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ECONOMICS

DESCRIPTIVE AND THEORETICAL

PART I.—DESCRIPTIVE

BY

MARGARET McKILLOP, M.A.

SOMERVILLE COLLEGE, OXFORD; FELLOW AND LECTURER, UNIVERSITY OF LONDON, KING'S COLLEGE FOR WOMEN

PART II.—THEORETICAL

BY

MABEL ATKINSON, M.A.

AUTHOR OF "LOCAL GOVERNMENT IN SCOTLAND"

LECTURER IN ECONOMICS, UNIVERSITY OF LONDON, KING'S COLLEGE FOR WOMEN; 1851 SCOTT SCHOLAR, GLASGOW UNIVERSITY; RESEARCH STUDENT, LONDON SCHOOL OF ECONOMICS; FELLOW OF BRYN MAWR COLLEGE, U.S.A.

WITH AN INTRODUCTION BY

E. J. URWICK, M.A.

TOOKE PROFESSOR OF ECONOMIC SCIENCE, UNIVERSITY OF LONDON, KING'S COLLEGE



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PREFACE

THIS book is intended for the highest form in schools, and also for undergraduates and other adult students who want to read a simple text-book giving a brief outline of the whole subject, before they proceed to the more elaborate treatment of such writers as Professor Marshall and Mr. J. A Hobson. It is hoped that it may be useful to students who select Political Economy as one of the subjects for the Oxford or Cambridge Higher Local Examinations, and for the Examination of the Society of Arts and similar bodies. It also contains a certain amount of material not usually found even in more detailed text-books of economics, which makes it specially suitable for use in girls' schools, particularly those which propose to develop the scientific study of housekeeping, and of the economic relations between the household and society, on the methods which have been adopted in King's College for Women, where both the authors are lecturers.

The adolescent mind finds always a special fascination in tracing the development of principles which connect together the many facts accumulated at the earlier stages of education. Economics therefore should have a definite place in the education of adolescents (both boys and girls), and it is the hope of the authors of this book that they may pave the way to the wider study of economics in schools and colleges.

The teaching of elementary economics is passing through a change which resembles in some aspects the changes in the elementary text-books of other sciences, notably chemistry. Twenty years ago an Introduction to Chemistry began with symbols and formulas, and proceeded to describe chemical

phenomena in chemical language. This method was difficult and perplexing to the student, so much so that the full exposure of its disadvantages by experts in the art of education has hardly been necessary. The procedure now adopted is to begin by describing a large number of observed phenomena, or by allowing the observing student to describe them, in common language. This plan answers admirably for a first stage, but it is doomed to break down when the language used becomes inadequate to give accurate description, and to express generalizations and entirely new conceptions. For the latter technical terms become absolutely necessary.

In the same way, it was long the custom to begin the study of economics by definitions of its terms, leading at once to conceptions and generalizations new and strange to the student. This method has of late been superseded by attempts to describe the phenomena of our social life in common words, sufficient to express what the beginner is able to observe. Hence the modern tendency to take "Descriptive" Economics before "Theoretical." But as the student proceeds he finds it impossible to grasp the new ideas of social relationships that are presented to him unless they are expressed in technical terms of well-defined meaning. The second stage must be that of forming general conceptions, and learning how to state them in suitable and accurate language.

The two parts of this book are intended to answer to the two stages now indicated. It must be emphasized that the first part does not aspire to teach economic history, although it attempts some amount of historical retrospect. Economic history cannot be taught properly without the use of technical terms. What is desired is to awaken economic consciousness in the reader—a realization in some part of his economic relation to society. Individuals who attend lectures in Descriptive Economics have been known to complain, after the first two or three, that they "knew most of it before." It is one thing to know facts; it is another to know how those facts affect one's daily routine, and in particular one's daily expenditure. The scholar at the end of a school career will find it specially useful to gather together under new aspects

many facts from the past history, geography, literature and science lessons, to see what they mean for him here and now, to use the facts as the child could not; above all, in this new context, to see them in connection with wealth and the power given by wealth. At thirteen years old the child may have the same sort of romantic interest in Clive's winning the Battle of Plassey as in Clive's scaling the church-steeple at Market Drayton; at seventeen the pupil can see, if it is suggested, connection between the Battle of Plassey and the price-list of a grocery stores. He may be rather bored by Christopher Columbus and the properties of the hydro-carbons, but he is not bored if he finds the bearings these things have on the price of petrol from the United States of America, and the cost of running motor-cars. Both parts of this book are attempts to be of use at the transition stage, when formal instruction achieves its last lessons and conscious relationship with civilization begins in earnest.

The division into two parts has not, however, been altogether as easy as it appears when thus stated. The study of the English land system has been necessarily postponed till the second part. Rent has been interpreted in the first part as meaning just what it means to the ordinary householder, for it was obvious that to probe farther into its significance required a careful use of words, and a more generalized view of the importance of land to all of us. It has been decided also to postpone the account of trades unions and of legislative interference with industry to the theoretical part. All expositions and comments on these two developments are better expressed in connection with economic theory.

The science of economics is undergoing very rapid changes at the present time, and the writer of the second part has occasionally felt some difficulty as to whether the conventional academic doctrines alone should be presented to the young student, or whether later views, which do not yet command universal acceptance, should also be included. On the whole she has striven to keep a middle course; what are known as the "classical" doctrines of Political Economy are usually stated first, and subsequently the modifications due to such writers as Mr. J. A. Hobson, Mr. and Mrs. Sidney Webb, Mr. W. H.

Beveridge or Mr. W A. S. Hewins, are given, with a warning to the student that they are still under discussion. It is hoped that in this way the book may be regarded as thoroughly up to-date, while it avoids teaching as accepted doctrine what is still *sub judice*.

Teachers will observe that the order in which the different divisions of the subject are taken differs from that usually adopted. The author of the second part is convinced, after some years' experience of teaching, that the best results are obtained by discussing exchange and the fixation of price first, and then proceeding to production. Nothing is gained by separating the treatment of each factor of production (land, labour, or capital) from the payment for its use (rent, wages, interest, etc.). But the forces determining the payment can only be understood when the conceptions of market, demand price and supply price, elasticity of demand, etc., have been grasped. It may seem at first sight to be wrong to introduce the phrase "cost of production" before production has been studied in detail, but in practice it has been found that students can understand all that is necessary of the cost of production at the earlier stage, and that, on the other hand, the treatment of the payment of labour is much easier if the general conditions determining price (the price of services as well as the price of commodities) has been taken first.

