannot be dispensed with by the individual undertaking. Of course, there are also undertakings which, owing to their peculiar nature, are able to dispense with advertising, and whose reputation and economic power is so unassailable that the propaganda at least need not assume the customary forms. Without some method of advertising, however, even these undertakings are unable to make progress—the only difference being that the propaganda is less conspicuous than is ordinarily the case.

THE FUNCTION OF AN ADVERTISEMENT. The advertisements with which we deal are principally concerned with the selling of goods or services. The function of the advertisement is therefore to draw the attention of possible buyers and, what is almost as important, to retain present customers. The importance of retaining the attention of the purchasing public is exemplified by the downfall of Day & Martin, manufacturers of boot polish, by the lack of advertising, and the flourishing condition of Pears or Beechams due to continuous advertising. The article advertised should be reasonably good, otherwise a merely ephemeral success may attend a great outlay on advertising. In the advertising business it is well to remember Lincoln's words: " You can fool all the people some of the time, some of the people all the time; you cannot fool all the people all the time "; while keeping in mind Barnum's maxim that " There is a sucker born every minute." The type of advertising must be adapted to the article you are selling and the class of people to whom you sell it. Continual iteration will sell some articles such as " Johnny Walker " or " Kruschen Salts," while in other cases an appeal to the intellect must be made. Whatever method is adopted, it is still necessary to convey to the reader that you are supplying him with news of an article that he cannot afford to be without; that you are telling him something that he did not know or had previously overlooked. But the advertisement must not be worded so as to irritate—to make him feel that you are looking down on him. Customers seen or unseen should rather be flattered by the seller.

THE BUSINESS UNDERTAKING AS THE STARTING POINT. Business propaganda should begin with the business itself, which must be kept in mind whenever any arrangements are to be carried out. The starting point is the locality of the business, that is, the choice of the particular situation for the business. The person who desires to conduct business with farmers must establish his concern in the country or in that part of the town frequented by farmers, such as the market place. The working classes usually make their purchases in the districts in which they reside, whereas the well-to-do tend to furnish their requirements in the leading thoroughfares, especially in the large stores or corner shops at the street crossings. Dealers in high class wares or in fancy goods, who are compelled by the nature of their goods to settle in a better class locality, would be unwise to settle in a dingy side street rather than to incur the greater expense of a site in one of the main thoroughfares.

After the premises have been chosen, they must be suitably equipped. The goods must be brought to the notice of the public and the business must show what it has to sell. The best results are always gained by means of occular demonstration.

Window Display. A business with a poor window display is apt to disappear in competition with its keener rivals, and is often overlooked by customers who had intended to patronize it. Within recent years shop windows have been rendered more conspicuous by their beautiful fittings in the shape of large mirrors, glass prisms, glazed tiles, etc. ; indeed, there are now firms which devote themselves exclusively to this kind of work. The windows should be dressed as tastefully as possible by the display of the most attractive goods kept in stock. This may take the form of a display of very expensive goods, or customers may be drawn by the cheapness of the articles ; but everything must be arranged tastefully and in a harmonic colour scheme. Likewise, the loss of perspective must not be overlooked. A skilful employment of large mirrors at the sides and in the rear makes the shop window appear very much larger than it is in reality.

Effective window display is almost an art in itself, and in large cities it has become a specialized calling, and commands a high salary. The window and its contents must be kept scrupulously clean. A dusty, dirty or otherwise mean looking window display

is positively repulsive, and the same may be said of a window that is badly lighted.

Lighting. In the evening the windows should be well illuminated, and it is better to have too much light than to have too little. The lights, however, should not be so glaring as to blind the onlookers. For window illumination electric light or gas is chiefly employed, but in addition acetylene, spirit, and even paraffin incandescent light are sometimes used. The position of the lights will depend on the existing fixtures, but it must be noted that artificial light frequently gives a different colour to the exhibited goods from that which they possess in the daylight.

Price Tickets. On every article exhibited for sale the price should be clearly marked; otherwise prospective customers are apt to imagine that they are too dear. The price tickets ought to be neatly designed in plain figures—and if possible printed rather than in hand-writing.

The Interior of the Shop. The interior of the shop ought to correspond to the exterior so that the purchaser is not disappointed in his expectations. It is not sufficient to induce a customer to come into the shop, but the treatment and the impressions he receives here are equally important. The goods he demands must be found in the right place, in good order, and the salesman must be able to find them quickly. Goods which are advertised or shown in the window must also be stocked inside the shop, and any speciality advertised should be stocked in large quantities and in good selection, all well marked with prices.

Like the window display and the shop arrangements, the *goods* themselves must be carefully arranged so that they are in a satisfactory condition. There should be nothing in the shop which might discourage a buyer, but every fair and reasonable means should be employed to attract him.

Salesmanship. The salesman must not give anybody preferential treatment, but ought to serve every customer in turn and be equally polite to everybody. The shop assistant should have a personality and be able to show himself in the eyes of his customers as an expert in his goods, and one who can express his opinion of the goods unobtrusively to his customers and thus lead them gently in the direction in which he desires them to go.

NEWSPAPER AND OTHER ADVERTISEMENTS. "The first

advertisement is overlooked; the second is noticed but not read; the third advertisement is read but not considered; the fourth advertisement is discussed with one's friends; the fifth advertisement—one feels inclined to make a trial; the sixth advertisement leads one finally to effect a purchase." In these words a successful business man has given his opinion on newspaper advertising and has no doubt "hit the nail on the head." Naturally much depends on the nature of the goods advertised. Frequently even the first advertisements have met with good results whilst the succeeding insertions have shown a relapse unless the wording is altered.

As the chief function of the advertisement is to attract attention, the drawer up of an advertisement should have a good knowledge of the nature and laws of attention and should also be familiar with psychological facts and phenomena.

DRAFTING ADVERTISEMENTS. The chief points to be observed when drawing up an advertisement are—

1. **Simplicity.** An advertisement should express as much as possible in as few words as possible. For this reason a suitable catch title easily remembered is best; e.g. "prevents that sinking feeling."

2. **Art.** An advertisement should attract and not repel, and consequently the artist is being increasingly sought after by advertisers.

3. **Appeal.** This depends a great deal on the section of the public appealed to; for example, if it is the mothers of the land, as in the case of patent foods, the advertisement will have a strong human note, e.g. a healthy baby with a nurse; while if the sporting section of the community is appealed to, say, an advertisement of cigars, a virile picture such as hunting incidents will be more successful.

4. **Expenses.** This is a very serious consideration, and the article itself will often decide what proportion of the selling price can safely be expended on advertising. For example, the greatest part of the prime cost of a patent medicine is swallowed up in advertisements, whereas articles in which there is a great competition cannot stand much advertising expense.

5. **Medium.** This is also most important as the advertiser must consider through what medium he can reach the bulk of his prospective buyers, and an error of judgment will often entail a dead loss.

The book-maker would not advertise in the *Church Times*, while a patent medicine manufacturer would be ill advised to advertise in the *Christian Science Monitor*. These are extremes, but the principle holds good throughout.

6. **The Timely Repetition.** It is important that the right period be chosen for the advertisement; it would be wrong to advertise furs in the summer, straw hats in the winter, etc. In many trades the best results are obtained at the Christmas season, Easter, or Whitsuntide. The right time for advertising must naturally be chosen, but it must not be left until the last minute. Advertisements should be handed in several days before they are due to appear so that they can be carefully set up and placed in a good position—otherwise the advertiser must be content with any space which happens to be left over, and the compositor likewise cannot give the necessary care to the setting of the type. In holiday and health resorts the people have usually more time for reading than when at home or business—a fact which must be taken into consideration. The days of the week are also of importance. During the winter the Sunday papers are more carefully read than is the case in summer. Saturday is usually a favourable day for advertising, and so are Mondays and Wednesdays. The housewife is usually fond of reading the tales or serials which appear in the newspaper. If an advertisement appears immediately after such a serial, it has the best chance of attracting her attention. Advertisements of bankers and similar commercial concerns should appear in the commercial section of the paper.

The smaller advertisements are usually grouped under definite headings such as "Situations Wanted," "Articles for Sale," etc. A careful study should be made of the system of the newspapers, and a collection made of the more conspicuous advertisements which may serve as models. These should be filed away in proper order so that they will always be available for reference.

CHAPTER XXXV

BUSINESS STATISTICS

THE system of accounting in every business undertaking may be divided into—

1. The costing system, which constitutes the basis of all forms of business activity;

2. The keeping of the book-keeping records which show the results achieved; and

3. The statistics of the business, which may be regarded as supplementing the foregoing and constitute a preliminary basis for the successful organization of the undertaking.

CLASSIFICATION OF BUSINESS STATISTICS. As each business concern possesses characteristics of its own, it is obviously impossible to formulate any scheme of statistics which can be applied generally to all undertakings. The following scheme therefore deals only with general principles which may have to be modified when applying them to any particular undertaking—

1. **The Internal Statistics,** which have reference to the activities of the business itself. These consist of—

(*a*) Statistics of production.
(*b*) Statistics of turnover.
(*c*) Statistics of expenses.
(*d*) Financial statistics.
(*e*) Statistics of assets and liabilities.

2. **External Statistics,** which embrace the activities of competitive undertakings or have reference to data which may be of value in the management of the particular business.

THE VALUE OF STATISTICS. The compilation of statistics may enable one to make observations on and draw comparisons between the different departments of a business, its balance sheets, the cost of its raw materials, etc., so that they may act as a guide to the management in the future administration of the concern. Unfortunately in most businesses great ignorance still prevails concerning the advantages and useful applications of statistics, with the result that only those statistics are prepared which are calculated to be of immediate use; little, if any, value is placed

upon their ultimate purpose, viz., the acquisition of suitable data which will form a basis for future extension and development.

In the compilation of statistics it is naturally assumed that a well considered scheme of business organization has been adopted. The better the organization and the more the work of each department is made to dovetail, the more reliable and valuable will be the results. Whereas the book-keeping records will yield results concerning the trade for a certain period only, the statistics—the result of tabulated data—will reveal conclusions at any time on matters of organization, and herein lies their great value to the business management. Through the use of statistics, the progress and development of a business is made clear in the smallest details; the departments that have failed to come up to expectations are brought to light and the causes of their failure revealed; likewise the use of statistics will also facilitate the application of appropriate counter measures in order to prevent further loss. Of course, where such comparisons are to be made, the data from which the statistics are drawn must possess a certain stability; for example, the amalgamation of one department with another would naturally disturb the continuity of the data and thus render impossible accurate comparison.

The place of the statistical department in the scheme of business organization will depend largely on the size of the undertaking; as a rule, it should act as a link between the book-keeping department and the administrative department—first, because the statistical data are based upon the accounts; secondly, because they provide the management with the necessary data for future extension.

Statistics may also be classified according to the particular form of organization. For example, they may be divided into daily, weekly, monthly, quarterly, half-yearly, or yearly returns. The form to be adopted depends entirely on the prevailing conditions; for instance, the diagram displays clearly any fluctuations in the numerical data since it deals only with the bare figures. This form of representation is often used for statistics of prices, quotations of shares, quantities of goods dispatched and the amount produced. Again, other statistics would be more useful if given in figures or in percentages, or as a combination of the two.

We shall now deal with the groups above mentioned.

I. INTERNAL STATISTICS. **(*a*) Statistics of Production.** These statistics contain evidence concerning the production of goods and the resulting fluctuation in the amount of stock, raw materials, and finished goods as well as of the business transactions which constitute the basis of these movements. It is naturally of very great importance to the management of an undertaking to be acquainted daily with the transactions that take place in the business. It is the function of statistics to facilitate this, without rendering unnecessary the supervision of the business by the manager.

The introduction of such a system of statistics calls for the careful organization of the business and its various departments so that each of the latter may be able to supply information concerning its daily transactions ; for instance, the Wages Department must provide particulars of the number of workmen employed daily, classified according to departments and showing the increase or decrease of employees ; the Power and Light Department must supply information of the production and consumption of power and light, the consumption of coal, water, etc. These reports are supplied daily to the Statistics Department, preferably during the early morning, and are then embodied in the daily report. Thus, the manager receives before mid-day particulars of the transactions of the previous day. These daily reports are collected together and at the end of the week are compiled into a weekly report ; the weekly reports are then brought together into monthly or even annual reports. A general idea of such a report may be gleaned from the example on page 300. From this scheme it may be seen that the preliminary conditions for its compilation are fairly extensive and postulate arrangements which might hitherto have been regarded as unnecessary ; however, when once such arrangements have been made the work will run smoothly and mechanically. Besides providing a general survey of the business transactions, the report will also have a certain moral influence which is not to be underestimated, especially where the corresponding figures of a previous period are brought into comparison.

As supplementary to these statistics mention may be made of the monthly and annual particulars of the productive wages, the unproductive wages, the number of hours worked, the number of workers, and the amount of output. These are best represented

FACTORY REPORT

From ..... to ..... 192.....

Work began ..... a.m., Work ended ..... p.m. = ... hours

Intervals ..... ,,

Normal working time ..... hours

Overtime in ..... Department = ... hours

,, ,, ... ,, = ... ,, ... ,,

Actual Total = ... ,,

Persons Employed—				Total
	Males	Females	Apprentices	
Increase to date	,,	,,	,,	
Total,	Males	Females	Apprentices	
No. left to date	,,	,,	,,	
Total,	Males	Females	Apprentices	

Absentees—	Males	Females	Apprentices	Total
..... Department				
..... ,,				
Total				

Wages paid : £.....

Power Installation—

No. I Boiler	.....	=	..... hours
,, II ,,	.....	=	..... ,,
etc., etc.	.....	=	..... ,,
Total	.....		..... hours

Boiler in repair, No.....from..... to .....

Cause of stoppage .....

Coal consumption: Boiler No. Boiler No. Boiler No.

Tons..... .....

Total Tons.....

Daily average per boiler.....Tons

Stock of Coal, about..... Tons

equal to an average consumption of .....days

Water consumption : Boiler No. Boiler No. Boiler No.

.....

Daily average per boiler .....

Weight of Steam per pound of coal .....

Steam Engine .....

In operation..... ..... = ...hours

Steam consumption = ...

Daily average :.....

Stoppage from .....to.....

Cause .....

Lighting—

Consumption..... = ...hours

..... lamps at ..... hours = ...hours

K.W. hours produced .....

Daily average per lamp .....

Heating :—

Consumption ..... Boiler..... = ...hours

Total consumption of coal = ... tons = ...tons per boiler

Approximate stock of coal..... tons

Anticipated duration of present stock ..... days

External temperature : Daily average ..... degrees

Internal ,, : ,, ,, ... ,,

Output—

No. of Working Machines..... No. of hours..... Quantity.....

(..... Dept.)

,, ,, (.....Dept.)..... ,, ,, ... ,, ...

Total ....., hours ....., Quantity.....

Daily average per hour .....
,, ,, ,, Machine .....

Consumption of Material— Quantity
No. of Machines..... (Dept.....) .....
,, ,, ... (,, ...) .....

Total

Daily average production .....

Stocks of Materials—
Stock at beginning of week . . . Quantity .....
Increase to date . . . .

Total ,, ...
Consumed to date . . . . . ,, ...

Present Stock. . . . .

Daily average consumption . . . .

Probable duration of stock ..... days

Stock of Finished Goods—
Stock at beginning of week . . . Quantity .....
Increase to date . . . . . ,, ...

Total .....
Dispatched to date . . . .

Resulting stock . . . .

Average daily production . . . .
Unexecuted orders . . . .

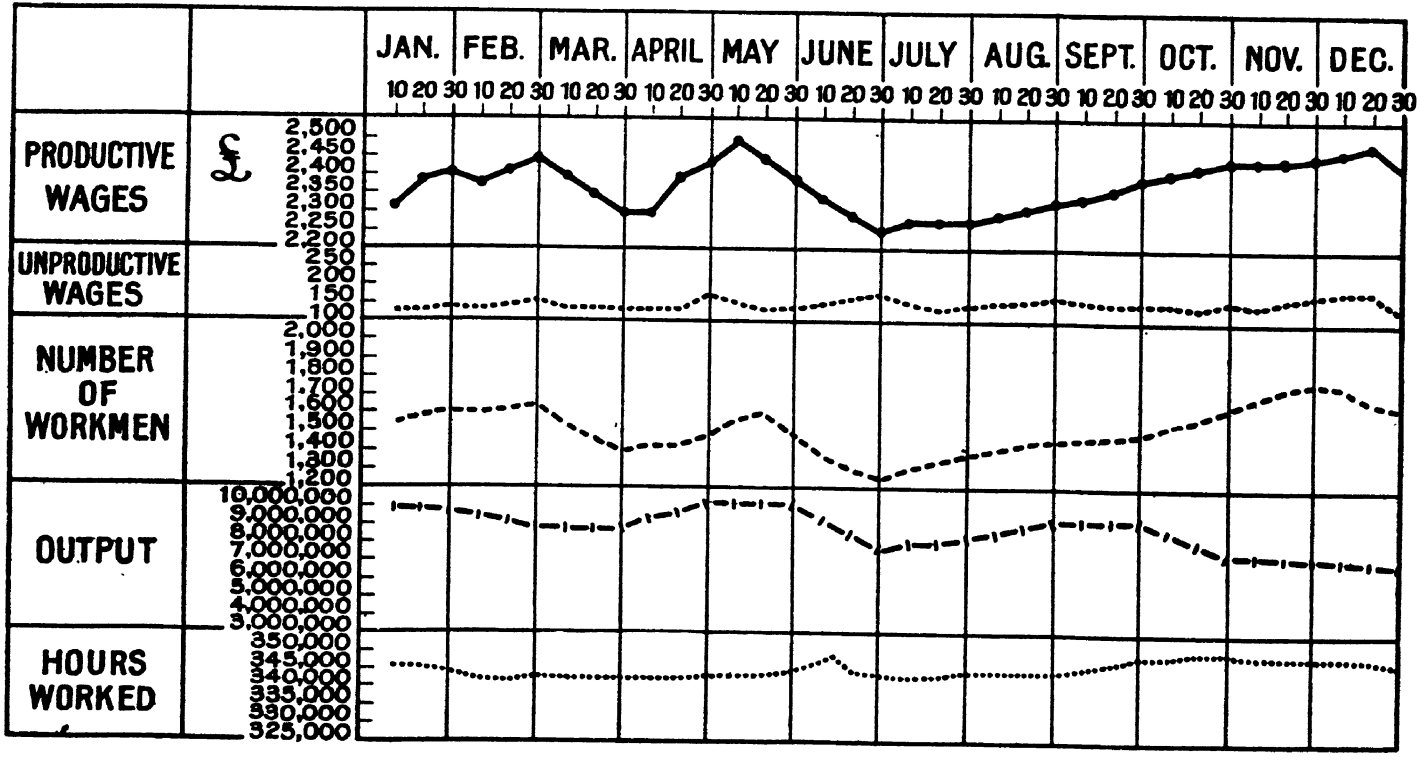
Date..... 192.....

Signature..... .....

Responsible Officer.

Examined by..... .....Director.

STATISTICS OF PRODUCTION



in the form of a diagram as on page 303. A careful examination of this diagram will lead to the conclusion that the undertaking under consideration experiences two well marked periods of increased production—one in spring (April-May) and the other in the autumn and Christmas season (September to December) ; further, the productive wages during these two periods show a natural rise as also do the number employed, the output and the number of hours worked.

(*b*) **The Statistics of Turnover.** The statistics of production are closely connected with those of turnover the magnitude of which is indicated by—

(1) The number of orders received.

(2) The amount of goods dispatched.

The work of the advertising department and the activity of travellers and agents will naturally exercise a considerable influence on these two items.

As in the case of the statistics of production the first step is to formulate a scheme similar to that given on p. 305.

This scheme may be used for the whole month as long as the necessary particulars are recorded therein daily ; at the end of the month there would remain to be entered only the monthly total for the previous year and then the increase or decrease could be calculated. Hence conclusions can easily be deduced concerning the fluctuation of the turnover, and in the case of a decrease as compared with the preceding year, preventive measures can speedily be taken. Thus, knowledge is procured of facts which are of the greatest importance to the manager and which without such reports could probably be obtained only after extracting the monthly balances ; this might be too late to prevent a downward tendency. In the example given on page 305 it can be seen clearly that the orders received have diminished not only in number and value but also in regard to the average selling price as compared with the previous year. These naked facts, therefore, call for examination and the ascertainment of their causes.

Another interesting type of statistics is the dissection of the monthly sales in the manner shown in the diagram on page 307. Thus, the monthly sales, the manufacturing, selling, and advertising expenses are clearly shown and provide a survey of the transactions for the whole year. A glance at this diagram will show that there

MONTHLY STATEMENT OF ORDERS RECEIVED AND DISPATCHED.

Date.		Number of Orders Received.					Orders Dispatched.			Average Selling Price per Thousand.
		Direct.	Through Travellers and Agents.	Total.	Quantity.	Value.	Number.	Quantity.	Value.	
						£ s. d.			£ s. d	£ s d.
Mar. 1	Balance of Unexecuted Orders . . .	25	15	40	390,000	1,418 15 –				
,, ,,	Orders Received .	40	20	60	215,600	894 10 –	36	425,500	1.616 9 –	3 16 –
,, 2	,, ,, .	35	25	60	210,920	772 1 –	32	365,575	1,389 2 6	3 16 –
	Total . . .	75	45	120	426,520	1,666 11 –	68	791,075	3,005 11 6	
,, 31	From Mar. 1st to 31st .	520	340	860	8,975,425	30,212 10 –	898	7,485,375	28,350 17 –	3 15 9
	Corresponding Figures for the Previous Year	635	462	1,097	9,468,625	41,726 8 –	756	9,983,496	41,878 4 –	4 3 9
	Increase . .	—	—	—	—	—	142	—	—	—
	Decrease . .	115	122	237	493,200	11,513 18 –	—	2,498,121	13,527 7 –	8 –
	Anticipated Monthly Average . . .			956	9,560,000		950	9,500,000		
	Actual Amount . .			860	8,975,425		898	7,485,375		

was a tendency for the sales to remain stable until the summer months, with another tendency to rise towards the end of the year. Likewise a similar curve is shown in the expenses of manufacture and of sale. However, the case is different with the advertising expenses for the decline in the sales during the summer months probably made it necessary for a more intensive advertising campaign, and this is shown in the rising curve towards the middle of the year; from this time onwards there is a decline in the curve which seems to imply that special propaganda was unnecessary. Again, towards the end of the year the curve rises owing to the need for increased advertising during the Christmas season.

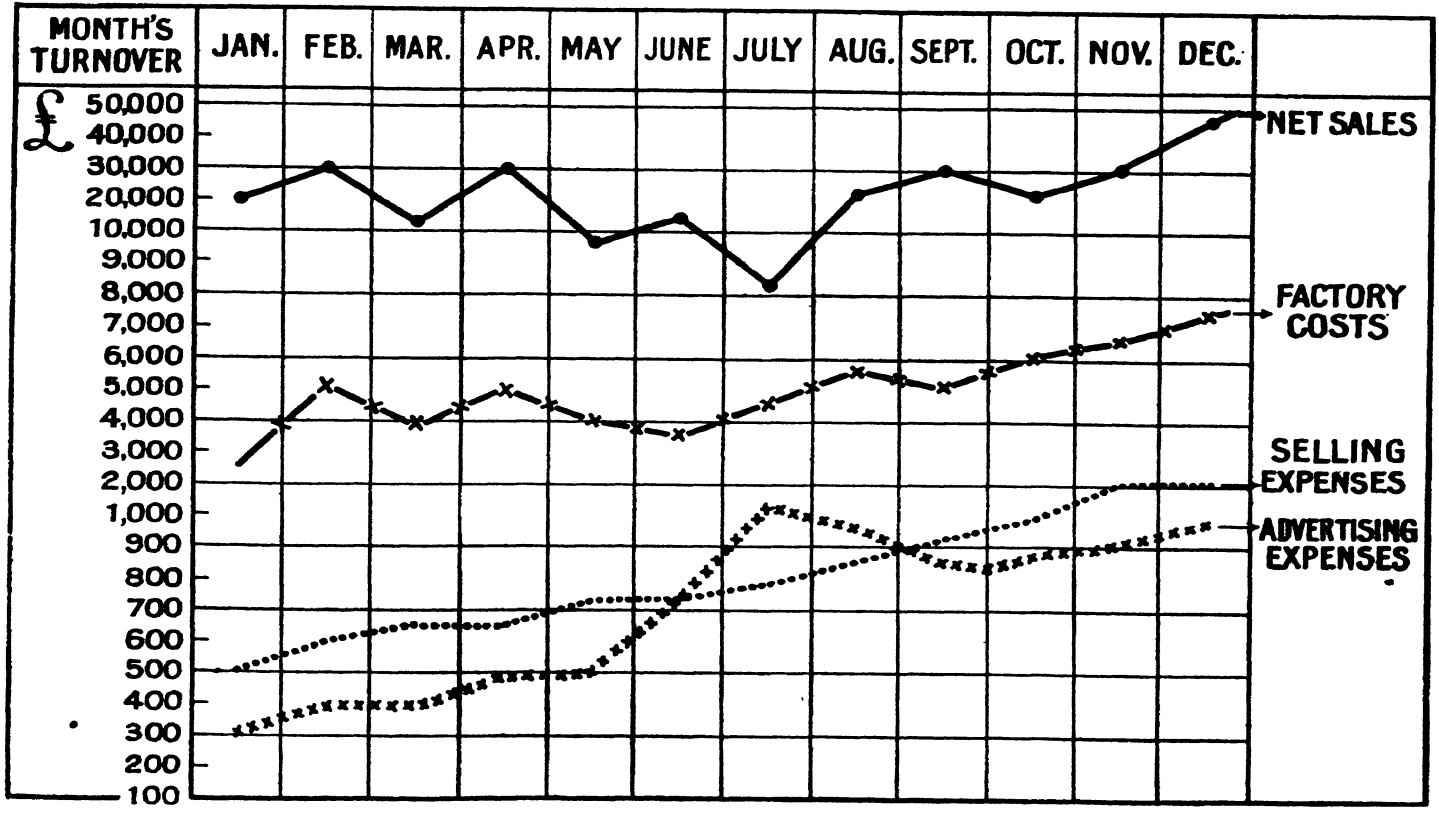
(*c*) **Statistics of Sales.** In like manner the statistics of the sales of individual articles are very important. These, prepared according to districts, provide information concerning the turnover of each separate item of manufacture, and show which articles are in the greatest demand and where the principal markets are to be found. A knowledge of these facts is very important, for otherwise it will be very difficult to detect in time the articles for which there is no demand, and to examine the causes of the failure to sell, so that the necessary counter measures may be taken.

(*d*) **Statistics of the Increase and Decrease of Debtors.** For the preparation of these statistics, the monthly abstract of ledger balances is sufficient. As already mentioned, these may be classified according to districts, arranging under each district the different centres together with the customers residing therein. On page 309 is an example of a monthly statement of balances.

With the insertion of additional leaves, this may be used for a whole year so that the names of the customers have to be written only once, but there will be provided a statement of the actual turnover for the whole year. The total of these individual items will naturally coincide with the ledger balances. This statement of balances is thus given in the form of a summary showing the increase or decrease in the number and amount of the total debtors.

The value of these statistics is to be found in the provision of details concerning the nature and number of debtors. It is most important to know with what kind of customers one is dealing, whether with a number of small ones or with a few large ones. Experience seems to teach that in time of sudden crisis, e.g. outbreak of war, the amount of risk involved tends to be smaller with

DIAGRAM SHOWING MONTHLY TURNOVER



a large number of small debtors, than in the case of a few large debtors.

The statistics of sales also provide data for the extension of the business. To render this possible, the whole of the selling area must first be ascertained. This is best done by means of a map which serves as a splendid basis for the survey of the ideas derived from the statistics which have been compiled. The uses to which it may be turned are unlimited. By the employment of coloured pins, flags, etc., almost every possible question that one can think of in regard to sales, travellers, agents, advertising, uncompleted orders, and the activities of fitters can be answered at a glance without any trouble. A map of this kind will show where the business has customers, where fitters are at work, in which towns transactions are being executed, and where rolling stock is to be found. This method may be supplemented in various ways such as the employment of a special card for each traveller, agent, etc., using the map only for the purpose of general survey.

(*e*) **Statistics of Expenses.** These have reference to the variations in the working expenses and show their nature and extent. A distinction must be drawn between—

1. Expenses that relate solely to manufacture or production.
2. Expenses which deal with the general conduct of the business, i.e. trading expenses.

Under the heading of Manufacturing Expenses may be included the following—

(*a*) Royalties and Patent Fees and expenses for experimenting in new processes of manufacture.

(*b*) Oils and fats.

(*c*) Heating and lighting.

(*d*) Water consumption.

(*e*) Supervision of factory and store rooms.

(*f*) Cleaning of the premises.

(*g*) Subscriptions for welfare work.

(*h*) Wages of store-keepers, wages clerk, caretakers, and watchmen.

(*i*) Depreciation of the factory buildings, machinery, and technical apparatus.

(*j*) **Plant insurance.**

CARDIFF BRANCH

STATEMENT OF LEDGER BALANCES FOR THE MONTH ENDING 31ST MAY, 19—

Ledger Folio.	NAME AND ADDRESS.	Statement of A/c on 1st May.		Turnover for the Month.		Balance at 31st May.	
		Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
	Brought forward . . .	2,823 3 –	1 7 –	2,018 15 –	125 14 –	4,714 18 –	– – –
316	John Rees, Penarth . . .	18 5 –	– – –	17 10 –	22 5 –	13 10 –	– – –
319	William Jones, Whitchurch . . Etc.	35 – –	– – –	12 – –	1 – –	46 – –	– – –
Total 225	Total Balances as per Debtors' Ledger	5,210 – –	200 – –	4,200 – –	560 – –	8,650 – –	– – –
Total 185	Total Balances for corresponding period of last year . . .	5,108 – –	210 – –	3,260 – –	420 – –	7,738 – –	– – –
Increase 40							

These items must be carefully dissected if they are to form a basis for judging the business.

The items included under the heading of trading expenses must also be carefully analysed into—

1. Expenses which relate solely to the sale of the manufactured articles, i.e. selling expenses ; and

2. Expenses which relate to the general commercial management of the concern.

(*a*) Travellers' salaries.
(*b*) Agents' commission.
(*c*) Travelling expenses.
(*d*) Advertising, whilst the other expenses would include—
(*e*) Petty expenses, i.e. postage, telegrams, etc.
(*f*) Stationery and office requisites.
(*g*) Salaries of the office staff.
(*h*) Insurance.
(*i*) Income tax.
(*j*) Bonuses to the staff.
(*k*) Office cleaning, heating, and lighting.
(*l*) Interest on loans.
(*m*) Depreciation of office furniture, etc.

Of course, for practical purposes one would not be content with this analysis, but would be inclined to dissect the main groups and distribute them to the different departments.

A monthly analysis of the expenses and an examination of the amounts expended sometimes yields surprising results. Especially is this the case in regard to such items as stationery and office requisites which in most cases amount to a fairly high figure during the year without anyone being accountable for their use.

(*f*) **Financial Statistics.** The financial statistics provide a record of the changes in the assets of the business such as the balances of cash, bills receivable, bank deposits, and of sundry debtors ; further, a statement of the debts owing by the business such as creditors, bills payable, and loans. In a large business where it is desired to ascertain the amount of liquid funds available, each department of the business would be expected to supply the data necessary for arriving at the figure. For instance, the person keeping the creditors' ledger would have to give a list of the accounts falling due and which would have to be paid during the succeeding

month ; the person keeping the debtors' ledger would have to give a list of the approximate receipts that may be anticipated, whilst the wages clerk would have to state the amount of wages which have to be paid. From the figures obtained in this way the manager will be able to control the business and thus prevent the occurrence of a state of insolvency—a matter of great importance in the early stages of development.

(*g*) **Statistics of Assets and Liabilities.** We now come to the last group of internal statistics which show the alteration which has taken place in the wealth of the company, that is, the fixed and floating assets and capital and liabilities. Taken as a whole, the function of these statistics is to provide a general survey and simple comparative statement of the outstanding balances together with any items of profit or loss which are not contained in the published accounts.

II. EXTERNAL STATISTICS. In contrast with the internal statistics, these have reference to the representation of general statistical data such as the phenomena of the money market, the market prices of important raw materials, and any data concerning competitive undertakings. The data for all these records are easily obtainable from trade journals, daily papers, and newspaper cuttings. They are kept partly in graphic form, as, for instance, the prevailing share quotations, and partly on files. In illustration of such external statistics we may take as an example an attempt to anticipate the course of trade by keeping a record of the chief factors which indicate boom or depression in trade. Among the figures which would be considered in this connection are—

(1) **Figures of the Bank Clearings.** The great volume of business done from time to time will vary closely with bank clearings, not because of business transactions resulting on that same day but there will be a rough correspondence. It will only be rough because such transactions may not be settled until six months afterwards. If we find that month after month they are increasing, the suggestion is that the volume of business done is also increasing. These figures of clearing are always available and are beyond dispute as to their accuracy.

(2) **Failures on the Part of Business Men.** These represent losses to other business houses ; in fact all failures represent loss to somebody, and there will therefore be some connection between the

varying volume of failures and the prosperity of the business world in general. Here it is not wise to be too exact because we may not get the most valuable figures. It would be wrong to conclude that the losses represented by the figures in the *Gazette* were borne exclusively by English houses. But if we can get figures with regard to failures all over the world we should have some idea of the losses caused by insolvency to the whole of the business community throughout the world.

The causes of the failures should be noticed. If a considerable number of failures are said to be due to overtrading, then it will be observed as a bad tendency, and we shall know that we are not far from a crash. Again, the value of the figures is discounted by the fact that there will always be some cases in which certain houses that cannot pay their debts in full will settle privately with their debtors.

(3) **Gold Movements** from one country to another certainly represent tendencies deeply underlying the financing of business transactions.

(4) **General Prices.** Conditions that are worth watching are the prices of commodities generally. These may be derived from Board of Trade Returns, and we know that the general effect of an increase in prices will eventually be a reduction in demand because, sooner or later, the price must become prohibitive.

(5) **Stock Exchange Transactions** have some bearing on the matter. They would be more valuable if we could separate legitimate business from speculative business. Investment business represents savings, and from this investment business we can gather what the community is saving at the time.

(6) **Growth of Crops.** In some countries attempts are being made at frequent intervals to supply estimates of growing crops, and these are to some extent useful because they represent an approximation of the quantity of commodities that will be available on the market. These figures are naturally subject to error and to what may happen to the weather between now and the harvest.

(7) **Earnings of the Carrying Trade.** The majority of commodities manufactured and sold have to be transported from one country to another before they reach the purchaser, and they pass through the hands of a railway or a shipping firm. These may be taken to vary with the volume of production. Too exact a correspondence

must not be expected because the tonnage of one commodity is not the same as that of another. In general terms, however, the volume of railway earnings in a country will vary with its trade activity and fairly closely. Roughly speaking, the goods that are carried in one week will come into the railway companies three months afterwards.

Other figures that would assist in arriving at the state of trade are those relating to unemployment, emigration, and the amount spent on new buildings.

REPORT AND GENERAL STATEMENT. Finally, we come to the report and general statement which must be placed periodically before the Board of Directors. Of course, it would be useless to place before them a copy of the actual statistics made in the business. On the other hand, the practice of submitting nothing more than a monthly trial balance is of little value even though the members of the Board may possess an excellent knowledge of accounts. The members of the Board are entitled to be kept informed of the progress of the business and to supervise the management in all its branches. Hence, something more than the mere figures of the trial balance should be submitted to them.

In order to render this possible an explicit statement should be prepared of the most essential matters connected with the business, and the accuracy of this statement should be checked by comparison with the books themselves. Hence, the general report and statement intended for submission to the directors should contain at least the following items—

1. A statement of the assets and liabilities.
2. Any alteration in the fixed assets.
3. The number of orders received and dispatched.
4. The financial state of affairs.
5. The monthly expenditure.
6. The changes of staff.
7. Remarks concerning the business prospects.

Whilst the items 1 to 6 are based on statistics, the necessary data for number 7 must be supplied by the Board.

CHAPTER XXXVI

METHODS OF TRANSPORT

METHODS AND ROUTES OF TRANSPORT. The transportation of passengers and of goods is effected along certain routes and by the utilization of various means of transport. The passengers or goods intended for conveyance are moved from one place to another in vehicles or in vessels by the aid of human, animal, or motive power. With the employment of motive power the traffic capacity has been increased in an undreamed of manner both in regard to transport by land and also that by sea. Alongside this, however, the remaining forms of transport by land play a by no means insignificant part, although it is no longer decisive in the transport of goods. The transport of passengers and goods in small localities, or from small localities to larger ones, has still frequently to rely upon animal power. Here, likewise, motor power in the form of the motor-car and the charabanc tends to displace animal power more and more and thus render the means of transport more efficient in regard to traffic on a small scale. The undertakings engaged in the transport of passengers and of goods are often referred to as " transport institutions." A distinction should be drawn between transport by land and that by water. The transport on land is carried out by carriers, especially by railways, and the transport by water by ships. Shipping may be divided, for convenience, into inland water transport and ocean shipping. In more recent times we have also been able to speak of aerial navigation as a new means of transport, but this hitherto has been of little practical economic significance.

RAILWAYS. The connection between the centralized markets and the large local market areas with one another as well as the regular communication between them, has been rendered possible by the railways. Of course, goods were carried over long distances before the introduction of the railways, but the costs of transport were too high to allow for the conversion of several smaller market areas into a larger homogeneous whole. The employment of steam power with its capacity to transport rapidly and cheaply large train-loads of

goods or masses of passengers created economic areas which largely exceeded even the political boundaries of the various states. From the very beginning the construction of railways could not be undertaken on a small scale, but became economic only when whole districts were covered with railways and the great commercial and industrial centres of the continents were linked up with one another. Thus the railway, from the very beginning, was a large undertaking which constructed the necessary installations with borrowed money and carried out the transport of passengers and of goods at rates yielding a revenue which covered the working costs and also left a surplus for paying the interests on capital. The competition of the railways with one another ultimately led to the Government regulation of the maximum rates and charges. Thus, with the growth in traffic requirements, a system of railways spread over the various economic State areas and led to the desire to bring these systems as far as possible under a uniform management. The need for uniformity in the working of railways has led to the nationalization of the railways in some countries, whilst in others it has brought about far-reaching control of the private companies carrying on the railways.

NAVIGABLE RIVERS AND CANALS. Apart from the railways, the waterways consisting of navigable rivers and canals play an important part in inland transport. They are particularly advantageous for the conveyance of heavy masses of goods, especially in cases where speed is of little consideration. Inland water transport in the case of grain, coal, iron-ore, timber, and other building materials is far cheaper and more convenient than transport by rail. For this reason the waterways as a whole are not in competition with the railways, but merely supplement them. In countries with a high industrial development the inland water transport is being extended and improved.