In conclusion, the authors wish to express the hope that, in the increased interest given to social and economic problems, this book may not be without its value. Human life, as we are all slowly learning, is conditioned at every turn by the economic relations of society; history and politics develop, as Professor Marshall has said, under the twin influences of religion and economic conditions. And when, as is the case to-day, the State is embarking on schemes intimately affecting personal as well as industrial life, which must be hazardous if undertaken without due knowledge, no scheme of education can be considered a full preparation for life which does not give each individual at least an elementary knowledge of the structure and mechanism of the world of industry.

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INTRODUCTION

THE purpose of this book has been fully explained by the writers in their preface. It is intended for the use of students of both sexes, whether at school or college, who are nearing the end of their student days and the beginning of their life as adult citizens And its aim is to furnish for them a simple account of the economic and industrial facts with which every citizen is constantly concerned.

Such a purpose hardly needs any justification nowadays. Teachers are not likely to object to the inclusion in their curriculum of the subject dealt with, if only it can be presented intelligibly and impartially. Like every subject worthy to hold a place in an educational system, it must be judged, not by the special knowledge it imparts, but by its power either to clothe with interest the everyday facts of life, or to stimulate the learner's capacity to find and feel interest. If we apply this test, we are bound to admit that the subject-matter of this book deserves the recognition claimed for it. But I confess that teachers have hitherto been justified in avoiding anything connected with Political Economy or political and industrial structure by the total dearth of even moderately suitable books. Existing text-books on Economics—of which there are many—do not answer the purpose; they are usually too technical, and always too dull. Text-books on Sociology—of which there are a few—are certainly no better. One or two writers, it is true, have dealt with local government and

its history shortly and intelligibly; but these only cover a small part of the ground. What the young citizen of to-day wants to know and needs to know includes, at any rate, answers to some such questions as these: What place do *we* occupy in the system of industrial and social organization upon which our orderly life depends? What are the meaning and reason of the institutions and methods by which much of our activity is controlled or guided? What is the relative importance of various existing practices affecting the worker, the taxpayer, the housekeeper? The youth and girl of eighteen or twenty hear or read about capitalists, about rates and taxes, about expenses of living. They have no idea that *they* are capitalists—of a sort; that any serious reduction of taxation would probably be followed by very much more serious changes in matters affecting the comfort and security of their daily lives; that many an institution or practice connected with the getting and spending of money has behind it an extraordinarily interesting history of great events. If they can learn to understand and realize a little of all this, their power to live well is increased, and the worth of their citizenship, of their membership of a great community, is raised to a higher level.

And as to the method of teaching there can hardly be any question. The old principle holds: "None can be said to know Things well who do not know them in their Beginnings." It is for this reason that the writers of this book begin boldly with history, and return to history time and again. Is it not, after all, the only way? And is it not solely by such history that all of us can be brought to feel the real significance of the social environment which forms at once one of the most valuable heritages of a nation and the most interesting possession of every citizen?

There is one small matter affecting the possible usefulness

of this book which calls for consideration. It is intended for the use of young people of both sexes; but the book differs from the existing elementary books in that it contains many facts and illustrations of principles which will appeal especially to girls and young women. There is doubtless some justification for this. As a boy grows into a young man, some little knowledge of political and economic facts is assumed, and therefore compelled, by the talk he listens to, the debates he attends, the papers he reads. Girls do not get so much of this unconscious education; it is a good sign that they are now asking for the same kind of knowledge, and are increasingly prepared to acquire it systematically. But it is quite certain that the haphazard acquisition with which young men are content is not enough for the equipment of a citizen to-day; there is more to be learnt than ever before, and the intelligent citizen must know it more thoroughly. And I venture to offer a strong recommendation to the youth of my own sex to make use of the wealth of information which this book contains. They will find that the time spent in reading and rereading it brings a most profitable return.

E. J. URWICK.

PART I

DESCRIPTIVE

DESCRIPTIVE ECONOMICS

CHAPTER I

THE SIMPLE CONTRASTED WITH THE CIVILIZED LIFE

It is the intention in this book to describe in detail those arrangements in which we find ourselves which make our social life "civilized"—that is, full of conveniences which tend towards cleanly, orderly and leisurely lives. There are various ways of trying to realize what is the nature of this machinery which produces civilization. We may bring together what experiences any of us may have had in life in a lonely country place, or in one of the least developed of our colonies; we may collect any information we can obtain from history as to the life in early times in our own country; or, lastly, we may try to imagine (with the help of our favourite stories of adventure) what life would be like if we were shipwrecked on an uninhabited island. We must then contrast the conception of such lives in detail with our own, supposing that we live in London or in a large town.

How to bring home the contrast.

The material for this study of contrasts should really be supplied by the readers personally. All the writer hopes to do in an introductory chapter is to indicate the direction of their thoughts and comparisons.

Beginning at the wrong end, as the civilized life is the one in which our experiences are mostly the same, it will be useful to observe, first, on how very great a number of other people our own household life depends—people with whom we may

have little or no intercourse. Our houses are obviously very dependent on work done outside their own walls. From the moment we rise, we expect to find an inexhaustible supply of water, most likely also of gas or electricity, or both. Next we look for milk, newspapers, and letters, to arrive; and these will in many places be followed by tradesmen calling for orders. Meanwhile our street is swept and watered; rubbish of all kinds, public and private, removed; open spaces with flower-beds are kept neat, and the flowers cared for. At evening the lamps are lit; in the morning they are put out. Policemen are on watch day and night. If we wish to go far from home, all kinds of vehicles are at our service, and well-filled shops offer us every variety of goods, and, moreover, offer to send them to any part of the world at our request.

Our dependence on outside services.

We do not seem to have to exert ourselves to obtain all these services in their immense variety; to a large extent we have not even to ask for them; but it is quite true that we have to pay directly or indirectly for each and all these conveniences.

We have to pay for them.

On the other hand, that which perhaps strikes us first of all in a simple and lonely life is its independence of outside help, and, therefore, the small amount of money needed in the daily and weekly routine. It is quite a common saying when people contemplate a quiet place for a holiday, "You can't spend any money there," and this may well seem a happy change to the harassed housekeeper, beset with necessary expenditure at every turn, as well as to the unfortunate visitor to the fashionable watering-place hotel, where he is surrounded by contrivances for luxury and comfort, and pays heavily, in downright coin, on the spot for every service rendered.

It is obvious that one cannot spend money at all on an uninhabited island, and that one could spend very little in any land without shops. Probably we all know, too, that the general use of money in our own country developed very

slowly from the times when debts of all kinds, even taxes, were paid in goods or services, not money. We may have realized that in early Norman times the majority of the common folk probably never handled money at all. And we begin to see more meaning in the romance of a modern American writer* who has pictured a Utopian island where everyone contributes personal services to the commonweal, and is rewarded for them in kind, not in money. When a little group of American millionaires land on this island, they are unable, for any amount of ready money, and credit at every important bank in the world, to buy services and be waited on as they expect to be. For service they must give service, it is the only current coin, and they have none to give.

It is this constant use of money in our present mode of life as contrasted with older, simpler forms that is the essential thing to bear in mind. The greater part of the first section of this book will be occupied in seeing WHERE AND HOW OUR MONEY GOES.

But now to return to the details of the comparison suggested. It is not possible here to trace the actual development of the simple life into the complex, except in large generalizations which will make themselves clear gradually.

On what do country-folk spend money?

The money actually spent by quiet farm people (besides their rent, which must be considered separately) is more obviously for goods rather than for services. A lonely house must necessarily be more or less of a farm, and supply its own milk, eggs, butter, vegetables, bacon and possibly meat. Whenever one stays in a house of this kind, it is useful to ascertain, if it is possible to do so without offence, what goods are actually bought for the household. At the present day the most general will be flour, tea, sugar, lamp-oil or candles, and occasional clothes and crockery. Coal will be bought, unless there is a supply of wood or peat. It might not occur to us to ask about salt, as we should consider the expenditure on

* W. D. Howells, "Altruria."

that negligible, judging by ourselves; but a housekeeper who salts her own butter, bacon, and cheese, will tell you it is not negligible.

A few centuries ago the country house dispensed with many items of the list just given. Tea of course did not exist. The part played by sugar in our diet was taken to a very large extent by honey. Bees were kept much more commonly, and were considered by the Anglo-Saxons almost essential in household life. Beeswax was extensively used for lighting. Home-made candles from this wax, from tallow, and from other animal fats, were common from Alfred's time up to the end of the eighteenth century. The use of oil was not so extensive.*

In the simple life in the country, even at present, the use of any artificial light is very much curtailed in extent compared to that in a town. The use of fuel, too, may be said to be curtailed by early retiring to rest, even though the formal *couvre-feu* of William the Conqueror began to fall into disuse within a century or so of his death.

Is not the appearance of flour among the household necessities rather curious? Cannot a farm grow corn for its own use? If it grows wheat or oats, it most usually disposes of them and buys flour or oatmeal all the same. And we

* In Miss Edgeworth's "Early Lessons" (1816) Frank sees candles made by the cook at home, and rushlights made in a cottage. The home manufacture of oil was common in earlier times, though not so general as the making of olive-oil in warmer countries. Colza-oil was made from rape-seed. The only sorts of lamps used for centuries were of the Roman type, a wick floating in a cup of oil. Lanterns, from Alfred's time, consisted in various forms of screen for the flame of a candle, and from these much better light could be obtained than from a small Roman lamp. Torches were used in the manorial halls of the feudal lords on great occasions, and were composed of tarred wood and similar inflammables. The first sort of oil on sale was fish-oil of various kinds; the best was the real sperm-oil, sold in some districts late into the nineteenth century. The importation of Russian petroleum and Pennsylvanian kerosene is comparatively recent. The whole subject of artificial lighting is an interesting one to investigate. The same may be said of every article of commerce mentioned in the text.

may go back a long time in history and still find it is difficult for a farm to be independent as to its supply of flour. The reason is that outside service is generally required to grind the corn. There is a primitive way of grinding between two stones (forming the *quern*) which can still be seen occasionally in remotest Scotland or Ireland. We may note that a completely independent life may be kept up more easily if the staple food can be manipulated entirely at home, like Irish potatoes or Chinese rice.

Why flour should be bought.

We have read already in our histories how a corn-mill in England generally belonged to the landowner, and was often made a source of tyranny. Occasionally the use of querns in a district was prohibited, to increase the power of the owner of the mill. At first a farmer's own corn was ground and returned to him, and this is still done with the oats in certain parts of the Highlands. But it has long been customary to give an immediate equivalent instead in flour or meal, if the affair is not made into two distinct money bargains.

With regard to clothes, we have read also that the weaving of wool into cloth, much more the making of this into garments (for the wear of the workers themselves), long continued to be the custom in farmhouses—at least, in out-of-the-way districts. Similarly, home-made sandals and other foot-gear were used by the majority of the common folk long after there were numerous shoemakers to make shoes for the rich and civilized.

Clothes and boots.

It is always found, in an investigation of this kind, that at any period in modern English history well-developed industries, or selling of services, existed in the towns, where life was considerably civilized, side by side with the most primitive methods of independent subsistence in the country districts. While on the one hand English-woven material was beginning to find its way to the Continent as early as the middle of the fourteenth century, on the other hand home-made friezes were still worn by farmers at the beginning of the nineteenth. This simultaneous occurrence

in the different districts of England, of almost every stage of the developments that we are now tracing, makes the historical treatment of the subject impossible in a small elementary book.

To revert to discussing a few more necessary articles in detail. We mentioned that much more salt would be wanted on a farm than in a town house even nowadays. Probably most of us have noticed that in primitive country places the butter is always salt. It is "made to keep." But in the isolated farm meat of all kinds, not only bacon, must be salted for winter use. The acquiring of salt for household purposes used to be of the first importance if starvation diet in the winter was to be avoided. As it can be obtained only from the sea, or from salt springs and mines, it must be distributed by sale. So here we have the beginning of trade, in that this is an article which must be bought by most people. Dr. Cunningham states that an Anglo-Saxon household between A.D. 600 and 900 probably obtained nothing from outside but salt. For a long time it was hard to come by, therefore expensive. Up till 1670 no solid rock-salt had been found in England; our only sources were the sea, and brine-pits in Cheshire and Worcestershire. The Northwich rock-salt was at first heavily taxed to keep up the price. We have not in England, however, suffered under the general salt-tax which was so badly felt in France, although in the seventeenth century certain people secured a temporary monopoly of its sale.

Salt.

What about household furniture? The Saxon churl, like his descendants under the Normans, no doubt "knocked together" any wooden article he wanted, such as a chest, a bedstead, and some stools. As he usually built his own wooden hut independently of expert help, he need think little of a few wooden contrivances afterwards. The lord of the manor would have among his servants one or two carpenters to make furniture. The number of seats needed was not many, especially as in the larger houses

Furniture.

stone seats were always built in the wall Beds were also built into the wall in both stone and wooden houses, as they are in Scotch cottages at the present day.

But all these workmen required tools. If they were handy enough to make them, they needed iron and some forging requisites. Iron could be bought in early Saxon times. The forge is one of the oldest village institutions, the smith one of the earliest craftsmen. He usually made nails for the people who put up their wooden erections. Very often a smith or some other craftsman gave his services to the whole of a small community gathered round the dwelling of a manorial lord, or near a monastery. He was not then "paid by the job," no more than he would have been as a personal servant of the lord's; everyone in the community contributed to his support. A "thatcher," too, was often supported in this way.