In some of the most important industrial countries a large amount of capital is being invested in the improvement of the system of inland water transport, and there is a desire in many places to construct canals from one navigable river to another so as to connect the hinterland with the great ports. The conditions under which navigable rivers and canals may be used by sea-going vessels are of a disputable nature. In general, navigable rivers are free to traffic, whilst for the navigation of canals fees are collected

CLASS.	RELATION TO THE STATE.	ORGANIZATION.
I. RAIL.	Privately owned but subject to supervision of the Board of Trade.	1. Passenger traffic—carriage of passengers and small parcels. 2. Goods traffic—carriage of bulkier commodities. 3. Mineral traffic—carriage of materials of small value but great bulk.
II. ROAD.	Privately owned but subject to by-laws of local authorities.	1. Local carriers for restricted areas. 2. Special carriers for long distances. 3. Tramways. 4. Motor omnibuses. 5. Taxi-cabs. 6. Private vehicles. 7. Charabancs.
III. INLAND WATER.	Privately owned.	1. Ordinary canals. 2. Ship Canals. 3. Navigable rivers.
IV. SEA.	Privately owned but subject to control of Marine Department of the Board of Trade.	1. Liners—transport of passengers and mails. 2. Tramps—transport of merchandise. 3. Sailing vessels for trade with South American ports. 4. Cargo boats— (i) Tankers. (ii) Refrigerating ships.

ADVANTAGES.	DISADVANTAGES.
(*a*) Speed. (*b*) Regularity of service. (*c*) Any quantity carried. (*d*) Fair safety of property.	(*a*) Great congestion. (*b*) Increase in rates. (*c*) Delays in delivery. (*d*) Frequent labour troubles. (*e*) Restricted routes and limited range for collection and delivery.
(*a*) Speed—no schedule time to wait for. (*b*) Convenience of handling—goods taken to destination without break of bulk. (*c*) No permanent way. (*d*) Cheaper—less chance of pilferage and no intermediate charges. (*e*) No restricted areas for collection and delivery. (*f*) Vehicles self-contained.	(*a*) Present state of roads not suitable to bear very heavy vehicles. (*b*) Motor vehicles not found convenient for transport of heavy material over long distances. (*c*) Difficulty of obtaining return freights.
(*a*) Cheapness. (*b*) Capacity for traffic unlimited. (*c*) Safety from loss or damage and no shaking.	(*a*) Slowness. (*b*) Size of vessel limits amount that can be carried at a time. (*c*) Only limited area served. (*d*) Water often frozen in winter.
(*a*) No permanent way to maintain. (*b*) No repairs necessary. (*c*) No large amount of capital locked up. (*d*) Facility for carrying unlimited quantities of cargo.	(*a*) Greater risk of loss or damage. (*b*) Difficulty of loading and unloading. (*c*) Restricted number of places of discharge.

by which the working costs are covered and a sinking fund is created for the repayment of the capital invested.

With the increase of the traffic and of the carrying capacity of the vessels, expenses are entailed in connection with the natural waterways. In order that they may meet the demands made upon them, it likewise becomes necessary to impose a fee for navigation upon the so-called natural waterways in order to cover the costs of working them and to yield interest upon the capital invested in them. Even after the payment of such a fee, however, the costs of transport by water are considerably lower than on the railways—a fact which is important in the distribution of goods.

OCEAN SHIPPING. Water-transport could keep pace with the increasing demands of the densely populated market areas and the consequent increase in turnover only by the employment of steam power which was greatly superior to wind power. A more rapid and regular service could be maintained by the aid of steamships than was possible with sailing vessels. The sailing vessels was slowly but surely displaced by the steamship in the transport of goods between the various continents. Likewise, the organization of sea transport tended in the direction of large-scale undertakings, for the cost of the internal equipment and of the vessels themselves, as well as the working expenses required an outlay far in excess of the wealth of individuals. Even if this had not been the case, the risk incurred by the individual would have been too great to encourage investment in this form of undertaking. The steamship services, therefore, are mostly, though not exclusively, company undertakings built up or based on borrowed capital and engaged in the transport of goods by water at rates covering the working expenses and leaving a margin for dividends. Railways connect the various local areas and make them into large market areas, whereas ocean shipping brings the continents closer to each other and makes possible exchange of goods on an undreamed of scale. It creates a far-reaching state of mutual dependence owing to the fact that the satisfaction of certain wants of a whole nation—from the highest to the lowest stratum of private economies—is derived from commodities which are not grown at all in the home country or only in an insufficient quantity.

Hence, the locomotive and the steam-engine have created a regular and rapid system of transport extending over the whole of

the inhabited globe, and have brought the smallest market areas into such close touch with one another that we may now speak of a " world market."

THE POST, TELEGRAPH, AND TELEPHONE. Among the institutions whose economic importance must not be underestimated, must be included those employed in the transmission of news and intelligence over long distances. In this way it is possible to distribute quickly the news relating to the events which materially affect economic life—the extraction of raw materials and their manufacture, the conditions of the market, and the prevailing prices. Of course, at the same time, false or coloured news may thereby find publicity. Through these means of communication it is also possible for business people to conclude transactions with one another in the shortest possible time. The letter, the telegram, and the telephone message play an exceedingly important part in everyday life ; they enable us to obtain a comprehensive survey of all the important events and changes which take place in the whole civilized world. To a large extent they obliterate the barriers of space and exert a centralizing influence on the transactions in the produce market. All important news affecting the price of certain goods is known almost simultaneously in every part of the world, and this quickly produces effects and counter-effects which, in their turn, become known in the particular markets. The possibility of ascertaining from the daily newspaper the price fluctuations of the most important commodities in all the important places of the world, has been created by the telegraph and the telephone. Thus business transactions are accelerated, differences in price as between one market and another are levelled up, the conclusion of business is facilitated and the whole distribution of commodities is kept in rapid movement. Of course, one should not overlook the abuses connected with the system of intelligence which are repeatedly indulged in by groups of interested parties.

CHAPTER XXXVII

THE ORGANIZATION OF RAILWAYS

STATE *v.* PRIVATE OWNERSHIP. One of the most important questions which has arisen in the consideration of railway organization is whether the system of private ownership is preferable to that of public ownership. When railways were first introduced in England, the principle of free competition was applied to them. The conditions of management on the roads and canals were taken as a precept, and the theory of the freedom of the rail was set up according to which anyone who possessed the requisite vehicle had the right to use the lines. The intimate connection between rail and vehicle was recognized only at a later period. Traffic is conducted satisfactorily only on a set of rails where the owner of the rolling stock has the exclusive privilege of controlling the railroad. Attempts were made, however, to introduce freedom of competition in another way. In England facilities were extended for the construction of competitive lines connecting the same towns by different routes so as to provide the travelling public and those having goods for transport with a choice of routes. Except in densely populated areas, however, private enterprise was unwilling to take this costly risk, and in other places the railways were assured a monopoly before they were built. In the end a monopolistic tendency arose even among the competitive lines. As the traffic was shared by a few large and efficiently managed concerns working under identical conditions—the conditions for combination had become very favourable.

These experiences therefore led to the belief that the railway, by its nature, is a monopolistic undertaking. But since a monopoly can be made to serve the interests of the community only if it is administered by the State, the system of State regulation or of State ownership was introduced. Various other motives co-operated in the same direction; in particular, the currents of economic thought underwent a complete change. Formerly encouragement was given to the greatest possible freedom in the economic activity of the individual and the centralizing power of

the State was resisted. Slowly, however, the State assumed the direction of the economic policy and the railways then became the most important instrument in its hands. Chiefly on the Continent the conviction prevailed that the railways should serve not only local, but national interests, and that they were not ordinary commercial undertakings but institutions to be used in the service of the community as a whole. The natural consequence of the assumption of this attitude was the adoption of State management of the railways. In this way alone can the railway system of a country be organized on a uniform plan, for the private company will naturally build only such lines which promise to yield a revenue at an early date. In the hands of the State the railway rates may be so arranged as to act as a useful supplement to its foreign commercial policy.

The regulations for the safety of traffic, the protection of life, health, and property, etc., are carried out by private undertakings—to whose financial interests they generally run counter—only under the application of great pressure from the State, public opinion or rival competitors. Moreover, the construction of railways entails a far-reaching interference with private ownership of property because in certain cases the owner of the land through which a railway has to be taken is deprived of his rights in return for a certain amount of compensation. This right of expropriation is also granted to private railways—a sure sign that public interests enter into the question—for these alone can justify expropriation. Considerations of the defence of the country and of war manifest themselves in a two-fold manner ; in the first instance, they demand a highly centralized organization, and in the second place, the construction of lines which are indispensable for the transportation of troops and war material, but these are of negligible importance from an economic standpoint. The State may insert special clauses in the concessions granted to private railways, but these will always be an insufficient and frequently an expensive substitute for complete State administration. The difficulty of financing by the State, which formerly existed owing to the fact that a large capital had to be invested in risky undertakings, has passed away in the course of time. Hence the system of State ownership of railways has, during the last fifty years, taken a firm footing on the European continent and in the English colonies. About one-third of the

total railway systems of the earth is State property, or if the American continent be excluded, more than one-half would come under this category.

In many cases, however, the system of private ownership of railways has justified its retention. In most extra-European and also in some European countries the initiative of the State is too weak to set in motion such giant undertakings ; moreover, the risk increases with the poverty of the country, for the Government does not enjoy the cheap credit which is necessary nor can it wield the economic weapon which is held out to it in the shape of the railways. Furthermore, the State system makes such great demands on administrative efficiency that no country has yet been able to do full justice to it because railway administration constitutes a very difficult compromise between administrative and business activity. The revenue interests of the privately owned railways resolve them into a commercial undertaking, and forces them into a continuous and speedy adaptation of the undertakings to meet the wishes of the parties interested. State railways, however, from the lack of this motive power, are apt to relapse into bureaucracy which is manifested in the inelasticity of the organization, in the failure to grasp the significance of prevailing economic tendencies, and the inability to meet the wishes of those who use the railways. If, in addition, political currents or national differences assert themselves in the administration, the railways may become the pawn of conflicting outside interests, for they exercise an influence over a large army of workers. The interest of the State is confined mainly to the trunk lines and their branches, thus frequently leaving small railway systems which can be managed beneficially by private enterprise.

Thus, a purely State-owned railway system has nowhere been introduced, and the so-called mixed railway system predominates in which both State and private railways exist alongside each other.

ENGLISH RAILWAY POLICY. The railway policy in England has had a peculiar development. The early Railway Acts, the first of which was passed in 1826, held fast to the principle of the freedom of the road, so that anybody with intelligence and having carriages built and equipped in accordance with the regulations of the company, could make use of the railway. The company was given

the right to impose a two-fold charge, the maximum rate of which was fixed by Parliament, viz.—

1. The rate charged for the use of the track alone; this was intended for carriers of goods whether they used their own vehicles or those of the company.

2. The rate charged for the combined use of the track and the rolling stock of the company.

In other words, there was a rate fixed for the conveyance of goods and also one for passenger traffic.

The rates for the conveyance of goods were graduated according to their nature, and in the case of the first steam-worked railway—the one from Liverpool to Manchester—they amounted to a maximum of 8s. to 14s. per ton for the whole distance of thirty-three miles. Soon it was seen that the principle of the freedom of the track was inapplicable; moreover, the levelling influence of free competition which, after the construction of so many competing lines, held out such great hopes, proved a failure, for amalgamation into larger and larger units progressed rapidly amongst the various companies. Schemes for the nationalization of the railways were frequently advanced and considered, but the only result was the Act of 1844 which, owing to the powerful political influence in Parliament of the existing companies, found application only to future railway undertakings. These were expected to put up with a reduction of the rates if the dividend for three consecutive years reached 10 per cent, and at the expiration of twenty-one years they were to revert to the State on payment of a compensation amounting to twenty-five times the average profit of the last three years with a maximum of 10 per cent per annum. In both directions this Act has remained ineffective. By the Act of 1873 State control was to be exercised by a Railway Commission, and by the Act of 1888, through a Railway and Canal Commission, but it has always been carried out on very modest lines. In spite of frequent complaints on the part of sections of the community, the system of private ownership has been retained. In this policy the decisive factor was that railway construction in England has never been in need of State assistance as in other countries, but, owing to the density of population, it has experienced a spontaneous development; moreover, the gigantic companies which dominated the railway systems, could exert a far-reaching influence on the

legislature, and the necessity to use the railways as an instrument for the development of the State's economic policy was not felt to the same extent in England as on the Continent. The idea of nationalization, however, gained more and more ground, owing to the growing influence of the State, which became necessary during the War.

Railway Policy in the Colonies. In the colonies it was necessary from the outset to steer quite a different course in regard to railway policy, for there the spirit of private enterprise was relatively weak and the Government had to intervene by the guarantee of dividends and the free gift of land. In British India many railways were built by the State and hired out to private companies, but recently the decision has been taken to revert to a purely State Railway system. In Australia and the African colonies, nearly all the railways belong to the State, and Canada, too, has adopted this form of ownership in recent years.

FRENCH RAILWAY POLICY. France tackled the railway problem in a systematic manner. After a few small lines had already been constructed, the Act of 1842 sketched out a complete railway system covering the whole country, and during the ensuing years concessions were granted to private companies for the construction of the lines. In 1857 six large companies were created by fusion and these divided up the whole system between them. These were—

1. The " Nord " Railway for the traffic in the direction of England and Belgium ;
2. The Western Railway to the Atlantic ports ;
3. The Orient Railway to the South ;
4. The Paris, Lyon, Mediterranean Railway for the traffic to the Mediterranean.
5. The Southern Railway acting as a link between the Orient Railway and the Mediterranean Railway, and being the owner of the only track to Spain ; and
6. The Eastern Railway for the traffic in the direction of Germany.

The State has reserved to itself an extensive right of control, but at the same time guaranteeing to the railways a rather high dividend and freedom from taxation. Since 1878 a small State railway system has developed which, with the re-purchase of the

Western Railway by the State in 1908, has grown into a length of 9,000 kilometres as compared with about 35,000 kilometres of privately owned railways.

GERMAN RAILWAY POLICY. In Germany many of the Union States began the construction of State railways, such as Brunswick, Hanover, Nassau, Baden, Würtemburg, and Bavaria, but in most cases it was due to the failures of private enterprise. In Bavaria, which took the initiative in railway construction, private railways were built from the beginning, but in 1844 the system of State railways was reverted to, as railway construction had come to a standstill. Saxony, although granting abundant subsidies to the new railway companies, could not achieve the satisfactory development of its railway system, so that since 1846 supplementary lines have been built by the State and in 1876 a complete system of State railways was introduced. According to an Act passed in 1838, the Prussian Government had decided to abstain from any participation in the railways, but in 1842 it was compelled to intervene by the guarantee of interest and the taking up of shares. In 1849 the Government was empowered to construct a few lines for which no private *entrepreneur* could be found. Thus, for some time a mixed system was in existence until in 1879 the Government began to buy out the private companies. In the place of the former dividend, the State paid to the shareholders a fixed annual rate of interest and exchanged the shares for a corresponding amount in stocks. The shareholders were given the option to receive payment for their shares in cash, but on such terms that it was more advantageous to accept the stocks. From that time the system of State railways began to predominate in Germany, with the restriction that ownership should rest with the various States of the Union, and not with the Empire. According to the terms of the Constitution, however, the Empire had the right to control the rates and charges, and had the power to introduce uniform regulations for the working of the lines; moreover, the Empire had to control the railways in the interests of the defence of the country and in the interests of traffic in general. For the exercise of these powers a Railway Ministry of the Empire was established in 1873. A beginning of a common Imperial railway policy was really made in 1876, when Prussia decided to hand over the whole of its State railways to the Empire, on the assumption that the Empire would

acquire all State and private railways in the various States of the Union.

The proposition, however, met much resistance and was dropped. It was not until the political revolution following the Great War that complete unification of the railways was introduced, the Republic acquiring by purchase the railway systems of all the component States.

AMERICAN RAILWAY POLICY. Until 1869 the railway system of the United States enjoyed unlimited freedom owing to the fact that the States scarcely concerned themselves with it. This attitude resulted in such a confusion of rates and other abuses, to the detriment of the community that the various States had to set up controlling bodies some of which even possessed the right to fix rates independently. This was a very unsatisfactory state of affairs, and the various railways had to co-operate, as there existed a great desire to bring into being the trans-continental railways from the Atlantic to the Pacific Ocean. After tedious negotiations the Inter-State Commerce Act of 1887 was introduced, and a new authority was created in the Inter-State Commerce Commission, which controls all the railways and decides the principles for the determination of rates and charges. After progressive fusion and consolidation had brought the American railways into the hands of a few powerful companies, the control of this Commission became ineffective, so that in 1903 Elkin's Act was passed which increased the power of the Commission to impose penalties. In 1906 the Hepburn Act empowered the Commission to fix themselves the maximum rate, in cases where the rates were considered to be unreasonable or unjust. In 1910 a special Court of Law was established under the title " Court of Commerce," which has to decide all complaints against the rulings of the Inter-State Commerce Commission ; at the same time the functions of the latter were extended. Gradually the idea of railway nationalization grew in strength and had such a far-reaching influence during the War that the administration and working of the railways was granted to the Government, but only for the duration of the War.

CHARACTERISTICS OF A RAILWAY UNDERTAKING. A railway differs from most ordinary business undertakings in the following respects—

1. A very large initial capital is required, and it is not possible

to start in a small way. The capital has to be invested in such a way that it cannot be recovered if the railway fails. Moreover, for much of the capital there are no visible assets. The rolling stock must be sufficient to meet the greatest demand that is likely to be made upon it, and everything must be laid out before there is any income. In 1914 the capital of one of our largest railway companies stood at upwards of £200,000,000, whilst no shipping company had a capital approximately to even £10,000,000 in that year.

2. During the early stages of its career, the railway will command only a small amount of traffic, and the expenses which this traffic will have to bear will be tremendous. A small amount of traffic involves the same expense as a large one; the expansion of traffic can therefore be made without any addition to expenses in the form of fixed assets. In other words, the law of increasing returns operates strongly during the initial stages of development.

3. In most undertakings, the price of the product is determined largely by its cost of production, but in the case of a railway, this is impossible. The total cost has to be distributed in such a way as to secure the maximum amount of traffic at the minimum of cost, and thus the freight charges must aim at inducing that volume of traffic which will secure the most economical working of the railway.

A railway manager views the problem of rate fixing from the standpoint of the business man; that is to say, he is in the position of the manager of a business who must so fix the price of the commodity or service he is selling that the undertaking he is managing shall earn a profit. In other words, he must so fix his rates that he will earn the maximum net revenue. The railway manager will strive to obtain for every service rendered the maximum return possible. To the charge he can impose, however, there is an economic maximum and minimum limit because—

(*a*) There is a limit to the charge any particular traffic can afford to pay. Beyond that limit the traffic will be lost; either, it will not be carried, or it will be carried by an alternative route.

(*b*) Traffic carried at a charge below the actual prime cost of moving it, would signify a loss to the railway company.

The natural policy of the railway manager would therefore seem to be to levy the highest possible charge within these two limits; that is, to charge what the traffic will bear.

RAILWAY ADMINISTRATION. The diagram shown as an inset between pp. 328 and 329 illustrates the general organization of a British railway company.

It will be seen that the administrative policy is vested in a Board of Directors presided over by a chairman and two or more deputy chairmen. The directors are elected by shareholders. A certain number of directors retire annually, but are eligible for re-election. Besides electing their directors, the shareholders also elect the auditors of the company. As a general rule, the full Board of Directors meets once a month, but there is a number of directorial committees whose members confer together and with the managerial chiefs at more frequent intervals.

The responsible officer for the whole executive administration of a railway is the *General Manager*. He acts as chief of the staff to the entire undertaking, and although it is not practicable for him to supervise personally the actions of every employee, he is accounted the connecting link in the chain of responsibility between the Board and the most subordinate member of the staff.

On the left-hand side of the diagram are shown the statutory officers of the company. In passing railway bills Parliament has realized the need for a secretary and a treasurer—the former to keep the records and registers, and the latter to be responsible for the finances. The general duties of these statutory officers are clearly defined. *The Secretary* attends all Board meetings and makes records of the business transacted. He signs and issues stock certificates and transfers of every kind, executes mortgage bonds, agreements, and all manner of deeds. The secretary, in short, is the legal representative of a railway company, while in most matters of policy, and in all those of finance, he is the adviser as well as recorder. *The Treasurer* controls the management, collection, and expenditure of the company's revenue, and is responsible for all the receipts and payments made by the company; he must therefore be supplied with the most detailed information in regard to moneys received and expended, together with detailed statements of the company's liabilities. He is usually assisted by a chief accountant and an expenditure accountant, an audit accountant, a registrar of stocks and shares, and a chief cashier.

Besides keeping and checking the accounts, the Treasurer is

charged with the preparation of all financial statistics required by the various Government departments, and all statements which in any way affect the finances of the company. The departmental staff of the chief accountant of a large railway company, whose half-yearly balance sheet runs into several millions of pounds, is a vast organization in itself. It comprises scores of travelling auditors and of book-keepers, and a regular army of clerks engaged in recording and checking numberless financial transactions.

The Stores Superintendent is entrusted with the keeping of every conceivable thing which is required for the working of the railway, from the rails and sleepers for the permanent way, and the fuel and oil for the locomotive, down to the cleaning utensils, the tools with which all repairs are executed, and the soap and towels which the passenger finds in a lavatory.

The Chief Solicitor is the Directors' principal legal adviser on matter of policy, and he or his qualified assistants are at all times accessible to the officers of every department. One section of his staff is usually engaged in Parliamentary work; another section in conveyancing in respect to the company's landed interests; whilst another section of the staff learned in common law, deals with the constant crop of matters in connection with claims, outstanding accounts, demurrage, and prosecutions for breaches of by-laws.

TRAFFIC DEPARTMENT. In the organization of the traffic department, a complete severance is effected between the operating and the commercial sections. Both of these sections are under the supervision of the Chief Traffic Manager, who is assisted by the following officers, viz.—

1. *The General Superintendent*, who is charged with the movement and the handling of traffic everywhere, and in every shape or form; and supervising the use of the company's telegraphs and telephones.

2. *The Chief Goods Manager*, who is charged with the administration of the department of the company's business connected with the securing and charging for merchandise, live stock and mineral traffic.

3. *The Chief Passenger Agent*, who is charged with the administration of the department of the company's business connected with the securing and charging for all ordinary passenger and

excursion traffic ; preparing, printing, and issuing tickets ; advising the General Superintendent as to the needs of the train service ; collecting and distributing information as to trade movements and developments ; supervising and controlling the booking and parcels office.

These three officers are responsible to the General Traffic Manager, and each has an organization of subordinates, providing a carefully arranged system of devolution.

CHAPTER XXXVIII

THE ORGANIZATION OF SEA TRANSPORT

THE shipping trade is a particularly difficult and dangerous one, and for that reason, since it remains principally in the hands of private undertakings, it calls for the exercise of a certain amount of state control. Since the activities of the shipping trade extend far beyond the national frontiers, and are exposed to the keen rivalry of other countries, it is also desirable that there should be a certain amount of international agreement which finds expression in the legislation of the State. The most important of these measures may be classified under three headings, viz.—

1. Regulations for the keeping of evidence concerning the ship.
2. Regulations regarding the safety of shipping.
3. Regulations for safeguarding the social welfare of the crew.

REGULATIONS FOR THE KEEPING OF EVIDENCE CONCERNING THE SHIP. The production of evidence of vessels is facilitated chiefly by means of registration, that is, by means of an entry in the registry of shipping for which every State creates the necessary conditions by legislation. Those commercial vessels alone are considered national which have been registered in a proper manner. Such registration confers upon the vessel the right and obligation to fly the national flag. Furthermore, every vessel has a home port from which it usually conducts its trade. In shipping a distinction is drawn between coastal shipping which connects the various ports of the home country, short distance shipping, and the long distance shipping which connects oversea countries. On registration two documents are issued, viz.—

1. The Certificate of Registry.
2. The Builder's Certificate.

The Certificate of Registry is granted by the Registrar of the port where the vessel has been registered, and is the legal proof of her nationality. It usually contains the name and description of the vessel, her tonnage, the name of her master and the names of the owners.

In the absence of the Certificate of Registry the *Builder's Certificate* usually serves as proof of the vessel's nationality. The registration as well as the whole supervision of shipping is carried out by the Board of Trade to which the Port Authorities are subordinated. Of great assistance in the provision of evidence is the taking of the measurements of the ship the aim of which is to establish the tonnage capacity, and therefore its loading capacity. Many financial payments, such as shipping dues, are calculated on the basis of the net register tonnage. The measurement includes the whole internal space of the ship and of all superstructures. According to the method of measurement a distinction is drawn between *gross tonnage*, which includes the whole internal capacity of the vessel, and the *net tonnage*, which is ascertained by deducting from the gross tonnage the space occupied by the engine and boilers, crew accommodation, etc. The measurement is undertaken by special authorities and is evidenced by a Certificate of Measurement.

Classification of Vessel. Whilst all these points are regulated by legislation, and to some extent by international shipping agreements, the institution for the classification of ships is still left entirely in private hands. In many important transactions such as the chartering of vessels, the effecting of insurance on hull and cargo, the charterers or insurers want to know the precise condition of the vessel without having recourse to a thorough examination in every case. For this reason institutions have been formed which establish the condition of the vessel, its style of construction, age, and seaworthiness, and which issue certificates for this purpose. Each of these classification bureaus has its own set of rules. The classification is divided into two main groups, viz., wooden ships and iron and steel vessels, each of these groups being further subdivided into minor classes. The vessel must possess certain qualities such as a certain strength of keel, deck boards, etc., before it can be inserted into any of these classes. This description is expressed by means of short formulae consisting of letters and numbers which differ according to the various institutions concerned. The fact that these particulars are established in an entirely impartial manner accounts for their significance, for they are utilized by the most conflicting interests ; for instance, builders and shipowners desire a lenient description, whilst charterers and insurers

call for a very strict one. The oldest and largest institutions for the classification of ships are the British Lloyd's in London which was established in 1834, and the Bureau Veritas which was established in Antwerp in 1828 but was subsequently transferred. In addition there is the Germanic Lloyd in Berlin, the Bureau Veritas in Hamburg, the Registro Italiano in Genoa, the Veritas Hellenique in Athens, and the Record of American and Foreign shipping in New York.

Ship's Papers. Every vessel usually carries on board a number of documents, which are known as the "Ship's Papers." The papers which are usually found on board a British merchant vessel are—

1. *The Certificate of Registry,* which contains the particulars on the register. According to the Merchant Shipping Act, 1894, any change of ownership or of master must be endorsed on this certificate.

2. *The Ship's Log,* which records the vessel's daily progress, the winds and weather encountered, and other particulars respecting the vessel and voyage.

3. *The Ship's Articles,* which contain the agreements signed by each seaman. They specify the man's rank on board, wages to be paid, term for which engaged, and other conditions.

4. *The Crew List* or *Muster Roll,* which contains the name and description of every person on board.

5. *The Bill of Health,* which is given by the authorities of the port from whence a ship sails and testifies to the conditions prevailing in such port with respect to the existence there of plague, cholera, or other contagious diseases. (See example on page 334.) The absence of a Bill of Health may expose a ship to the necessity of undergoing quarantine.

6. *The Bills of Lading.*

7. *The Manifest,* which specifies the marks, numbers, contents, and value of each package on board and sometimes states the amount of freight payable at the port of destination.

8. *The Charter Party,* which will be dealt with later.

These papers must be carefully and accurately kept, particularly in time of war, so as to show the nationality of the ship and the nature of her cargo. Any omission in regard to these papers may render a neutral ship liable to capture.

BILL OF HEALTH

TO ALL TO WHOM THESE PRESENTS SHALL COME.

I, The undersigned Officer of His Majesty King George
in the Port of *Cardiff*
in the City or Town of *Cardiff*,
send greetings.

WHEREAS the vessel called the "*City*"
of[1] *London* whose Master is *R. Evans*
is about to sail from the said Port of *Cardiff* on this *3rd* day of *April* in the Year of Our Lord *Nineteen hundred and twenty-three* and thence for *Genoa* and other places beyond the Seas, with 35 Persons on Board including the said Master.

[1]If British, Port of Registry; if Foreign the Country.

Now, Know ye that I, the said Officer, do hereby make it known to all Men, and pledge my faith thereunto, that at the time of granting these presents, no Plague, Epidemic Cholera, nor any dangerous or contagious disorder exists in the above Port or Neighbourhood. In testimony whereof I have hereunto set my Name and Seal of Office, on the Day and Year aforesaid.

Given in the Custom House of the
Port of *Cardiff*
on the *3rd* day of *April*
in the Year of our Lord 1923

J. BRAWNY.

REGULATIONS FOR THE SAFETY OF SHIPPING. The measures for ensuring safety of ships are still unsatisfactory in view of the fact that state interference was so long delayed whilst the shipowners naturally aimed at the highest possible exploitation of their factors of production. Whereas every hut erected in the country requires the sanction of the local authorities the floating edifice which has to carry thousands of human beings across the ocean is built without any state supervision at all. Accidents due to unseaworthiness of the ship are therefore by no means scarce. An energetic movement started in England by Plimsoll, led to the demand that shipowners should observe a certain line, marked on the outside of the vessel showing the extreme limits of its loading capacity. The regulation adopting such a maximum " load line " was first inserted in the law of 1867 and, subsequently, in a somewhat modified form, in the Merchant Shipping Act, 1894, and with still further modifications in that of 1906. The idea of a uniform international maximum load line has made progress by corresponding legislative enactments in Germany, France, and Spain.

In consequence of the large scale emigration of modern times, special regulations are now prescribed in regard to emigration ships. In England since 1803 several Passenger Acts have been passed which take measures in this direction. Similar regulations are also included in the emigration laws of most European countries, and also in the immigration laws of the United States. The most important points concerning the regulation of this kind of traffic are: provisions for the seaworthiness of the vessel; the limitation of the number of passengers; the provision of adequate shelters and also of sufficient stores of food and water. Moreover, a continual supervision is exercised over this traffic by the emigration authorities.

Better arrangements for the safety of shipping have reference to the examination and establishment of the capability of the crew. In former times, the master was a merchant but nowadays he is a nautical man, and in most countries a person is not allowed to navigate a vessel as master unless he has received a well-defined practical and theoretical training, and has passed examinations in the kind of work in which he will be engaged. In England, examinations for certificates of competency are held subject to rules made by the Board of Trade. In many countries there are

also regulations in force for the training of other ship's officers, the ship's crew, the pilots, etc. Almost everywhere by means of special laws such a strict discipline has been introduced into the shipping trade as can find no equal in any other calling. Of special importance is the principle that the worker is not allowed to leave his work before the termination of the voyage, otherwise he will be punished by the State for desertion. Of course, such interference is not carried out in the business interest of the *entrepreneur*, but in the general interests of traffic.

The Merchant Shipping Acts have also enacted an elaborate code of rules relating to life-saving appliances, lights, signals, equipment, collisions, dangerous goods, and unseaworthy ships, for the purpose of ensuring safety. These rules must be complied with and provision is made for the detention of unsafe ships.

REGULATIONS FOR SAFEGUARDING THE CREW. In modern times increased attention has been paid to the social welfare of the ship's crew. Seamen are not engaged for any particular time, but only for a trip: that is, before any voyage they have to be entered in the Muster Roll; in other words, they have to "sign on" and at the end of the voyage they "sign off." In this matter maritime authorities exert an influence, whereas, the engagement of the crew and the provision of private accommodation for the mariners during their stay on land is attended to by boarding-house runners. The contract of employment or "hire contract," as it is called, is in writing, and sometimes a specially legal form is prescribed. For obvious reasons the pay of a seaman generally includes full board and accommodation. Legislation also extends to the payment of wages and the safeguarding of those wages from the deductions of third parties, and against any advantage being taken of the seamen. Provision is also made for the working hours in the port and for intervals of rest during the voyage, work on Sundays and holidays, and the payment of overtime. Furthermore, the principle has also been established that the seamen should receive free medical attendance and payment of his wages during sickness or accident at the expense of the shipowner. With the development of compulsory sickness and accident insurance within recent times, attention has also been paid to shipping in the leading commercial countries. Thus, in England the Workmen's Compensation Act, 1897, was extended to seamen in 1906, and in Germany accident

insurance for seamen was introduced by the law of 1887, whilst in France a National Accident Insurance Act was passed in 1898. The extension of the labour movement to the merchant marine led to the establishment in 1909 of an employers' union, viz., the International Shipping Federation with its headquarters in London. The members are not composed of individual shipowners but belong to the national shipowners' associations.

To some extent these conditions have become the object of international regulation and frequently arise in almost identical form in commercial treaties. Particular attention is also given to the services rendered at sea. It is usually stipulated that in the case of shipwreck, or in the case of average, help must be rendered to the ship in distress. As far as possible, goods must be salvaged and returned to the owner. The charges for such services to the ship of a friendly state must not exceed the charges which would be imposed upon a national vessel.

BILL OF LADING. This is the contract between the shipowner and the shipper for carriage of goods by sea. It is signed by the master, or by the shipowners, or their agent, thereby acknowledging the receipt of certain goods in good order and condition, and promising to deliver them at a certain place to a certain person, or " to order," on payment of freight and charges. Some bills of lading are short and simple documents, but most are long and closely printed, containing numerous clauses limiting the liability of the shipowner. The shipper thus gets cheaper freights but has to cover the great risks of sea-carriage by insurance.

Each shipowner has his own form, which must be filled up by the merchant shipping the goods, and sent to the shipowners or their agents, together with the Mate's Receipt or Dock Receipt, and the freight, if this is payable in advance. The bill of lading, if found correct, is signed and stamped freight paid, freight forward, or as per account, as the case may be, and then returned. If the freight is forward, the goods will not be delivered until it is paid. On payment, the shipowners or their agents give a " freight release," which together with the bill of lading entitles the holder to receive the goods.

The bill of lading is generally made out in sets of two or three, each of which must bear an embossed 6d. stamp before being signed ; sometimes unstamped and unsigned copies are made out in addition

for the master or for office purposes. Bills of lading can be passed from hand to hand by endorsement, but are not negotiable instruments. As the bill of lading constitutes the title of the goods, the shipping company will not hand these out until it receives this document. When one copy has been handed in, the others are null and void.

If the goods have been placed on board in good condition, a "Clean Bill" will be issued, but if they, or a part of them, are damaged, this will be noted on the Mate's Receipt, and a corresponding remark made on the bill of lading, which is then called a "Foul (or dirty) Bill." As "foul bills" are very inconvenient to merchants, they generally give the master or shipowners a Letter of Indemnity to protect them against any claims which might be made, and in return for this receive a clean bill.

The freight is payable per ton measurement for light goods, for which 40 cubic feet is reckoned as a ton in a steamer, and 50 cubic feet in a sailing ship; per ton weight for heavy goods; and sometimes per package (cask, sack, etc.), e.g. cement; per bushel, e.g. wheat; per lb., e.g. wool; in a lump sum (special bulky goods), e.g. a motor-car.

Primage was formerly a gratuity paid to the master of a ship for discharging the goods and for the use of the tackle necessary for this purpose. It is now part of the charges, and goes to the shipowner. It is generally 10 per cent of the freight, so that if a freight is quoted at 20s. in reality 22s. will mostly be paid.

When freight is payable in advance, it is called *advance freight*. The expression "average accustomed" sometimes used in connection with freight means a contribution payable by the shipper of goods for certain general expenses connected with the voyage, e.g. towage of vessels.

THE CHARTER PARTY. When a merchant is shipping great quantities of goods, e.g. coal, cotton, etc., he often hires a ship outright for a voyage. This is called "chartering" a ship, and a document is made out called a Charter Party, in which the conditions of the hiring of the vessel are stated. If the amount of goods shipped falls short of the amount agreed upon, the difference is called *dead freight*, and must be paid by the charterer. When a fixed sum is paid for the use of the whole ship, it is called *lump freight*. The Charter Party varies slightly for each kind of goods and for each port; many of its provisions are very similar to those in a bill of lading.

An analysis will now be made of the chief clauses in the Charter Party (inset between pages 282 and 283) which is in use in the Welsh coal trade—

The Preamble Clause. The three main points in the preamble are—

1. The name of the owners, i.e. B. Wilson & Co.
2. The name of the charterers, i.e. A. Jones & Co.
3. The name of the vessel, i.e. *City*, and the particulars as to size, classification, etc., and present position.

These practically speak for themselves with the exception of " net register." " Net register " does not give much idea of the actual carrying capacity of the steamer. It is a Board of Trade term, the ton being calculated at 100 cubic feet, whereas a shipping ton is 40 cubic feet. Net register is generally used for paying tonnage dues, pilotage dues, dock dues, etc., all of which are paid by the shipowner towards the upkeep of the docks, lighthouses, etc. For the purpose of making a rough calculation it is generally reckoned that the approximate carrying capacity is equal to two and a half times the net registered tonnage.

Clause 1. The first part of this clause is an undertaking on the part of the shipowner, i.e. Wilson & Co., that the steamer is in a thoroughly seaworthy condition, fully able to carry the cargo contracted for, and that she shall proceed with all reasonable dispatch to the loading port of Cardiff, Penarth, or Barry as directed by the charterers. The second part of this clause describes the nature and quantity of the cargo to be carried, as supplied by the charterers, leaving sufficient space for tackle, apparel, provisions, and furniture. She shall then proceed to the discharging port, i.e. Genoa, and unload the cargo, at the same time being paid a sum of money as freight at the rate of 15s. per ton delivered.

Clause 3. Jones & Co., the charterers, are allowed 180 running hours for loading the cargo. Running hours are hours which count from the commencement of loading time and run straight on irrespective of weather or any other circumstances. In calculating this time it is usual to exclude Sundays and holidays, and also certain times according to the custom of the loading port. If the charterers fail to complete the loading of the cargo within the time stipulated they will be required to pay a demurrage at the rate of 6d. per gross registered ton per running day.

Clause 6. This clause, which is known as the Negligence Clause, appears in all charter parties and bills of lading. It protects the shipowner from any responsibility over which he has no control. The Act of God covers such accidents as lightning, earthquakes, and all things beyond human control. Barratry covers illegal acts of the master and crew, such as fraud, violence and smuggling. Strikes frequently hinder both the loading and discharging of vessels, and have the effect of holding up the steamer, thereby costing the owners hundreds of pounds per day. It is, of course, understood that neither owner nor charterers are responsible for detention caused thereby. If there is a strike at a port where a steamer is about to load or discharge, it is a matter of arrangement between owners and charterers to divert the steamer to another port and there load or discharge the cargo. In this case, the owners would obtain a letter of indemnity from the charterers against all losses or claims arising out of their diverting from the original destination as per bills of lading. It can also be arranged to cancel the charter party altogether.

Clause 7. The charterers undertake that the cargo will be taken from alongside the ship by the consignees free of expense to the shipowners. The shipowners, of course, undertake the discharging, after which their liability ceases.