Tools and iron.

The next development was the appearance of travelling craftsmen, who would make rough furniture and household vessels of wood and brass. The number of these articles in a house would seem to us extraordinarily small. There is an inventory preserved of the household goods of an innkeeper in Bridport in 1319.* All he seems to have had were two beds, two tablecloths, two napkins (these two last items probably woven at home), one brass pot, one brass platter, and some wooden vessels. Meat was served on a spit, and received on pieces of bread. Horns were used for drinking, and were practically everlasting. Each person used a private knife, if aid were needed to fingers and teeth.

The travelling craftsman.

It is with the rise of the travelling craftsman that we see the beginning of the use of money. Men might offer their services only, the material being supplied by the person requiring the service, or they might bring their own material. Or they might offer for sale such finished articles as salted

* Mrs. Green, "Town Life in the Fifteenth Century," vol. i.

fish,* tools, or leather articles. Thus, too, the traveller might be merely a "chapman," or pedlar, bringing goods he had not made himself. There were chapmen in Alfred's time distributing their own or other people's wares. Thorold Rogers, describing the changes caused in England in 1348 by the scarcity of labour, which followed the pestilence known as the Black Death, enumerates many commodities which were enhanced in price by the increased value of the labour expended on them. Among them we find salt, lime, iron, lead, tin, pewter, nails, tiles, laths, horseshoes, plough-gear, wheels and sackcloth.

The chapman.

Such goods, therefore, were bought ready-made. This brings us to consider at length the general lines on which there was development of exchange of goods: (1) The specialization of industries in particular places and by particularly trained people; and (2) the growth of fairs and markets, of merchants and their shops, to distribute the produce of these industries. Closely connected with distribution is the problem of carriage, which will be approached by some account of the development of roads. It will be convenient to take these subjects in the reverse order of that now suggested.

* It is interesting to trace the use of fresh and salt water fish in medieval times. Many monasteries and manors cultivated fish-ponds, which gave them their own store of fish for fast days. Practically these are all now disused.

CHAPTER II

GROWTH OF EXCHANGE AND TRADE—THE DEVELOPMENT OF ROADS

WE have said that at the beginning of civilized times in England the itinerant craftsmen and chapmen went about selling their services or wares, adventuring on the highroads, such as existed. The amount of custom each could obtain depended almost entirely on the nature of these thoroughfares. We have been told that the Romans initiated our system of roads. In our travels about England we can find nothing more alluring to the imaginative mind than an old Roman road, even when disused, and merely a surprisingly broad, surprisingly straight grassy way. We picture it bordered with vines and cherry-trees, and paved with the good bricks and paving-stones that were often used for rebuilding it centuries afterwards. The nation was ungrateful to its civilizing invaders for this work; it allowed the Roman roads to fall into disrepair, and did not extend the system in any way. There were, up to Alfred's time, only four good roads, these being original Roman ones. They may be briefly summarized as—

The Roman roads.

Watling Street: Dover, Rochester, London, Chester, York; then one branch to Carlisle, one to Newcastle.

The Fosse Way: Bath, Cirencester, Leamington, Leicester, Lincoln.

Ermin Street: London, Lincoln, Doncaster, York.

The Icknield Way: Southampton, Silchester, Dunstable, Newmarket, Norwich.

These seem to be the *quatvor chemini* mentioned in legal enactments in Edward the Confessor's and William the Conqueror's time. There were other connecting roads which have been confused with these in later descriptions. Certain of the towns mentioned above—such as Chester, Lincoln, York, with of course London, and certain others, such as Winchester, Manchester, Canterbury—formed junctions.

All the Roman roads, besides being scientifically constructed, had their upkeep arranged for with equal precision. They were either under a military or a civic authority, and there was not a mile of them left without a guardian. The reason for their neglect in Saxon and Norman times was that there was no such well-defined system or authority to which they could be entrusted. It is true that Edward the Confessor enjoined on all villages and communities the *trinoda necessitas*—defence of the country, labour on roads and bridges, and labour on fortifications. Also that the Statute of Winchester in 1283 ordained that all brushwood which might conceal robbers should be destroyed for 200 feet each side of the public highway. But the enforcement of such labour on the roads was never very thorough. In feudal times the people who used the highways most were the lords, who travelled with a large retinue and considerable baggage from manor to manor, and the Church dignitaries who did the same. These people were therefore expected to keep up the roads and build the bridges. But there was great laxity in doing this as a social duty. Travelling was so dangerous that intercession for travellers, as people naturally in great distress, came next in importance to intercession for the sick and destitute. Our Church Litany expressed it thus in 1548: "That it may please Thee to preserve all who travel by land or water, all sick persons, and young children."

Attempts to keep them up.

Travelling a dangerous undertaking.

Hence many wayside shrines were erected in England, and still more on the Continent, while at gateways and bridges there were substantial chapels instead of shrines. At these

the traveller prayed for a safe termination to his journey. In the earlier days there were further dangers from robbers and outlaws; in comparatively modern times, from highwaymen and footpads. A traveller in medieval times must take with him, besides any goods he wished to transport, food, flint and steel with which to make a fire, and often something with which to make a bed. In Norman times inns were infrequent. Wayfarers depended much more on monasteries for their entertainment, and often they were glad at night of the "cold harbours" that were merely disused houses or huts. One hears of similar empty shelters nowadays for travellers in the hills in India.

Fortunately, the existence of this sentiment of pity for travellers caused bridge-building and road-making to be of the nature of religious duties before the Reformation. On the Continent there were Bridge Friars. Their place was taken in England chiefly by guilds of lay-people with the same pious intent; in Birmingham there was a "guild and lasting brotherhood" for roads and bridges. Indulgences were often promised to the good folk who repaired roads by voluntary effort, and bequests were made for the same purpose as part of a death-bed repentance. Kingston in Surrey was especially favoured by bequests for roads, and another instance which has been of great interest is the bequest of John Lyon, of lands in Marylebone to supply funds for the upkeep of the road from Harrow to London. The smaller towns combined to enforce services from the townspeople in looking after roads within a town, and enforced service gradually became a money tax. London was the first town to have such a tax, about 1356; but London Bridge, on the contrary, was kept up by the seamen, who landed goods there and paid "toll" on the merchandise they brought. This same method of paying toll, per person or animal who passed by, was gradually established on ordinary roads and bridges. From the thirteenth century onwards there were constant petitions from great people, with powers

Efforts instigated by piety.

over a section of road or a bridge, to collect toll from those who passed, and thus make them contribute to the convenience provided. The roads were very bad at the beginning of the fifteenth century, when the wealth of England had been drained by wars with France. Benefactions were but few, and there was talk of the fairs not being attended because of the difficulty of reaching them. Tolls became still more necessary when the monasteries were dissolved, and even previously as the practice of the aristocracy to migrate from manor to manor died out. But these tolls were very greatly resented, and such an attitude on the part of the wayfarer was hardly unreasonable, as dishonesty on the part of the wardens of the tolls was very frequent. Piers Plowman speaks of their "wikked wayes." In many instances the money was never used for the roads. In the reign of Edward I. the Sheriff of Cambridge taxed the town to build a stone bridge. After much delay, a wooden one only was built, and meanwhile charge was made by him for the barge used to ferry people across.*

The use and abuse of tolls.