Clause 8. The freight is usually paid during discharge by the charterers, either to the owner direct or through his agents; any sums of money which have been advanced by the charterers to the master for expenses being deducted. Freight can also be paid in advance, either on the sailing of the steamer or before she sails, and when this is done a percentage, usually 3 per cent, is deducted to cover interest, insurance, etc. In this case freight paid in advance is not returnable should the steamer be lost. It can be paid in cash or by bills of exchange, as agreed at the time of chartering the vessel. Freight in this case is charged on the gross weight delivered, but freight can also be charged on net weight delivered. It can also be charged per ton of 40 cubic feet, 50 or 60 cubic feet, or 100 cubic feet of cargo, according to the class of cargo carried. In addition, it can be charged at so much per ton of so many cubic feet placed at the charterer's disposal, or at an agreed sum for the voyage, called " lump sum."

Clause 10. When damage arises to the ship or cargo the claims

are settled by average, and the latter is generally based on a set of rules known as the York-Antwerp Rules, 1890. In the same way as explained in Clause 7, the owner still has a lien against average (if any).

The York-Antwerp Rules were drawn up by an International Committee, and provide for such contingencies as jettison (throwing cargo overboard for the safety of the ship), fire on board ship, voluntarily running the ship on shore to prevent her sinking, damage to cargo, etc. There are two sorts of average, General and Particular. The former relates to any damage suffered by a particular interest in order to save the ship or cargo, and the latter refers to any damage that may happen by mere accident.

Clause 11. " Loading hours " means the time during which the steamer may load. There are two dates given in the charter party and the steamer is at liberty to start loading upon any day on or between these two dates. It is usual to give to the charterers twenty-four hours notice of readiness to load, so that the latter may have the cargo ready for the steamer. If the steamer is not ready to load by the cancelling date as specified in the charter, the charterers have the option of refusing to load the steamer, thereby rendering the charter party null and void, without any expense to themselves. If the steamer arrives before her loading hours, the consent of the charterers can sometimes be obtained to commence loading immediately.

Clause 12. Should the steamer be kept longer than stipulated in the charter at either loading or discharging port, the charterers become liable to a penalty, known as " demurrage," for so keeping the steamer. This is usually paid at so much per day, and is based on the earning power of the steamer per day. According to some charterers the steamer need only be so many days on demurrage at the loading port, and after the given time is at liberty to leave whether partly loaded or empty. The charterer is then liable to pay freight on the unoccupied space, which is known as dead-freight. On the other hand it may be arranged that should the steamer be loaded in less time than that stipulated for in the charter, the owner agrees to pay the charterer " despatch money " for all time saved at so much per day (generally half the demurrage). Portions of a day in both cases (usually reckoned in hours) are calculated *pro rata*.

To cover himself against freight and demurrage, the shipowner may retain the cargo, and even during the discharge, the owner may exercise this right and stop delivery of the cargo until his claims are settled. This is known as " holding a lien on the cargo."

Clause 13. In the event of the charter not being performed a penalty, generally " proved damages " not exceeding the estimated amount of freight, is payable by the party in default.

" Proved damages " is the amount agreed upon between owners and charterer, which must be proved by the defaulter to the satisfaction of the other party. Should they be unable to agree, they may decide upon arbitration or fight the matter out in a court of law.

An arbitration clause can be introduced which provides that any dispute under the charter party is to be settled by arbitration, each party providing an arbitrator. Should they be unable to agree, the decision of an umpire selected by the arbitrators is to be final.

Clause 14. When an owner employs another person to arrange for and negotiate the charter, that person is called a " broker," and is paid a commission called " brokerage " on the freight. It can be split up between several brokers and payable by mutual arrangement.

The charter is signed by owner and charterer and a 6d. stamp affixed. It then becomes a legal document binding on both parties.

" THROUGH " BILL OF LADING. It sometimes happens that the goods are not carried right to their destination on the ships of the same owner, and in such cases the " Through " Bill of Lading offers great facilities. In spite of the transhipment of the goods on to the ships of another company, only one rate is charged right up to the port of destination—the rate being based upon arrangements between the various companies concerned. In more recent years a further step has been made. The aim of commercial intercourse is to bring the goods from the place of production direct to the place of consumption without any outside mediation and by the use of one single bill of lading. In this way great facilities are offered to the consignee for procuring the goods and thus export is facilitated and increased ; moreover, expenses for the commission of forwarding agents is saved. The combined tariffs introduced by railway and shipping companies take these advantages into account. Of course, considerable difficulties have to be overcome because the

rates charged by the railway and shipping companies show great diversity in classification and in stability.

FREIGHT RATES. Within the last few decades before the World War the rates of freight manifested a tendency to a marked decline owing to technical progress in shipping and the increase of competition among the different lines. In 1835 American clippers charged 4 dollars per metric ton for the carriage of raw wool from New York to Havre. In 1904 steamer freights of 5s. per ton were charged from Europe to Singapore and 9s. to Australia. During the War, owing to the German submarine danger, freights rose to an unprecedented height but fell again on the cessation of hostilities. In general freights are subject to rapid and violent fluctuation. This is primarily due to the influence of the loading conditions which are peculiar to the carriage of goods by sea. The vessel must endeavour to obtain a mixed cargo of bulky and heavy goods; if the cargo consists of heavy goods only, the limit of its carrying capacity would be reached before the vessel was full. On the other hand, if it carried light goods only the vessel would be full before the loading line was reached. The greatest pressure upon freight rates, however, is exerted by the so-called " tramps " which enter into competition with regular liners.

Tramps. A tramp is a ship which goes wherever there is business to be done, and wherever there is the most profitable business. In other words, the tramp is a " free lance " ship which is prepared to accept any kind of profitable freight and take it anywhere. A liner is a ship engaged in maintaining a regular service on a definite route.

SHIPPING RINGS. In order to protect themselves against the injurious competition of the tramps, the large shipping companies have formed cartels the most important of which are known as shipping conferences. The aim of a shipping conference is naturally to obtain the full economic rate of freight for its members. In return it offers regularity of service and tries to enforce loyalty by the granting of the deferred rebate. As soon as rates rise considerably on a route tramps are sure to be attracted. They will offer a lower rate than the lines to " get in " and so, from the conference point of view, spoil the market. The aim of a tramp's management is to make as much profit as possible. Therefore the freight policy of the tramp is to take any freight which is profitable

in preference to none, and the most profitable if more than one cargo is available. Each cargo is regarded as a distinct business bargain. On the other hand, a liner may maintain for a period a service which is not profitable. In good periods it naturally expects to recoup itself, and to obtain some benefit in return for the regular service it has maintained. Thus conference rates are fixed from a different standpoint from tramp rates; there is the difference between making one isolated business bargain and the fixing of a rate for a regular service. However, economic justification for the existence of the tramp can be shown. It carries cargoes where there is not sufficient trade to maintain a liner; it develops new trade; even when drawn into competition with liners by the high freights ruling for the time on a particular route, it helps to prevent congestion; it is also a safeguard against the establishment of monopoly rates on any route by the conferences.

Shipping Combinations During the War. During the War large shipping trusts were formed in England by the fusion of several large shipping companies which in turn brought other companies under their control. The five shipping groups which were thus formed possess together a tonnage of seven million tons, or two-fifths of the total English Mercantile Marine. They are headed by the group of the Cunard Line which before the War had already absorbed the Anchor Line and thereby acquired the majority of the shares of the Anchor-Brocklebank Line; later on it entered into a fusion with the Commonwealth and Dominion Line and also formed an agreement with a large Canadian and South American Line. The second group is that of the Peninsular and Oriental Steam Navigation Company which bought the shares of the British India and New Zealand Company, and which, by acquiring influence over other undertakings, dominated the traffic to India, the Far East and Australia. The group of the Royal Mail was already initiated before the War by fusion with the Pacific Steam Navigation Company, and participated chiefly in the traffic with South America and Africa. The Ellerman group has acquired chiefly the lines to Northern Europe. Finally, the Furness, with a group in Liverpool, was formed by the amalgamation of sixteen companies.

CHAPTER XXXIX

MARINE INSURANCE

THE subject of marine insurance is one of very great importance to the business man, but in this chapter it will be possible to touch upon only the main principles.

NATURE OF MARINE INSURANCE. The underlying principle of marine insurance is precisely the same as that of all other insurance, viz., the payment of a small fixed sum to avoid the risk of a large and uncertain loss. If a shipowner with a single ship or a small number of ships had to bear the risk of his own losses, ruin would be continually staring him in the face, and except in large fleets, ship-owning would be impossible as a profitable investment. Again, if merchants had to undertake the risk of losing the whole of their consignments by sea they would be timid and commerce would be greatly restricted. Marine insurance provides a safeguard against these risks, so that shipowners and merchants alike are able to protect themselves against disastrous or ruinous losses.

As the risks of sea-carriage are greater than those by land it is most advisable to insure all goods sent by sea. The party who is to effect the insurance is, therefore, generally indicated in the order form. If there is no agreement to the contrary, and sufficient notice is not given to the buyer to enable him to effect the insurance, the exporter must bear the loss of uninsured goods. (See Sale of Goods Act, 1893, Section 32.)

Merchants can insure at Lloyd's, with an independent insurance company, or among themselves (Mutual Insurance).

LLOYD'S AND MARINE INSURANCE COMPANIES. Lloyd's was incorporated in 1871 by Act of Parliament. It was previously an association of underwriters, who took up their present quarters in the Royal Exchange in 1770, after meeting for over a century in a coffee-house originally kept by a certain Mr. Lloyd. Not only does Lloyd's through its members undertake any kind of insurance desired, but as an institution it issues a number of valuable publications including the *Official Register of Shipping* which contains a full description of every vessel registered in the United Kingdom,

and *Lloyd's List* which gives full information on shipping matters sent in by Lloyd's agents from all parts of the world.

Thus, Lloyd's is an association of underwriters and other persons engaged in marine insurance whose membership entitles them to carry on their business in the subscription rooms situated at the east end of the Royal Exchange, London. Its constitution, therefore, is somewhat similar to that of the Stock Exchange in that the members are individual firms who associate at Lloyd's in order to gain the benefits of centralization of demand and supply.

Marine Insurance Companies. An ordinary marine insurance company is a separate *persona* regulated by Act of Parliament, with its own registered office, capital, and membership. The members in this case are directors or shareholders of the company itself. Resulting from this difference in constitution, the procedure in effecting insurance differs. At Lloyd's the assurers are numerous, and they accept separate risks for amounts as stated on the back of the policy. The underwriter and the insured do not come into personal contact but transact their business through brokers who receive 5 per cent of premiums paid them by the underwriters at Lloyd's. A policy for almost any amount may therefore be taken out at Lloyd's, but other things being equal, the larger the amount of the policy the larger will be the list of underwriters appearing on its reverse.

A company, on the other hand, must bear the risks itself, and can distribute these risks among other firms only by an entirely different procedure. Apart from refusing to insure against a risk over a stated amount, the marine insurance company can cover itself only by re-insuring. Such re-insurance is a matter which concerns only the parties to this new contract and has nothing whatever to do with the original policy handed to the person whose goods are insured in the first place by the company. In a Lloyd's policy the insured, in case of the default of any one underwriter, will lose only the amount covered by that one underwriter; if the policy were issued by a company which defaulted, the insured would stand to lose the whole amount. Because Lloyd's spread risks over many firms, it is easier and cheaper to effect an insurance under its system than with a company.

MUTUAL INSURANCE. If several persons whose property is exposed to risk combine for the purpose of bearing the loss which

one or more of their number may incur, this constitutes a mutual insurance company. Each member is at the same time insured and insurer, as on the one hand he will be indemnified should he incur a loss, whereas on the other hand he is obliged to help to pay the loss which may be incurred by any other member. The contributions paid into the common fund in order to meet any loss can, of course, be ascertained only after the expiration of a certain period, when the share of each member is fixed in accordance with the loss incurred. If, for instance, the value of the property which is exposed to risk, and for which the company may be called upon to pay, amounts to £1,000,000, and if in the course of one year £10,000 of it has been destroyed, the loss incurred is 1 per cent. Thus, the person who has insured for £2,000 will be called upon to contribute £20 towards the loss incurred. As, however, the person who has incurred the loss wants to be indemnified as soon as possible, the premium is usually fixed in advance for a certain period and varies according to the probable loss which is calculated on an actuarial basis. In the event of the loss exceeding the premium paid, the members of the company undertake to make a supplementary payment, whilst on the other hand, if the premium has been fixed too high, the excess is refunded in the shape of a dividend.

THE POLICY. Lloyd's S.G. policy is the standard on which those of the other great English companies have been based.

The policy is almost invariably a printed form with blank spaces in which the details are filled in. The printed clauses are often struck out, or their meaning is changed, if desired, by printed slips stuck over them, e.g. the F.C.S. clause is struck out in time of war, a higher premium being of course paid, or the average clauses may be altered to suit requirements.

It will be noticed from the specimen policy (inset) that the style and language of the document are antiquated. Great reluctance to depart from this form, however, is evinced by underwriters, inasmuch as the various clauses have all been subjected to legal definitions, so that no doubt exists as to the meaning of any sentence or phrase.

The blank form of the policy should be filled in as follows: The name of the person assured must be inserted after the opening words " Be it known that " ; after the words " at and from " is inserted a description of the voyage insured, for instance " at and

from Swansea to Buenos Ayres, including all risks from warehouse to warehouse"; or for the period of time which the insurance covers, as "from 1st January, 1924, to 31st December, 1924." The next space is for the name of the vessel, and following that the name of the shipmaster. In the space following the words "are and shall be valued at" is inserted the valuation of the goods insured.

KINDS OF POLICIES. There are several kinds of policies, the chief of which are as follows—

An Interest Policy. This is one which shows clearly that the assured has a genuine and specific interest at risk, as, for example, an insurance on 200 bales of cotton, or 600 bales of wool, without specifying value. This policy is usually taken out where the value of the goods shipped is not known at the time of insuring.

A Valued Policy. This is one in which an agreed value of the thing insured is inserted, as, for example, on coal valued at £2,000. This is probably the commonest kind of policy. The agreed value of the thing insured, i.e. the insured value, if the insurance is on goods, usually includes the freight on the goods, plus a 10 or 15 per cent margin on cost and freight, to cover anticipated profit, which would be lost in the event of the destruction of the goods insured.

A Floating Policy. This is one taken out to cover a series of shipments between two or more ports; therefore no name of any vessel is inserted in the policy. There is usually inserted, however, a limit to the value undertaken to be insured by the underwriters. The names of the vessels and the values of the insured interests are subsequently supplied to the underwriters on insurance advice notes. Floating policies are usually taken out by merchants and others having a more or less continuous flow of shipments between certain ports. The advantages to be derived are that the assured obtains a fixed premium rate for an agreed period of time, and is relieved of the trouble of taking out a new insurance policy for every shipment.

METHOD OF PROCEDURE. The course of business is for the broker to write on a slip the particulars of the insurance he desires to effect, such as the goods to be insured, with their value; the name of the ship by which they are carried; and the ports of loading and discharge, with any special arrangement he may be desired to make. If it is intended by the owner of the goods to insure against total

loss and general average loss only, he puts on the slip the letters " f.p.a." which means " free of particular average " ; or if the ship which carries the goods belongs to a nation which is at the time at war with any other nationality, or engaged in civil war, the underwriters will demand that the insurance shall be " f.c.s.," or " free of capture and seizure," unless they are paid an extra premium to cover " war risk." Again, if it is intended to insure the ship or goods for less than their value, both the value and the sum to be insured must be stated.

" F.P.A." When goods are insured " free of particular average " the risk taken by the underwriter is considerably reduced, as he is not liable for any damage or injury to them, but only for total loss and general average, the owner of the goods taking any risk of damage. So far as British trade is concerned goods inwards are generally insured without this restriction, whereas goods outwards are insured with it, and as a matter of course the premium " f.p.a." is less than that paid against all risks.

RISKS INSURED AGAINST. Primarily, the risks undertaken by the underwriter are for losses or injuries through the perils of the seas, including fire at sea or in port. They also include barratry, i.e. every form of unlawful dealing with the ship or her cargo by the master and crew, such as smuggling, privateering in war time, blockade running, and engaging in acts of piracy or anything else by which the owners could be defrauded.

" Perils of the sea " include Particular Average and General Average. It is under these two headings and that of Total Loss, that almost all claims on underwriters are made—claims for loss by barratry and capture by enemies and pirates being very rare.

TOTAL LOSS AND ABANDONMENT. If the goods are lost, the insured should immediately send in a claim, called a *Notice of Abandonment*, to the insurers. In the case of a total loss of the goods insured, payment under the policy of the full sum or valuation insured has to be made by the underwriter. Total loss is of two kinds, *actual* and *constructive.*

1. **Actual Total Loss.** This occurs " where the subject matter insured is destroyed or so damaged as to cease to be a thing of the kind insured, or where the insured is irretrievably deprived thereof " (Marine Insurance Act, 1906, Section 57). In order to substantiate a claim for total loss, a document is drawn up, if any of the crew

are saved, called a *Protest*, giving a detailed account of the casualty. This is sworn before a Notary or Consul. The invoice and bills of lading relating to the shipment have to be produced to the underwriter, as evidence that the insurance was *bona fide*, and that the goods were actually on board the vessel.

2. **Constructive Total Loss.** This has been defined as follows : " A constructive total loss occurs when the subject insured, though existing in specie, is justifiably abandoned on account of its destruction being highly probable, or because it cannot be prevented from actual total loss unless at a cost greater than its value would be if such expenditure were incurred." " Existing in specie " means that the goods are capable of being utilized as the thing insured. For example, if a cargo of hides were so damaged as to be utterly valueless as hides, and had to be sold for other purposes than to be made into leather, the hides would not be regarded as existing in specie.

GENERAL AVERAGE. This term signifies that the owner of the ship and cargo generally are liable to make a *pro rata* contribution towards any losses sustained or expenses incurred where other property or part of the ship has been sacrificed for the general good, and for the safety of the ship and cargo generally. In order that general average may arise, there must have been—

1. A loss incurred intentionally ;
2. The avoidance of a danger common to the interests of all parties ;
3. An absolute necessity for some sacrifice to be made ;
4. The preservation of the ship and some proportion of the cargo ; and
5. No default on the part of the person whose interest has been sacrificed.

The adjustment of claims under general average is frequently a matter of great complexity, and in all cases it is put in the hands of an average adjuster. The selection of the adjuster lies with the shipowner. The owner of the sacrificed cargo has to contribute his proportional share of the loss ; the sacrificed cargo, for the purpose of contribution, is regarded as not lost. Thus, suppose cargo of the value of £1,000 is jettisoned, the value of the ship and remaining cargo being £9,000. The amount to be allowed in general average is £1,000 and the contributories to that loss are £10,000.

Therefore, the property saved (£9,000) contributes nine-tenths of the £1,000 (or £900), and the owner of the value of the property sacrificed contributes one-tenth of the £1,000 (or £100). By the general average, the owner of the cargo receives £900, and has sustained a net loss of £100.

If the cargo sacrificed was insured for £1,000 the underwriter is liable for the owner's contribution of £100; if it was insured for £1,250, the underwriter would still pay only the amount of the contribution required, namely, £100; but if the goods were insured for only £500, the underwriter, having insured only 50 per cent of the value, would be liable for only 50 per cent of the contribution, namely £50, and the owner himself would be required to bear the balance of loss.

Particular Average. If parts of the ship or cargo are damaged by accident and not sacrificed deliberately for the safety of the rest of the ship or cargo, the loss falls on the owner, and he must recover from the underwriters, if he has been insured for particular average. Lloyd's policy, in its printed wording, is a f.p.a. (free particular average) policy, i.e. the insured is covered against total loss, collision, grounding, fire, and general average, but not against *particular average.* These conditions are often altered to cover any kind of particular average, the premium being higher according to the amount of risk the underwriter undertakes.

The great majority of claims come under particular average. Parts of cargo are damaged by sea water or other risks insured against, the loss falling exclusively on the owner of that part of the cargo; a claim therefore arises in respect of the particular damage sustained. The underwriter is liable only for the depreciation of the goods caused by the damage, not for the difference between the insured value and the net amount realized by a sale. The insured value might be greater than the value of the goods in sound condition at the time of the claim, and if the underwriter had to pay the difference between insured value and proceeds of sale, he would be involved in the effects of the fluctuation of the market, a matter with which he has no concern. The depreciation may be assessed by brokers who certify as to the value of the goods in a sound condition, and as to their value in the damaged state, or the depreciation may be ascertained by selling both the sound and damaged goods by public auction, thus placing the respective

values at the time of the claim beyond dispute. The difference is taken between the gross sound value and the gross proceeds, and the ratio of this difference to the gross sound value expressed as a percentage. The underwriter is liable to pay at that rate per cent on the insured value. For example, a certain number of bales of cotton are insured at £2,500. Half are damaged by sea water. The whole are put up to auction. The sound half sells for £1,000 without deducting charges; the gross sound value of all the bales is therefore computed at £2,000—

The damaged bales sell for (gross) .	£500	
The sound bales for . . .	£1,000	
		1,500
Loss . .		£500

The depreciation is therefore 25 per cent, £500 being one quarter or 25 per cent of £2,000. The underwriter has to pay 25 per cent of £2,500, the insured value. Had the cotton been insured for only £1,500 he would pay 25 per cent of £1,500.

CHAPTER XL

WAREHOUSING

THE economic value of storing goods which were not required for immediate consumption was recognized even in ancient times.

PRIMITIVE WAREHOUSING. Surplus quantities of grain were regarded as particularly suitable for preservation, and in all corn-growing countries these were stored away in holes dug in the ground, and were used to supplement the ordinary crops in less productive areas and to safeguard the population against famine.

MISUSES OF WAREHOUSING. At this period such accumulations of grain undoubtedly exercised a beneficial influence, although subsequently they began to assume a different character. Throughout the Middle Ages they were employed in the extensive manipulation of corn prices which, in consequence of the prevailing greed, led to the creation of an artificial scarcity. This state of affairs was aggravated by the absence of suitable means of transport, which prevented outside supplies from being obtained. They now became a serious danger to the well-being of the community and Colbert, the Finance Minister of France, without shutting his eyes to the benefits to be derived from the system of warehousing, was the first to oppose the evils resulting from its abuse. For a time he prohibited the use of warehouses with the object of abolishing the obnoxious evils which had become associated with them ; and when he permitted their introduction, they were to be managed on entirely new principles.

Bonded Warehouses. With the admission into storage of dutiable goods, Colbert established the so-called *Bonded Warehouses*, and thus gave an impulse to the foreign trade of France. This conception inaugurated a new and flourishing era in the history of warehousing. When men like Walpole and Pitt adopted this idea of Colbert and tried to introduce it into England, they gradually succeeded in surmounting the opposition of the great English merchants, who naturally feared the competition of smaller traders. Warehouses were established at nearly all the English ports, where, as in London, continual extensions and improvements were made in the port and dock arrangements.

THE DEMAND FOR WAREHOUSES. With the growth of commerce the need for public warehouses arose in all the more civilized countries. This need was intensified by the improved means of communication consequent upon the Industrial Revolution, and perhaps in an even greater measure by the introduction of railways which rendered the cornering of bread much more difficult. Hence, warehouses gradually lost their mediaeval character and became entirely subservient to the needs of the community. To-day they are managed as business concerns engaged in the storage of goods for third parties.

THE FUNCTIONS OF WAREHOUSES. The functions of warehouses are two—

1. They assist merchants and traders in ports and inland centres.
2. They help to mitigate temporary evils such as are caused by famine and drought, lack of shipping facilities and commercial crises. A certain reserve being always kept against the occurrence of such necessitous circumstances, consumers were protected from unnecessary suffering.

Although all goods do not lend themselves to warehousing, the system is applicable to most raw materials and partly-finished goods. While the goods are in the warehouse, the owner may subject them to various processes to fit them for the market, such as the re-packing and mixing of tea, the packing, vatting, mixing, and bottling of wines and spirits, the roasting of coffee, the manufacture of certain kinds of tobacco, etc., and in case of dutiable goods certain specific allowances are made by the Revenue authorities in respect of waste arising from such processes or from leakage, evaporation, and the like. During the whole period of warehousing the merchant need not trouble about the condition and safety of the goods. All this business is undertaken for him by the warehouse-keeper, and until the state of the market is satisfactory he can calmly wait, without fear of loss or damage arising from the warehousing operations.

The rates and charges for warehousing are adapted to local needs and arranged to suit the particular kind of goods received for storage; at the same time the charges must be such as to cover the expenses of the warehousing authorities.

Usually the warehouses are in close touch with the transport facilities, which ensure a steady development of trade. However,

warehouses can become economically independent only when the mercantile community assures a regular and uninterrupted employment of the warehouse staff by the continuous employment of the facilities provided.

Warehouses are chiefly used by that section of the business community which deals in the staple raw materials. The warehouse authorities allow of the sale of the goods stored, or they may be used as security for the raising of loans. In consequence, every person who has goods in storage has it in his power to influence the state of the market. He can sell them at any time or he can use them for the purpose of hypothecation. Here lies the real economic significance of the warehouses; they facilitate the distribution of goods; they admit of increased mobility of the capital invested in the goods; and they provide a sound basis for a far-reaching extension of credit. All these are advantages which tend to augment the national dividend.

WAREHOUSE WARRANTS. In order that the benefits of warehousing may be fully realized, warehouse receipts have been introduced which admit of the stored goods changing ownership without the necessity of a bodily transfer of the goods. These warehouse receipts contain the particulars of the goods—their nature, quantity, and other characteristics—together with an acknowledgment by the warehouse authorities that they have received the goods from the depositor, and an undertaking to deliver them up to anybody who can give documentary proof of ownership. This receipt takes the place of the goods themselves; hence if, in addition, it is accompanied by samples it provides the necessary basis for the valuation and sale of the goods. The transfer of this document to a third party is equivalent to the transfer of ownership, but with this additional advantage: the goods need not be moved; hence the saving in the costs of transport and of handling tends to make them cheaper. Moreover, this document is the security for a loan on the warehoused goods which a banker willingly extends in return for a lien on the goods. In this way, it is possible for a business concern to turn over its working capital without previously having to dispose of its goods.

There are two kinds of warehouse receipts, viz., the *single warrant* and the *duplicate warrant*. In the case of the former, the warrant serves the purpose both of hypothecation and of sale. In the case

of the duplicate warrant, there are two separate documents issued, each having the same wording, and together they constitute the warrant proper.

In England the warrant dominates the entire distribution of goods and is connected with business in such a way that it must be recognized as one of the chief factors which have brought about the commercial supremacy of Britain, and especially of London, in the markets of the world.

AUCTION SALES. The development of the warrant system coincides with the improvement of English docks, and these in turn have led to the rise of two further institutions in the wholesale trade, viz., the auction sales (i.e. those sales on a large scale which regulate the London market) and the brokers, who, as middlemen, hold in their hands all the threads of British trade. The great auction sales which take place in London in certain classes of goods either weekly or several times a year, are held by the brokers in accordance with instructions from the importers. The brokers issue the printed conditions of sale ; they determine the amount of the deposits to be made ; they give information regarding the prompt, i.e. the date on which the balance is payable ; they carry out the sale and collect the deposit.

Warehouse Warrants and Weight Notes. The settling days usually take place on the first or, at the latest, on the second Saturday after the sale, and on this day the selling broker receives from the Dock authorities the warrants, with Weight Notes attached. The broker must be able to identify himself with the duly endorsed bill of lading before he is entitled to the delivery of both warrants. The wording of both vouchers is identical except that one stipulates that a weight note and the other that a warrant is in existence. In addition, the weight note contains the obligation clause of the selling broker stating that the goods have to be delivered to the buyer or to the last endorsee only on payment of the balance. As a rule, even before the sale has taken place, the broker advances to the importer an amount up to three-fourths of the value of the goods, and against this advance he is allowed to retain the warrant which he may, at his option, transfer by endorsement. If properly endorsed and delivered, these warrants are negotiable instruments. They entail a transfer of ownership of the goods mentioned therein to the holder, who, in the event of bankruptcy, has preferential

rights. The mere receipt of the warehouse warrant does not constitute a warrant. The weight note also must be handed over by the broker to the depositor who can effect a sale by writing his endorsement on this document. In most cases, however, the broker finds a buyer who, on payment of a deposit of 20 to 25 per cent of the purchase price, is handed the weight note and has to pay the balance within a certain time limit called the *prompt*. This date, together with the amount of the deposit and the balance owing, are all noted on a slip attached to the weight note. On the other hand, the warrant makes no mention of the purchase price. The goods are stored at the risk and for the account of the seller, i.e. the broker, until the balance is paid by the buyer; in consequence, any damage incurred during this time does not fall on the buyer but on the broker. After the expiration of the prompt the buyer who wishes to pay the balance goes to the broker, pays him and thereupon receives the warrant. At this stage the goods pass into the full possession of the buyer. But where the first buyer has passed on the goods to another buyer through the weight note, or where before the expiration of the prompt he has borrowed money on the goods to the extent of the deposit, he does not thereby cancel the obligations into which he entered on making the purchase. He merely transfers ownership on the understanding that he retains all rights embodied in the documents and which only admit of the delivery of the goods by the warehouse-keeper on the presentation of the weight note and warrant combined. The endorsee can acquire the right of free disposal of the goods only on payment of the balance. Nevertheless, the buyer need not adhere to the prompt under all circumstances; but he can demand the delivery of the goods before the expiration of this time limit where he acquires possession of both documents by paying the balance.

In any case the weight note loses its significance after the expiration of the prompt, and the goods will be delivered only to the owner of the warrant by which it has been superseded. The case is different where the warrant cannot be redeemed by the buyer on the due date, for here the broker or the first seller, i.e. the importer, has passed the document. In that case the broker takes the buyer's cheque for the balance to the first seller, who in his turn makes out a cheque to his creditors, etc., until the present holder of the warrant has been found; the latter then hands over the document

to the broker. As a rule this process does not take long because the circulation of the warrants is restricted to London, and all the firms engaged in this kind of business are in the City. The clearing of the cheques is carried out, without difficulty, by the clearing house.

The Warehouse Warrant in Trade. The position which the warrant has acquired in British commerce rests solely on the personal confidence which is reposed in each other by the merchants, who have practically monopolized this form of business to the exclusion of the smaller traders. There are no written laws relating to the warrant, but by the custom of merchants it is regarded as a security which gives the holder an independent claim to the goods represented by it.

During the prompt the merchant regards the weight note as an interim warrant in contrast to the warrant proper. The representative of the goods and the document of title is naturally the warrant. This conception attributes to the warrant an independent character even when it is not accompanied by the weight note, and confers upon its holder the right to pledge the goods and to transfer a good title to a *bona fide* receiver for value.

The warrant resembles the bill of lading since it represents the goods, provided that it is properly endorsed or in some other way transferred to a person as the buyer or owner of the goods. This transfer of the warrant is effected by endorsement, or in some cases by the mere delivery of the document to a *bona fide* holder for value. By this means the same effect is given to the transfer of the warrant in regard to the right of retention as is implied in the transfer of the bill of lading. The position of the buyer or the holder of the document affects the transfer and the termination of the actual rights of the seller. The latter can assert his right of retention only so long as he has the goods in his possession, or so long as they are on the way to the buyer who has not yet paid—technically known as right of stoppage in transitu.

The issue of warrants with weight notes is restricted by the custom of the trade to transactions with a long term of credit, and is not the system most extensively in use. In the Mincing Lane goods, i.e. coffee, tea, spices, the importers or the holders of the bill of lading issue ordinary warrants or delivery notes without any other papers attached to them, and they bear the name of the

recipient of the goods, or they may be issued to order and have a blank endorsement. They serve equally for transfer of property or of lien, and the goods are delivered only to the person presenting the document. Any mortgage on the goods is not marked on this instrument.

In England, as elsewhere, merchants try to keep their business as secret as possible, and for that reason the warrants are frequently issued to the broker or the wharfinger or even to employees of the firm, and in the event of any loan being raised on them, they are generally deposited with a bank, where the owner of the goods keeps an account. Frequently the warrant itself serves as security for a loan, but it is frequently accompanied by a letter of hypothecation. Loans are generally limited to not more than three-quarters of the value of the goods. This ordinary warrant is rarely passed on, and as a rule remains in the hands of the banker who thus acquires a conditional ownership in the goods. In the case of the debtor's failure, the banker has the right to dispose of the goods on behalf of the debtor, without legal proceedings.

THE PRIME WARRANT. The third form of warrant is the *prime warrant.* Such a document is issued to the importer when he requires a quick loan and cannot wait until the goods have been prepared for sale—weighed, measured, or split up into lots. Hence this particular warrant shows only approximate quantities and the warehouse authorities accept no liability for the quality. The purchaser of such a document is compelled to go in person to the place where the goods are stored and ascertain their condition. When the owner of a prime warrant has found a buyer, who, on payment of a deposit with a long prompt, requests a warrant with weight notes, the broker procures the issue of these papers in exchange for the prime warrant. The buyer then receives the weight notes on payment of the deposit.

THE DELIVERY ORDER. Of an entirely different nature from the three above-mentioned warrants is the *delivery order,* which is issued for inland products. From the legal standpoint the delivery order is not a document of title which transfers ownership in the goods, but is merely an order to deliver.

In accordance with custom these warrants are issued for fixed quantities, especially in the case of pig-iron, copper, and tin; the quantity customary in the trade is 25 tons in the case of copper

warrants, 500 tons with iron warrants, and 5 tons with tin warrants. However, as a rule these papers circulate in exactly the same way as other warrants, and in practice very little difference is made between them. In order to avoid disputes the words " free from any vendor's lien " are usually marked upon them.

THE USE OF WARRANTS. In regard to the magnitude of the dealings in warrants, there are no available statistics. Most of the docks are private property and are controlled principally by the railway companies. There are a number of large dock companies, and apart from these there are a large number of wharves, both on the upper and lower reaches of the Thames, which are public warehouses carried on by private enterprise. Amongst these wharves there is keen competition which is accentuated by the continually decreasing shipping on the Thames. There is generally no distrust against the warrants of most warehouses. Forgeries of warrants are very rare and caution is recommended only in the case of small wharves. The State does not exercise any kind of control over the warehouses, except in so far as dutiable goods are concerned, in which case there is supervision by the Customs authorities. In London there are no state warehouses, and only in a few ports, as for instance, Liverpool, are the docks under state administration. But the warehousing which the State undertakes here is not intended to yield a revenue, but merely to assist commerce in these places. The State is in the position of a private owner and legally is on exactly the same footing as the other warehouse companies.

Dealings in warrants with weight notes is restricted almost entirely to London, and even in Liverpool they are but rare. In the latter place the brokers frequently own the warehouses and habitually issue warrants for the goods warehoused with them. These warrants are then used to raise money.

Warrants in Scotland. In conclusion mention may also be made of the dealings in warrants in Scotland, the centre for which is the Glasgow Exchange, where Scotch iron is dealt in. Warrants are issued by the warehouse company for the quantities of iron deposited with it, and are generally for quantities of 500 tons. They entail the obligation to deliver on demand to the holder of the warrant iron of the same quality and quantity as specified in the warrant. When a sale is effected the holder of the warrant gives an endorsement in blank but with the express remark " without recourse,"

and the storekeeper posts the transfer to the new owner in his books. These transactions are usually conducted on the basis of contract notes, a fact which gives rise to a large amount of margin business, i.e. dealings in differences. Spot and future dealings are undertaken, the prices for which are determined by demand and supply. Even on these warrants, loans may be raised and the banks make advances on them up to two-thirds of their value. As a rule, however, such warrants are withdrawn from circulation and remain in the keeping of the banker.

TEST PAPER VI

1. Take any article in your possession and give as full an account as you can of the organization involved in rendering it available for your service.

2. What is meant by the balance of trade ? In August, 1914, the American Exchange was favourable to this country ; in January, 1923, it was very unfavourable. State shortly the main causes of this change.

3. The value of goods in a market is said to depend on the estimates formed of their worth and their cost by buyers and sellers respectively. Analyse this statement and show why in one market there is one price for the same quantity of goods of the same quality.

4. What do you mean by speculation ? A future containing either a single or a double option has been variously described as " a gambling transaction, a speculation, and a normal business method for equalizing risks and making contracts with certainty." Examine this quotation. Each of these statements is true.

5. " The function of the produce exchanges is to reduce fluctuations in prices, and to direct goods to their best uses." Discuss this statement.

6. What special advantages or risks are caused to a manufacturer by the existence of a " future market " for his chief raw materials ?

7. Examine the practice of direct trading, in its relation to (*a*) the manufacturer, (*b*) the retailer, (*c*) the general public.

8. Give a brief synopsis of the various ways in which manufacturers of different kinds of goods get their commodities into the hands of the ultimate consumers ; and institute a summary comparison of them.

9. A City merchant receives from abroad an order for goods, which in due course is executed. State as fully as you can the various documents that will have to be prepared in connection with this order, from the time of its receipt in London down to the date when the goods are dispatched.

10. Enumerate the chief forms of retail trade.

11. Write full notes on the following report on the cotton market Futures are 13½ to 21 points higher, the nearer positions being mos affected, closing barely steady. February, 5·53½; February–March 5·53; March–April, 5·55; April–May, 5·56½; May–June, 5·58 June–July, 5·58½; July–August, 5·58; August–September, 5·56 September–October, 5·52½; October–November, 5·50; November-December, 5·49½; December–January, 5·49½; January–February 5·49½; Egyptian futures are 5 to 14 points higher.

12. Explain the reason why merchants should quote different kinds of prices for the same goods. Give six different prices made for goods and show wherein they differ.

13. Why is advertising an economic factor in distribution ?

14. In selecting the media for advertising—

(*a*) a departmental store,
(*b*) a breakfast food,
(*c*) an expensive motor-car,
(*d*) a cheap brand of cigarettes,
(*e*) a cheap patent medicine,
(*f*) a ten-guinea correspondence course in salesmanship,

which type of journal would you recommend in each case ?

15. "The tendency in every direction is towards the elimination of the middleman." Consider this statement, and illustrate your remarks by examples from actual business practice.

16. The counting-house staff of a wholesale trader consists of ten persons, including the manager. What duties would you allot to each ?

17. Certain commodities are customarily quoted "spot," and also for three months ahead. What is the object of this double price, and how does it differ from the double price on the Stock Exchange ?

18. What are the most important statistics which should be kept by a business house ?

19. Which method of inland communication is likely to be the most important in the future—the road, the canal, or the railway ?

20. The construction of the Suez Canal was expected to restore commercial supremacy to the Mediterranean ports. The opening of the Panama Canal will, it is said, benefit the east coast ports of North America at the expense of Europe. Consider these statements and estimate the possible modifications of trade routes consequent on the opening of the Panama Canal.

21. Write an account of the registration of shipping in the United Kingdom.

22. Under what conditions are liners and tramps likely to prosper ? Is the system of deferred rebates a legitimate means of protecting the former ?

23. Give the substance of the main clauses of a Charter Party. Write short notes on any three of them.

24. During a storm at sea a ship has deck cargo washed overboard, the master orders the foremast to be cut away to save the ship; two

boats are damaged by the sea, a third boat is sacrificed voluntarily; the ship springs a slight leak, and £1,000 worth of cargo is spoilt. On whom will these losses fall under (*a*) an ordinary marine insurance policy, (*b*) a policy covering all risks ?

25. A merchant has merchandise stored in the warehouse of a wharfinger in London valued at £10,000. This merchandise is insured against fire with an insurance company. A fire occurs by which the merchandise is totally destroyed. State briefly what are the rights or obligations of the merchant, the wharfinger, and the insurance company respectively.

26. " The grouping of the railways of Great Britain into four systems will render necessary a modification of the organization in the direction of the Divisional System." Give a brief account of the Divisional System of Organization, and criticize the above statement.

27. What do you understand by any four of the following terms in relation to a policy of marine insurance ? Perils of the sea ; barratry ; particular average ; general average ; valued policy ; voyage policy ; constructive total loss.

28. " Fruit and vegetables are unique in the number and variety of intermediaries who may, at times, be engaged in handling the produce and whose sole service is that of distribution." Explain and elucidate this statement.

SECTION VII

VOLUNTARY ORGANIZATIONS

CHAPTER XLI

FORMS OF VOLUNTARY ORGANIZATIONS

THE term " organizations " here signifies the combination of private household economies or undertakings, or both, for the attainment of some common end. Strictly interpreted the private household economy and the undertaking each represent an organization, but since we have already discussed these two types of organization we shall now confine ourselves to those organizations which result from the formation of an alliance between members of private household economies or undertakings, or of both. Organizations, likewise, participate in the economic struggle. A distinction must be drawn between compulsory and voluntary organizations, and in this connection compulsory organizations signify public organizations such as the municipal and other local authorities, and the State; voluntary combinations include all those combinations in which membership is at least outwardly free. Organizations may be forced upon the economically weaker by the economically stronger, or the economically weaker forces may combine against the stronger; in any case, the aim is always in the direction of increasing the measure of economic influence by the concentration of their power. In modern times the " organization " is the most important means for the union of the forces of the economically weak in the struggle against the strong and ruling powers. But although the motive nowadays stands in the foreground, it is by no means the exclusive one. An organization may also come into existence as a result of the common interests of both the strong and the weak, in order to surmount the natural hindrances to man in the production and distribution of commodities; although, such a combination may take place under circumstances which do not make immediately apparent the community of interests.

TYPES OF VOLUNTARY ORGANIZATIONS. These are associations of persons engaged in production and distribution for

the purpose of protecting their interests and of facilitating and fostering mutual intercourse. There are two main classes of voluntary organizations, viz.—

1. **Voluntary Organizations with Profit-earning Tendencies.** These concerns are themselves engaged in trade and usually consist of the combination of a number of undertakings or household economies for the purpose of facilitating or restricting production, limiting competition, regulating prices, etc.

2. **Voluntary Organizations without Profit-earning Tendencies.** These consist of concerns which without engaging in trade, aim at providing facilities for the transaction of business or social intercourse. They assume a great variety of forms, such as chambers of commerce, co-operative societies, exchanges, public sale rooms, educational societies, political and social clubs. The table between pages 366 and 367 shows the main types of such voluntary organizations.

CO-OPERATION OF PRODUCERS IN AGRICULTURE. Voluntary organizations among farmers, peasants, or agriculturists exist for many different purposes. The chief forms of co-operative organization in agriculture may be classified as follows—

1. Societies or associations for co-operative supply of the instruments and means of production ;

2. Societies or associations for co-operative production, e.g. creameries, dairies ;

3. Societies or associations for co-operative marketing ;

4. Societies or associations having a variety of miscellaneous co-operative objects, e.g. co-operative insurance.

It should be noted, however, that there is no rigid separation of function in the societies actually existing ; a single society may and often does perform two distinct functions. It may, for instance, as in the case of a dairy, perform both the function of production and that of marketing.

With a view to simplifying and improving the distributive processes, efforts are being made in this country to encourage the marketing of produce on co-operative lines.

The organization of growers for the combined marketing of their produce may take the form of—

1. **Co-operative Societies for Bulking the Produce of their Members,** arranging contracts and marketing through the ordinary wholesale

channels. This is a form largely adopted by growers in the United States. Societies in this class claim that—

(*a*) They strengthen the position of members in relation to salesmen and buyers. Separate sales accounts are sent to the society for transmission to each consignor ;

(*b*) They reduce speculative buying by dealers from individual growers ;

(*c*) They save growers a considerable sum in respect of transport costs, by arranging bulk consignments at reduced rates ;

(*d*) They save growers trouble and expense by arranging for the daily collection of marketable produce ;

(*e*) They save salesmen trouble by bulking a number of small consignments of different kinds which leads to modified commission charges ;

(*f*) They safeguard growers against bad debts ;

(*g*) They ensure honest packing, eliminate overlapping, regulate distribution, and stabilize prices.

2. **Societies Controlling Co-operative Auction Marts in Producing Districts,** where produce can be offered for sale daily during the season on a scale sufficient to attract buyers from a distance. These societies claim that they afford to growers extensive benefits among which are the following—

(*a*) Public sales by auction or contract sales made by the market prevent the exploitation of the grower, who sees his own produce sold and knows the price realized ;

(*b*) By bringing buyers to the producing area, competition is set up, causing an upward movement of prices as opposed to the depressing effect on prices of competitive underselling by commission salesmen in city markets ;

(*c*) Produce finds its way automatically to the point of greatest demand instead of accentuating a glut in an already over-supplied city market ;

(*d*) Produce can be sold at any time without pre-arrangement, which is a considerable convenience in changeable weather ;

(*e*) No financial risk is involved and prompt payment is obtained ;

(*f*) Service is rendered at cost ;

(*g*) Constant supply of empties is ensured, thereby saving a considerable sum in pre-market costs, including the cost of railing empties from a commission salesman ;

(*h*) Bad debts are eliminated;

(*i*) Current prices are published daily and extensively in the producing area concerned;

(*j*) Daily collection of produce from small growers is arranged for.

Societies in this class also claim that they afford the following benefits to their customers—

(*a*) Only carefully packed goods are sold;

(*b*) The empties are provided by the market;

(*c*) The system of local agent purchase is economical;

(*d*) Produce is available for inspection before sale and is always obtainable in its freshest condition.

3. **Societies Controlling Co-operative Auction Marts in Consuming Districts**, where produce can be sold direct to the retailer or consumer. As yet, these societies are not far advanced, but it is claimed that the grower benefits—

(*a*) By knowing each day exactly what price his produce has made;

(*b*) By the fact that it is sold by his own representative at the minimum cost.

In a general way co-operative selling, whatever form it may take, is stated to induce a progressive spirit among growers which leads automatically to improved methods. It is conceived solely in the interest and for the benefit of members, and it relieves growers of the worry and anxieties of marketing, leaving them free to concentrate upon the business of production.

VOLUNTARY CREDIT AND BANKING ASSOCIATIONS. The two best known types of credit societies are the Schulze-Delitzsch and the Raiffeisen, which have experienced their greatest development in Germany. Apart from their differences in constitution and structure, these two types are characteristic of a difference in function which runs through the whole of co-operative credit in every country. The Schulze-Delitzsch bank supplies credit or loans to the small industrialist in towns; the Raiffeisen bank supplies credit to farmers and agriculturists.

The aim of the Schulze-Delitzsch societies was to assist townsmen, especially the small craftsmen working on their own account, the joiners, shoemakers, and so forth; and the intention was to do this by stimulating their thrift. The idea was to gather together

into a voluntary organization a number of persons, each individually weak economically but whose combined capital, savings, and deposits would be sufficient to provide the credit upon which the bank might borrow money and lend it to its members. The membership of such an urban bank is always found to consist mainly of small craftsmen, shopkeepers, and small professional men. It follows that this kind of co-operative credit will establish itself only where the small independent handworker still exists, or where the small shopkeeper has an instinct for co-operation. Outside Germany the urban bank has established itself mainly in Italy, though it also exists on a small scale in France, Belgium, and Switzerland.

The establishment of rural Raiffeisen banks has not been subject to the same limitations as the urban movement. In many continental countries the peasant or small farmer exists in large numbers, and more often than not they are burdened by debt contracted with money lenders on usurious terms. In all these countries the scope for voluntary organizations for providing credit to the small agriculturist is very great, and there has in fact been a considerable extension and development of this kind of co-operation. Thus, in Germany the whole of agricultural co-operation has developed from the Raiffeisen rural banks, and the credit associations remain the pivot of the whole movement.

CO-OPERATION OF PRODUCERS IN MANUFACTURES. Voluntary organizations among manufacturers take many forms, according to national conditions and characteristics. In the United States where things run to bigness, it has culminated in mammoth Trusts; in Germany, where the herd instinct is strong, it has taken the shape of the Cartel. The Trust and the Cartel, being spectacular and therefore suited to journalistic treatment, have received a good deal of attention, but it would be incorrect to suppose that the movement towards combination has been confined to Germany and America, and that Great Britain has been thus far little affected by it. Although British trade associations make little parade of their existence or achievements, there are few corners of British industry in which some kind of trade association is not to be found, and some of them can show a thoroughness of organization not easily surpassed.

The forms taken by combinations of manufacturers and traders in Great Britain may be described under four main heads—

1. The Honourable Understanding ;
2. The Trade Association ;
3. The Combine ;
4. The Consolidation.

Honourable Understandings. The simplest type of voluntary organization is that which occurs where a number of manufacturers or traders, who would otherwise be competitors, meet from time to time and arrive at an " honourable understanding " or " gentlemen's agreement " in regard to prices, output, division of business, etc. Such arrangements are essentially informal and temporary. There are no documents ; there is no association ; there is no bond except that of good faith.

Combinations of this kind, which may be termed *understandings*, are a common feature of local trade, a familiar instance being the occasional informal consultation of coal-dealers or other tradesmen of a locality as to the price to be charged by all, or the districts which each shall serve, but evidence of similar understandings in respect of trade operations on a national and even international scale is not lacking.

Associations for the Regulation of Trade. The second kind of voluntary organization is that in which a large proportion of the manufacturers or traders in a particular line of business form an association for the purpose of regulating the trade. Associations are properly constituted bodies having rules, constitution, officers, subscriptions, entrance fee, etc.

The methods of trade regulation are various. Some associations simply fix a schedule of prices to which all must conform, others have arrangements in regard to tenders for contract work ; others regulate output by allotting to each member a fixed percentage of the total production, whatever that total may be, with penalties for exceeding the quota and compensation for falling short. Some partition out the home market, or the foreign trade, among the members, and some have from time to time reinforced their control of the markets by agreements with similar foreign associations as to the amount which shall be exported from each country to certain markets.

The distinguishing feature of the association is that each component firm remains a financially *separate* business concern, with full freedom of action in all matters that are not ruled by the association.

The Combine. A more advanced type of voluntary organization is that commonly known as the " Combine." In this combine a company is formed to acquire a number of firms in the same line of business, the proprietors being given in exchange an interest in the acquiring company.

The component firms may continue to be separate registered companies ; or they may, while carrying on business as separate concerns, be in fact financially merged in one *holding company*. In either case the former proprietors of the merged businesses hold shares in the combine, and may also have a bonus on the earnings of their former businesses which remain under their direction subject to financial and other control by the combine. In combines of the more loosely connected type the buying and selling may remain wholly or partly in the hands of the component firms, but in the more compact combines the whole of the business is done by the central organization and the separate establishments work entirely to the orders of the central office.

Combinations of this type in the United Kingdom are found mainly in the textile industries (bleaching, dyeing, and spinning), and in the wall-paper and cement industries.

The Consolidation. The fourth type of voluntary organization occurs where two or more firms become merged into one. Sometimes it is a coalition of equals ; sometimes a powerful concern buys up one or more smaller rivals.

Big amalgamations created in such ways may conveniently be called " consolidations." They are found mostly in the iron and steel, mining, chemical, soap, and sewing cotton industries. Sometimes they are, like the combine, of the " horizontal " class, i.e. are formed of firms engaged in the same line of industry and at the same stage of production ; in other cases they are of the " vertical " class, being fusions of firms representing successive stages of production as, for example, coal- and iron-mining, pig-iron, steel, and ship-building.

The understanding, the association, the combine, and the consolidation cover by far the greater part of the whole field of that

industrial combination in the United Kingdom which results in the concerted regulation of trade, but they are by no means exhaustive. Other examples will readily occur : the recent great banking amalgamations, the shipping rings, the multiple shop system, the tied house system in the licensed trade, and the control exercised over tobacco, meat, and other commodities by interests outside Great Britain.

VOLUNTARY ORGANIZATIONS ENGAGED IN COMMERCE. Modern commercial associations may be divided into three main types, viz.—

1. Chambers of Commerce and associations which aim at becoming representative of general commercial interests.

2. Associations or institutions which represent particular trades or branches of trade.

3. Trade Protection societies which look after the interests of retail as well as wholesale traders.

Chambers of Commerce. The establishment of Chambers of Commerce in different localities is now almost universal. They are voluntary organizations formed to promote and protect general trade interests, as distinct from trades of a particular class. In Great Britain they are usually in federation with a general Association of Chambers of Commerce which meets in London. The local chambers are also in touch with local societies connected with particular trades, and these societies are often directly affiliated with the local chambers. Not only do the Chambers of Commerce act as a medium for intercourse between commercial men and for the general promotion and protection of their interests, but the Government itself takes advantage of their existence in order to obtain, as well as to disseminate, useful commercial intelligence and advice. Chambers of Commerce are available for arbitration in mercantile disputes ; they discuss commercial matters and suggest reforms ; promote commercial and technical education ; and collect and distribute statistical and commercial information. The London Chamber of Commerce was not incorporated until 1881, but is now the most influential in the United Kingdom, with a membership of over 8,500. Chambers in large industrial districts like Manchester, Glasgow, Liverpool, and Cardiff have also a large membership and play a very important part in the commercial life of their respective communities.

Associations Representing Special Trades. These are associations of merchants and manufacturers engaged in a particular trade. Such associations, which are very numerous, are able to perform a useful service by representing the interests of their members. They achieve their objects in a variety of ways such as the petitioning of the local or central governments, the holding of meetings, and the placing of information at the disposal of their members. The London General Shipowners' Society, and the Liverpool Shipowners' Association may be mentioned as representative. The Chambers of Shipping and Shipowners' Associations joined forces in 1878 in order to establish the Chamber of Shipping of the United Kingdom, which does for them what the Association of Chambers of Commerce does for chambers of commerce. The nature of most of these associations is usually indicated by their titles and they exist in the cotton, woollen, coal, and nearly every other industry. Such organizations in this country exercise a great influence on the development of trade by the establishment of general conditions of business and the adoption of uniform methods.

Trade Protection Societies. These are associations formed for the purpose of safeguarding the interests of those who are engaged in trade or in financial matters generally, by giving information as to the stability or otherwise of persons desirous of obtaining credit. For a reasonable membership fee the trader can become a member of one of these societies which gives him the right to obtain from them, whenever he so desires, confidential reports upon new or old customers. Trade Protection Societies constitute a sort of clearing house for information concerning a prospective customer's reputation. The information is collected through the society's own agents and is supplemented by such additional information as may be solicited from or given voluntarily by undertakings who have had dealings with the people in question.

CHAPTER XLII

ASSOCIATIONS OF EMPLOYERS AND EMPLOYED

LABOUR ORGANIZATIONS. The private household economy which has to rely upon the employment of its labour-power will in all probability be able to exercise a choice from among the existing opportunities for employment in order to derive for itself the maximum reward for its services. However, it will not always be successful in its endeavour to achieve its desired goal; moreover, this struggle will undoubtedly lead to a general lowering of the level of wages because of the fact that forces of approximately equal capacity will tend to depress the competitive price. Consequent on the realization of this tendency, trade unions were created which led to the combination of supply in the labour market and the consequent mitigation or elimination of the competition in the labour market at home. At first, these organizations of workers combined in particular trades, and later expanded into whole groups of trades and endeavoured to attract the whole of the workers belonging to a particular industry. In this connection we speak of every association as a labour organization, which is composed of such persons as derive their income exclusively or preponderantly from the exercise of their labour-power, and which has been formed for the purpose of creating the most favourable conditions of work for its members. In this category, therefore, must be included the organization of workers or employees engaged in the production and distribution of goods. In 1923 the membership of the trade unions affiliated to the Trades Union Congress was 4,369,268, and was constituted as follows—

Mining and Quarrying	784,167
Railways	447,374
Transport	406,650
Shipbuilding	143,017
Engineering	443,450
Iron and Steel	158,430
Building and Furnishing	381,924
Printing and Paper	159,806
Cotton	242,222
Textiles (other than Cotton)	159,736
Clothing	98,490
Leather, Boot and Shoes	87,231

Distributive Trades	191,650
Agriculture	30,000
Public Employees	170,464
Non-manual Workers	67,530
General Workers	390,677

The above figures comprise two main types of trade union, viz., the *craft trade union*, which is based on the particular sectional occupation of the worker (e.g. Patternmakers' Union), and the *industrial union*, which includes various types of labour, provided they are all in one industry (e.g. National Union of Railwaymen). The craft union is a form of "horizontal" association, while the industrial union is "vertical" in formation. The latter type is the one favoured by those who aim at the taking over of industry by the unions. A trade union, therefore, according to this view, is not merely an association for obtaining better wages and conditions, but a basis for the future organization of industry.

AIMS AND METHODS. The aims and methods of the modern trade union are the improvement of the conditions of labour both inside and outside the factory, the introduction of shorter hours and higher wages. To this end they make collective bargains with the employer. Failing this, they may resort to strikes. The employer is in a privileged position as against his workmen; he is a combination in himself and he has the means to support himself in a long dispute. The trade unions can to a certain extent extend the same advantages to the worker.

The methods of trade unions are not confined to those set out above. They are well represented in the legislature and do much to foster legislation in the interests of labour. The arguments in favour of trade unions are—

1. They increase the remuneration and improve the conditions of labour.
2. They raise the standard of efficiency.
3. They avoid sectional strikes and facilitate settlement by agreement.
4. They encourage thrift.
5. They foster the feeling of citizenship.

The following objections have been advanced against them—

1. All combinations in the industrial system are opposed to competition.
2. They are liable to control by demagogues.

3. They seek to grow rich at the expense of others.
4. They restrict production.
5. They fix a standard of minimum conditions which tends to be the maximum.

Although the trade union is not the only form of organization which is interested in the improvement of labour conditions, the workers or employees constitute the greater proportion of those who depend for their living upon the employment of their labour-power. The ultimate aim of all these organizations is the safe-guarding of the interests of labour, although in some cases this may be striven for in a different manner, whether deliberately or unconsciously opposed to the aims of capital.

THE NEED FOR PROPAGANDA. In principle, the combination of labour ought to be of a homogeneous nature, but this is not the case, nor can it ever be the case. The prevailing and traditional differences within the labouring classes—using the term in its widest sense—and the lack of understanding of economic relationships, not only render difficult a central organization, but at first impede the formation of organizations within the sphere of the separate trades. Propaganda requires such an expenditure of labour that at first organization could only take place slowly. Even after a long period of agitation, success is by no means of such a nature that concentration of supply in the labour market has been reached in regard to any particular calling. On the contrary, the number of non-organized workers as compared with the number of workers affiliated to organizations is still very large, so that the work of canvassing new members calls for much sacrifice on the part of the persons connected with these organizations. The solicitation of new members is carried on by meetings, pamphlets, newspapers and periodicals. On the one hand, the work is hindered by the indifference of the workers themselves who do not properly appreciate the value of organization, and, on the other hand, by the counter-agitation of the employers whose interest it is to prevent the power of the labour organizations from asserting itself. Further, the diffusion of the organizations also forms an obstacle which likewise increases the difficulty of establishing a common organization. These outward impediments, however, are unable to touch the essential idea of organization which consists of the fact that the forces of labour feel the necessity of opposing the

competition in the labour market by some form of permanent organization.

TRADE UNION ACTIVITIES. Intimately connected with the work of propaganda is the fighting activity of the organizations against the employers. Small, though partial, successes rouse the indifferent workers and make them more inclined to enter the organization. In the case of the workers' organizations the struggle is manifested principally in *strikes*, in the one-sided interruption of the working process of one or several concerns in order thereby to compel the employer to concede demands or to prevent deterioration in the conditions of labour. Sporadic and partial successes, however, are not enduring and they are rendered increasingly difficult by the growing resistance of the employers. The organizations themselves recognize that progress based on these strikes, which are often rashly declared, is endangered by changes in the conditions of the market, and that the members cannot be retained in the organizations merely by propaganda work and the gaining of partial successes. Measures are therefore taken to relieve the individual worker of the risk entailed by the struggle for existence and to transfer the burden of this risk to the organizations as a whole. Provision is made for cases of *sickness* and also for *unemployment*. The granting of unemployment benefit is the chief means of retaining members in the unions in both good and bad times, for the spectre of unemployment constantly threatens the workers, and the organizations make provision to avoid the worst evils of unemployment. At first, the idea of *unemployment benefit* meets with strong opposition on the part of the workers themselves, but this opposition soon ceases with the realization of success. The bond between the organization and the members becomes closer and the work of recruiting the indifferent employees begins to show better results since the organization can offer something positive—something that provides a safeguard against an imminent danger.

THE REGULATION OF DISPUTES. With the growth of the organization the aggressive activity undergoes a most decisive change. The financial responsibility of the officials of the organization increases. Certain rules are laid down in accordance with which disputes are allowed to take place. Partial strikes are relegated to the background because, in consequence of the increasing

organizations of the workers and of the employers, disputes tend to take place on a much wider basis. The organized employers are now opposed to the organized workers. Should a small difference arise, it immediately becomes a matter for the organization, and if it results in a conflict, then business is interrupted simultaneously in a large number of undertakings. Such conflicts, which are waged by one organization against another, entail a large expenditure of capital, but they also cut much more deeply into the economic life of the workers and of the undertakings than the small partial strikes. A totally different, and more careful estimation of the chances of the struggle is necessary, for in the case of defeat the position of the losing party is shaken and may be weakened for years to come. Both sides—the employers' organizations as well as the workers' organizations—recognize the increased danger of these struggles when they oppose each other in approximately equal strength, and they are therefore more inclined to settle their differences by negotiation and to lay down the conditions of work for a certain period. Where the development of the struggle of the workers' organizations has reached this point, then the era of tariff agreements sets in, and for the first time the organizations are placed in such a position as to be able to influence the rates of pay for certain defined services in regard to a large number of similar undertakings.

THE SYSTEMATIC REGULATION OF WAGES. With these tariff agreements, the organizations enter once more into a new activity in regard to their policy; for the first time they deal with the problem of regulating wages systematically and uniformly within one or more callings, and for the whole of the undertakings in this particular line, or for the undertakings throughout the whole national economic area. In this respect it must be maintained as an essential point of view that the same services should be paid the same wages. The execution of this principle, however, encounters considerable opposition which can only be slowly surmounted. Undertakings are located in different areas where the costs for the reproduction of the commodity "labour" are different. The diversity in the working process likewise creates certain difficulties, the series of stages in the valuation of the different processes is still difficult to establish. In any case, however, the conscious endeavour to assess the value of labour in a certain calling and to regulate

wages on the basis of this assessment indicates an immense progress in the policy of the workers' organizations. It affords the possibility for the settlement of the conditions of labour and although it may take many years before this end is achieved, the slowness of the process is of no significance when we remember that such a settlement of the conditions of labour resulting from a settlement of the conditions of production can be achieved only in this tedious manner. In this way alone can the competition in the labour market be effectively opposed. The undertakings which belong to the employers' organizations are now no longer in a position as the hirers of the commodity " labour " to depend upon the unrestricted competition of the forces of labour, seeing that definite rates of wages have been laid down as the price of the particular labour services under consideration.

EMPLOYERS' ORGANIZATIONS. Whilst there are numerous well-defined combinations of labour, the combinations of capital in no way present such a united and common front. The pressure of the combinations of labour against capital is not yet so strong as to render absolutely essential an organization representing exclusively the interests of capital. Likewise, there are no organizations in the money market for the elimination of competition, such as we find in the labour market. Moreover, the need for them cannot be so strong as amongst the workers since the demand for capital is so great that there is always a use for it, in spite of the increasing supply; furthermore, the owner of capital—even in the unfavourable circumstance of his income from capital being reduced—can still fall back upon the employment of his labour-power. Although, in regard to the profitable employment of their capital, the interest of the private household economies which depend upon capital for their income is very strong, yet this interest is much less united than in the case of the owners of the commodity " labour." Furthermore, the capital economies are far too diffused to establish permanent organizations. There are so many degrees in the ownership of capital that similar groups, with practically identical interests, can scarcely be held together. The mobility of capital and the consequent mobility of capital interests are themselves an obstacle to any definite organization.

Even though permanent combinations of capitalists do not exist, yet combinations for certain purposes are not lacking, and frequently

these are more significant in their bearing than permanent organizations. These combinations may sometimes be of a tacit nature, and may arise out of a common desire amongst the various capitalists.

AIMS OF THE EMPLOYERS' ORGANIZATIONS. Thus, if capital has no organizations analogous to those of labour, a substitute nevertheless exists in the shape of the employers' associations, and their structure is such that they are suitable for the protection of the interests of capital. It has already been seen that it is the aim of the undertaking to hire the services of labour as cheaply as possible, but on the other hand it also strives as far as possible to exploit the capital market. The undertaking endeavours to obtain the largest possible profit for the *entrepreneurs*. Since to-day the *entrepreneur's* profit does, in fact, revert almost exclusively to the share of capital engaged in production, the financial results of the undertaking are a matter of significance to the capitalist. The directors of undertakings, in which the claims of labour for higher wages, etc., have been opposed, are the upholders of the interests of capital acting in the capacity of employers. To a large extent the employers, at the same time, act as capitalists. Their capital is invested in the undertakings, and their natural desire is to oppose the increasing demands of labour. However, as the undertaking loses its personal character the management tends to be placed into the hands of employees or of labour, and as the owner of capital recedes into the background the attitude of the employers towards the workers tends to change, although at first perhaps only as a matter of principle; paid-labour confronts paid-labour, and it is no longer a case of capital against labour. This transformation is only in its initial stages, but it might assume proportions which would permanently affect the character of the employers' organizations. At the present time we are still in the stage of development in which the employers' organizations represent the interests of capital as opposed to the organizations of labour.

ORIGIN OF EMPLOYERS' ASSOCIATIONS. From this standpoint the employers' organizations must be regarded as organizations of capital, and in this connection they must be treated as such. They owe their origin to the rise of labour organizations. So long as the latter had not yet come into existence, the individual

employer was in such a strong position in regard to his employees that organization was entirely unnecessary. It was not until the workers combined to oppose the individual employer, that the latter began to feel himself in the weaker position. He found himself exposed to the attacks of the workers which he could no longer ward off with his former success. This induced the employers of similar undertakings in the same industry to combine with the express purpose of setting up a counter-combination against these labour organizations.

In contrast to the attitude of capital in the process of production and distribution is that of labour. Capital is introduced into the undertaking without being in a position to interrupt unexpectedly the working process. Capital is itself something distinct from its owner; it is not bound up with the owner the same as the labour-power of the worker. The worker utilizes his labour-power only for a short time and is therefore able, through a strong combination, to interrupt suddenly the working process. The employers, likewise, in order to oppose these interruptions or to forestall them, form organizations by which the superiority of the allied workers over the individual undertaking is supposed to be neutralized. Thus it is intended to avoid the loss which is inflicted upon the individual undertaking by the combined workers in their struggle for better labour conditions by threatening the combined workers with a still greater loss.

OBSTACLES TO COMBINATION OF EMPLOYERS. The association of the employers is confronted by greater difficulties than that of the workers. In the case of the latter, they have more interests in common than the employers. The contrast between the undertakings and the social position of the employers present obstacles which make it very difficult for the organizations to force the employers concerned into active membership. Besides, it is not possible to bring about a centralized organization immediately, but it is frequently split up for a long time. Likewise the employers' organizations have to make special arrangements in order to increase their attraction for the employers. In particular, arrangements are made by which losses from industrial struggles are, in fact, refunded to the undertakings. From societies which compensate their members for strike losses, it is a natural step to the introduction of *insurance against strikes*. However, with these

measures the organizations advance but slowly, for they are unable to offer to the employers what the labour organizations offer to the workers through their friendly benefits. The best means of closing up the ranks of the employers is to be found in the pressure which the labour organizations exert upon them. The greater the danger of large strike movements, the more does the idea of combination appeal to the employers, especially if they find their position threatened. In the case of the employer, however, interest is by no means concentrated so strongly in the organization as in the case of the worker, to whom the organization offers the only weapon for the better utilization of his labour-power. Moreover, the employer is an *entrepreneur* and at the same time a capitalist. The success of the undertaking therefore depends upon other important factors so that the employers' interest in their organization is by no means so strong as is that of the worker.

CLASSIFICATION OF EMPLOYERS' ASSOCIATIONS. The employers' organizations cannot be classified according to trades but only according to industries or branches of such. Where the organization merely embraces the undertakings of an industry, or a certain branch of an industry, the organization derives its name from the industry or branch in question. In contrast, there are organizations which embrace various industries and which may be designated mixed employers' unions. According to the area covered by them, we may also distinguish local, district, and central unions embracing the whole economic area of the nation. From this dual principle of classification, there emanates a suitable division of the employers' unions into the following six types—

1. Mixed central associations.
2. Mixed district associations.
3. Mixed local associations.
4. The central associations of an industry.
5. The district associations of an industry.
6. The local associations of an industry.

The policy of the employers' organizations is bound to tend towards the centralization in such a way that the employers of the undertakings in a certain industry must combine into districts, and this basis must form the foundation for a central association of the whole industry over the whole of the national economic area. The central associations of the separate industries again

METHOD.	DESCRIPTION.	SPECIAL CHARACTERISTICS.
I. ARBITRATION.	Disputes settled by intervention of some outside party not directly affected by the dispute. The parties agree beforehand to abide by the award.	Each party promises to abide by the award.
II. CONCILIATION.	The parties concerned meet together and come to an agreement without the intervention of an outside party, though there may be a mediating party.	Settlement reached by mutual agreement.
III. TRADE BOARDS.	Set up by Trade Boards Act of 1909. The Trade Boards consist of an equal number of representatives of employers and employed, three Board of Trade officials, and a certain number of members unconnected with the particular trade.	Here we have direct government intervention.
IV. WHITLEY COUNCILS.	Joint Standing Industrial Councils are set up on which employers and employed are represented, to settle disputes and to recommend improvements in conditions of work, and matters for legislation.	The recognition of the right of the workers to a share in the management of the industry.
V. PROFIT SHARING.	The employer claims the entire management of the business but grants his employees a share of the profits.	Control is retained by the employer and profits shared.
VI. CO-PARTNERSHIP.	Employees are represented on the Board of Management and receive a share of profits.	The control and profits of the undertaking are shared between employers and employed.
VII. CO-OPERATIVE PRODUCTION.	Production undertaken by associated groups of workmen who act through an elected committee.	Labour controls its own undertaking and secures the profits.

ADVANTAGES.	DISADVANTAGES.
1. Both sides of the case are reviewed. 2. The public has the opportunity of deciding which side is in the right.	1. The award may be disregarded—the award has no legal sanction. 2. There is unavoidably an element of contentiousness attaching to the proceedings. 3. The difficulty of securing accurate data for the arbitrator and of determining the principle upon which the award should be based.
1. Agreement is reached by friendly and informal discussion and mutual concession. 2. Consequently the decision is more likely to be faithfully observed, and the existence of dissatisfaction afterwards is less likely.	1. There is no remedy if the parties fail to come to an agreement. 2. Members generally do not possess expert knowledge, and the powers of the Board as a whole are very limited.
1. Especially advantageous in trades where women preponderate and have no power for collective bargaining. 2. The evils of the sweated industries are removed.	1. It is difficult for those not connected with the trade to make correct judgments. 2. The six months optional period has led to abuse by the employers in a few cases.
1. The workers have a voice in the determination of the conditions of work. 2. The workers and employers have the opportunity of co-operating, in order to better the conditions of their industry generally, and are brought into direct communication with the legislature. 3. The councils receive government recognition.	The parties are not bound to make use of the machinery.
1. Friction between employer and employed is diminished. 2. The workers are more willing to avoid waste of materials in small ways. 3. Workers of more than average ability are attracted.	1. The reward is too remote to have any real effect on the efforts of the worker. 2. Profits are out of the workers' control, being largely dependent on the state of the market, etc.
1. The workers have an interest and do their best for their firm. 2. The workers are encouraged to remain in the firm and to keep up its reputation.	1. This is a vertical combination of employers and employed and is opposed to the horizontal combination aimed at by trade unionism. 2. The worker's interest in other workers not in his firm is weakened.
1. Workmen are united in seeking the prosperity of their undertaking. 2. Each worker is encouraged to give his best. 3. Supervision becomes unnecessary.	1. Difficulty of securing capital. 2. The limit placed on manager's authority proves a serious disadvantage. 3. Lack of business knowledge among the workers.

combine into national associations so that a complete organization of employers is erected upon the basis of the separate industries. In practice this aim has been recognized as the policy of the employers' organizations, but we are still a long way from its realization. The formation of subsidiary groups in various industries is rendered difficult where small-scale undertakings are very numerous, and where, for that reason, competition between them is very great.

INDUSTRIAL COUNCILS. One of the most important sequels of war-time developments has been the attempt to adjust the relations of employers and employees in the organization of British industry. During the War the Cabinet Committee on Reconstruction set up a sub-committee on the relations between employers and employed, to make and consider suggestions for securing a permanent improvement in the relations between employers and workmen. This committee recommended the formation of *National Joint Industrial Councils* in each industry, each council to consist of representatives of employers' associations and representatives of trade unions. In addition to National Councils, the committee proposed the formation of *District Councils*, also representative of the trade unions and employers' associations in the industry, and *Works Committees*, representative of the management and of the workers employed, instituted in particular works, and acting in close co-operation with the district and national machinery. The scheme is purely voluntary, and capable of variation to suit all circumstances. There is consequently no uniform method for the formation of these councils, but the general method is to call a conference of employers and employed, which appoints a committee to draft a constitution for the council, which must be approved by a meeting representing the whole industry before receiving " recognition " by the Ministry of Labour. Councils have now been formed in many important industries, and the principles are also being applied in the industrial departments of local authorities, and in the Civil Service.

CO-PARTNERSHIP. This has been described as an improvement on profit-sharing. It is in fact an attempt to give to labour a share not only in the profit of industry but also in its responsibilities. Industrial enterprise depends for its success on the hearty co-operation of all those engaged in it. So long as capital regards

labour as little more than human machinery and labour believes that capital is its natural enemy, genuine co-operation between the two is impossible. Convince both that each has its rights and each has its duties, and that each is necessary to the other, and a great advance will have been made towards industrial peace. This is the aim of co-partnership. It recognizes that the success of industry depends on labour as much as on capital, and it therefore gives to labour a share in the profits proportionate to its industrial importance. On the other hand, it is right that if labour shares in profits it should share in losses. This cannot be arranged justly or prudently by any diminution of the standard wages of labour, for these are the means of livelihood of the wage earner and without them his efficiency, if not his health, will suffer. But if labour's proportion of the profits of the enterprise is paid partly or altogether by the allotment of capital, losses which fall on capital will fall on labour also.

As a shareholder the workman, of course, obtains the ordinary rights of a shareholder including the right to vote in the election of the Board of Directors. In some companies this has been carried much further by giving the workmen-shareholders the right to a separate representation on the Board of Directors elected by themselves. In the instances where this has been tried it has been found to work excellently, but it is not always regarded as an essential part of co-partnership. Complete co-partnership thus involves—

1. The payment of the existing standard wages to labour.
2. Payment of a fixed rate of interest on capital.
3. The division of the surplus profit between capital and labour in agreed proportions.
4. The payment of a part of labour's share by the allotment of shares in the capital.

Some of the most convinced trade unionists are keen co-partners. The scheme does not involve any lowering of wages, nor does it involve handing over the control of any business to the wage earners, for that would mean the sacrifice of the training and experience of many of the present highly skilled managers of industry.

OTHER METHODS OF INDUSTRIAL PEACE. The various expedients which have been tried for the establishment of harmonious relations between employers and employed are tabulated on

pages 382 and 383, together with a brief statement of their respective advantages and disadvantages. It now remains to consider briefly two other proposals which have been made to achieve the same end, viz., syndicalism and socialism.

SYNDICALISM. The word syndicalism is derived from " syndical " which is the adjectival form of " syndicat," the French term for " trade union." The literal English equivalent of syndicalism would indeed be " unionism " ; but that word has a general meaning, whereas syndicalism is distinctive and signifies a particular form of trade union activity. Not all the unions in France are syndicalist ; but they are the most active and aggressive section. Their policy originated in a revolt against the domination of political socialism—that is, orthodox collective socialism—over the trade union movement and represents the determination of the unions to control their own destiny.

The aim of syndicalism is to hand over the means of production and distribution to the trade unions whose members now operate them, so that each union will control its own means of livelihood in the common interest and the workmen will become their own employers, thus securing the whole product for themselves. The root idea of syndicalism is trade ownership and control, which is not only unobjectionable, but excellent. It is, perhaps, the most rational and feasible form of socialism. What is wrong about its propaganda is the means advocated for attaining it. The chief method hitherto favoured is the *general strike.* This general strike of syndicalism is a revolutionary act having no relation whatever to wages. It aims at the complete overthrow of the existing order by the cessation of all activity. The manual workers stop at home, society comes to a standstill, food is soon exhausted, there is no public lighting or conveyance, plundering and disorder begin, the soldiers are turned out but refuse to turn against the rioters, and then the revolution is accomplished. Then the trade unions step in, take over the economic assets of the nation and reorganize them.

The plan which has been adopted by Welsh miners is quite different and much less bold. It is to render the mines unprofitable and therefore worthless as property, by bad work, lessening output, higher wages, and incessant friction. When these proceedings have done their work and the mines have been rendered workless, the unions will step in and take them over.

These methods are both monstrous and absurd, for there is nothing to prevent trade unions from realizing this legitimate ambition of becoming the owners of the plant they operate by legitimate means. They have a vast capital which might be used for the acquiring of properties, and if they had followed that policy from the first they would by this time have been complete masters of their own economic fate.

SOCIALISM. Socialism as a policy or movement is concerned essentially with the common ownership of property. It seeks to abolish the present system of ownership, not necessarily of all property but at least of land, minerals, machinery, etc.—" the means of production, distribution, and exchange," to adopt the accepted formula. All the movements which have this for their aim are forms of socialism. Where they differ is in the means they would employ and in the system of ownership they would substitute for the existing one. There are three main forms—

1. *Common Ownership* or *Communism*—that is, ownership by everybody or nobody; the term socialism was originally applied to this form and Marx himself was a Communist.

2. *State Ownership*, commonly called collectivism, and including municipal ownership; this has hitherto been the dominant form and it has appropriated the term socialism.

3. *Group Ownership*, of which syndicalism is an example; it would give each trade the ownership and control of its own resources.

CHAPTER XLIII

PROFESSIONAL AND TRADE ORGANIZATIONS

THE UNDERTAKING AS THE BASIS OF THE ORGANIZATION. The classification of organizations into those which support the interests of capital and those which support the interests of labour finds its origin in the constitution of the household economy. The interests of the householder determines his attitude towards either the one or the other of these classes. On the other hand, in the formation of professional and trade organizations the interests of the undertaking as a whole are taken as a starting point.