In 1663 the Government itself decided to institute and exact tolls. Three "turnpikes" were placed on the Great North Road (one of the Roman roads)—one at Hertford, one at Cambridge, one at Huntingdon. Some authorities think that the state of the roads at this time was probably at its very worst, considering the amount of traffic they were now expected to carry. The new method of upkeep by means of turnpikes was greatly extended during the next hundred years, but still caused much ill feeling. In the first half of the eighteenth century there were several turnpike riots and constant petitions for their removal. It was alleged that the "freedom of the roads" was interfered with, and often a vehicle would be driven round some unspeakably worse side-road to escape the payment of the toll. Arthur Young in his "Tours in

The turnpikes.

* Townsend Warner, "Landmarks of Industrial History."

Rural England," later in the century, refers continually to the state of the roads, and enumerates in a few words the only good ones. He speaks with indignation of the ignorant opposition to turnpikes, and points out the obstruction arising from overhanging, untrimmed trees, which cause a sunless road. The great difficulty was drainage. Probably the very muddiest country lane in winter, with cart-ruts a foot deep, is the nearest conception we can get of eighteenth-century roads. We do not nowadays entirely endorse the romantic view taken by Miss Austen's Marianne Dashwood, who rebukes the practical young man for his want of sentiment in considering "muddy bottoms in winter" a drawback to scenery.

The badness of the roads in the eighteenth century.

Arthur Young had a distinct though negative conception of a good road. "There must be no ruts, and no 'grips' to take off water, in which you dislocate your limbs; no ponds of liquid dirt, with a scattering of loose flints just sufficient to lame every horse."

Another great drawback to the progress of roads in the eighteenth century, besides the unpopularity of tolls, was the want of skilled road-makers who could, above all, tackle the question of drainage, which had never even been faced since the Romans' skill in good road-making had been lost. The history of the great road-makers is told in Smiles's Lives of Metcalf and Telford.

The method of toll-collecting has died out. A few toll-gates still exist, mostly curious survivals; but somehow we all resent one very much if we meet it unexpectedly. The feeling seems almost hereditary. Could we make out a case for ourselves that we do contribute to road making and mending? Of course we could, but our case needs a good deal of explanation, which must be postponed until we come to consider local rates in Chapter IX. The new system has taken a long time to elaborate, for it has meant three very important developments:

Tolls superseded.

1. The proper organization of local authorities to attend to roads.

2. The acquirement by each authority of power to get its work done.

3. Some central control over the authorities to prevent their neglecting their duties.

One great advantage in having some definite authority to look after roads is that it can punish offenders who deliberately damage them. In former days the "freedom of the road" was liable to be assumed and exploited in ways which would not occur to us as possible. In 1499* an unfortunate glover who was going from Leighton Buzzard to Aylesbury was drowned in a large pit of water in the middle of the highroad. A miller of Aylesbury had wanted some earth of a particular kind which was found in that highway. He had sent out two servants to dig a pit eight feet deep and remove the earth, and this pit had quickly filled with water. There existed then no authority nor law by which he could be punished.

Damage done to roads.

Apart from such untoward accidents, and even two or more centuries later than the time when they were possible, the amount of social and personal inconvenience caused by the state of the roads, especially in winter and bad weather, is almost inconceivable to us. They must have contributed quite as much to ordinary conversation as unusually bad weather does with us. We can realize a little the precariousness of social engagements by recalling the dislocation caused by a bad fog in London, Liverpool, or Manchester. Well into the seventeenth century it was common for members of Parliament to fail to appear on the appointed day. Twenty miles a day on horseback was good speed, considering the many possible delays (including floods, which made fords unavailable). "Chapels of ease" seem to have been intended originally for people who were prevented by difficulties of travel from

Social inconvenience of bad roads.

* See "Town Life in the Fifteenth Century."

reaching their parish church. There were always people, strange to say, who found advantages in bad roads, especially when arguing against turnpikes. One was that smugglers and "Turkish corsairs" were thus prevented from moving about freely near the coasts. It is recorded that in the eighteenth century certain gardeners in the outskirts of London petitioned Parliament not to allow the roads beyond their own village to be improved, as in that case their trade would suffer from competition with gardeners farther out from London.

This reminds us that we are chiefly concerned, however, with the effect of these matters on the exchange of goods. Only those articles which were durable, not perishable, portable, taking up small room, and valuable enough to be worth carrying, ever got very far. Jewellery, small goods of metal and leather, spices, silks, are examples. Coal was used near the pit's mouth from the thirteenth century, and was carried by sea from Newcastle to other ports (it was long called "sea-coal" in distinction from "charcoal"), but it was practically unknown elsewhere until roads could stand heavy cartage. We read of it being carried in panniers on pack-horses about 300 pounds at a time. The importance of carrying corn in certain districts was realized by lessening the toll on a horse carrying corn to one-quarter the rate exacted for ordinary commodities.

What goods were worth carrying.

Growing cities which needed more and more agricultural produce from outside were often in difficulties. It is stated that in 1815 eggs sent to London from Berwick-on-Tweed might be a month on the way. In 1750 the average pace of a stage-coach on a long journey was only six miles an hour.

Coasting vessels have always assisted greatly in conveying goods from one port to another. Further, we have our rivers as national "water-ways," suitable for very heavy traffic, and in use to a greater or less extent since Saxon times. The Danes invaded England by coming up its water-ways. Rivers were used mostly without artificial improvements up to

Use of our water-ways.

the seventeenth century; but there is no doubt that in medieval times they were much larger and fuller owing to the greater raininess of the climate, and to so much of the country being undrained. Besides the great rivers which we should naturally expect to be navigable, smaller ones, such as the Witham, Stour, Rother, Cuckmere, Hamble, Itchen, Test, Exe, and Dart, were used from the mouth upwards much farther than we should think possible now. On many rivers the building of bridges was discouraged, and fords used instead, so that the passing of barges should not be prevented. During Charles II.'s reign, partly under Dutch influence, a good deal of work was done in guiding the course of devious rivers, deepening and widening channels, and getting rid of shoals. The construction of weirs was discouraged, for the use of locks as a way of getting past weirs was not common until much later. Locks were first used only on canals, and the locks on the Thames are all of the nineteenth century, beginning with Teddington in 1811.