The undertaking seems to stand beyond the antagonisms of capital and labour, and is essential for both these factors if they are to receive the reward for their services. It represents a combination of capital-goods for a certain economic purpose, but its end cannot be achieved without the active co-operation of labour. Labour-power also is useless without the existence of the undertaking. Apart from the fact that the undertaking may be owned by a number of household economies, labour has a great interest in the nature and organization of the technique of production and distribution as well as in the general development of the particular branch of trade in which it is engaged. Although these common interests are frequently obscured, in practice they are revealed at every stage.

FUNCTION OF TRADE ORGANIZATIONS. The function of trade organizations is the representation of the common interests of the undertakings belonging to a particular trade or industry in their dealings with other undertakings or with the public organizations. In this respect, the interests of the undertaking is the primary factor. There is a large number of such organizations. There are organizations of quite a general character and also permanent organizations for special purposes.

The Federation of British Industries. As an example of the latter mention may be made of the Federation of British Industries, which is an organization representative of more than 18,000 undertakings. The operations of the Federation are wide and varied. First and

foremost it seeks to safeguard and advance the interests of undertakings engaged in British industry as a whole. It is also able to assist the individual undertaking by procuring information from Government departments, public institutions and the like. The Federation of British Industries, both as representing the manufacturing undertakings of the country and as a co-operative society for the benefit of its individual members, is destined to play an important part in the future.

The Industrial League and Council. An example of a general organization is the Industrial League and Council, the objects of which are—

1. To assist in establishing harmonious relations between employers and employed in all undertakings.
2. To assist in the promotion of efforts, whether by the Government or otherwise, to bring together representatives of capital and labour for the advancement of trade, especially with regard to the establishing of joint industrial councils and works committees.
3. To amalgamate or co-operate with any other body having objects similar to those of the league.
4. To provide facilities for conferring with and ascertaining the views of persons engaged in any particular trade or undertaking, as regards matters directly or indirectly affecting it.
5. To arrange and promote the adoption of equitable forms of contracts and other documents used in connection with commercial or industrial enterprise, and to encourage the settlement of disputes by conciliation and arbitration, and upon request of the parties involved to take steps to secure mediation and arbitration with a view to any such settlement.
6. To promote British, home and overseas dominions, and foreign trade, commerce, and the manufactures of the United Kingdom in the interest of the employers and employed alike.

ORIGIN OF TRADE ORGANIZATIONS. In order to show how trade organizations arise reference may be made to the attitude of the undertakings engaged in a certain trade or trades towards such questions as customs tariffs, railway rates, the systems of currency, banking, etc. The following is an example of such an organization.

The National Association of Merchants and Manufacturers is a non-party organization of merchants, manufacturers, bankers, and shipowners of the United Kingdom standing for a clear, straight,

definite and consistent policy on lines similar to those laid down by the Brussels Conference of 1920.

The Brussels Financial Conference unanimously declared that the only means of remedying the economic situation of Europe is the establishment of real peace and a general reduction of armaments; rigorous retrenchment in public expenditure and the restoration of sound currency; the abandonment of uneconomic and artificial measures which conceal from the people the true economic position; the encouragement of the maximum production on the part of capital and labour; the removal of Government and bureaucratic control, the progressive restoration of that freedom of commerce which prevailed before the War, and the withdrawal of artificial restrictions on, and discrimination of price against, external trade.

The object of the association is to secure acceptance of these principles as an integral part of national policy.

The association has taken an important part in the movement for the removal of the various controls upon trade set up during the War; it has been active in pressing for retrenchment in public expenditure, in opposing the Safeguarding of Industries Act, preventing the extension of its effects, and promoting the movement to obtain its repeal; it has moved on the question of German reparations with a view to securing a revision of the Versailles Treaty and such a settlement with Germany as will enable her to restore order to her public finances and assist European recovery and trade revival. It opposes the system of embargoes, licences, monopolies, doles and subsidies; and objects to the participation of the Government as shareholder and debenture holder in competitive business schemes and speculations of a kind which have hitherto wisely been left to private enterprise.

The policy of the association is founded upon the belief that individual initiative, private enterprise, strict limitation of bureaucratic interference, retrenchment and economy in national expenditure, Free Trade and the principle of taxation for revenue purposes only, lie at the root of wise government and afford the only true basis for social and economic reconstruction.

NEED FOR TRADE ORGANIZATIONS. As a rule similar undertakings will have common interests in regard to the tariff and general commercial policy. The representation of these

interests before the public authorities and the influencing of public opinion in favour of these interests can undoubtedly be effected better and more easily by a special organization than by the individual undertakings. Thus, similar undertakings combine and furnish contributions out of which the expenses for the representation of their common interests are paid. Trade organizations likewise are fighting organizations, but they are not so much directed against the factors immediately affecting the undertaking as against more remote influences such as may be expected from the public authorities. The discussion and settlement of purely technical questions also play an important part in trade organizations. They are of great importance in the development of the efficiency of the undertakings and therefore exert an indirect influence upon the economy of the individual undertakings. Frequently experiments of far-reaching significance which benefit the whole sphere of industry, are carried out at the expense of these organizations.

CHAPTER XLIV

CONSUMERS' ORGANIZATIONS

NATURE OF CONSUMERS' ORGANIZATIONS. In this category must be included every combination of persons or of undertakings whose aim it is, in their capacity as consumers, to concentrate demand so as to gain an influence upon the determination of prices. Of course, the most important type of consumers' organization consists in the combination of private household economies for the purpose of buying foodstuffs for direct consumption. These combinations are known under the name of Co-operative Consumers' Societies. Private household economies combine for the purpose of forming co-operative consumers' societies, and in the main these private household economies belong to the labouring classes ; they are especially patronized by the artisan class. As long as the organization of the consumers is weak and sporadic, they are of but small benefit to the members. However, the satisfaction of the wants of the members by the elimination of the retailer is sufficient to hold them together. But if the number of the consumers' societies and the number of the members continues to grow, the necessity arises for these organizations to combine for the purpose of wholesale buying. In this way they not only offer a strong front to the retailer but they also become an essential factor in their dealings with the middleman. To a certain extent they are in a position to eliminate the middleman, and they appear in the wholesale trade as buyers of large quantities and are thus able to influence prices. The greater the number of organized consumers the more important economically will be the consumers' society in the sphere of the distribution of goods. However, this influence is not restricted to the sphere of distribution, but it also extends into the sphere of production. If the benefit of the Co-operative Consumers' Society to its members consists in the fact that the latter can buy a number of articles of food cheaper and better than from the retailer, then there is a special reason why the labour economies should join consumers' societies and thus increase the influence of these societies in the sphere of distribution. The

worker as producer may increase the rate of wages and therefore his nominal income through his society. Generally speaking, however, it will always be possible for the undertakings affected to shift the burdens of the higher wages on to the ultimate consumer—that is, so to fix the prices that they are not themselves affected by the increased wages. At least, this tendency is in existence, and it generally succeeds in achieving its end owing to the distribution of power between the economic forces concerned. Thus, the effect of the increase in wages is partly or wholly lost by the fluctuation in the level of prices in the retail trade. Even though on the one hand a raising of the economic standard among the workers is discernible, a still more rapid rise in the incomes of the wealthy classes is apparent, so that the workers receive a portion of the increased products for the satisfaction of a larger number of wants without affecting in any way the increasing incomes of the wealthy classes. The marked rise of income, however, finds an especially fertile soil in the sphere of distribution. This is where the consumers' society comes in, and where it endeavours, in its capacity as a price-forming agency, to make the purchasing power of wages as favourable as possible.

FORMS OF CO-OPERATIVE SOCIETIES. It is a remarkable phenomenon that in England, France, and Germany different forms of societies should have attained importance. In England it is the co-operative consumers' societies, in France the productive societies, and in Germany the credit societies which are the most numerous. This difference is in part connected with the economic development of these countries. When the co-operative societies came into being in England, business undertaking on a large scale was already rather advanced, and a numerous class of factory workers had been called into existence. This class in particular seized upon the idea of co-operation with the consequence that there was a rapid development of co-operative consumers' societies. The development of productive societies in France was due to the early and extensive spread of socialistic ideas which looked to the combination of the weak for the purpose of common production as the means of their salvation. Finally, in Germany, at the time when the co-operative societies arose in industry, business undertakings on a small scale were almost the exclusive form. These small-scale producers in particular try to maintain themselves by the

employment of credit, and likewise in agriculture an improvement of the credit system for small undertakings appeared to be the principal function of co-operative societies.

ORIGIN OF CO-OPERATIVE CONSUMERS' SOCIETIES. The home of these societies is in England. They are traceable to the social reformer, Robert Owen, who lived from 1771 to 1859. During the first quarter of the nineteenth century Owen founded communistic colonies in America, and also attempted in 1830 to establish a labour exchange ; he afterwards devoted himself to the advancement of the co-operative system. His idea was to lead the world to communism by way of co-operative production. The substitution of private undertaking by such productive societies, however, was to be effected gradually by the co-operation of consumers. In the course of time co-operative consumers' societies were to produce all the requirements of their members. Thus stimulated by Owen, several hundred co-operative societies on a socialistic basis arose. They did not maintain themselves, however, and like the Chartist movement, to which they owed their origin, they passed away.

MODERN DEVELOPMENT OF CO-OPERATIVE CONSUMPTION. The modern development of the English co-operative consumers' societies, and also their present structure, is rather connected with the famous association known as the Rochdale Equitable Pioneers, which was founded in 1844 by twenty-eight flannel weavers. They likewise had the Owenite ideas. Every one of them paid in £1, and with that they opened a shop and by gradual extension hoped to be able to take up the production of the required goods themselves. They even hoped to establish, in the course of time, a self-subsisting settlement as understood by Owen. Although all these ideals have not been actually realized, yet this co-operative society is the most remarkable example of self-help on a co-operative basis.

The Principles of Co-operation. The principles upon which its success is based and which have made it the pattern of all co-operative societies in England and abroad are—

1. The supply of goods to the members, not at cost price, but at the price prevailing in the locality.

2. The distribution of the profits obtained amongst the members, not as in the case of company undertakings in proportion to the investment of the individual member, but in proportion to the

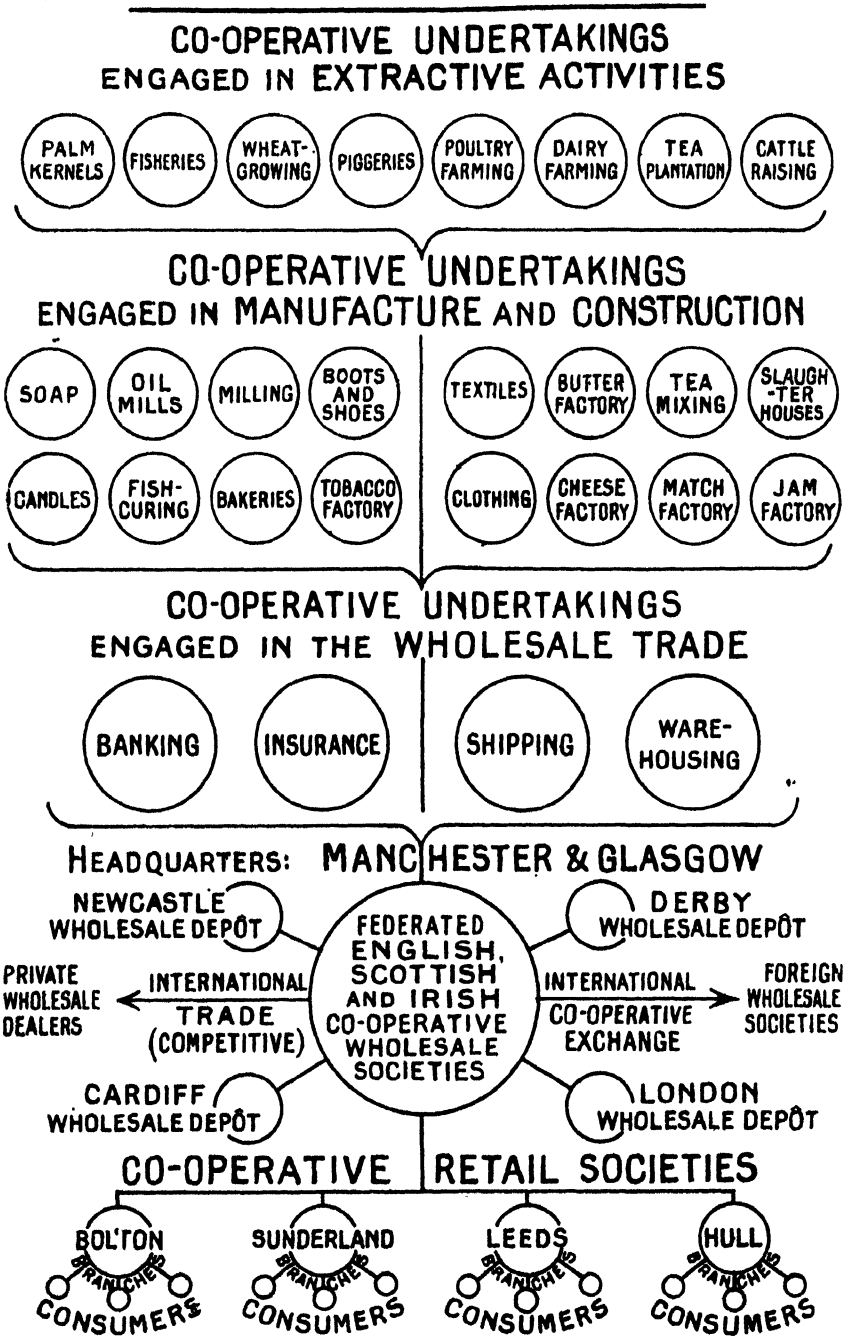
purchases of each member. As a rule this distribution of profits is effected in such a way that the member on making his purchases is given checks which at the end of a trading period are redeemed by the co-operative society at a fixed rate. As a rule only a certain percentage of the profit is distributed and a part of it is retained for educational and social purposes, and also for the extension of the co-operative production of various articles of consumption.

Growth of Co-operative Societies. The extent to which this first co-operative society, which started from the smallest beginning, has gradually developed, can be seen from the fact that in 1923 the membership of these societies in the United Kigndom was 4,598,737—more than a third of the total population. The capital amounted to £118,503,763; the money value of sales had reached the enormous figure of £334,383,138; and their total investments amounted to more than £55,000,000. The value of their productive efforts now amounted to over 40 millions sterling, and they employed in their distributive and productive works 132,000 workers.

On the pattern of the Rochdale Equitable Pioneers, the British co-operative consumers' societies have developed with extraordinary rapidity. Many have adopted the plan of producing their own commodities, wherever possible, and have established special bakeries, boot and other factories. These, however, are not co-operative productive societies in the original sense, although they are frequently called by that name. The workers in these undertakings are not *entrepreneurs*, but they are employed at a wage as in any other undertaking. In other words, the co-operative employee is recognized to be merely a wage-earning employee of a democracy of consumers.

The Organization of a Co-operative Society. The structure of the British co-operative system is illustrated by the diagram on page 396. It will be seen from the diagram that the Co-operative Wholesale Society is supplied by its own fields, factories, and workshops with a vast majority of the commodities which it sells to the retail societies. It also conducts its own banking and insurance as well as a large part of its own shipping. The Wholesale Society obtains some of its supplies from private undertakings abroad, but since the War attempts have been made to extend the co-operative movement by conducting international exchange of goods on a non-profit making basis. The English C.W.S. now supplies

CO-OPERATIVE CONSUMPTION IN GREAT BRITAIN



goods direct to the co-operative organizations of many foreign countries.

Co-operative Wholesale Societies. The first co-operative wholesale society, established in Manchester in 1862, was followed a few years later by another one in Glasgow. In recent years depots have been established in Newcastle, Cardiff, and London. To-day the Co-operative Wholesale Society is one of the most important and varied industrial businesses in the world, and its factories are to be found in every large industrial centre of Great Britain.

Just as the profits earned by the wholesale society are distributed among the retail societies, so the latter in turn divide their profits precisely on the same basis amongst their own members. Thus, a person who is a member of a co-operative store, say, in Wigan, will receive not only a share of the profits actually made in Wigan, but also a share of the profits earned by the Co-operative Wholesale Society.

CO-OPERATION AS A FORM OF PROTECTION. The organization of the workers as producers or sellers of labour-power and also as consumers, i.e. as buyers of goods, creates in the first instance the theoretical possibility that the advantages gained as producers are not lost to the worker in his capacity as consumer, but are protected for him. It must be admitted that this idea of protection in the economic policy of the workers has by no means been so clearly understood hitherto as to be consciously pursued, but in any case it is in existence in its beginnings. Likewise, it cannot be denied that this combination of workers in their dual character of producers and consumers opens for labour the possibility by which, with sufficient concentration, it may obtain a continuous and permanent amelioration of its value. However, the economic significance of the consumers' organization must by no means be under-estimated, and it only depends upon the insight of the workers into the relations of the economic struggle in order to utilize the consumers' organization for placing a large part of the modern distribution of goods on an entirely new basis. It is just from the commercial standpoint that the organization of consumers deserves the greatest attention. The opposition to and repressive treatment of these societies can easily be understood if we place ourselves in the position of the undertakings which feel the competition of the consumers' societies, but the desire to squeeze them

out of existence has to-day no more prospect of being realized than have the handicrafts the prospect of displacing the factory, or the ordinary retailer, the departmental stores. When large masses of consumers have once been organized and have learnt to feel the value of organization, even the prohibition of co-operative consumers' societies would be unable to annihilate the solidarity of the consumers; they would assert the existing combination simply by the fact that, as a united demand, they would make arrangements with an individual retailer and would thus secure advantages similar to those which they have obtained by the creation of their own co-operative consumers' societies. For this reason the repressive agitation against the consumers' organizations may be described as an unmitigated failure.

CHAPTER XLV

POLITICAL ORGANIZATIONS

NATURE AND SIGNIFICANCE. Economic aims are also pursued by the political organizations which, in modern life, are gaining an increasing influence upon the industrial policy of the State. Among such organizations may be mentioned the National Unionist Association, the Primrose League, the Anti-Socialist Union of Great Britain, the Liberal Central Association, the National Liberal Federation, the Free Trade Union, the Labour Party, the Independent Labour Party, the Fabian Society, the Communist Party, and the National Democratic and Labour Party.

Although the principles and historical development of the political parties vary greatly in the different countries of the world, yet in the main a three-fold division of parties can at present be distinguished, viz.—

1. Those who represent the interests of land-ownership ;
2. Those supported by modern industry and commerce ;
3. Those who flock to the banner of the owners of pure labour-power.

Around these three parties are grouped all other political organizations, but without attaining any outstanding or permanent significance. The more economic aims stand in the forefront of public interest, the sharper is the difference between the political parties. On the other hand, a party can gain its due share of political influence only when it is supported by the economic power of the private household economies. Although the formulation of rights is by no means a matter of indifference, it must, nevertheless, be borne in mind that all these rights can be obtained only through the struggles of the industrial classes, and that these struggles are bound to be successful with the increasing importance of the particular class ; moreover, a party becomes strong only by the continual measurement of its strength with other forces, and opponents can only enforce recognition of the acquisition of economic power in the political sphere.

THE CONSERVATIVE PARTY. As the name implies, this is the party which is disposed to preserve the existing state of things

until some need for change is proved. It is sometimes known as the Constitutional Party which signifies that one of the chief planks in the platform of the party is the upholding of the British Constitution as it exists at the present time. The party is opposed to any form of Government which shall alter in any fundamental fashion the constituted order of things in which the Sovereign, the Lords, and the Commons play their allotted part. It is well recognized that the pronounced expression of the will of the majority, as expressed at the polls, must eventually dominate the course of events; it is also considered that the clearest expression of this will is best obtained by preserving the present order of things, namely, a House of Commons to voice the national aspirations, a House of Lords to control hasty legislation, and a Sovereign to exercise strictly limited rights in seeing that no violent change shall be permitted until the real will of the nation is known.

In economic matters the Conservatives have believed in the stimulation of agriculture rather than manufactures as the basis of national prosperity, and have always been opposed to the idea that commerce could be left alone without protection.

THE LIBERAL PARTY. This is really the centre party in the State, and represents for the most part, the interests of the middle classes, especially those engaged in manufactures. The party has always been identified with the extension of popular liberty, the broadening of the Franchise, the upholding of Free Trade, and the establishment of Home Rule in Ireland.

THE LABOUR PARTY. This party has made such rapid headway during the past few years as to be recognized as a keen rival of the two older political parties. Year by year its pioneers have passed away, but as their number diminished the political movement which they created has grown and extended, and its power and influence have been steadily developed. To-day it is a vital factor in the political life of the nation.

The years between 1900 and 1914 were the period of propaganda, when the movement sought to establish itself as an independent political party in the country and to lay the foundations of Labour representation in Parliament. In the General Election of 1900, fifteen candidates went to the poll and two were successful; in 1914, at the outbreak of war, the Parliamentary Labour Party had increased to thirty-nine members; at the General Election in

1918, 361 Labour candidates went to the poll, and sixty-one were successful. In 1923 the Labour Party gained no fewer than 191 seats and became the largest party in Opposition. With the defeat of the Conservative Government in 1924, the Labour Party assumed office for the first time under the leadership of Mr. Ramsay Macdonald.

The chief objects of the Labour Party are to secure for the producers by hand or by brain the full fruit of their industry, and the most equitable distribution, wherever that may be possible, upon the common ownership of the means of production and the best obtainable system of popular administration and control in each industry and service.

THE CO-OPERATIVE PARTY. This is a new party which is closely allied to the Labour Party. Since the War co-operators have begun to claim the place to which they believe their principles and operations entitle them in the economic life of the nation. In 1917, at the Co-operative Congress, it was decided that the movement should enter politics and nominate candidates in constituencies as an independent unit. The adherents of the movement maintain that consumers' co-operation is a system which ensures a democratic control of industry by the community organized as consumers. Every consumer can join a society and every member has one vote, and can, if he cares to do so, exercise an equal power of control over the conduct of industry. The dividend on purchases ensures that commodities are supplied to consumers at cost price, and that, therefore, profit is eliminated. Under co-operation, the various spheres of industry from banking to insurance, from the production of raw materials to the distribution of manufactured articles across the counter of the shop or store, are all carried on for use and not for profit. This system, it is argued, has already shown that it can adapt itself to one economic sphere after another, and there is no reason to suppose the scope and range of co-operative industry are not capable of almost infinite extension. Consumers' co-operation is now, in fact, regarded by many as an alternative to the ordinary capitalist system of controlling industry. Moreover, these claims and ideals are slowly penetrating the movement, largely owing to the educational work of the societies and the Co-operative Union, and also to a very active and influential co-operative organization, the Women's Co-operative Guild, which

has a membership of nearly 50,000 women members of co-operative societies.

PARTY ORGANIZATIONS. Each of these parties has an association for the protection of its interests. The objects of such an association usually include provisions for the maintenance of an efficient organization, so that the proper registration of voters may be ensured; the organization of party meetings and propaganda; the provision of social and educational facilities for its members; the securing of adequate representation of the party in imperial and local government; the provision of a fund for the purposes of the Association, and generally to support the interests of the party in the parliamentary elections.

TEST PAPER VII

1. Explain what is meant by the term "voluntary organizations" and state into what two main classes they may be divided.
2. Enumerate the chief forms of co-operative organizations in agriculture.
3. Give some account of the organization of co-operative credit in Germany, and distinguish its leading forms.
4. Estimate the economic significance of the formation of voluntary organizations in modern business, pointing out their chief advantages and disadvantages, and the main conditions of their success or failure.
5. Distinguish between the various forms of capitalist combination, and illustrate from the recent industrial history of Great Britain.
6. What institutions are in existence which serve to promote economic co-operation between the undertakings engaged in British commerce? Estimate their present effect and consider in what way they can be made more effective for their purpose.
7. Write short notes on: Chambers of commerce; trade organizations; trade protection societies.
8. Enumerate the chief aims and methods of a modern trade union. What are the advantages and drawbacks of such voluntary organizations amongst the workers?
9. Describe some of the principal activities of present-day trade unionism in this country.
10. What are the chief obstacles to the development of employers' associations?
11. Give an account of any attempts which have been made since the War to secure an improvement in the relations between employers and workmen.
12. Briefly describe the co-operation associated with the name of Robert Owen, and contrast with it the various kinds of co-operation in existence at the present time.

13. Trace the growth of the co-operative movement in England in the nineteenth century. In what respect has the movement followed upon different lines in France and Germany, and why ?

14. What do you regard as the chief reasons for the success of the British co-operative movement in retail selling ? Account for its more pronounced success in distributive than in productive enterprise.

15. Classify the main types of political organizations in this country, and give a detailed account of one of them.

16. From a consideration of the aims of co-operative distribution justify the need for the existence of a separate political co-operative party.

17. What are the principal means in use at the present day for ascertaining the popular will with a view to legislation ? Are parliamentary institutions the most important of these means ?

18. What, in your judgment, are the principal problems with which British trade unionism is faced at the present day, as regards both its internal organization and its relations with the rest of the community ?

19. Compare the merits and defects of the private business, the joint-stock company, and the co-operative society as forms of industrial organization.

20. What meaning, if any, do you attach to the contention that " production should be for use and not for profit ? "

21. Examine the claim that the working classes should obtain a larger share in the control of industry, indicating how far this suggestion seems to you to be (*a*) desirable, (*b*) practicable.

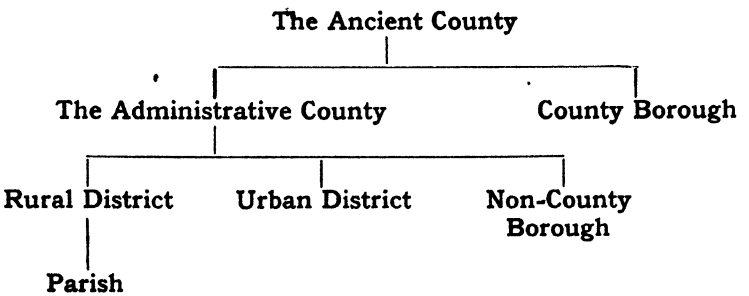
SECTION VIII

THE MUNICIPALITY

CHAPTER XLVI

NATURE OF LOCAL GOVERNMENT UNDERTAKINGS

THE simplest and most usual form of public organization is that of the local authority. For economic and other reasons, the private households within a given locality are obliged to enter into intercourse with one another. This intercourse gives rise to the establishment of certain areas of administration, each of which has a public organization of its own. Thus, in England, the ancient county has been divided into the following areas of administration—



THE WORK OF THE LOCAL AUTHORITY. Each of these local areas possesses a council or administration which supervises the social intercourse and relationship which exist between the various households. This public organization also superintends the facilities for transport such as streets and markets, and takes every precaution to meet the needs arising from the concentration of many households in one locality. The basis of this public organization consists in the private households or economies without which it would become entirely unnecessary ; hence such local authorities do not constitute an end in themselves but are only a means to an end. The higher form of local authority is that of the county borough which consisted formerly of a town supported by a number of out-lying villages. The combination of the various

kinds of local authorities with their market areas constitute the State organization. (Nevertheless, the ultimate basis of all public organizations is to be found in the private households or economies.) Of course, such public bodies possess an economy of their own, but one in which only such expenditure can be incurred as will justify its usefulness to the private households. Moreover, the economic activity of the public authorities must be of such a nature as to benefit the private economies which belong to them. Public authorities carry out the measures which present themselves as useful and necessary for the proper intercourse of the private households, and in regard to which the individual family has no direct concern. Thus, a service is rendered to the private households which calls for a counter service from them. In this way alone can the public organization provide these services. However, the function of the public authority in the economic sphere does not end here. It takes over from the private household the supply of those services which can be better and more cheaply provided by the public organization. Even in ancient and mediaeval times such economic activity was conducted by public authorities, and the same tendency is very noticeable at the present day. There has always existed a community of interest between the members of a particular locality, in spite of the fact that the interests of the various industrial and social classes, in exerting their influence on the public authority, have not always received the same kind of treatment. Of course, the public organization is no mere abstract conception, for within it are manifested the forces of the private economies which support it. The local authority may be regarded as the resultant of the wishes and forces which operate within the private household, and thus is determined the economic policy of the public authority. From these considerations one can see how fundamentally dominating is the power of the private households in relation to the public authorities, and how are determined the limits which are assigned to the power of the public organizations and to their economic policy. Of course, the public organization may focus the power of the private households upon some definite object, and carry it into execution, if it is for the furtherance of the common interests of its members. But the public organization is not allowed to intrude into their sphere of interests in such a way as to nullify the rules which regulate the struggle for existence

among the various households. It may acknowledge a new rule which may arise from the competitive struggle, and may even assist in its establishment, but it cannot arbitrarily create new rules.

THE LOCAL MARKET. The local authority is also an economic organization in regard to the activities of the local market. The origin of the village may be traced to the peculiarities of the agricultural system of economy. With the increase in human wants and with the beginnings of the separation of agriculture from manufactures, there arises the possibility of towns, which may be said to cater for the demand for industrial products on the part of a number of villages which are not large enough to establish a system of manufactures of their own. Thus both town and country engage in a brisk trade with each other, and for various reasons the towns soon begin to assert their superiority. Although in the course of centuries the original division of labour between town and country has been largely obliterated, yet it is still noticeable. On this separation of employments is based the growth of the market, where farmers used to sell their produce to the towns and at the same time furnish themselves with manufactured goods. Formerly the local authority, as an economic organization, exercised a more important part on behalf of the private households in its area than is now the case, although the tendency is once again in the direction of delegating an increasing number of economic functions to the local authority. To-day, however, the sphere of activity of the local authority is modified and is made to depend largely upon the State, so that its sphere of action in regard to economic matters is considerably restricted. Nevertheless, the economic policy of the local authority is of such significance to the private households of a particular area that its consideration is absolutely necessary. Like all organizations, the local authority has an economy of its own by which it is enabled to function. This is known as the municipal or local government economy.

THE EFFICIENCY OF LOCAL AUTHORITIES. Just as we can distinguish between rich and poor private households, so also there is a striking difference in the efficiency of the various local authorities. For this efficiency the local authority is dependent on the income level of the combined households in the particular locality. Where there is a great economic prosperity, then the economic policy of the local authority will be able to manifest greater efficiency

than is possible with the poorer localities. From these circumstances differences arise which, in their bearing, cannot be underestimated. Large cities are in a position to offer far better conditions of life than are the small towns or suburban centres. So great are these differences—based upon the size of the community and the economic power of the inhabitants—that the migration from the country into the town and especially into the large cities, is partly explained by them. The utilization of labour-power in the large towns, thanks to the municipal institutions, affords many promising possibilities which cannot be found in smaller communities. It is sufficient to refer here to the special institutions which exist for the employment of labour-power. The economic policy of the local authorities, therefore, creates a continually increasing advantage in which the labour economies also participate, whilst the smaller local authorities are left behind because of their impotence. Thus they do not afford to the labour economies so favourable a soil for the employment of their labour-power as do the larger authorities. Hence, the economic policy of the local authorities by no means operates so as to eliminate competition in the labour market. Even at the present day the economic policy of the local authorities is on the whole individualistic, although that of the larger municipalities may manifest strong collectivist tendencies. Hence the contrast is accentuated. Every local authority endeavours to further its own interest, that is the interest of its own members, without regard to the development of the other localities. To this end efficient local authorities may apply a great diversity of means, whereas the inefficient local authorities, however well intentioned they may be, are unable to compete with the wealthier communities. This accentuation of differences between the various local authorities and their members calls for a corrective which can be imposed only by a higher organization such as the State. In the labour organizations there is evidence of a strong desire to establish a minimum standard of working conditions. This tendency is strongly opposed to the economic policy of the local authorities which are of such varied degrees of efficiency; through the latter the cost of reproduction of labour-power is also greatly differentiated and must remain so, so long as the wealthier municipalities employ their means solely for themselves, whilst the poorer authorities are barely able to satisfy the most essential requisites of communal

life. This standpoint should be emphasized because its bearing, especially upon the employment of labour-power in the economic process, is altogether under-estimated. This individualistic policy of the local authorities can be easily understood when we bear in mind the varying degrees of strength possessed by these bodies, although their resulting consequences on the development of the whole economic system must not be overlooked. The competition among the local authorities is based upon inequality of power and is waged with unequal weapons. The total effect of this must be the production of undesirable results, even though they may appear to be quite praiseworthy when each authority is considered separately.

CHAPTER XLVII

FORMS OF MUNICIPAL ENTERPRISE

AT the outset, it is necessary to observe that both profit-making and risk-taking—characteristics of the undertaking—are inseparably connected with municipal enterprise. Institutions which are not carried on for profit, such as museums, colleges, hospitals, etc., are not municipal undertakings in the strict sense of the word. There are various transitional forms which are characteristic of the modern economic system, a clear conception of whose position is essential for the proper understanding of their organization. For example, a distinction may be drawn between the following three groups, viz.—

1. Municipal Institutions ;
2. Municipal Utilities ;
3. Municipal Undertakings.

MUNICIPAL INSTITUTIONS. Those municipal enterprises which are not administered from a purely economic standpoint and with which it is a question neither of revenue nor of cost, are known as *municipal institutions*. To the outside world these frequently appear as economic enterprises simply because under our modern system of money-economy all such institutions are required to prepare a budget in which the receipts are set off against the expenditure. Among the institutions which are not administered in strict conformity with the economic principle is the municipality itself. A peculiarity of this, as of many other institutions, is the fact that the first item to be considered is not, as in private concerns, the amount of prospective revenue, but the expenditure to be incurred, which is adapted to the amount of income required. Other municipal institutions are those engaged in the testing and examination of foodstuffs, scientific and art associations, the fire brigade, prisons, etc. All these institutions are maintained because of their general social value or because of the general usefulness of their objects, but usually without any consideration whatever of their cost or financial return.

MUNICIPAL UTILITIES. With *Municipal Utilities* the case is quite different, since their aim is to obtain the maximum return

with the minimum of cost. But whereas the private business aims at realizing the maximum utility to the individual household, the object of the public utility is to obtain the maximum general utility. Moreover, the chief end of the municipal utility is not the acquisition of a money-income but of a utility-income. However, as in the case of any other economy, the general utility of these economies—often incapable of estimation in terms of money—must be set off against their cost. But this is not effected in the same way as in the private business where the financial return is the principal consideration, but in the same way as in the domestic economies where the maximum return of utility is brought into comparison with its cost. The only difference is that in the one case it is a matter of individual benefit, whereas in the other public utility is the chief concern. Among such municipal utilities may be mentioned public savings banks, water works, public baths, scavenging, etc. The prices charged for such services are not determined as in ordinary business undertakings on the principle of realizing the highest financial return, but as a rule the determining factor is the cost of the services; in other words, it is expected that the income will at least cover the expenses. Naturally such municipal utilities are seldom carried on in competition with private undertakings. The latter are either excluded by law from participating in these activities which are reserved to the municipality or debarred from competing owing to the fact that they are obliged to pursue a profit-making policy.

Gas and Electricity. Such undertakings as gas and electricity works may be regarded as being in a transition stage toward the municipal undertaking. In proportion to the extent to which they are established and administered in the interest of the public, they are municipal utilities; for example, where gas or electricity is used in the illumination of streets.

MUNICIPAL UNDERTAKINGS. Precisely in the same way as the private undertaking differs from the private household, so the *Municipal Undertakings* are to be distinguished. The latter is the wider conception and the utility becomes an undertaking when its aim is not the satisfaction of its own wants but the procuring of a money revenue. In like manner a municipal undertaking possesses the characteristics of an ordinary business if it possesses its own capital and aims at an independent existence. In this

category are included water works, gas and electricity works, tramways, slaughter houses, irrigation works, markets, savings banks, burial grounds, etc.

With the tremendous progress made in industrial technique during the last century, with the enormous increase in trade and the general increase in wealth, the functions of public bodies have been extended in almost every direction. For the supply of a portion of these increased services the public authorities have been regarded as the most suitable. Hence the development of "Municipal Socialism," the aim of which is to transfer to the municipality an increasing number of economic functions. Since socialism demands the complete nationalization of the means of production the idea prevails that the municipalization of additional service is a step nearer to the ultimate socialistic ideal. Needless to say, such a process as the installation of municipal electricity works does not indicate the abandonment of the present economic system which continues to find its basis in private ownership.

Types of Municipal Undertakings. We have already seen that the municipalities do not confine themselves solely to the establishment of institutions which cannot be carried on by private *entrepreneurs*, but to some extent they also occupy themselves with the production or distribution of goods, that is, they create their own public undertakings and thus displace the private undertaking. The supply of water has always been left to the local authority; gas works have been converted more and more into municipal undertakings, and likewise electricity works are conducted in the form of public undertakings. The collection of refuse, the management of sewage farms, and especially the provision of tramway services are examples of economic activity conducted by the municipal authorities. To this may also be added baths and wash-houses, slaughter houses and cattle sheds, and more recently the supply of foodstuffs with the object of improving the market supply, e.g. municipal kitchens during the War. There are also cases of municipalities which have not only undertaken the sale of salt-water fish within their own area but have also taken over the importation of cattle for slaughtering purposes with the intention of withdrawing the market supply from private interests. In all these measures the municipality interferes largely with the working of the private undertaking. The tendency to withdraw certain

branches of production and distribution from private interest also exists, though it is still in its initial stage. Of course the difficulties of such a development must not be underestimated; such a development, however, is possible because the municipal undertaking can rely upon a safe turnover within a certain market area, and this facilitates the fixing of prices. The competition of the private undertakings is eliminated, or at least it does not offer any obstacle to the financial success of the municipal undertaking. Supply is concentrated and prices are determined in a different manner from goods and services which are subject to competition; likewise, demand can no longer exercise an arbitrary influence upon prices, pressure on which can be exerted only by the round-about method of appealing to the municipal authorities. Thus, municipal undertakings are suitable only for goods and services which are demanded more or less by all members of the municipality, and which from their nature can be dealt in only by a large-scale undertaking. Great heterogeneity in the nature of the goods renders them unfit for public undertaking; likewise, the municipal undertaking is largely influenced by the size of the market area. In the case of small localities a public undertaking is impossible since the receipts would not cover the expenditure, so that the local authority would simply lose money—the market area being too small. In few cases only is it possible for small localities to carry on a public undertaking. The advantages which are likely to accrue from such an undertaking must always be examined minutely from the standpoint both of the local authority and of the consumers. For various reasons the municipality will always have higher working expenses than the private undertaking, but this alone by no means decides the latter's superiority. However, the fixing of the prices to the consumer must not be so effected as to render the goods dearer than they would have been if supplied by private undertakings. Where this is the case, the municipal undertaking does not provide any service which is to the interest of the consumers.

CHAPTER XLVIII

REASONS FOR THE ESTABLISHMENT OF MUNICIPAL UNDERTAKINGS

THE causes which have induced municipalities to establish their own independent undertakings are very varied.