The original idea in making canals was to join rivers near their sources, where they became no longer navigable; such as the Kennet and the Bristol Avon, the Cherwell and the Warwick Avon, the Upper Thames and the Severn. But it was soon urged that the navigation of canals was in any case more satisfactory than that of rivers, as an artificial channel could be regular in course and constant in level, and that it was even worth while to make canals more or less parallel with the natural water-ways. The first important modern canal not connecting two rivers was Brindley's, built for the Duke of Bridgwater in 1760 from Worsley to Manchester. Within a few years many pamphlets and articles appeared advocating the connection of Coventry, Manchester, Birmingham, Liverpool, Hull, Leeds, and Bristol, by such canals. The advantages urged were, freedom from the risks to which coasting vessels were liable, from the enemy in times of war, and from privateers; greater speed for perishable produce, and also for passengers, who could,

The use of canals.

indeed, be conveyed in much larger numbers at a time. On the Bridgwater Canal forty or fifty passengers at once could be conveyed twenty miles for a shilling. This was considered very wonderful at the time. Practically all the places mentioned above have been connected by canals. The time from 1770 to 1800 was a period of great activity in their construction. But the development of railways, sixty or seventy years after the Bridgwater Canal, caused the canal system to fall into comparative disuse. There seem to be some signs of a revival in this form of traffic, to which we shall allude in Chapter VI.

Canals superseded by railways.

CHAPTER III

GROWTH OF EXCHANGE AND TRADE—TOWNS, FAIRS, MARKETS, AND SHOPS

If we stay in a farmhouse at the present day, we shall find that the housewife goes regularly to the nearest town to shop, and that she generally chooses market-day, as giving her the best opportunity to sell her own produce as well as to buy. Towns have always sprung up as centres of interchange. They might come into existence merely at the crossing of two important roads; but more usually where a road crossed a river, as is shown by the termination "ford" or "bridge" to the name of the settlement. Another natural place for a town was at the end of the tidal part of a river. Norwich, Ipswich and Bristol, are thus placed. But the position might be settled by other than geographical advantages. A village or hamlet usually grew up round the manor-house of a nobleman (especially if there was a mill), or round a monastery, and would naturally consist of from ten to fifty houses; but special circumstances might enlarge this little settlement considerably. For instance, if pilgrimages were made at special times to the monastery, these times would give unusual opportunity for the exchange of goods. There were very few towns in England before the Danes settled here; but during their rule there seems to have been a definite movement towards the creation of such centres. It is estimated that in 1250 there were about 200 towns, with populations from 1,500 to 4,000.

How towns arise.

In these places the first specialized industries to develop seem generally to have been baking and brewing. This may

appear strange if we remember that the custom of baking bread at home persists still in large towns in Yorkshire; and that the custom of brewing at home is barely extinct in the same localities. But in small medieval towns there must have been much buying of bread. Upon what did a housewife's decision between baking at home and buying bread depend in early times? Primarily on whether fuel was cheap. In a town wood or charcoal would not be as easy to obtain as in the country. Secondly, on the possibility of constructing an oven. People who lived in wooden houses could not have suitable ovens; one must have a stone or clay house. The oven could be of brick or of iron, but neither material was easy to obtain. Another stimulus to adopt the calling of baker or brewer was that traders coming through the town desired to buy bread and beer.

Bakers and brewers.

These two trades were the first which were interfered with by legal enactment. "Assizes" of bread and of beer were constituted in various towns in the thirteenth and fourteenth centuries. They were laws fixing the price, or rather the "size" or quantity to be sold for a certain price, subject to some variation. Southampton had an Assize of Bread in 1202.

Assizes of bread and beer.

What other special trades developed? People who saw their first necessities of food provided for them were better able to specialize on their own work. In Colchester in 1300* there were several butchers (one the wealthiest man in the town), thirteen tanners, and fourteen mercers. The last named sold woollen cloth (probably some of specially fine make from Flanders), but their chief goods were gloves, belts, girdles, and other articles of leather; needles and silk purses. During this century the people engaged in the wool industry, now rapidly growing, came to settle in the towns, both to part with their own goods, and to have their daily wants supplied.

* "Town Life in the Fifteenth Century," p. 14.

At this time there were very few "shops" as we know them. A shop arises usually as a combination of a movable stall to display goods, with the residence of the man who makes or collects the goods. Village shops are liable still to open only irregularly, owing to the intermittent nature of their supplies. The writer obtained meat recently in a Welsh village from a butcher's shop where it was sold on only two days a week, after the neighbouring farmers had killed; on the remaining days apples were usually displayed for sale. In a Yorkshire village she obtained meat at the inn twice a week, when it was retailed by the landlord. In a Welsh village in 1910 she bought meat from a farmer once a week, when he killed one or more sheep.

Shops slow to develop.

Most of the trade in a medieval town took place in the markets, held at definite intervals. Markets were arranged and regulated originally by the lord of the manor,* who was granted privileges by the Crown, and exacted dues from the traders. He was responsible for the weights and measures used, and settled all disputes. These disputes had to be settled without delay, before the visitors to the town had left again; hence the institution of the "Courts of Pie Powder" (*pieds poudrés*), where jurisdiction was given at once in the open air. During the growth of the power of the merchants in towns in the thirteenth and fourteenth centuries,† the control of the markets passed almost everywhere into their hands, and was used by them to benefit their own trade and to keep out "foreigners."

Markets.

At Oxford the regulation of the market was taken over by the University in 1319.‡ It may be interesting to note the chief articles of which the sale was then regulated. They

* The manor might belong to a religious community, in which case the power was exercised by the Abbot or Prior, sometimes by the Abbess or Prioress.

† "Town Life in the Fifteenth Century."

‡ Boase, "History of Oxford."

were hay, straw, faggots, timber, charcoal, pigs, beer, roots, leather, gloves, linen, cloth, corn and dairy produce.

Fairs.

The *fairs*, held annually or oftener, chiefly after the thirteenth century, seem to have needed regulation and interference still more urgently. The name is "feriæ," or feast-days. The majority of fairs originated in the assembling of people for some great religious festival outside a monastery, or one of the cathedrals that were being built in the growing cities. They remained under the patronage of a lord, spiritual or temporal, as the townsfolk learned to discourage fairs in comparison with markets, and tried to limit their duration as much as possible. The effects of these days of holiday and high spirits included dislocation of ordinary business, much brawling in the streets, and much pilfering and cheating by hordes of disreputable strangers. Moreover, any privileges of the town traders, strictly exacted during the markets, were apt to disappear during fair time.

Fairs much suppressed, but still surviving.

As time went on, they were more and more days of holiday-making rather than business. Holinshed condemns them in his "Chronicles" (1550). They were still more discouraged, and even suppressed, by the Puritans. In the British Museum there is a rare tract, dated 1709, called "Reasons for Suppressing the Yearly Fair in Brookfield, Westminster, commonly called May-fair." On the other hand, Defoe wrote, about 1750, a graphic and rather sympathetic account of Stourbridge Fair, near Cambridge, one of the oldest.

It is still possible for anyone interested to be present at a fair of the old kind, and to trace its ancient traditions. Fairs are called also Feasts, Wakes or Mops, according to the part of the country. St. Giles's Fair is still held in Oxford in September, and the Warwick Mop in November. At the latter farm-labourers and domestic servants still attend to be hired, and the same custom holds in some towns in Yorkshire. Autumn fairs were generally popular, as that was the time to lay in winter stores.

The most important of all the developments indicated in the present chapter is the combination of the merchants in a town. They organized themselves to resist excessive taxation by the Crown, and also for constant regulation of trade, particularly with "foreigners." This word was very comprehensive; it included practically every stranger. A Nottingham man visiting, let us say, Northampton would be very unwelcome, and would run the risk of being severely handled by traders of his own kind. The feeling was stronger if men came from the Continent. The merchants in a port preferred to treat jointly with the captain of a foreign ship for his whole cargo, so that they had not to compete with one another. In Edward I.'s time the King, the nobility and the clergy were eager to encourage foreign trade by all means; it was their only opportunity of securing many luxuries, and beautiful things for the new churches. Laws emanating from the Crown removed many restrictions on foreigners. Such laws were at first inoperative in the towns against the much stronger local regulations. The townspeople in many places insisted on such restrictions as, that they should buy and sell with the burgesses (or chief townsfolk) only, that they should reside with one of them, and not remain more than forty days, that they should not go inland nor engage in retail trade.

Feeling against foreigners.

The Crown encouraged foreign trade against town regulations.

Besides proscribing certain persons, the town merchants dealt very severely with certain offences in trade. These deeds of iniquity will sound very curious to a generation accustomed to freedom in trading. One was *regrating—i.e.*, buying at a low price and selling at a high one without making any change in the goods; another, *forestalling—i.e.*, conducting any sale before the time of the open market; another, *engrossing—i.e.*, buying up the whole quantity available (the method now called making a "corner").

Trade practices forbidden.

The merchants of a town had a very obvious, definite way

of increasing their power of defying the Crown and foreigners alike; they strengthened their walls and fortifications when they feared trouble.

What were these merchants? Were they definitely what we call middlemen—between producer and buyer? They certainly arose, as a class, for two purposes--to meet the needs of the more luxurious, and to transport local superfluity of corn or wool. At first the chapmen, or pedlars, were the only true middlemen, in that they bought at the markets and carried round to the country districts; while merchants were generally somewhat responsible for the making or the growing of the goods they sold.* But more and more the merchants became middlemen. As they grew rich, they tended to invest their money in finished manufactured goods, for which there was an ever-increasing demand. Thus we come to the establishment of shops as storehouses as much as places of actual sale, and, further, to the employment of craftsmen in larger numbers in specialized industries. Of this development we shall treat in the next chapter. To discuss further the power of these merchants in town regulations would lead us to the complex subject of the history of municipal government, which cannot be compassed in this book.

Town merchants.

We return to the discussion of shops. A shop that has to be a storehouse cannot be a mere stall or booth in the street. It should be observed, however, that the word "shop" has by derivation the meaning "stall," or "shelter." The merchant took care to get or to build for himself a house with a cellar or vaults for storage. At first there were stairs from the street into these vaults, and attractive goods might be hung on the balustrades of the stairs. In those curious

Shops with vaults.

* It is not quite easy to meet a pedlar nowadays. But we can reap the benefit of the observation of keener eyes than any of us have for the meaning of little episodes, by reading in George Eliot's "Mill on the Floss" how Mrs. Glegg traded with the "packman" Bob Jakin.

old streets in Chester known as the Rows, the roadway is lower in level than the sideways for foot passengers, and is bordered by little low shops under those sideways. This is because the road was dug down to be on the level of the vaults, which are represented by these little shops.

But in most places the vaults were finally shut up from the streets, and reached only from inside. Then booths or stalls were placed in the street again, and often protected from rain by overhanging upper floors. We can all see how the increasing need of room in the streets of a town caused the retirement of a shop more and more from the footway, and its dependence on the display of goods behind a glazed window, especially when glass grew cheaper. Only in the open shops and bazaars of Eastern countries can one see anything like medieval shopping, and see often the craftsman at work in the middle of his goods.

In most small towns at the present day the presence of the old-fashioned craftsman, the worker on a small scale, in certain industries accentuates the characteristics of the different shops and gives great diversity. It is often interesting to notice, as we pass through a town, what kinds of shops are most prominent, beyond those common everywhere, and to infer something of the occupations and tastes of the neighbourhood. There are the harness-shops and the seed-shops in agricultural districts; we may also see a good shop for fishing-tackle, and so on.

Where we have one shop in a small village, the owner will rarely be a craftsman at all; he will be merely a middleman who procures everything ready-made, as he has to purvey everything. Exactly the same happens in a very large town, where again the owner of a shop has no time to understand the technique of any particular industry, but has the general business capacity of the middleman, knowing from whom to buy and to whom to sell. Thus we get the develop-

The small general shop; the large general store.

ment of the modern "store," where everything can be bought under one roof, an institution which is the rule in America, and is spreading rapidly in England.

We have been speaking, and shall speak continually, of change and growth going on at every period in the past to which reference is made. One lesson we should have learned in the study of history is that no arrangement is stable. We should therefore be quite sure that the condition of affairs at present is not going to endure for ever, and we should be ready to observe and to foresee change. Every period is "a period of transition."

Latest developments in shop-keeping.

This form of inquiry is particularly interesting as regards shopping, because we are all in close contact with present conditions, and can usually observe them in more than one place as the months and years go on. A few things which everybody has the chance of noticing are—

1. That a successful shop begins to sell quite a new sort of goods, in addition to the old. Having once managed to please its customers, it allures them to buy other goods which they used to get elsewhere. This is called developing "a new line."