HISTORICAL REASONS. In the first instance, there are undertakings such as estates and forests, which have come into municipal ownership principally for historical reasons. Sometimes it is public interest which induces the municipality to retain them, especially in the case of the forests; or it may be due to the fact that they supply raw material for other public institutions, as in the case of the coal mines which supply the railways with coal. Frequently, however, such public undertakings are retained only because they provide a revenue, and at the present day no municipality would entertain the establishment of such concerns.

ABSENCE OF PRIVATE ENTERPRISE. Another reason for the establishment of municipal undertakings is the absence of the spirit of private enterprise. In the period of Mercantilism this was the cause of the foundation of numerous factories, many of which lasted until the beginning of the nineteenth century. Later on, in some countries, it was also the cause of the construction of a railway system. The State is usually more willing to construct lines in remote districts where, owing to the absence of the prospect of any immediate profit, the spirit of private enterprise is not forthcoming. The same remark applies to municipal tramways, gas works, etc., which have frequently been established as public undertakings simply because no private capital could be found for them; at least, it could not be raised on the conditions imposed by the municipal authorities. Intimately connected with this reason is the fact that municipalities can usually procure the capital for their undertakings at a lower rate than private individuals. This naturally becomes of smaller importance with the increase in the prospective profit of the undertaking. The prospect of profit indemnifies the capitalist for the greater credit risk which he entails by investing in a private undertaking, and it is this which induces him to acquire shares rather than municipal stocks.

NECESSITY FOR UNIFORM ORGANIZATION. A third reason

for the establishment of municipal undertakings, and one which is of great importance, is the provision within the precincts of a town of certain services which require a uniform organization and which are best guaranteed by the municipal authority. The determining factor in the postal and telegraph services is this need for uniformity. If the provision of these services were left to private enterprise, the large cities would naturally be favourably situated and the intelligence service in or between them would be cheap and good, probably cheaper than the present rate. It was for this reason that formerly private postal services developed in the larger cities. In small localities, however, no one would establish a postal service, and the transport of letters to and from them would be very much dearer. In order, therefore, to create a more uniform system the State has abolished the private postal services. The reason for the nationalization of the telephone system is also due to this need for uniformity, and the same remark applies to the municipalization of tramways in large towns.

THE FEAR OF MONOPOLY. Closely associated with the foregoing, and also one of the most important causes of municipal enterprise, is the fear that such services may be monopolized by private undertakings. In those branches of business which admit of uniform organization and which are in private ownership, there is usually manifested a strong tendency towards monopoly. From an economic standpoint it is undesirable that such undertakings should be brought within the sphere of competition, for this only increases the cost of the services ; for instance, where two railway lines happen to link up the same localities. However, if only one railway existed it would naturally have a monopoly, and in the case of all private monopolies there is always the danger of the consumer being exploited. Even where competition does exist the tendency towards monopolistic combination is strongly asserted at the present time in large-scale undertakings. Of course, such private monopolies can be regulated by legislation as is actually the case in regard to the railway, telegraph and telephone services in this country. Public enterprise may be regarded as the most radical means of withholding from private individuals a particular line of business, although there may be instances where this policy is undesirable. There are no general rules by which the existence of such cases can be tested. Thus, for instance, it is impossible to

decide the much debated question as to whether State or private railways are the better. The answer depends upon numerous points of view, such as the character of the particular country and of its population, the form of government, the peculiarities and power of its officials, etc. Closely associated with the dangers of monopoly is the extensive Stock Exchange speculation which has developed especially in connection with privately-owned railway systems. In some countries the disadvantages of private monopoly have also given rise to the public ownership of mines.

PUBLIC INTEREST. In many cases the most obvious reason for embarking upon municipal undertakings is simply the fact that there is an unusually great public interest shown in this or that service, and it is believed that the best interests of the public would be served by a municipal undertaking. In this connection, however, it is more often the public utility service that is involved than the public undertaking, whose profit-making character would soon collide with the general interest of the public. But here, also, as in the case of the fear of monopoly, it should first be proved that the legislative control of the private concerns would be inadequate to safeguard the interests of the public. This category includes the economically important case of services which call for the investment of a large amount of capital, but which in the main benefit only subsequent generations; in many cases these have to be taken over by public bodies because the services of the private *entrepreneur* who expects a quick return are not forthcoming for such undertakings.

DESIRE FOR PROFITS. A final reason for the establishment of municipal undertakings is the mere desire to make a profit. The need for revenue often induces a municipal body to withdraw from private enterprise certain branches of industry which are reserved for themselves. Such undertakings are usually described as revenue services, because from a financial standpoint they are simply particular instruments for the collection of indirect taxes. This category includes municipal tobacco and match factories, municipal salt mines, etc. Here, in the interest of the revenue, private competition is entirely prohibited. The revenue is obtained by fixing the selling price. Such revenue concerns are usually a substitute for taxation which would otherwise have to be introduced for the purpose of raising revenue.

CHAPTER XLIX

THE ADMINISTRATION OF MUNICIPAL UNDERTAKINGS

AFTER dealing with the reasons which account for the establishment of municipal undertakings, we now come to the principles of administration according to which they are managed.

ADMINISTRATION OF THE MUNICIPAL ORGANIZATION. The organization of the affairs of a municipality is under the control of the town council which is presided over by a chairman. The administrative work of the council is carried out through committees, the nature of which varies according to the size of the municipality and the extent of the activities which it is called upon to undertake. These committees determine the policy of the respective departments of the municipality and the meetings are attended by the responsible officers in charge of the several departments. The inset between pages 416 and 417 provides a general scheme of organization for a small municipality and illustrates the way in which the work of the council is distributed through its committees over a number of separate departments at the head of which there are responsible officials. In this case the departments are as follows—

Town Clerk's Department. At the head of this department is the Town Clerk, who is usually regarded as the chief official of the council. In many towns this department is entrusted with the legal business of the corporation, whereas in others legal assistance has to be obtained from outside by appointing a solicitor to the council. The Town Clerk acts as secretary to the council, and is the custodian of the borough records and documents.

Treasurer's Department. One of the most important sections of a municipality's work is that of finance which is under the control of the Borough Treasurer. The income of the borough is paid into the borough fund and is derived from fees, receipts from corporate property, the borough rate and contributions from the Exchequer. Payments are made by the Treasurer out of the borough fund upon an order of the council signed by three of its members and countersigned by the Town Clerk. Certain salaries are practically the only payments that may be made without such an order.

Education Department. The head of this department is the Director of Education who is responsible for the proper working of the department both in the office and in the schools. His duties include the summoning of meetings; the preparation of agendas, reports and minutes; conducting of correspondence; approving and signing orders for school and office requirements; advising the committee generally in education matters, and more particularly with regard to the requirements, efficiency, cost and economy of the various grades of education; and the equipment, management, and maintenance of the various schools.

Health Department. The chief officials in this department are the Medical Officer of Health and the Sanitary Inspector. Supreme charge is usually given to the former official who is responsible for all sanitary inspection and everything allied to the preservation of public health, including hospitals and sanitoria under the National Insurance Acts.

Cemeteries Department. The management of the cemeteries is usually entrusted to a committee of the local authority whose proceedings are submitted to the council for confirmation or otherwise. The necessary officers appointed by the committee are—

(1) Clerk to the Burial Board which position is usually occupied by the clerk to the local authority.

(2) Registrar. This officer is responsible for the register of burials, which register must be kept in every burial ground and cemetery provided under the Burial Acts. The registrar is also in many places responsible for the efficient management of the cemeteries, and generally supervises and controls the other officers such as gardeners, gravediggers, and assistants.

Surveyor's Department. At the head of this department is the Borough Surveyor who has not only charge of the streets, roads, sewers, and public works generally, but he also manages street cleansing, baths, parks, recreation grounds, sewage farms, public buildings, public lighting, etc.

Electrical Engineer's Department. The members of the electricity committee should be persons of experience and acquainted with or engaged in local trade, especially manufacturing trades. They should know the nature of ordinary trading risks since they may be faced with serious competition on the part of gas and other

undertakings. The electrical engineer has charge of the department and delegates duties to a staff of indoor and outdoor assistants.

Gas and Water Department. The council's powers in regard to the supply of water and of gas are delegated to special committees who supervise the activities of the official staff. At the head of the department is a Gas and Water Engineer.

The Rates and Overseer's Departments. The overseer is entrusted with the preparation of a valuation list, i.e. a statement of the gross, estimated, and rateable value of all the rateable property in the parish. He is assisted by other overseers and clerks, relieving officers, medical and vaccination officers, the workhouse staff, and rate collectors.

OBTAINING REVENUE. Municipal administration embraces the methods by which the means are raised for the carrying on of the public organization, and further, the manner in which these means are spent. Since the municipality is not, strictly speaking, a trading concern, it has to procure the means necessary for its management in a different manner from the private business; however, a relationship does exist between the municipality and its members which is indirectly based upon exchange. The common needs of the inhabitants calls for the production of services which are offered by the compulsory organization in the form of the municipality. (Where the municipality is in receipt of an income from its own property, it is possible for the services to be paid for out of this income; where this is not the case, however, or where this revenue is insufficient, the inhabitants by their contributions must enable the municipality to carry out a desired service. As the municipality is a compulsory organization supported by the State, it is in a position to force its members to contribute according to the needs of the municipal administration.) In the various countries of Europe, and even within one country, the development of local taxation has been very different, and for this reason the present-day municipalities are by no means uniform in their organizations; but as a fundamental feature it may be stated that the contributions towards the communal expenditure are determined by the economic efficiency of the private households and business undertakings within the municipal area. Most municipalities possess some form of property from which they derive a revenue.) The nature of their property enables us to draw a distinction between

parish and urban authorities; the former, on account of their historical development, generally own land, although under the tendency of individualism the common ownership of property has during the last century been converted largely into private ownership; however, there are still considerable portions of landed property in the possession of rural authorities. In the towns, the accumulation of property by the municipality is a feature of quite recent times, and in this connection it is chiefly their own undertakings which yield a considerable revenue to the municipalities. The acquisition of land by municipal authorities is also on the increase. Where the revenue from its own property or its exploitation by the municipal authorities is insufficient, other sources of income must be found to furnish the means for the carrying on of the municipal enterprises. In the main this is derived from local taxation in the form of rates.

Rating. Of course, the power of municipalities to levy rates is restricted and regulated by the State. In the sphere of local taxation a great diversity prevails which can be explained only on historical grounds—a diversity which is slowly giving way to a more uniform and systematic development. To-day, local taxation is decided upon by the local authorities as far as matters of secondary importance are concerned, but the State decides upon the principal features. Here also there prevails the tendency to tax according to the ability to pay which is naturally opposed by the parties concerned. Abnormally high rates may lead to the migration of persons capable of paying heavy rates. In this respect the municipalities are engaged in mutual rivalry—a fact which calls for great care in the treatment of problems of taxation, and which frequently makes it inadvisable to adopt radical measures.

Loans. The procuring of revenue, however, is not confined to the receipts derived from municipal undertakings and the levying of rates, but resort is frequently had to the raising of loans. Here, likewise, the State exerts a far-reaching influence upon the policy of the municipality. The modern municipality operates to a fairly large extent with credit which may be justified by the fact that expenditure which must be incurred to-day benefits not only the present members of the community but also those of future generations. A loan, for instance, may be justified for the purpose of acquiring land where its acquisition would enable the municipality

to exert a healthy influence on the determination of prices in the property market. From the standpoint of the municipality such an investment would, as a rule, prove advantageous. The raising of a loan may also be advocated for the purpose of establishing a municipal undertaking, seeing that the benefits of the undertaking would be permanent. At any rate, the financial burdening of the municipality by interest charges must always be weighed in the light of the prospective benefit. At the present time, when the claims on the economic activity of the municipalities are rapidly increasing, too great a demand for credit by the municipal authorities may have very disadvantageous consequences. Undoubtedly, it also results in the widening of the differences in the economic wealth of the various municipalities, so that an equalizing of the conditions of life and labour is rendered increasingly difficult, and ultimately such competition and rivalry ends in the superiority of a relatively small number of large cities, whilst the majority of the municipalities remain a long way behind. However, in the last resort this will have an injurious effect upon the private households who have a vital interest in the regularization of production and of prices. The principle of individual liberty, therefore, cannot prevail without some drawbacks, even among municipalities. In many respects municipal expenditure resembles that of the private householder, the efficiency of which depends upon the amount of income available. In the first instance the most urgent communal needs have to be satisfied, and in the case of inefficient municipalities such needs can be only partially met.

EXPENDITURE ON EDUCATION. Hitherto we have considered only the economic activity of municipalities. Nothing has been said of their care for instruction although in these days the training of mental capacity is of very great importance in the economic struggle. Nevertheless, it is in this sphere that expenditure has to adapt itself to the revenue. Naturally the State interferes largely in this connection and strives to ensure a certain amount of uniformity in spite of the existing differences in the efficiency of the various municipalities. In view of the increasing calls made upon them, the efficient municipalities have no intention of renouncing their superior position in the interest of the weaker ones. More per head is spent on the teaching of the rising generation than in the small rural areas. In the larger areas a man who

is dependent solely on his labour-power can be better prepared for the struggle for existence than in the small localities which find it impossible to compete. It is advisable that the State should make greater efforts towards uniformity in this direction than it has hitherto done. However, even with the modern development of the State it is by no means in a position to surmount these differences for the needs are so great and cannot be met immediately. Hence, in judging what can be done by an individual municipality account must also be taken of its economic resources, otherwise we are apt to arrive at erroneous conclusions. What the large-scale undertaking in the production of goods is to the small concern, so is the large city in comparison with the small one.

SUPERIORITY OF LARGE CITIES. The benefits which accrue from the concentration of population in a restricted area (e.g. the increase in the value of property and the possibility of appealing to large masses of consumers) confer upon the large city a superiority which, from the individualistic standpoint, must be regarded as unassailable. Nevertheless, in its way the small municipality is as important as a large one, and in many respects even more so. But since economic conditions admit of only a small settlement, this circumstance is sufficient to render permanent its weakness and isolation, and to give it an inferior position in comparison with the large municipalities. The self-interest of the largest cities knows no limit to their expenditure any more than do the rich private households. Assistance to the small municipalities can come only through the interference of a higher organization, such as the State. Antagonism between town and country has always existed, but at no time has it assumed such threatening proportions as in recent times. Such antagonism renders difficult all attempts to equalize the conditions which exist among the various municipal organizations. The co-operation of the smaller local authorities for the purpose of surmounting this antagonism is well-nigh impossible on account of their dissimilarity, whereas the large municipalities can, with relative ease, form associations by which they are able to execute tasks in common. Although formally the local authorities may be on an equal footing, and although the State may even favour the smaller localities politically, the economic differences are as great as those which exist between the poor and the rich householders.

CHAPTER L

THE LIMITS OF MUNICIPAL ENTERPRISES

MUNICIPAL undertakings have the disadvantages of capitalistic companies in an enhanced measure.

DISADVANTAGES OF MUNICIPAL ADMINISTRATION. The administration is ponderous, and there is a diminished interest on the part of the managers as compared with private ownership, and for this reason the municipal undertaking is out of place wherever rapid resolutions, accurate calculations, and speedy action are required. The same remark applies in the case of those branches of business in which market fluctuations and changes in the technique of production play an important part. Wherever the cost of production and the price of an article are subject to violent fluctuations public enterprise is unsuitable. The reason for this is that the bureaucratic management is unable to adapt itself to the frequent fluctuations, and also because the prices charged by the municipal undertaking for the services rendered are usually fixed for a long period. Again, the fact that in one year great profits are likely to occur, as in the case of private undertakings, increases the difficulties in the administration of the municipal finances.

LIMITS OF MUNICIPAL ENTERPRISE. The limits of municipal enterprise may be briefly stated. An economic activity is the less suitable for public undertaking the less it can be carried on in accordance with the fixed rules and regulations which are drawn up by the higher officials; in other words, in accordance with a preconceived scheme. At the present time this remark holds good in regard to most branches of undertakings. The fact that public undertaking has proved successful in the case of tramways or of municipal gas and electricity works, must not lead us to the conclusion that it would be advisable to substitute public for private undertakings. Where any evils manifest themselves in a private branch of industry it is better to consider whether municipalization is necessary, or whether there are not other forms of regulation which avoid the evils of private enterprise. Nowadays, the municipalization or nationalization of whole branches of industry is recommended in all cases where monopolistic combinations

of private *entrepreneurs* have assumed great importance. This may be said of mining. Proposals for the nationalization of mines have therefore been very frequent in Great Britain during the past few decades. The argument is also advanced that coal is an article that cannot be replaced and excessive exportation of which should be prevented by the State.

FAILURES IN MUNICIPAL CONTROL. The active participation of the municipality in monopolized industries by the establishment of its own undertakings has hitherto proved disadvantageous, and for this there are two reasons. In the first instance, the municipality has become too intimately connected with the interests of the particular industry. It is the duty of the municipality to protect the public from exploitation by private monopolistic combinations but not to participate in them. In the second place, the participation of the municipality increases the tendency towards further and unnecessary extension, which is inherent in every cartel and thereby causes over capitalization, which is an economic evil.

In any case it is quite misleading to advocate, as is often done by socialistic writers, that the remedy against monopolistic combinations is to be found in municipalization or nationalization, and to draw from the increasing expansion of monopolistic organizations the conclusion that the conversion of the more important branches of industry into public undertakings is only a matter of time. On the other hand, we must always consider municipalization and nationalization as an *ultima ratio*, for it is the duty of the public body first to try other methods of economic policy. The oft-quoted saying, and one which keeps returning in all socialistic proposals, is undoubtedly true, viz., that a municipal or State monopoly is a lesser evil than a private monopoly. However, this saying overlooks the fact that the public authority possesses numerous remedies by which it can impose restrictions upon private monopolies, and it is questionable whether a public monopoly does not exercise ultimately a more unfavourable influence than does a regulated private undertaking. In any case the introduction of such restrictive measures constitutes the first duty of modern economic policy. With the increase of monopolistic combinations such as trusts, cartels, etc., the municipality or State will be placed in a better position to exercise a restrictive influence upon these great private undertakings. In the first instance the public body

possesses a remedy in its system of taxation and also in its power to regulate prices where the goods are not subject to frequent price fluctuations; the latter is even a simpler method than municipalization or nationalization. It is certain that the number of branches of industry which will be regulated in this way in the future will become more numerous. It is also desirable to carry on the making of profit under State supervision in the interests of the community rather than to create special public undertakings which are usually neither one thing nor the other; the State strives to obtain from them the maximum revenue whilst at the same time it is supposed to administer the undertakings in the interest of the public.

The Case of Land. The substitution of private by public ownership as a remedy against monopolies is of greater importance in the case of land which is required for building sites in large cities. Here the increase in value—due to the limitation in the amount of such land—may be made to benefit the community by municipalization. Such measures, however, cannot be regarded as a municipal undertaking and therefore do not really concern us here.

The Fixing of Prices. To accept socialization as the only means of opposing monopolistic organizations of private *entrepreneurs* is to adopt an apparently very short-sighted view of the future, and one which is lacking in imagination. Because private ownership of the means of production has given rise to many evils in our modern economic system, it is argued that we should abolish it by leaving it to the public authority, who in its turn is expected to administer the factors of production to better advantage than is the case under private enterprise. In this respect there is a tendency for socialists to over-estimate the economic power of the public authority. The whole mechanism of modern exchange which finds expression in prices has thus been misinterpreted. Many socialists believe they have found a general standard of value and of prices in the amount of time worked. This belief, however, ignores altogether the fact that a just price cannot be fixed. Price is determined by demand on the part of the consumers expressed in money, and the principal aim of the economic mechanism and its main difficulty consist in the estimation of the intensity and extensity of the demand for various goods and the anticipation of the degree in which the demand for each commodity can and ought to be satisfied. Furthermore, the fact is ignored that this adaptation

of the supply to the demand extends right down to the production of the raw materials ; in other words, the distribution of the available factors of production amongst the various branches of industry is the most significant fact in connection with private ownership, and it has never yet been shown how public ownership could effect this distribution efficiently.

The Dangers of Misdirection. At all times socialization must be regarded simply as the most radical remedy for the abolition of the evils connected with the modern industrial system. To-day, when so many functions are laid on the State, it is a most obvious, and, at any rate, a convenient remedy. The problem of administering the means of production and the creation of the most suitable economic organization are matters left to the wisdom of the State. This belief in the omniscience of the public authority, this pious hope that the State will do everything for the best, is very irrational and short-sighted. The difficulty of organizing the whole process of production and distribution is tremendously underrated. There is not the slightest guarantee that the available factors of production would be directed into those channels of industry in which the most urgent needs would be satisfied, as is the case under the modern competitive system which works on the basis of profit. The chances are that under a bureaucratic system of control the supply would become more incomplete, more uniform, and the progress of civilization would thereby suffer.

The Importance of Profit-seeking. So long as most branches of business are subject to violent technical and economic changes, as is the case to-day ; so long as new spheres are continually springing up which depend on the capacity, initiative and talent of the individual, the private undertaking, whether as a sole trading business or as a company, seems indispensable and appears to be superior to the municipal undertaking in regard to most branches of business. Moreover, so long as the desire for profit is the mainspring which leads to the promotion of new undertakings and the improvement of supply, the private undertaking will tend to remain the basis of the economic order. The production for profit is the principle which makes it possible in the most complete manner known to us for each individual to procure for himself that enjoyment of life which corresponds to his services for others.

CHAPTER LI

THE MUNICIPALITY AND TAXATION

THERE are some respects in which municipal or local taxation resembles imperial taxation, but there are other respects in which they differ.

SIMILARITY OF LOCAL AND IMPERIAL TAXATION. Local and imperial taxation are alike in that—

1. They are great in amount.
2. They tend to increase.
3. They are apparently under the domination of a voting constituency and yet manage to elude that control; for whether in regard to local or imperial taxes, a reason is always advanced why they should be greater this year than last. Bagehot makes the remark that if anybody wants a cheer in the House of Commons he has only need to stand up and utter a remark about economy, but if he wants to be held down he must favour a particular reduction.
4. Both are burdened with debt. The debts of the various municipalities of England added together are about equal to the National Debt itself. The municipalities have borrowed hundreds of millions of pounds sterling, and whether the expenditure is justifiable or not, it is a very serious item.

DIFFERENCES BETWEEN LOCAL AND IMPERIAL TAXATION. There are differences between local and imperial taxation, viz.—

1. There are some imperial taxes which are quite incapable of local application. Customs duties cannot be local. A duty cannot be imposed on the introduction of Northampton goods into Leicester and vice versa. Since Customs duties are impossible locally, so are Excise duties, for otherwise they would become a protection to the outsider. Neither Excise nor Customs duties are capable of being local taxes. Nor can there be a local income tax. We could not localize the income of a particular place and tax it in that place. A man in Leeds who has something to invest may hold shares in the Canadian Pacific Railway. There can be no such thing as taxing the local income.

2. The very principle upon which imperial taxation is founded and assessed is not the same as that on which local taxation can be founded and assessed. You cannot tax imperially per unit of service rendered. We must tax imperially for the maintenance of the Navy without any regard whatever to the amount of service which the Navy renders to the individual. But the municipality can levy a local tax for the paving of the streets.

3. The authorities are not the same. It is an imperial authority which collects and raises the imperial tax, whereas the local authority raises, collect and expends the local tax.

JUSTIFICATION OF LOCAL TAXATION. Inasmuch as there are some taxes which are local and some imperial, the question naturally arises whether there is any criterion whereby we can decide what public objects should be catered for by local taxation and what by imperial taxation ; where should local taxation stop and imperial taxation begin, and vice versa. Our first object is to try to assign some kind of measure or criterion by which we shall determine that one object should be provided for by a local tax and another object by an imperial tax. In order to do this we have to divide the functions of Government into certain classes.

Functions of Government. The functions of government may be divided into—

1. Onerous ; 2. Beneficial.

The *Onerous Functions* embrace those activities which the public conscience imposes upon us and which we have to carry out as civilized people, but out of which we get no profit.

Beneficial Functions are those activities undertaken by the local authority for which some payment is made.

As an instance of onerous functions may be mentioned the maintenance of lunatic asylums for the poor. We do not expect to make a profit out of them ; they are a burden of civilization—those who have not the possession of their faculties should be dealt with in a humane manner and should be made as little unhappy as their position admits, and should be given what chance there is of restoration to their normal powers, and in doing so we must be prepared to admit that civilization must bear a certain burden for the work that is done.

As an example of a beneficial function we may take the provision (by the community) of electric lighting, the running of tramways,

the maintenance of an efficient system of main drainage, where it is easy in each case to assign the material advantage which we expect to derive.

Proposed Distribution of Taxation. It has been proposed by some writers to make this distinction the basis for a distribution of taxes between local and central authorities. The suggestion is to allocate to imperial funds the whole of the onerous taxes whilst the beneficial functions would be borne by local administration and finance. But as a matter of fact when we look deeper into it, we find that that distinction is not maintainable, for it is not quite easy to distinguish between the onerous and the beneficial taxation.

The Poor Rate. For instance, let us take the poor rate. Is this rate onerous or beneficial? It is beneficial to the pauper and to his relatives upon whom might otherwise devolve the duty of maintaining him. Moreover, the poor rate may sometimes be regarded as beneficial to the whole community for the poor rate is our great defence against mendicancy. In England no one can actually starve except by refusing to ask. Unhappily, there is starvation among us, but that is not suffered by those who ask and are refused, but by those who, under the impulse of a misguided but splendid feeling of independence, cling to that independence, and who die rather than plead poverty. The Poor Law stands between the citizen and the call for indiscriminate relief.

Sewer Rate. Again, a sewer rate for the maintenance of a main drain is called beneficial on account of the service rendered, and yet to the dwellers in jerry-built houses where the sanitation is not properly looked after, the main drain is merely a reservoir of gas which is laid on with the same success as illuminating gas is laid by the gas company, and under these circumstances the maintenance of the sewer rate can hardly be described as beneficial.

The Education Rate. Again, the education rate is classed as onerous, and yet most people have risen to the point of regarding it as beneficial. We get our return in the taught citizen. Therefore, a distinction between onerous and beneficial is hardly quite satisfactory as a criterion of discrimination between local and imperial taxes. The fact is that the interests of a community are what the French describe as *solidaire*. We cannot isolate an individual who lives in a community. The slum which is improperly

looked after breeds disease which does not stop in the slum, and if a slum should breed such a disease as typhoid or small-pox—that disease will spread; small-pox will extend to places that are not slums; as a matter of fact, we live under a system in which bad sanitation means death. The disease bred in one place is bred for exportation—nature is too strong for us.

Many other criteria have been put forward. If the purpose for which the tax is proposed is local, then it is suggested that a local tax be adopted; if not, then an imperial tax. Again, from the standpoint of interest, if the interest concerned is a local one, then it is suggested that it be dealt with by local taxation; if it is the interest of a whole community, then it points, at all events, to imperial assistance.

From the standpoint of administrative advantage, if we are dealing with the local poor, if we can get local funds, local taxation, and local administration, it is best; for it is the local people who are best able to guide in the application of poor relief—relief must be help towards self-help. It should tend to put a man on his legs again and make him a self-supporting citizen.

Residence. Another criterion is the place of residence. If the expenditure is to benefit a person as a citizen of a particular place, then a local tax is indicated.

In short, it may be said that local taxation and administration are indicated when—

1. The expenditure is intended to satisfy a local want.
2. When the added values due to the expenditure are local.
3. When the local administration is likely to be the more effective and economical.
4. When the measures giving rise to the tax have been decided upon by the local authority.
5. When the benefit of the expenditure is confined to the local residents.

When the operations to be paid for have been determined by the local authority, the local authority should then assume the responsibility of obtaining the money locally and should expend it locally.

NATIONAL ASSISTANCE TO LOCAL GOVERNMENT. With regard to imperial funds being brought to the aid of local funds, according to Sir Robert Giffen and Lord Farrar it is a dangerous

thing to assist local funds out of the imperial exchequer. Although this is true, still it must be admitted that local government in itself is worth maintaining. In the first place it is a great training school of governors and of citizenship—the Borough Council often leads to the County Council and then to Parliament. In the second place, on the principle of solidarity, a great community like England cannot allow the local authority to be too slack. For instance, in the maintenance of the highway, the community should be bound to keep the roads in good repair, and this involves a certain amount of responsibility. As a rule the community issues its instructions and should therefore help to meet the expenditure involved.

METHODS OF ASSISTING LOCAL FUNDS. There are various ways in which the imperial funds can be brought in to help the local authorities, the four most important being—

1. By local loans.
2. By definite grants from the imperial Government in aid of the local funds.
3. By the assignment of special taxes or parts of taxes to local purposes.
4. By the imperial authority's undertaking to deal with certain functions chosen from among the onerous functions of the local authority.

1. **Local Loans.** Hitherto the principle has been that the nation as a whole enjoys credit and borrows. The Government lends to the municipality at a slightly higher rate than that at which it can borrow. In England this forms a particular kind of stock—the local loan stock—and this money is lent to the local authority for purposes that the Government has already sanctioned. It looks as if the scheme were both practicable and safe, but as a matter of fact it has been found that it is not very safe. Out of a hundred millions so advanced, twelve millions have been remitted; that is to say, six and a half millions as gifts and five and a half millions as bad debts. Although the latter amount is not large to a great nation like England, still it is a dangerous policy.

Again, the supremacy of electricity is in the future, and a great many municipalities have been brought together by the power of coal. In all probability, just as coal aggregated people together at the mouth of the pit, so electricity will scatter them over the land.

At the present time the municipal stocks are considered trustee stocks, i.e. they are safe enough for trustees.

2. **Municipal Grants.** These are known as "doles" and have practically been abandoned.

3. **Assignment of Certain Taxes.** This was the plan proposed by Mr. Goschen when he was Chancellor of the Exchequer. He got rid of the old doles or grants and handed over the proceeds of the Excise licence duties, and one-half of the probate duty. A surtax of 3d. per gallon on beer and 6d. per gallon on spirits were also assigned. The real difficulty of this method is that the accounts become confused, municipal responsibility is taken away and extravagance tends to result. The rates are all pooled, and when the accounts of any municipality are examined, it is difficult to see what it spends itself and what it derives from the imperial funds. In short, with the absence of exclusive local contribution, exclusive local control is lost.

4. **The Bearing of Onerous Taxes.** The proposal is to select certain of the onerous functions and take them off the hands of the local authorities altogether; e.g. lunatic asylums maintained at the public expense. A large number of prisons have been taken over. Unless the imperial authority looks after these undertakings and contributes towards them, there tends to be an absence of uniformity and consequent injustice.

GREAT DEVELOPMENTS IN LOCAL GOVERNMENT. During the last seventy years enormous advance has been made in local government. In 1842 the local authorities raised for local purposes about eighteen millions and the imperial funds contributed a little more than half a million—£640,000. Now, local authorities are raising about fifty millions and Parliament contributes thereto about twelve millions. The principal items are—

1. Education, to which imperial funds contribute heavily. Industrial schools, reformatory schools, etc., are included under this heading.

2. Health, where imperial funds contribute towards medical officers of health, inspectors of nuisances, diseases of animals, etc.

3. The Police. The central authority contributes one-half of the cost of the upkeep of the police force after inspectors have reported their efficiency. The costs of prosecutions when undertaken by the Government are met out of imperial funds.

4. The maintenance of fire brigades, turn-pike roads, registration of births, marriages, and deaths.

Up to 1888 the whole of these contributions were paid by vote, but now the larger proportion included in the local taxation accounts are paid out of the assigned revenues mentioned above.

INCIDENCE OF LOCAL TAXATION. The incidence of a local rate largely depends on its amount. If the local rate is heavy, it tends to fall partly on the landlords in the neighbourhood, whereas a light rate brings inhabitants into the district, causes competition for houses and enables the burden to be put on the incoming tenant. The rates are different in different places, and the question arises as to the wisdom of making rates uniform.

If the rates are high because of poverty, it would be better to equalize the rates so as to attract capital into the districts. However, the cause of the difference in the rates should first be discovered before any attempt is made to alter it by bringing in assistance from outside.

TEST PAPER VIII

1. " The local authority may be regarded as the resultant of the wishes and forces which operate within the private household." Explain and elucidate this statement.

2. Write notes on: Administrative County, Municipal Borough, Rural District Council, Urban District Council.

3. The various forms of enterprise carried on by a municipality may be grouped into Municipal Institutions, Municipal Utilities, and Municipal Undertakings. Distinguish clearly between these different forms of enterprise.

4. What do you mean by a municipal undertaking? Enumerate the main types of such undertakings.

5. Discuss the principles that should govern a municipality in fixing the charges to be made in its gas and tramway undertakings.

6. Consider the causes which induce municipalities to establish their own independent undertakings.

7. " The very best of all plans of finance is to spend little, and the best of all taxes is that which is least in amount." Examine, from the standpoint of municipal economy, the conception of financial policy presented in this passage.

8. Give any arguments in favour of and against larger areas in Local Government.

9. Describe the typical organization of a municipality and show to what extent division of labour is usually carried.

10. Into what main departments may the municipal organization be divided ? Describe the work of two of the departments you mention.

11. What are the chief sources of revenue and objects of expenditure of a municipality ?

12. To what extent is the municipality responsible for the provision of an adequate police force ? How are the necessary funds provided ?

13. What are the main differences between local and imperial taxation ?

14. How are the relations between central and local taxation regulated in England ?

15. Discuss the various ways in which the imperial funds may be utilized by local authorities.

16. Discuss the principles which should govern the apportionment of expenditure on primary education between the State and local authorities.

17. Examine the economic arguments for and against municipal trading.

18. " Government, whether central or local, national or municipal, should be model employers." Discuss this statement.

19. Describe the system of local rating in England and discuss briefly any problems that arise from it.

20. Explain and criticize the various methods of borrowing adopted by municipalities and limited liability companies.

21. Is the levying of a rate or of an income tax the fairer method of raising revenue for local expenditure ?

22. Explain and criticize the management of municipal affairs through committees.

SECTION IX

THE STATE

CHAPTER LII

THE NATURE OF THE STATE

THE State is an organization for the regulation of intercourse with other State organizations and also for the regulation of the relations which exist between the members residing in its own area. It regulates not only the forms assumed by the various undertakings but also the nature of the intercourse between the various households, undertakings, and organizations. Since these are an expression of the struggle for existence which is always being waged by individuals and businesses, the State cannot create these different forms and institutions but can only give its sanction to them. In view of the fact that the authority of the State is not a fixed quantity but is conditioned by the degree of strength possessed by its members who are continually engaged in waging a competitive struggle, it follows that the influence of the State upon economic life must not be over-estimated. The authority of the State is rather the resultant of the various forces fighting for power as it issues from the economic structure of the inhabitants of a national area. From this it is not to be understood that the power of the State does not possess its own independence. This independence arises out of a tradition, out of the existence of a body of officials, out of the changing dynamic of the forces which are ever struggling for power. Its actual independence is not absolute, but is largely conditioned by the groups of private households which, for the time being, represent the economic power.

REGULATING POWER OF THE STATE. If there were no public organizations, the competitive struggle of private households one against the other would be fought out in a manner quite different from that which now takes place under the State. Although the State itself cannot abolish this struggle, yet it can influence considerably the means by which it is waged. In the

place of physical superiority, instead of brute force, we have decision by State legislation, the recognition of which is enforced by the authority of the State, and, if necessary, by the employment of force. Such legislation, however, is by no means absolutely just, but depends rather upon the prevailing forces which, for the time being, constitute the State; nevertheless, the progress which is wrought by the State is tremendous when it is remembered that it is due to State legislation that men are forced to wage the competitive struggle according to rules which exclude the employment of brute force. It has taken long to abolish the right of the stronger and for peace to be secured within a certain territory.

State Compulsion. The State organization eliminates within its area the application of physical force by the private households which vie with each other on the basis of private property. It offers protection against all attacks which are contrary to the view of private property. It is especially in the dispensation of law, i.e. in the judicature, that the regulating power of the State is manifested. The municipality is the compulsory organization for the *local* and the State for the *national* market area. The compulsory nature of the State renders necessary the creation and maintenance of an organization which requires a system of management of its own. It is in the nature of every organization that the management should have a material superiority over its members however democratic may be the organization. If this is true in regard to voluntary organizations, it is even more essential in the case of compulsory organizations.

LIMITATION OF POWER OF THE STATE. The strength of the political compulsory organization increases with the number of members which are included in the organization. But even this power has its limits which arise out of the organization itself. In contrast to the separate private households or the individual undertakings, the power of the organization is superior, but it is not superior to the *totality* of the private households and undertakings. The power of the State is based upon that of private households. Only in so far as the power of the State is maintained by the private households, can it continue to be effective. In such a compulsory organization there are violent struggles on the part of the householders, and strong antagonisms exist. Naturally the tendency is for the State authority to represent the resultant of

these conflicting forces within the national area, although this tendency is by no means always asserted smoothly and immediately. If the resultant assumes another form, it does not follow that the State also immediately assumes a different shape. It usually requires strong and continued conflicts before a state of equilibrium is reached. These struggles are rendered more difficult by the fact that the forces striving for political and economic power can by no means be accurately ascertained, since the struggle is continuous, and the result cannot be accurately foreseen.

Decisions are arrived at only by the continuous measuring of forces which are constantly reacting upon the State organization.

FUNCTIONS OF GOVERNMENT. According to Adam Smith there were only three ruling functions for the Government to attend to—

1. The protection of all its citizens from external force or fraud; that is to say, the maintenance of an army and a navy to protect each community against the possible aggression of some other community.

2. The protection of each subject against force or fraud of others; that is to say, the maintenance of law and order, the administration of justice, and of an effective system of police.

3. The provision of other conveniences. What it is the interest of everyone to attend to, generally leads to no one attending to it. For example, it is to everybody's advantage that there should be lighthouses round the coast, and still it is no particular person's duty to provide such conveniences. Therefore, it is the duty of the Government to interfere and make the provision.

Of recent years, England has tended to entrust a great many more functions to the Government than was formerly the case, and there has been a consequent increase of public expenditure.

STATE ADMINISTRATION. The supreme power in the State organization is the Cabinet, which decides upon all important questions of general policy. All details connected with the working out of such policies and all routine business is left to the various departments of State. At the head of each of these is placed a member of the Government who is responsible for everything done or omitted by the department over which he has control. In most of these departments there is an under-secretary who is also a member of the Government. Besides these parliamentary heads of

departments there are a number of permanent officials and a clerical staff. It is essential that there should be such permanent officials, on whom the parliamentary head may rely, for they preserve the continuity of the administrative work in the various departments.

The magnitude of the operations conducted by the State organization may be gauged by the number of persons engaged on the personnel and staffs of the various departments which are shown in the following table—

THE STATE ORGANIZATION

PERSONNEL AND STAFFS

	1914 (Pre-War).	1918 (Armistice Day).	1922 (April 1st).	1923 (April 1st).
1. Personnel of Army, Navy, and Air Force—				
Army	174,500	3,996,000	196,000	156,000
Navy	145,600	436,000	121,400	99,500
Air Force	—	293,000	27,300	28,000
Total	320,100	4,725,000	344,700	283,500
2. Staffs of Government Departments—				
War Office	2,800	18,324	5,760	4,685
Admiralty	5,400	20,457	9,109	8,203
Air Ministry	—	4,646	1,854	1,644
Post Office	208,900	197,315	185,196	181,173
Ministry of Pensions	—	8,561	22,919	23,552
Inland Revenue	15,800	16,949	20,645	20,410
Ministry of Labour	4,400	8,484	20,579	15,462
Customs and Excise	10,300	11,164	11,487	11,640
Board of Trade	2,500	18,907	5,519	5,439
Other Departments.	28,800	113,218	34,653	32,790
Total	278,900	418,025	317,721	304,998

The figures of 1914 and 1918 include proximately 25,000 persons engaged on Irish services, who are not included in 1922 and 1923. The number engaged on Imperial Services in connection with Ireland on 1st April, 1923, was 969, who are included in the above table. Industrial staffs (dockyards, etc.), are excluded throughout.

DEPARTMENT OF OVERSEAS TRADE. The most important Government departments which exercise any control over commerce are the Ministry of Transport, Ministry of Health, and the Board

of Trade, all of which are dealt with in *The Principles and Practice of Commerce.*[1] Here we shall deal with the assistance given to trade by the State through the Department of Overseas Trade, which is a joint department of the Board of Trade and the Foreign Office. This department was formed in 1917 with the object of becoming the centre from which British traders should be able to obtain reliable information of a commercial nature concerning any overseas market.

The Department of Overseas Trade assists the individual trader in the following ways—

1. By distributing information through circulars and through the medium of the Press.

2. By dispatching expert missions, in co-operation with trade associations, to study overseas markets.

3. By supplying information to *bona fide* exporters of British goods on the following, amongst other, matters—

(*a*) Contracts open to tender.

(*b*) Overseas demand for particular goods.

(*c*) Lists of importers of various goods in overseas markets.

(*d*) Suitable agents for British manufacturers and merchants.

(*e*) Best methods of marketing and distribution; credit conditions; terms of payment; nature of competition, and the best way of combating it.

(*f*) Customs tariffs and regulations; regulations governing commercial travellers; registration of trade marks; consular invoices, etc.

(*g*) Statistics of imports and exports.

(*h*) Shipping and transport.

(*i*) Manufacturers of any special goods in the United Kingdom.

(*j*) Sources of supply of raw materials.

4. By organizing trade fairs with the object of attracting important overseas buyers, and bringing them into touch with the British producer.

5. By arranging exhibitions of foreign goods and catalogues for the guidance of British manufacturers who may be able to produce competitive articles.

Organization of the Department. The Department of Overseas Trade is served by an efficient network of representatives throughout

[1] By James Stephenson, M.A., M.Com., D.Sc. (Pitman).

the world, who maintain a constant supply of information to the home centre and provide local assistance in the promotion of British trade. The Department has control of the following services for this purpose—

1. The Trade Commissioner and Imperial Trade Correspondent Services in the Empire. Since the War the Department has been engaged in building up a much more comprehensive commercial organization than existed in pre-war days. Trade Commissioners are now distributed in different parts of the Empire whose energies are devoted to the development of British trade.

2. The Commercial Diplomatic Service attached to the British diplomatic missions in foreign countries. In place of the handful of pre-war Commercial Attachés, a new service, styled the Commercial Diplomatic Service, has been established. The officers of the service are stationed in all the more important foreign markets of the world, and have general supervision over the commercial work of the consular officers in their respective areas.

3. The British Consular Service in foreign countries. In addition, the Consular Service has been reorganized and established on an improved footing. Emphasis is now thrown on the importance of the commercial side of consular work, and every effort is made to recruit for the Consular Service men with the necessary qualifications for the work which they will handle.

The overseas officers of the Department are kept constantly posted by the Department of Overseas Trade through the issue of regular bulletins on all commercial and industrial developments of importance at home; but this would be insufficient without personal knowledge. Accordingly, it has been found useful to bring overseas officers home at regular intervals and arrange, with the valuable co-operation of chambers of commerce, for them to visit the principal industrial centres of the United Kingdom. The organization of such visits is a regular part of the work of the Department. The average length of a visit is about four months, during which time the visiting officer undertakes some hundreds of interviews, besides addressing chambers of commerce, trade associations, and similar commercial bodies, and at the same time availing himself of the opportunity of visiting works and factories, and familiarizing himself generally with the methods and products of British manufacturers.

CHAPTER LIII

THE STATE IN RELATION TO INDUSTRY

THE STATE IN RELATION TO AGRICULTURE. The agricultural policy of the State consists of those measures which are calculated to exert an influence upon the agricultural undertakings in a community. The State does not interfere with the agricultural undertaking itself, but merely creates certain conditions for the successful management of such agricultural undertakings. It will suffice here to give a few important examples to show how the State attempts to exercise an influence upon the undertakings engaged in agriculture. The basis of agriculture is the land which cannot be increased but which is the free gift of nature. A certain minimum area—by no means fixed—is the preliminary condition for an agricultural undertaking. An important agricultural and political question is whether the free and unrestricted partition of the land should or should not be allowed. The fear is that the partition might lead to such a dispersion of the ownership of the land as to endanger the areas necessary for small holdings. In some countries this unlimited partition has led to an excessive increase of smaller and smaller holdings. To a certain extent, however, there sets in an automatic reaction against too far reaching a dispersion, if the small holdings do not happen to succeed. The small holder increases his area under cultivation by the purchase of additional holdings. At any rate, this uneconomic dispersion remains a disadvantage which is capable of readjustment by the policy of the State. This is usually effected by the recognition of the law of primogeniture which leaves the land—the basis of an undertaking—to one heir, whereas the others are paid off or satisfied with money or with interest claims. There are many different methods adopted by the State to counteract the splitting up of agricultural areas, and different methods are frequently adopted in one and the same State owing to the fact that great attention has to be paid to the customs of the people. At any rate, the State restricts in a far-reaching degree the free right of disposal of property by the individual owners. Likewise, the State lays down the conditions for the establishment of entails. Furthermore, the State devotes particular

attention to the regulation of agricultural credit, that is, to the system of mortgaging estates. Upon the nature of the mortgage regulations depends not only the power to obtain credit, but upon these also depends the price of the credit. Of course, there is also an increasing danger of burdening estates too heavily, and this cannot be prevented by State enactments. With the co-operation of the State, credit institutions are established for the mediation of credit to agricultural organizations. Moreover, the State can also influence by its measures the price of agricultural produce. In some continental countries, especially in Germany, this is effected by means of protective duties on agricultural produce. Although it may be difficult to determine the precise influence of a duty upon the prevailing prices, it is certain that the idea of the duty is to raise the price and this aim is generally accomplished. Naturally the measures controlling the agricultural policy of the State restrict or enlarge the freedom of action of the individual *entrepreneur*, but in particular they leave untouched the method of managing the individual undertaking.

Moreover, under modern conditions, the State would not have the power to exert any considerable influence in this direction on the millions of undertakings. A proper understanding of the agricultural policy of modern times assumes an insight into the history of agriculture, but this will be found elsewhere. In England agricultural policy has taken an entirely different course of development from that of most continental countries, and it is quite impossible to draw a parallel between the two. The power of the agricultural undertakings in relation to the State is so strong in most continental countries that the State is compelled to give careful consideration to the agricultural interests. It is fallacious to assume that the political power of the agricultural interests has no economic foundation, but is merely based upon tradition. On the whole, the political activity of the agricultural interests is determined by the magnitude of their economic power.

THE STATE IN RELATION TO AFFORESTATION. In connection with the agricultural policy we will also refer to the policy of afforestation, for in this, likewise, the soil is the chief factor determining the success of the undertaking. In afforestation the State is usually interested to a much greater extent than in agriculture. Whilst the agricultural undertaking is the business

of the private individual, the State as an organization takes an entirely different interest in the extent, distribution and management of the forests. If we were to leave forestry to the private individual the extent of the forests would be reduced and a policy of exploitation—detrimental to the whole area—would be carried on. For this reason the State not only supervises the forest property of private people, such as the Church, and municipal property, but itself carries on forestry on a large scale. In Germany, for instance, the State has sovereign rights over all forests ; it has the power to restrict the splitting up of forests into a number of holdings, and can issue prohibitions of deforestation and devastation. It can compel the owners to renew the forests, or it can even expropriate the present owners where it is to the interest of the public. The State can also influence and determine the method of cultivation even in the case of privately-owned forests.

THE STATE IN RELATION TO MINING. Whereas the State leaves agricultural land in the main to private owners and private undertakings, and whereas on the other hand to a large extent the State itself manages the forests, in many European countries it has for a long time claimed crown rights over the subterranean treasures ; but in more recent times it has handed these over to private ownership, and in most cases has merely reserved to itself the right of supervision which latter, however, is of a varied character. It cannot be denied that mining under private ownership has made great progress, but it has also led to the existence of grave abuses which have recently led to attempts at placing restrictions on private ownership in mines.

The years following the Armistice, which was declared in 1918, were characterized by wide-spread labour unrest especially among the miners. The latter demanded not merely considerable increase in wages and a six-hour day, but nationalization of the mines and minerals. Before coming to a decision, the Government naturally wished to consider the effect on the community of such stringent changes in the fundamental industry of the country. They therefore set up a Royal Commission presided over by Mr. Justice Sankey which recommended nationalization and also called attention to the alarming decrease of output from the mines. The miners' leaders insisted that the Government were bound to accept the nationalization advocated in the Sankey reports. But in the

opinion of the Government this was emphatically repudiated, and it was held that the nation, and not a faction, should decide a political and economic question of this magnitude. As time went on it became increasingly evident that the experience of Government control during the War had not inclined the country in favour of nationalization.

THE STATE IN RELATION TO MANUFACTURES. The attitude of the State towards industrial questions is intimately connected with the rise and development of modern manufactures. It was this attitude which compelled the State to sweep away the existing obstacles to manufactures and to recognize liberal principles, the most essential of which was the freedom of industry. In smaller market areas where demand and output can be controlled, the State may to a large extent supervise and direct economic life, but this possibility recedes with the expansion and interlacing of the market areas and with the progress of division of labour in the sphere of manufacture. With the decline in importance of agriculture and of crafts, the claims of the private households and undertakings tend to assert themselves and their economic success is obtained by unrestricted competition, and in the free development of the market area. In nearly all spheres the State is obliged to pay due regard to this. In particular, the result of this strong current is by recognition by the State of industrial freedom, which, however, had already been won to a large extent by the expansion of industry before it received the sanction of the State. Even to-day the economic policy of the State postulates a certain amount of *laissez-faire* (although this principle has been modified in many spheres). In general, however, it may still be said that our present-day industrial constitution, as it is revealed in the laws of the State, is based upon *laissez-faire.*

The restriction of industry or of certain trades to the towns or to certain persons and classes has been abolished; all exclusive rights and privileges have been cleared away, as well as the prohibition to carry on two or more trades simultaneously, and the gild requirement to prove one's capacity (e.g. production of a masterpiece). Nowadays there are only a very few restrictions which the State has reserved to itself in the interest of the public. Of course, these are legislative impediments handed down from the past, and were an obstacle to the expansion of the market area and consequently

to the development of the modern undertaking. One is led to wonder how the economic policy of the State could assert itself in the direction of *laissez-faire* when agriculture and crafts were still the powerful factors in the struggle against the rising manufacturing undertakings. It is apparent, however, that both agriculture and crafts were conducted in an isolated and unorganized manner, and were split up into a number of different interests. At first agriculture was only partly interested in the rise of manufacturing undertakings, that is, where the sale of its produce (in some cases at least) increased more rapidly than had previously been the case. At first the rise of industry in the towns exerted a very favourable influence upon agriculture, and this development was originally looked upon from the standpoint of this advantage.

At first even the crafts were largely split up in their attitude towards the principles of *laissez-faire*, especially seeing that the restrictions imposed by the gilds constituted an impediment to a large section of the craftsmen themselves. Thus the spirit of *laissez-faire* was asserted, although it was necessary for the manufacturers on their own initiative to exercise political influence upon the State. In connection with this development of the economic policy of the State, a whole series of laws cleared the way for industrial development and sanctioned the standards set up by it. In this connection reference need be made only to the facilities given to company development which were regulated in England by a number of Acts which were afterwards codified by the Act of 1862.

In the earlier stages the State endeavoured to regulate this development by special Acts and strong supervision. Here, however, the idea of *laissez-faire* likewise asserted itself so that State sanction and supervision were abolished. Excesses in the sphere of company promotion, however, have led to renewed interference by the State, but on the whole companies have been able to develop so freely that to-day the cry for restriction is often raised owing to the fact that freedom is frequently abused. In turn, however, industrial freedom led to the rise of combination, coalition, and organization, that is, to principles out of which can be forged the strongest weapons to counteract the evils of *laissez-faire*. On the basis of *laissez-faire* the economic struggle was able to develop more strongly than ever, and led to social phenomena

which, at first, became a danger to the workers, to the crafts, and also to agriculture. Consequently counter-currents were let loose which made impossible the maintenance of the principle of complete *laissez-faire*. In various spheres there were discernible reactionary movements which were clearly reflected in the economic policy of the State. The result of *laissez-faire* has been that the larger undertakings restrict or even abolish altogether mutual competition and thus change the principle of *laissez-faire* into one of combination. All this accounts for the former existence of *laissez-faire* which still survives, although in practice the economic policy of the State increasingly turns away from it. This change of policy cannot be applied to the needs of the majority of private households and undertakings, for to them *laissez-faire* continues to form the preliminary condition for their existence. It will first be necessary to create the coalitions and organizations which will themselves restrict their own freedom and then force the State to recognize them. Thus the State would be given an economic and political trend in accordance with which the principles of *laissez-faire* could be replaced by the principle of restriction and solidarity.

The principal economic policy of the State, especially in relation to industry, can be understood only from the standpoint of such a development. The State itself cannot force the pace, but it can and will only follow it. Hence, no doubt, the rise of cartels is a delicate question bearing upon the policy of the State. It is true cartels often offend the principles of *laissez-faire* no matter how much the courts try to cloak the offence. However, the State cannot attain anything by repressive legislation as has already been experienced by the measures taken in the United States.

CHAPTER LIV

THE TRADING POLICY OF THE STATE

THE trading policy of a country is that part of the general economic policy which, by interfering in the conditions of exchange, endeavours to exert an influence upon the national well-being. Its control is chiefly in the hands of the State, although the municipalities and other public or even voluntary organizations may exercise a determining influence upon it. During the Middle Ages commercial policy was dictated mainly by the towns, but to-day the State stands in the foreground to such an extent that our attention may be confined to its action. The commercial policy of the State should be such as to keep in view the maintenance and development of the common interests of the nation. In this respect the State, in pursuit of its aims, does not always pay regard solely to the interests of commerce, but to the common interests of the nation, especially in regard to the needs of agriculture and of manufactures; and to watch that commerce does not develop any forms which are detrimental to the well-being of the consumers. Such considerations frequently result in restrictions being imposed by the State upon the trading activities of the people, a tendency which has been very marked in most countries since the outbreak of the War in 1914.

THE COERCIVE ACTION OF THE STATE. The coercive measures within the power of the State are of such a kind that it can exercise much more influence in the direction of trade restriction than in the direction of trade facilitation; for this reason, the mercantile interests demand of the State, not so much assistance of their interests, but rather freedom of action and the removal of all restrictions. On the other hand, where the representatives of the agricultural and manufacturing interests gain too great an influence upon the Government, the general commercial interests of the community might easily be affected in an unfavourable manner. One of the most important functions of the State is to discover in their policy the *via media.*

Amongst the various measures of commercial policy, those stand

in the foreground which have a direct influence on commerce proper, or at least aim at exercising it. Of course, a large number of the tasks of a general industrial policy indirectly exert a great influence upon commerce, such as the creation of safe means of communication and of transport, the regulation of weights and measures, the codification of law, etc. All these matters, however, do not assist commerce alone, but they are subservient to the whole industrial activity of the community. As a rule they are arranged primarily in the interests of agriculture and manufactures, and only secondarily to suit the needs of commerce. In many of these measures of industrial policy, especially in regard to communications, commerce has a greater interest in the manner of their regulation than either of the other two branches of production. Here we shall confine ourselves to a consideration of those measures which have a direct bearing on commerce.

The commercial policy of a country may be divided into two clearly marked divisions, viz., the internal and the external policy. The former is concerned with the regulation of the home trade and, in the main, occupies itself with dealings in merchandise, whereas the function of the latter is to safeguard the general economic interests of the nation in its dealings with foreign countries. The external commercial policy is concerned not merely with the development of trade with foreign countries, but it endeavours to further the whole of the economic interests of the nation. In regard to both internal and external affairs, the State has in its hands a variety of means which it may employ in order to carry out its aims. Here we shall refer briefly to the measures which are most important and which are usually employed.

INTERNAL COMMERCIAL POLICY. In comparison with the mercantile period, which was characterized by its numerous restrictions on the freedom of competition, the policy which now regulates the internal trade of the country has lost much of its efficacy during the past few centuries. Before the outbreak of the World War in 1914 the restrictions on inland trade had gradually been removed in all civilized states, and in their place there had been established a system of free intercourse. The internal restrictions which remained at the outbreak of war had been introduced at the instigation of certain groups of interests with the intention of mitigating the evils of competition, and were calculated to serve the interests

of public morality, law and order as well as the safety and health of the members of the community.

These restrictions correspond to the measures which have been introduced for the regulations of industrial workers; they do not affect the wholesale trade but principally the retail trade.

Trade Regulations. The following are the most important measures which regulate the internal trade of this country at the present time—

1. Measures which have been introduced for reasons of *social safety* and well-being and which aim at the protection of both the consumer and the shopkeeper. In this category may be included the licensing laws applied to the retail trade in alcoholic liquors and spirits; the regulation of the trade of the pharmaceutical chemist including the sale of medicines, poisons, and drugs, and the sale of explosives. There are also legislative restrictions on the conduct of such callings as the auctioneer, the accountant, and other persons engaged in commerce. The Food and Drugs Act helps to prevent the sale of unwholesome or adulterated goods, whilst the Money Lenders Act aims at the protection of the financial interests of the ignorant.

2. There are measures which regulate the trade of the pedlar and similar dealers. Such measures involve a considerable restriction of this kind of trade, but they owe their origin only partly to reasons of safety and public welfare. Their existence is due more to the consideration of the Government for the local retail shopkeeper who has continually clamoured for protection against the competition of such persons.

3. The State has also interfered for the protection of the trader against unfair competition and the prevention of the ruthless application of immoral business practices. Thus the law affords protection against the unfair appropriation of the personal rights of competitors, and against the deception of the public by means of fraudulent advertising with the object of acquiring customers. In England the law protects the firm name, and special Acts have been passed for the protection of patents, patterns, and trade marks.

THE DEVELOPMENT OF TRADE. In contrast to the measures which aim at the restriction of trade, the following may be said to aim at its development and extension—

1. The regulation of the legal conditions of trade by the passing

of special Acts of Parliament, such as the Bills of Exchange Act, 1882; the Sale of Goods Act, 1893; the Factors Act, 1889; the Merchant Shipping Acts, 1894-1921; and the Railway Act, 1921. These Acts are adapted to the particular requirements of British commerce, and in addition there are numerous other legal enactments which have been of great assistance in the creation of clear and secure business conditions.

2. The improvement by the State and the municipality of the system of commercial education which is a *sine qua non* for the successful conduct of business. In addition to evening continuation classes, and higher commercial schools, courses in commerce have now been established at many of our universities.

3. The establishment of markets, exchanges, fairs, and exhibitions.

4. The better organization of trade by means of voluntary associations, such as chambers of trade, chambers of commerce, and other institutions.

5. Numerous measures having a beneficial effect upon commerce, such as the improvements in transport, the creation of a common system of weights and measures, and the establishment of a sound system of currency and banking.

EXTERNAL COMMERCIAL POLICY. The policy applied to our foreign commerce aims not only at the safeguarding of commerce proper but also at the protection of the economic interests of the whole nation in its intercourse with foreign countries. In the course of time this policy has been dictated by a variety of economic theories among which the controversial question of Free Trade and Protection have always been in the foreground. Even at the present time this question remains undecided and the last few generations have witnessed an appreciable accentuation of protective duties in place of the former Free Trade movement, which amounts to a kind of modern mercantilism. As can be seen from the history of commerce, this question of fiscal policy must not be viewed from the same standpoint for all nations and for all times, but it depends in a large measure upon the economic and political conditions of the country under consideration, and in practice it is rather a question of what may be advisable at the time, than a purely theoretical question of principle. To-day neither Free Trade nor Protection can be condemned on principle in all cases. In certain respects either the one or the other may better meet the

economic needs of the country. However, in a State which is largely dominated by certain groups of interests, it is possible to overstrain one or the other principle in their favour, and this must have an adverse influence on the economic system as a whole. In that case it is the duty of the Government, through a change in its commercial policy, to safeguard the interests of the community.

Free Trade. The theory of Free Trade, viewed from the standpoint of world economy, is unquestionably the correct one; it aims at the realization of an ideal state in which all peoples devote themselves to those occupations in which they can produce to the best advantage, and in which the most complete system of international division of labour and the greatest wealth for the whole of humanity would be attained. However, the question of Free Trade and Protection has to be answered according to the prevailing economic conditions in the respective countries of the world.

Protection. The fact that a tariff policy often leads to warfare cannot be disputed. The return to protection of an increasing number of countries who had adopted a Free Trade policy during the nineteenth century tended, especially after 1870, to create the atmosphere which paved the way for the World War of 1914 with its terrible consequences.

In modern times the external commercial policy is carried into effect chiefly by means of Customs Duties levied on goods when they cross the frontiers of the State, and of these there are a great number of different kinds. A distinction is drawn between *import* and *export* duties, the former being levied on goods entering the country, and the latter on goods leaving the country. There are also *transit* duties imposed upon goods in transit; *ad valorem* duties levied on the declared value of the goods; *specific* duties on goods according to their weight, irrespective of value. There are also *protective* duties, and duties imposed for *revenue purposes*—the former being designed to afford protection to certain branches of the home industry, whilst the latter are intended to improve the finances of the State. There are *differential* duties which accord varying kinds of treatment to some countries or to certain goods, or *preferential* duties which confer a favour upon the country affected.

There are *reciprocal* duties which are used as a political weapon, and also *educational* duties which are levied for the protection of an

industry in its infancy. These latter are imposed until the particular industry has become strong enough to compete against similar foreign industries.

The customs tariff is a systematic table of all the duties imposed by a country, and is fixed by the State. An autonomous customs tariff is one in which the State retains the liberty to alter the duties without consulting any other power; a convention tariff is one which is based upon a mutual agreement between two States; and cannot be altered by either of the contracting parties within a certain period of time.

In addition to the imposition of customs duties the State has the power to prohibit the importation and exportation of goods although this policy is adopted in few cases as compared with former times. Likewise, export bounties are of rare occurrence in recent times compared with the days of mercantilism. These export bounties are granted by the State in order to enable exporters to sell their goods abroad at a price lowered by the amount of the bounty and thus to ensure a large turnover. Thus they form a direct means of developing the export trade.

Of greater importance, however, are the means at the disposal of the State for the mitigation of certain restrictions of trade occasioned by the customs duties. In the case of dutiable imports which are intended for subsequent re-export, the State grants a refund of the duty paid on the goods in the form of a drawback. The establishment of bonded warehouses has done much to facilitate the British entrepôt trade by enabling the country to participate to a larger extent in foreign trade. Under this system dutiable raw materials may be admitted into a warehouse where they are converted into articles of greater value, and then re-exported to a foreign country without the necessity of having to pay duty thereon.

Finally, further means for the development of foreign trade by the State may be found in the organization of a *Consular Service*, the investigation into foreign market conditions, the preparation of reports concerning the commercial possibilities of the future, the institution of *sample exhibitions* and commercial museums, the organization of commercial statistics, the granting of shipping subsidies, the opening up of imperial resources, the protection of the nation's interests in foreign countries by the maintenance of a strong fleet and an efficient foreign policy.

CHAPTER LV

THE STATE IN RELATION TO CURRENCY AND FINANCE

THE STATE AND THE MONETARY SYSTEM. With the development of financial intercourse, the necessity for the State to control the common interests of the various classes of its members has led to the control of the whole of the monetary system. It is in the interests of trade that the media of exchange, by which transactions are effected, should be of irreproachable quality, that they should be generally accepted, and should be available in sufficient quantity. The State not only reserves to itself the right to issue media of exchange, but it also authorizes what money shall be legal tender within its area. From the history of the coinage and currency, it can be clearly seen how the combination of small market areas into large political and economic units has rendered necessary the control of financial intercourse by the State. Of course, the State cannot interfere arbitrarily in these matters, nor can it introduce its measures without regard to past development, but it rather follows in the wake of former customs which have asserted themselves in financial intercourse and endeavours gradually to bring the coinage and the currency into a condition suitable to the general interests of the population. In this connection the term "general interests" must not be taken to mean that the interests of all private households and undertakings are served to the same extent.

THE STATE AND THE CURRENCY SYSTEM. In all civilized countries the regulation of the currency is vested in the State organization, which has the sole and exclusive right to mint coins. The State determines the regulations of the Mint, that is, the weight and fineness of the coins. It decides what money shall be legal tender, whether gold or gold and silver, or silver and paper, etc. As nearly all market areas carry on trade with other market areas, the method of regulating the currency system of a country is by no means a matter of indifference, and in intercourse with foreign market areas, the advantages and disadvantages of the currency system are most clearly manifested. International transactions are not conducted on the basis of any particular State currency, but they are conducted exclusively in gold. Within its own market

area the State may, to a certain extent, substitute silver, copper, and paper money for gold, and it must do so in order to meet the need for media of exchange. But in its trade with other market areas *gold currency* immediately comes into force and the value of the country's currency is then measured by its metallic value. The economic policy of the State, however, is by no means confined to the control of the coinage system.

Note Issues. The need for credit instruments leads the State into the sphere of note issue in which, likewise, its interference is decisive. The need for media of exchange is so great that it cannot be met solely by the issue of metallic coins. Moreover, the need for such media varies from time to time, and in order to meet such temporary fluctuations private banks were at first allowed to issue notes. However, the danger which arose to the financial system from the issue of notes by private banks has resulted in the State not only supervising the issue of bank notes, but also in regulating the issue by enactments and the creation of securities against an excessive issue of bank notes. This task it has carried out by granting a monopoly of note issue in England to the Bank of England. The important economic and political functions discharged by the State in the sphere of payments and of credit can here be seen. With the whole power of the State in this sphere, it is by no means omnipotent, but must strictly adapt itself to the prices which prevail in international trade, if it is to protect its members from temporary or permanent loss. With the extension of credit transactions, the State is compelled to prescribe and safeguard the forms and means by which such business can be undertaken, and to classify newly arising forms which enter into competition, and to treat them in accordance with existing customs or to create new ones. Thus, at an early period trade in bills of exchange was regulated by the State, for here guarantees must be created which safeguard the functioning of these credit instruments.

LEGALIZATION OF BUSINESS CUSTOMS. With the rise of the forms of business peculiar to capitalism, State organizations have had to undertake a large number of new functions for legalizing the customs of business men, thus enabling them to embody their transactions in legal form. The various kinds of credit transactions required its legal authority; credit, built as it is upon mutual confidence, requires special safeguards in order that such confidence

may be misused as little as possible. Hence, it is necessary that particular safeguards should be created for the prevention of forgeries, fraud, misunderstandings, and the exploitation of the ignorance and gullibility of the public. The result of all these efforts proves that the desired end can never be fully reached, for any attempt at verbal regulation admits of the possibility to evade the sense implied. The transgressions of these regulations, which are liable to penalties, are not nearly so bad. Worse than these are the transgressions which take place under the formal observations of the legal regulations. Over and over again these have revealed the necessity for the alteration of the law to meet changing conditions, if the desired object is to be achieved. Thus, legislation continually lags behind the development of a vast pulsating life. Perhaps a typical example of this is to be found in the legal regulation of limited companies. From their very nature, limited companies are no longer undertakings belonging to private individuals (although there may be exceptions); as a rule, they are undertakings whose property has a multiplicity of continually changing holders. Hence the legal regulation of this form of undertaking must be different from that owned by a private individual. A public factor enters into the constitution of the limited company, and to a certain degree the law has taken this into account. However, the circles which have exerted a decisive influence upon limited companies contrive to apply and carry out the regulations in such a manner that to-day the interests of the shareholders are much less protected and safeguarded than those of the directors, whose position is rendered so strong by the law that the proprietary rights of the individual shareholders are nothing more than a legal fiction. This fact is acknowledged in wide circles and is felt to be an evil, yet no attempt is made to change the law since the economic and political power of the mass of the existing shareholders fails to manifest itself with sufficient strength to carry through a change, whereas, on the other hand, the economic position of those interests who, under the present law, increase and consolidate their power, is extremely strong, and all efforts to change the law meet with strenuous opposition. No doubt, if the vast number of shareholders were to combine, they would have sufficient strength to overcome their resistance, but their dispersion and apathy resulting from the relative smallness of the individual

interest prevents the formation of a close combination, whilst other classes have not the direct interest to induce the State to act.

THE STATE IN RELATION TO FINANCE. Under the old feudal system the tenure of a tenant when concluded meant the succession of some other tenant to take his place and, under those circumstances, dues were payable to the feudal lord which were known as fines on alienation. The word "fine" and the word "end" gave rise to the term "finance," meaning payments made to the overlord, or Government, and in the course of time these payments have gradually increased because we have called upon the State to do more and more for us, and as we have increased the functions that we on our side impose upon the Government, so necessarily the Government has increased the contribution it makes from us in order to meet the expense of carrying on those functions. The extensive nature of the financial activities of a modern State can be seen from a study of the diagram on page 456.

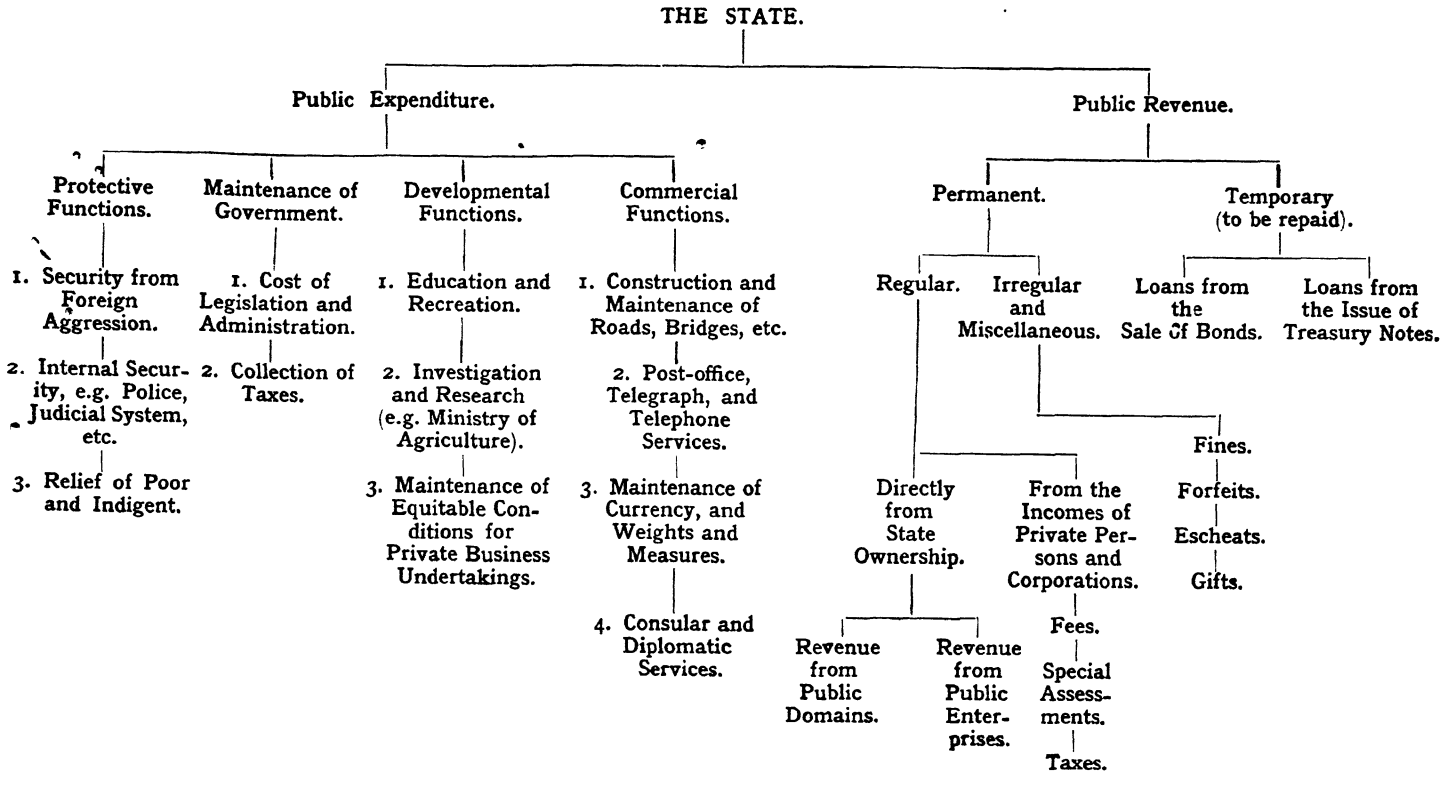
THE EXPENDITURE OF THE STATE. The expenditure of the State may be divided into two main classes, viz—

1. Ordinary.
2. Extraordinary.

The ordinary expenditure is that which occurs regularly every year, whereas the extraordinary expenditure is that which occurs as the result of some particular emergency. The extraordinary expenditure may be obtained from taxation or by raising a special loan. There are objections to the raising of loans because the interest on the loan has to be met year by year out of taxation, so that it becomes more difficult to meet the national expenditure. Thus loans tend to increase loans. Again, since loans are more easily raised while the credit of the country is good, extraordinary expenditure finds itself more easily raised by loans than by taxes. The best general rule is to meet expenses out of taxation wherever possible, but sometimes they are so enormous that they cannot be met out of taxation, and then the State must raise a loan and thus increase the national debt. In regard to borrowing for unproductive purposes such as war, Bastable, in his *Public Finance* gives the following rules—

1. Expenditure should, as far as is possible, be met out of the annual receipts, and therefore increased outlay should be balanced by heavier taxation.

THE STATE AND ITS FINANCIAL ACTIVITIES



2. In the case of a non-recurrent expense of large amount a loan is preferable to a serious disturbance of the normal tax-system, and may be fairly employed.

3. Where the abnormal expenditure extends over a series of years, the various forms of taxation should, speaking generally, be adjusted to meet it.

4. This general principle, however, fails where either—

(*a*) It would be impossible to secure an equitable division of the heavier taxation necessary ; or

(*b*) Where the limit of productiveness with regard to the several taxes would have to be exceeded ; or finally

(*c*) Where for political reasons it is inexpedient to press heavily on the taxpayers.

Thus, as far as possible extraordinary expenditure should be met by extraordinary taxation, but there are limits. Oppressive taxation kills industry, deadens activity, prevents development, hinders enterprise, and reduces savings and the accumulation of capital. A loan is voluntary whereas taxation is enforced, and when heavy it causes discontent and hardship. Taxation deprives an individual of a portion of his income permanently, whereas a loan does permit the return of capital. Where borrowing is inevitable, long-period loans are to be preferred because—

(*a*) The expenses and sacrifices involved for the good of the nation are spread over a later period.

(*b*) Time is allowed during which wealth can be produced so as to enable repayment to be made at a relatively smaller sacrifice.

(*c*) The expenses to the State are generally smaller, especially during the period when the funds are required.

Thus, so long as the funds so borrowed do not unduly deplete the capital available for productive purposes, long period loans are by far the best way of raising money. Other methods are shown in the diagram on page 460.

THE NATIONAL DEBT. The origin of the National Debt in England is a question which is rather disputed. Lord Macaulay gives the date as 1692. In 1694 a loan was raised, known as a Tontine, which is a loan subscribed by a number of persons on the principle that, as each dies, the capital is forfeited, but the total interest is divided among the survivors until the last subscriber dies. In 1694 the Bank of England was founded, and since that time the war periods have increased the debt continuously. Thus, the Napoleonic wars added approximately £622 million to the

nominal amount of the National Debt; the Crimean War, £34 million; the South African War, £150 million. At the end of March, 1920, the debt had been increased by £7,170 millions over the pre-war figure. Since then it has been effectively reduced by over £300 millions, though conversions have altered the resulting nominal total.

NATIONAL DEBT

(Million £)

	Aug. 1, 1914.	Mar. 31, 1918.	Mar. 31, 1919.	Dec. 31, 1919.	Mar. 31, 1920.	Mar. 31, 1921.	Dec. 31, 1921.	Mar. 31, 1922.	Dec. 31, 1922.
Funded Debt	588	318	318	315	315	315	315	315	314
Term. Annuities	30	22	22	20	19	18	17	16	15
Unfunded Debt. 3½% War Stock	—	63	63	63	63	63	63	63	63
4½% War Stock	—	16	14	13	13	13	13	13	13
4% & 5% War Stock	—	2,091	2,068	2,047	2,040	1,995	1,956	1,953	2,071
National War Bonds	—	649	1,636	1,509	1,476	1,413	1,201	1,201	971
4% Funding Loan	—	—	—	409	409	405	405	401	401
4% Victory Bonds	—	—	—	360	357	348	346	335	335
3½% Conversion Loan	—	—	—	—	—	—	266	266	690
5-15 years Treas. Bonds	—	—	—	—	—	23	24	24	24
5½% Treasury Bonds	—	—	—	—	—	—	273	381	166
5% Treasury Bonds	—	—	—	—	—	—	—	40	40
Do. by tender 5%	—	—	—	—	—	—	—	8	69
Do. by tender 4½%	—	—	—	—	—	—	—	—	84
Treasury Bills	15	961	957	1,107	1,107	1,121	1,060	878	719
Exchequer Bonds	20	392	384	323	319	289	218	185	150
Natnl. Saving Certs.	—	138	227	267	274	285	294	342	350
War Expend. Certs.	—	23	—	—	—	—	—	—	—
Other Debt	—	944	1,241	1,306	1,181	1,132	1,097	1,087	1,071
American Loan	—	51	51	51	51	—	—	—	—
Temporary Advances	1	204	455	243	205	154	200	147	222
	654	5,872	7,436	8,033	7,829	7,574	7,748	7,655	7,768
Other Capital Liabilities	57	49	46	46	47	49	51	66	67
Total Liabilities	711	5,921	7,482	8,079	7,876	7,623	7,799	7,721	7,835

The table given above shows the position of the National Debt on 31st December, 1922, compared with the previous dates. From this it will be seen that the National Debt consists almost entirely of two parts, viz., the Funded and the Unfunded Debt. The former expression is applied to the permanent portion of the National Debt, with no fixed date for redemption, and usually a guarantee against redemption before a certain date. The Unfunded Debt is that part of the National Debt which is intended to be repaid in a short period. A portion of the Unfunded Debt is known as Floating Debt and consists of Bank of England advances,

Exchequer Bonds repayable within a definite period, and Treasury Bills.

An analysis of the expenditure of the United Kingdom from 1688 to 1924 discloses the fact that in the years 1914 to 1924, Government expenditure exceeded the total expenditure for the two and a quarter centuries preceding 1914. This vast expenditure of the last few years was really the outcome of inflationary methods of finance and was based on Treasury Bills or Ways and Means advances. These credit instruments in turn were founded upon currency notes and not upon gold as in pre-war days.

Inflation had the effect of reducing the pre-war unit of value from a pound sterling, consisting of 123·27447 grains troy of gold, to a paper pound representing no definite weight in gold, but varying in gold value from day to day.

REDUCTION OF NATIONAL DEBT. In the past the National Debt has been reduced by the Sinking Fund and by the method of conversion. In its earlier form the Sinking Fund was the surplus of certain parts of the public revenue set aside for the discharge of the National Debt; but it has sometimes consisted of fresh loans raised for that purpose. In the second method, a Government Stock at a given rate of interest is converted into one at a lower rate; the Government thus benefits by the diminution in the total amount of interest paid. Conversion, however, is a difficult matter calling for a good state of public credit and the punctual payment of interest. Two other methods which have frequently been suggested since the termination of the War are—

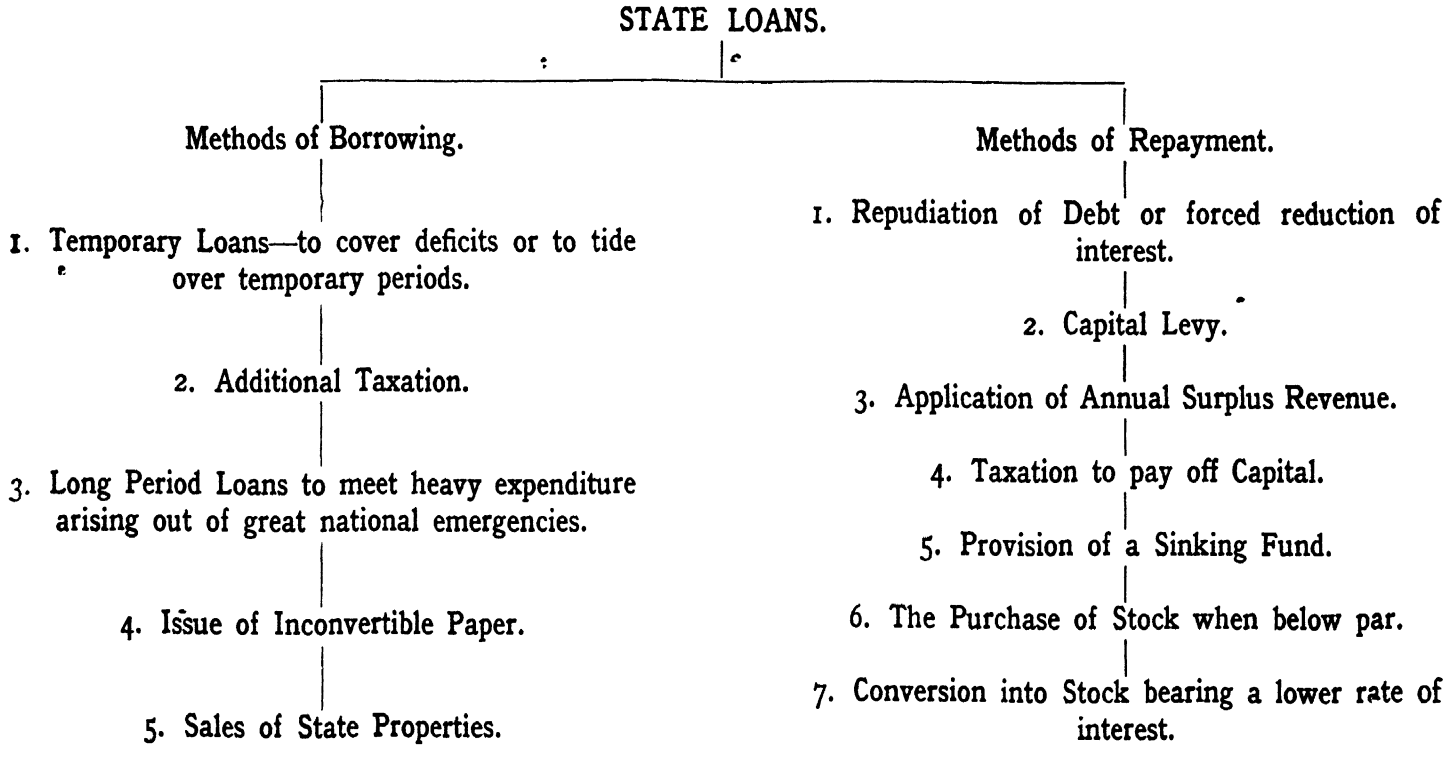
1. Repudiation of the Debt and the forced reduction of the interest, and

2. A capital levy.

The argument in support of the former is that although it would inflict a certain amount of hardship on those who had lent their money to the Government, they would nevertheless benefit by the great reduction of taxation that would follow the abolition of interest payments. On the other hand, such a method is objectionable on moral grounds and would penalize those who have been prudent.

The proposal to impose a levy on capital has been set aside because of its impracticability, and it shares to some extent the objections to the repudiation of debts. It would be exceedingly

THE RAISING AND REPAYMENT OF STATE LOANS



difficult to impose a levy on all forms of capital, and therefore some kind of differentiation would be necessary.

A MODERN BUDGET. The annual financial statement made in the House of Commons by the Chancellor of the Exchequer is known as the *Budget.*

When the Chancellor of the Exchequer comes down to the House to open his Budget, the first thing he has to do is to make the Budget Statement, and this always follows the same plan, viz.—

1. The statement of the financial position of the country at the end of the last year.
2. The statement of expenditure which has to be provided for in the coming year with proposals as to how it can be met.

In dealing with the anticipation expenditure for the coming year, he divides the estimates into—

1. The Consolidated Fund, and
2. The Supply Services.

The Consolidated Fund was started by Pitt in 1786 and consists of that portion of the Government expenditure which is settled for a long period, and does not vary from year to year, or come before Parliament for discussion. It includes such expenses as the charges of the public debt, civil list, courts of justice, etc.

The Supply Services is the division of the public expenditure which is discussed every year. The House is said to go into Committee of Supply, that is, to consider the votes of supplies for such items as the Civil Service, the charges for collecting revenue, the Army and Navy, and the Sinking Fund, or other proposals for the redemption of debt.

Having compared the estimated revenue with the proposed expenditure, the Chancellor of the Exchequer finds there is a balance which is either a surplus or a deficit. In the case of a surplus, there will probably result a remission or reduction of taxation; if a deficit there will be either an increase of old taxes or the introduction of new ones. All these taxes for the coming year are then brought one after another into the form of resolutions which are all passed the same evening, and by custom—though not by strict law—have the force of law. Next morning the officers of taxes proceed to collect the taxes on the basis of the new budget in order to prevent the forestalling of commodities, i.e. the impost is made immediately to prevent the importation of commodities at a lower

ESTIMATED REVENUE AND EXPEND

RECEIPTS

	£
Customs	116,900,000
Excise	143,850,000
	£260,750,000
Motor Vehicle Duties	13,250,000
Estate, etc., Duties	52,000,000
Stamps	20,000,000
Land Tax, House Duty, and Mineral Rights Duty	3,000,000
Income Tax	261,000,000
Super Tax	58,000,000
Excess Profits Duty, etc.	12,000,000
Corporation Profits Tax	20,000,000
	£426,000,000
Total Receipts from Taxes	£700,000,000
Postal Service	33,200,000
Telegraph Service	5,250,000
Telephone Service	14,150,000
	£52,600,000
Crown Lands	900,000
Interest on Sundry Loans	12,500,000
Miscellaneous—	
Ordinary Receipts	12,500,000
Special Receipts	40,000,000
Total Receipts from Non-Tax Revenue	£118,500,000
Total Revenue	£818,500,000
Borrowings to meet Expenditure chargeable against Capital	£8,630,500

BALANCE SHEET

ITURE FOR THE YEAR 1923-24

EXPENDITURE

CONSOLIDATED FUND SERVICES.

	£
National Debt Services	350,000,000
Payments for Northern Ireland Residuary Share, etc.	3,000,000
Road Fund	12,650,000
Payments to Local Taxation Accounts, etc.	10,348,000
Land Settlement	1,500,000
Other Consolidated Fund Services	2,972,000
Total Consolidated Fund Services	£380,470,000

SUPPLY SERVICES.

Army	52,000,000
Navy	58,000,000
Air Force	12,011,000
Civil Service	251,670,000
Customs and Excise, and Inland Revenue Departments	11,591,000
Post Office Services	50,874,000
Total Supply Services	£436,146,000
Total Expenditure	£816,616,000
Surplus	1,884,000
Total Expenditure	£818,500,000
Expenditure chargeable against Capital	£8,630,500

rate of tax. The resolutions are all collected together into a bill which becomes the *Finance Bill.* The House of Lords, by long tradition has the right of rejecting but not amending a Finance Bill. Therefore, if the House of Lords objects to the provisions of a particular tax, they cannot take that one tax out of the bill and refuse it, without refusing the whole of the bill. This system was introduced in 1861 when the Paper Duty was thrown out. The result was that henceforth all these financial proposals were embraced in one bill in order to place upon the Lords the responsibility of throwing out the whole of the taxes.

REVENUE. The chief sources from which the revenue is derived may be brought under the following heads—

1. Customs—taxes on commodities as they pass the frontier inwards and outwards, i.e. export and import duties.
2. Excise—taxes on commodities made within the kingdom and generally levied whilst the commodity is being produced.
3. Motor vehicle and Estate Duties.
4. Stamps on transactions.
5. Income Tax, Super Tax, and Excess Profits Duty.
6. Corporation Profits Tax, which is assessable on the profits of all limited companies and corporations with certain statutory exceptions.
7. The Post Office and its activities.
8. Crown lands.
9. Interest on sundry loans, including the Suez Canal shares.
10. Miscellaneous receipts including the profits on the working of the Mint, and the amount realized for the sale of war materials.

The above items, the details of which are shown in the Balance Sheet on pages 462 and 463, practically constitute the revenue of the State.

CHAPTER LVI

THE STATE IN RELATION TO TRANSPORT

IT is quite obvious that both the municipality and the State must regard the control of transport as their principal function, since the individual private household or organization of private households would not be in a position to lay out the transport routes in the interest of the public. Hence the task must fall upon the local authority or the State. The traffic policy has always formed a main branch of the economic policy of the State, and even nowadays the traffic policy of the State is of dominating importance.

TRAFFIC POLICY OF THE STATE. The present traffic policy of the State embraces the roads, the railways, inland waterways, and ocean shipping. With the rise of the railways the road policy has tended to decline in importance. The State has frequently delegated the construction of roads to the local authorities which intervene between the municipalities and the State, and in the main has reserved to itself merely the policing of the roads; yet, in the ultimate analysis, the supervising authority is still the central government.

The State and the Railways. Much more important and more conspicuous is the railway policy of the State. At first, in this sphere the private undertaking found a rich field for exploitation before the State began to recognize that the railway system could be directed satisfactorily only by the central government. Of course, the right of supervision was always secured by the State, but in many countries, e.g. England, the construction as well as the management of the railways is still left to private undertakings. In such states, the railway policy aims not only at the supervision of private undertakings but also at the prevention of monopolies and the evils of monopoly. In those states where the railway system has been taken over by the State, and where the system has been developed according to the requirements of the traffic, the railway policy has been quite different. Of course, a State railway system has its disadvantages, but on principle it is the proper system in view of the fact that it is the business of the State to build up a systematic and uniform traffic organization.

With the construction and management of the railways the State creates an undertaking which exercises a strong influence upon the private households and undertakings. The railway policy becomes an important factor not only in public finance but also in parliamentary discussions. Although in the nationalization of the railways, financial and military reasons may co-operate or even play a decisive rôle, these motives must for economic reasons be subordinated to the economic factor which consists in the production of traffic facilities and cheap rates. This is usually effected by the uniform management of all, or at least the principal, railways, the introduction of uniform rates and fares, and the extension of the railway system into areas where there is not sufficient traffic as yet to make the working profitable. Even in Germany not all the railways are built and managed by the State, but only the main lines. Branch lines can be and are managed by private undertakings with the co-operation of local authorities, or they may be managed simply by a private undertaking. Where the State manages the railways, rates of transport are strongly influenced by financial considerations, for the State not only attends to the regulation of the traffic but it also strives to realize a profit, and thus create a revenue for the State. Whether, and to what extent, this should be the case, is a controversial question. Hence, currents of economic and political opinion fight against the railway policy of the State in order to make it conform to the traffic needs of the numerous groups of undertakings and private households.

Inland Waterways and Ocean Shipping. Inland water navigation likewise is regulated by the State although its management is left to private undertakings. The legal regulation of the relationship of shipowner, master, and crew interferes but slightly with the economic work and simply borders on the fringe within which contractual differences arise. In regard to ocean shipping the activity of the State is directed mainly to its legal aspect, but in many States economic motives enter into consideration and lead, for instance, to the granting of State subventions to home shipping in order to enable it to withstand foreign competition. A far-reaching regulation for the safeguarding of ocean shipping by the recognition and compulsory display of flags is adopted by the various governments, and this is in part enforced internationally in the sphere of shipping. These facts show quite clearly how, in

the necessary contact with other nations through international intercourse, the common dangers give rise to common interests which render possible the international co-operation of the States in certain spheres of economic life. It is not the altruistic motive but simply the utility and self-interest of every State which leads to international agreements in economic matters, so that in these agreements each State endeavours to prevent its own interest from suffering. Perhaps more than anything else international intercourse brings about the co-operation of states, although this in no way signifies that we are approaching the millenium, but it is simply a necessary expedient for the regulation of international trade in the interest of each individual State which participates in the treaty. In the same way international traffic relations have rendered necessary a number of these agreements in the railway, postal, telegraph, and telephone services.

THE TRANSMISSION OF INTELLIGENCE. The traffic policy of the State also includes the postal, telegraph, and telephone services. In nearly all countries the postal system is managed by the State, which has the exclusive privilege of transporting letters and parcels. In the Post Office are also included, as a rule, the telegraph and the telephone services, although in certain countries the telegraph system is still left to private enterprise. Where the State holds a monopoly, its economic policy assumes an entirely different form from that of countries in which the telegraph is managed by private undertakings. A glance at the various countries of the world, however, makes it apparent that State management is predominant. This is by no means a matter of accident, but it is in the nature of these means of communications that they should be centralized from the very beginning, if they are to have the most favourable effect and be conducted economically. Where these services are left to the play of private enterprise, a uniform management can develop only slowly on account of the prevailing competition, and where a few companies gain the monopoly the State is ultimately compelled to take over the management in the interest of its subjects, if economic interests are to be protected against the dangers resulting from the control of traffic by a single private company.

WEIGHTS AND MEASURES. In the present-day intercourse between private households and undertakings, and between the

various kinds of undertakings themselves, the regulations and supervision of the system of weights and measures is so much a matter of course, that we can hardly realize that it required long years of development and of violent conflict before the State could enforce the recognition of definite weights and measures throughout the whole community. In this matter the State does not interfere in the mutual conflict between the private households and undertakings, but it simply formulates certain rules by which the conflict might be waged, and these have to be observed by everyone. In this respect the economic policy of the State represents the interests of all the private households and undertakings which are subject to the State. It enforces the general recognition of those institutions which have developed through business intercourse, but which without the organization of the State could not have become general to the same extent, or at the same rate, as is the case when the State enforces their general acceptance. The importance of the regulation of economic intercourse by the creation of a good system of weights and measures and the ensuring of their proper use in practice, cannot be overestimated. Once such a stage of development has been reached, it is difficult to imagine an economic system without such regulations; yet here is manifested the necessity for State organization without which the mass of the households and undertakings would be unable to conduct their mutual intercourse with the same facilities to which we are now accustomed. Without this regulation by the State the economically weaker party would be in an even worse position than is the case to-day, when the rules of trading intercourse have been laid down to a large extent by the State.

In Great Britain the central administration of weights and measures is vested in the Board of Trade, the local administration being vested in the county and borough councils. The Board has custody of the imperial and secondary standards, verifies the standards submitted by local authorities for use as local standards, holds the examinations which candidates for the position of inspector are required to pass, and may from time to time appoint an officer to inquire into the administration of any local authority. Weights, measures, etc., must be stamped by the authorities, and thereupon can be used anywhere within the national market area. In spite of the occurrence of abuses the advantage of State control cannot

be doubted. Owing to the fact that the existing weights and measures are generally known, the control of the private households and undertakings can easily be effected, whereas if there were a multiplicity of weights and measures the chances of fraud would be great. With this control there has been but small change in the nature of the economic conflict, and new and different methods were found to secure advantages to the economically stronger. Undoubtedly the possibilities of cheating the other contracting party have been greatly reduced by the standardization of the system of weights and measures.

CHAPTER LVII

THE STATE IN RELATION TO TAXATION

ACCORDING to the size and age of its organization, the State has assumed an importance superior to all other economies. The economy of the State intrudes in a far-reaching manner into the sphere of the private household, the undertaking, the voluntary and the compulsory organizations, on the one hand, in order to procure the means for its own administration, and on the other hand, in order to carry out the law which has been set up in the interest of the subjects of the State. Thus we can distinguish between a State economy in the narrow sense and one in the wide sense. The State economy in the narrow sense confines itself to the procuring of revenue which it employs in safeguarding the State organization and thus enabling it to function. The State economy in the wider sense devotes itself to the State measures which are intended to influence the private households, the undertakings, and the organizations in their economic activity. In regard to economic policy, State economy in the wider sense is more important than State economy in the narrow sense, the latter being practically identical with the study of public finance. Like every other economy, the State must also have an income in order to defray its necessary expenditure. However, since the State is neither a private household nor an undertaking, but an organization in the formation of which coercion has played a contributing rôle, its method of procuring income differs essentially from that of other economies. The private household obtains its income by direct acts of exchange ; in the case of the State there is, however, a service relationship and a counter service, but these relationships assert themselves in a manner entirely different from those arising in the intercourse between private households and undertakings. A further point in the case of the State is that it is a compulsory organization, and upon this is based its taxable powers.

In modern States the members are naturally in a position, through parliamentary representation, to exert an influence on the nature of the State economy. At all events, the State administration is in the position to levy compulsory contributions, fixed by law,

on the private households, the undertakings, and the voluntary organizations. The individual private households and the undertakings confront the State, not as independent contracting parties, since they can assert their influence only indirectly through their representatives in Parliament. This influence of the private households varies greatly according to the economic power inherited by them. In their direct intercourse with the State organization, however, these private households and undertakings are subject to the same regulations as other members of the State and especially where the raising of revenue is concerned.

CLASSIFICATION OF PUBLIC REVENUES. The most important practical distinction within the classes of public revenue is that between taxes and other forms of revenue. According to Taussig, the essence of a tax, as distinct from other charges made by the Government, is the absence of any *quid pro quo* between the taxpayer and the public authority. A broad distinction is to be drawn between taxes and prices, the latter being charged by the public authority for the performance of particular services, or for the use of public property. Again, prices are generally based on some kind of contract between a public authority and the individual citizen who pays the price. This is a broad line of division between taxes and prices.

The revenues of the State may further be classified into—

1. Taxes proper.

2. Fines and pecuniary penalties imposed for offences, such as driving a motor car at too high a speed.

3. Forced loans which resemble taxes since they are made under compulsion.

In the above three cases the element of compulsion is strong and there is no *quid pro quo*.

4. Income from property held by the State in a passive way; e.g. income from public lands or from Suez Canal shares.

5. Receipts from public enterprises.

Here a distinction must be drawn between—

(*a*) Those which are carried on without a monopoly; e.g. in countries where State railways exist, there are usually other competing forms of transit such as road, inland water, or by sea.

(*b*) Receipts from avowedly monopolistic enterprises carried on by the State. Examples of these, such as matches and tobacco,

are found on the Continent, and their object is solely to raise a revenue. Where such pure monopolies are run by the Government, part of the charge made for the monopolized article is in the nature of a tax.

6. Fees. These are payments made to a public official for various services the performance of which is not in the nature of a business. For instance, a fee which goes into the public revenue is charged for the registration of births.

7. Voluntary Loans. In this case a subscriber to a public loan puts up a certain amount of money which comes in as revenue to the Exchequer, the services being paid for by means of interest.

8. Paper Money. The Government obtains this from its own printing press, and the effect of a large issue of such money resembles a general tax upon all commodities and services since it results in a rise in prices. The inflation of the currency by the issue of paper money is a simple device which was adopted by the majority of European States during the War; but deflation, that is, the diminution of the amount of paper currency, is a much more difficult proposition.

9. Special Assessments. These are compulsory contributions levied in proportion to the special benefits received, in order to defray the cost of a special improvement of property in the public interest; e.g. the opening of a new street by a public authority which causes a rise in the value of the neighbouring property. Hence it is an expedient for intercepting some of the unearned increment of land.

10. Free Gifts. In England most of the free gifts of private individuals to the Government take the form of "conscience money," that is, the amount paid by persons who have defrauded the income tax authorities.

TAXATION. Excluding the income of the State from its own economic enterprises, we shall now concern ourselves with the subject of taxation which constitutes the most important and prolific source of revenue of the modern State.

The best definition of a tax is that of Professor Bastable: "A tax is a compulsory contribution of the wealth of a person or body of persons, for the service of the public powers." So important is this definition that it calls for careful examination. It must be noted—

1. A tax is *Compulsory*. There are those who think that the

income of the State might be derived from voluntary contributions. The fact that a large number of English institutions are supported by voluntary contributions is one which has often attracted the attention of foreigners. The whole theory of taxation, however, depends upon the fact that taxes are compulsory.

2. A tax is a *Contribution*. It is a deduction from the wealth of the payer and is used for the maintenance of the State. Just as it would be foolish to allow a house to fall out of repair, so it would be foolish to neglect the organization of the State—hence the need for such contributions.

3. The contribution must consist of *Wealth*, i.e. something of value which is the result of production.

4. The tax is paid by a *Person*, and is always a deduction from his wealth, whether it be an income tax paid in the form of a cheque or in coin. It is always a person who is taxed and never a thing, for a thing cannot pay taxes.

5. A tax is for the *Service of the Public Powers*. The services which are performed by the public powers have to be paid for, and the taxes are used to meet these payments.

Owing to the increase of the revenue and of the extension of State enterprise in modern times, the question of taxation has come into great prominence. It will, therefore, be well to safeguard ourselves against certain mistakes which have been made in the past. Some have regarded taxation as a net increase in the wealth of the community, and much has been said about the taking of taxes from the individual in order to increase the production of the country. It is clear, however, that the taxes which are spent in the wisest possible manner by the State, might be spent in an equally wise manner by the individuals from whom they were collected. Even the best system of taxation amounts to nothing more than the transfer of wealth from the individual to the State.

TERMS USED IN TAXATION. A tax is collected from a person who is called the *payer* of the tax. This person may or may not be the person who ultimately loses by the tax. The person upon whom the tax ultimately falls is called the *subject* of the tax, and the tax is collected at a certain *rate* per *unit* of the *object* taxed. Take, for instance, a consignment of tea. The merchant who imports the tea is the payer of the tax; the persons who consume the tea are the subjects of the tax; the rate of the tax is 6d., and

DIRECT AND INDIRECT TAXES

TAXATION.

- **DIRECT.**
  - **ADVANTAGES.**
    1. Low cost of collection.
    2. Economy in collection.
    3. Certainty—the taxpayer knows exactly how much he pays.
    4. The State knows the sources of revenue and can arrange accordingly.
  - **DISADVANTAGES.**
    1. The difficulty of calculating a just basis of assessment for all classes.
    2. Some taxpayers prefer to be taxed "in the dark."
    3. The possibility of evading payment or of paying less than the true income really warrants.
- **INDIRECT.**
  - **ADVANTAGES.**
    1. The taxpayer does not feel the burden so directly.
    2. The easy method of collection.
    3. Those with small incomes may be reached.
    4. The difficulty of evasion.
    5. Payment can be made convenient.
    6. Productivity can often be increased unless the demand for the article is very elastic.
  - **DISADVANTAGES.**
    1. They are not always equitable; e.g., if imposed on necessaries.
    2. The yield is uncertain.
    3. An increase in the rate does not necessarily cause an increase in the yield.
    4. The cost of collection is sometimes heavy.
    5. The State often receives less than the taxpayer pays.
    6. The tax may be shifted on to people on whom it was not intended to levy it.

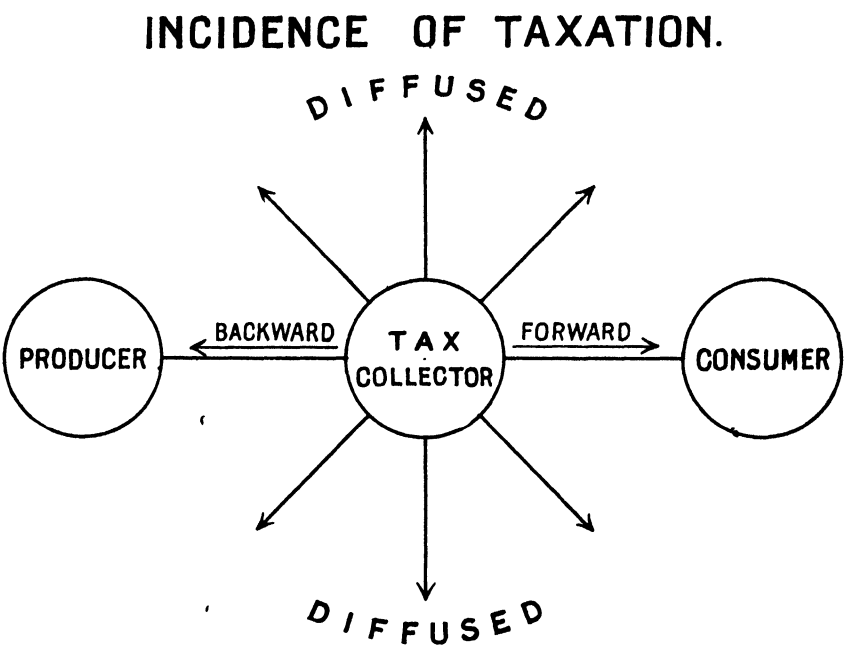
the tax is levied upon every pound of tea ; the tea is the object of the tax, and the tax is derived from the productive powers of everybody who drinks tea—called the *source* of the tax. Thus, every tax has a payer, a subject, a rate, a unit, an object, and a source.

Direct and Indirect Taxes. Some taxes are collected from one person, but are really paid by another person. Direct taxes are collected from and are really paid by the same person, so that here there are two or three of the above definitions bound up in one person. A tax is said to be *incident* upon the person who ultimately pays it, without any possibility of getting it back from anybody else. Direct taxes are therefore incident upon the person from whom they are collected. Indirect taxes are collected from one person but are incident upon another. Hence the classification into direct and indirect taxes.

Primary and Secondary Taxes. Another modern classification of taxes is that of Professor Bastable into primary and secondary taxes. By the " primary " taxes are meant those which fall on the factors of production and therefore on distribution ; in other words they are the taxes on land, labour, and capital and therefore on rent, wages, and profits. These taxes may be combined into income and property taxes. The " secondary " taxes are connected with the effects or incidents of economic and industrial life, and include taxes on commodities, on communications, and on commercial and legal transactions ; also, those taxes on the voluntary transfer of property by contract and sale, and involuntarily by death.

INCIDENCE OF TAXATION. To discover the incidence of a tax, the real payer, the person on whom the burden really falls, must be found. The incidence of a tax may move in various directions. There may be (1) forward ; (2) backward, and (3) diffused shifting of a tax. (*See* diagram on page 476). The life history of a commodity will be from producer to consumer, and somewhere between the two will stand the tax collector. If the tax is incident upon any one between the tax collector and the producer it is *backward shifting ;* if it is between the tax collector and the consumer, it is *forward shifting ;* whilst if the tax spreads itself through the community in all sorts of directions it is *diffused shifting.* The tea tax is an illustration of forward shifting. The duty is first paid by the importer but the amount is added to the price by him and by

each successive dealer until the consumer purchases the tea over a retail shop counter. Where a man owns a choice vineyard he can fix almost any price he likes for the wine. Supposing he fixes twenty shillings per pint as the price; if a shilling tax per pint is imposed on importation into this country, this item cannot be added to the price because there would be a great falling off in the demand. The price is fixed at twenty shillings by the monopolist



because it tends to yield the largest amount of profit, and any other price will tend to pay him worse. Hence this is a case of backward shifting. Diffused shifting would be such as a tax on bread, where the tax is imposed on its importation and everyone would be hit to some extent, especially the poor.

CANONS OF TAXATION. Most people agree that all taxes are evil, but some taxes are so much less evil than others, that we call them good taxes. Other taxes are bad taxes, so that it is important to discriminate between the good and the bad taxes. From Adam Smith we have derived the great classical rules known as the Canons of Taxation which are four in number. There is no tax which exactly conforms to these canons, but the best system is

that which comes nearest to complying with, or least violates, these four rules of taxation which we shall now examine—

1. **Equality.** "The subjects of every State ought to contribute towards the support of the Government, as nearly as possible in proportion to their respective abilities: that is, in proportion to the revenue which they respectively enjoy under the protection of the State."

(a) *Equality of Contribution?* This first canon might be read to mean that everybody should contribute the same *amount* of taxation. Clearly this is not what is meant by the canon. In English mediaeval history several attempts were made to compel everybody to pay the same amount of taxation: this was technically known as a poll tax. The last attempt at a poll tax was in 1381, when it was objected to by a person known as Walter the Tyler. Tyler's objection to pay the tax for his daughter, the onslaught of the collector at that daughter, and the consequent action of Tyler in using a hammer to kill the collector, kindled the Peasant's Revolt. Since that time there has been no poll tax, for equality of contribution did not satisfy us.

(b) *Equality of Percentage?* The canon might be taken to mean that each individual should pay his own proportion of the tax. This would scarcely answer, especially in the case of a great national emergency, when the tax would have to be very high. If the State were to call upon 50 per cent of the income of every citizen, then the person with an income of, say, £50,000 would have to pay a certain amount, but the man with a family in receipt of a small wage would be reduced from the position of a self-supporting citizen to that of a pauper.

(c) *Equality of Payment per Unit of Service Rendered?* This would be all very well with regard to municipal taxation where definite services are rendered. For example, a householder has to pay a paving rate of so much per square foot of road paved. Similarly, with regard to the lighting rate, payment is made per unit of gas consumed. But when we come to the Navy, it is impossible to say how much service is rendered to each individual. The principle of payment per unit of services rendered is not adapted to imperial, although it may be suitable for local, taxation.

(d) *Equality of Sacrifice?* The canon of equality, then, must mean "equality of sacrifice." This is a rough conception which

implies that each person must be called upon to make the same surrender of final utility. Hence, taxes upon necessaries are omitted altogether because a tax which involves the loss of a necessary is incommensurable as compared with taxes which involve only the sacrifice of luxuries. In other words, no amount of taxation which compels a person to substitute one wholesome article of diet for another is commensurate to a tax which compels a person to forgo his food for one day in the year.

2. **Certainty.** "The tax which each individual is bound to pay ought to be certain and not arbitrary, the time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

The time of payment, the method and the amount ought to be made perfectly clear and intelligible to the payer and *to every other person.* These words are important because they are a great charter of financial freedom in a civilized community. The tax ought to be such as a person of little education and little confidence should be able to submit to a friend for verification. When it is impossible to understand a tax, we are evidently on the way to the autocracy of a bureaucratic system.

3. **Convenience.** "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it."

The tax ought to be payable at the time, in the place, and in the manner in which it is most convenient to pay it. In other words, it should be levied in the manner least inconvenient to the payer.

4. **Economy.** "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public Treasury of the State."

A tax for the State should not take out of the pockets of the people any more than it contributes to the revenue. The whole tax should, as far as possible, be available for the public purposes. It should not take more in wealth than it contributes to the revenue, and, as far as possible, it should not inflict any injury upon the community over that of depriving the individual of a certain amount of wealth. There are a number of ways in which this rule may be broken. For instance, a tax may require too many officers for

collection, and the revenue only receives the remainder after the expenses of collection has been paid, so that if the tax is expensive to collect it violates this fourth canon. If a tax is so arranged that it diverts capital from a more to a less productive kind of industry, it diminishes the wealth of the community by an amount more than it increases the wealth of the exchequer. Again, a tax may incur the hostility of a people and be much evaded so that serious penalties have to be inflicted upon those who evade it. There may be frequent visits and odious interferences on the part of the collectors. Under the Mercantile system the silk industry was so closely regulated by the tax collectors that it led to an enormous increase in smuggling. Finally, a tax may violate the fourth canon by preventing the introduction of improvements in an industry. For instance, in the brewing industry the vessels employed have to be in accord with the measurements of the Government. Hence there is a tendency to inelasticity.

Thus, according to these canons a good tax should be equal, certain, timely, and all for the State. As far as possible there should be equality of sacrifice for all classes, the taxpayer should know why and for what he is paying the tax, how he is paying the tax, and exactly how much he has to pay. Further, the tax should be capable of being collected economically.

CRITIQUE OF THE RECEIPT STAMP. This is a 2d. stamp used in acknowledgment of the receipt of 40s. or more. In the first place, this tax is practically all for the State, for the cost of making the stamp is negligible, and the tax is convenient to the payer since the stamps may be bought in large or in small quantities. Again, the tax is certain, for few persons are unaware that a receipt stamp must be paid for amounts over £2, and that without a stamp the receipt is not evidence in a court of law. The tax, however, is unequal, and would be unpopular if a large receipt stamp was imposed. It survives because the tax is only a small one. Still, there is great inequality in it. For example, a messenger in receipt of £2 a week may have to pay 8s. 8d. per annum in receipt stamps, whereas the public official with a yearly salary of £2,000, payable quarterly, would be called upon to pay only 8d. in receipt stamps. Thus, it is evident that the receipt stamp is perfectly certain, convenient, timely, and all for the State, but it is so grossly unequal that it survives its inequality only because it is so small.

THE BRITISH SYSTEM OF TAXATION. The British system of taxation is a composite system of direct and indirect taxes. Direct taxation is perhaps the better since the taxpayer knows how much he has to pay, how he has to pay it, and generally he is told why he has to pay it. Thus, the taxpayer's attention is continually called to the expenditure of the Government, and he is often moved to agitate against State extravagance. The defect of the direct taxes which take the form of income taxes, is that they are very costly to collect. Other direct taxes are the land tax and the estate duties, which are both more or less costly to collect, but are held by many to possess the other properties of a good tax to a very eminent degree.

The principal indirect taxes are the customs and excise duties which are levied at the source, and which are for that reason very cheaply collected. An advantage also is that they are hidden and not perceived by the taxpayer when he is paying for his goods. They possess the disadvantages of uncertainty and inequality, and there is no means of knowing to what extent they are incident on certain classes if the taxes are levied on luxury articles, e.g. tobacco and spirits.

The composite system is undoubtedly the best. The good qualities of direct taxes compensate for the bad ones of the indirect and *vice versa*. The universal tax on income might be the ideal, but it is impracticable as the cost of collecting the taxes on small incomes would exceed the receipts. Again, the indirect taxes place an unfair burden on the poor, but the direct taxes are levied on the classes which are better off. Taken as a whole, the British system of taxation attains, as far as is possible, equality of sacrifice.

THE TAXABLE CAPACITY OF A COUNTRY. Taxes should be paid only out of the wealth produced by the nation, i.e. out of its income. Although a country can endure a great amount of taxation, yet very heavy taxation has evils of its own. The evils of over-taxation are—

1. A discouragement of the national industries.
2. A check upon saving and a diminution of the capital of the country.
3. The tendency to drive capital abroad.
4. Since an unlimited amount of revenue cannot be raised from a limited number of taxes, there will be a tendency to increase the

number of taxes. Many of these will no doubt be bad taxes, i.e. they will violate the canons of taxation.

In order to arrive at a country's taxable capacity, we should deduct from its income what it requires for its own use in order to live, and how much it requires to provide for the depreciation of existing capital and for any necessary new extensions. Theoretically, then, this surplus would be its taxable capacity. In practice, however, it would be difficult to levy such enormous taxation, and although theoretical principles are not lost sight of and although they are very useful, the taxable capacity can be arrived at only by experiment and experience. In exceptional circumstances such as any great national emergency, the theoretical limit, however, may be surpassed. In ordinary times one would have to consider—

1. The effect of the tax on the savings of the community. If savings were discouraged there would be extravagance and loss.

2. The effect of a tax on production. If taxation is heavy little is saved, little is available to invest in industry, and the production of the whole country is diminished.

Again, taxation must not be so heavy as to raise manufacturing costs to such an extent that prices rise, demand falls away, and the country is under-sold in foreign markets.

TEST PAPER IX.

1. Describe the nature of the State organization and estimate the extent to which it acts as a regulating force.

2. In what respect is the power of the State subject to limitations ?

3. What are the main functions of a modern State ?

4. Write a brief account of the way in which the British Government renders assistance to persons engaged in the overseas trade.

5. Describe the policy adopted by the British Government in regard to the different forms of transport.

6. " The commercial policy of the State should be such as to keep in view the maintenance and development of the common interests of the nation." Give illustrations to show how the British State endeavours to realize this aim.

7. Enumerate some of the measures which have been introduced by the State for the regulation of retail trade.

8. What in your opinion should be the policy of the State with regard to its external trade ? Give reasons for your answer.

9. Enumerate the various kinds of duties which may be included in the customs tariff of a modern State.

10. Explain the assistance derived by the export trade of Great Britain from the Consular Service.

11. How far, and in what way, does the law protect trade names of (*a*) businesses, and (*b*) particular goods ?

12. " The chief institution for the promotion of industry is the State." Consider this assertion.

13. Consider the various ways in which the transport and tariff policies of a country may be related when both are under the control of the State.

14. What are the main considerations, theoretical and practical, which require to be taken into account in determining the selection of commodities for taxation, and the method and the amount of the tax ? Illustrate by reference to actual cases. What constitutes equity in taxation ?

15. What changes has the War shown to be desirable in the British financial system ?

16. Should the State (*a*) conduct, (*b*) regulate, trade and industry ?

17. Consider in the light of business economics the problems presented to a British Chancellor of the Exchequer at the present moment.

18. For what reasons, and under what conditions, should the State intervene between buyers and sellers, or producers and consumers of goods or services ?

19. In considering how the expenses of a war should be met, what guidance or help would a Finance Minister receive from the treatment of the subject of taxation by economists ?

20. " To pay off the whole, or a portion, of our debt is, in our estimation, a most desirable object." (Ricardo.) " Two modes have been contemplated of paying off the National Debt ; either at once by a general contribution, or gradually by a surplus revenue. The first is incomparably the best, if it were practicable." (J. S. Mill.)

Examine schemes for a large and immediate reduction of the National Debt, distinguishing between a general assessment and a levy on capital.

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