2. That small retail shops of all kinds tend to be worked by some large central directing agency, which supplies all the goods, instead of each being managed by an independent dealer buying from any source he chooses.

3. That in any large town shops supplying ordinary every-day perishable wants, such as meat, bread, vegetables, depend for their continuance and success on securing areas well apart from each other, and do their best not to overlap.

4. That, on the other hand (but again only in large towns), shops supplying goods of a more permanent kind, such as furniture, ornaments, jewels, china, frequently congregate together in definite neighbourhoods. The purchaser does not buy these things often; it is an interesting event to which he is disposed to give time and thought; he will be ready

to take a journey, and to compare different dealers, to see which satisfies his special tastes best.

5. That the existence of so many kinds of goods of standard constant quality begins to lead to what Mr. J. A. Hobson calls "automatism" in shopping. We do not actually get these things—packets of tea, soap, tobacco, and so on—from automatic delivering machines, but we might quite well do so. Meanwhile the busy housewife, glad to save time in her regular shopping, orders the same things time after time by "a post-card to the stores," and arranges to repeat the order at regular intervals.

Considering many of our readers to be potential if not actual housekeepers, we may at this moment reflect that the nature of shops and shopping in the future will depend very largely on whether there is an increase in the number of busy people anxious to save time in shopping, or whether the increase is in the number of those to whom time is of less value, and who favour the cultivation of shopping as an elaborate art.

CHAPTER IV

GROWTH OF EXCHANGE AND TRADE—THE SPECIALIZATION OF INDUSTRIES LOCALLY—THE DEVELOPMENT OF A WORKING CLASS

THIS chapter can be only an attempt to sketch developments of which an adequate account would fill several volumes. But it is impossible to have any sense of the influence that great commercial undertakings, great factories and complicated machinery, have on our lives, unless we try to realize how they came to exist in England, what sort of a country it was without them, and what sort of a country it has become since their development.

We can begin with the simpler side of the matter; we can consider what a "specialized industry" is, from the point of view of the person buying the articles it creates.

Contrast the sort of goods sold nowadays even in the simplest country shop with those that were formerly sold. People are no longer expected always to be buying raw meat to cook, raw fruit to preserve, stuff by the yard to make into clothes. They can buy finished articles on which the full amount of labour has already been expended. They are actually buying services, much more than materials, when they buy jam, pickles, preserved meat, fish and vegetables, and ready-made clothes. And as time goes on they buy more and more of such things. To take a small instance, machine-made lace and embroidery form by far the greatest part of the trimmings now used; they are so cheap and so easily procured that, until very lately, people who still made their own at home were considered

The nature of modern shop goods.

eccentric folk who must have a good deal of time at their disposal. To make one's own jam now, in a town, is thought by one's friends to be making a most unnecessary fuss.

Much of this development is very new It is not very long ago that a girl could not get married unless she had many months' notice to "get her clothes ready," to say nothing of the house linen. Before a boy went to school or college the whole family (the female part of it) would be busy for weeks about his requirements. Nowadays a trousseau can be bought in a day's shopping, and a school outfit can be ordered by a telegram. In even a small town now one could buy in ten minutes, and serve in very little more time, sufficient food to give twenty people a luncheon of soup, cold meat, and sweets.

While we lay stress on this constant purchase of actual services, it will strike everyone that considerably less domestic service is needed in modern houses; for much formerly done in the house is now always done outside. Old-fashioned housekeepers complain that they cannot hire a cook who is capable of salting meat, or making pickles or jams. A "still-room maid" exists nowhere in the literal sense, though the name survives. But more than this: side by side with the specialization outside, there has grown up specialization in domestic service itself. We begin to devote attention to plans for servants to be trained as experts for their particular work. At the same time we arrange to have more and more services supplied from outside, such as laundry work, window-cleaning and carpet-beating. There are interesting differences among the various European nations about the duties of servants (see Mrs. Sidgwick's "Home Life in England and Germany").

Change in nature of domestic service.

A brief note of some importance may be made at this stage. We speak here of buying services, and state that it is characteristic of modern shopping to buy services in addition to materials. But it should be pointed out that this is a comparative distinction only. As soon as we begin to buy at all, we are buying services. If we buy raw meat, we

pay the grazier who bred and the butcher who killed the animal. If raw fruit, we pay the grower and the picker. If sea-salt, we pay the man who evaporated the sea-water and the man who carried it; we do not pay for salt, which is free.

The question now to be asked is, What benefits do we get as buyers from the modern development of industries on a large scale? "Cheapness" will be our first answer. A manufacturer discovers that to work on a large scale is to economize in all sorts of ways: not only by division of labour, and by the use of complicated machinery and "plant," which can deal with material only on a large scale; but by economy of fuel, and of skilled superintendence. We are not concerned, however, with his methods of saving as long as he is able to give an article of good quality at a low price.

Large-scale production means cheapness.

But the other great boon that we have obtained was indicated briefly in the last chapter (p. 26)—regular and reliable quality, standard quality. It is by means of systematic manufacture on a large scale that we are able to get goods in packets of fixed size, each labelled with a statement of its quality, which may usually be trusted if the name of the firm is given. The value of this constancy in quality to the purchaser is not often realized. The distaste which many of us have begun to feel for "too much advertisement" is apt to blind us to the obvious advantages we reap in being able to secure always our favourite soap, tea, cocoa, jam, or biscuits in any part of England; also—more important, perhaps—to secure particular forms of medicine, articles in which it is often essential to obtain a standard make and quality.

Also standard quality.

These considerations affect the outsider, the buyer. To see how developments in industry affected the workers we must return to the history of the growth of towns. People who were handy at spinning wool or tanning leather, so that they could easily do it for others besides themselves, gave

up doing agricultural work as well, to supply the necessaries of life. They settled in the towns, where they could exchange their special services for the means of sustenance generally. Among such settlers there were aliens from the Continent, even as early as the time of the Conquest. The specialized industries increased in number and improved in quality by such migration. Alien craftsmen who came to settle, and were ready to impart their craft, were always more welcome than foreign traders, and they were often encouraged by the Crown. Matilda of Flanders, wife of William the Conqueror, brought with her some Flemish weavers; and nearly two centuries later Edward III. definitely invited weavers of the same nationality to settle in the Eastern counties to improve English weaving, with great consequences to our trade (see Chapter V.).

Flemish weavers.

Until the momentous changes in industry which mark the close of the eighteenth century, modifications were caused, for the most part, not by any new inventions, but by the incursion of foreign settlers with methods, or even crafts, new to the English people.

During the sixteenth century aliens in large numbers came to England, and desired to continue there the industries that had maintained them at home. The general result was, of course, a repetition of what had happened in the wool trade, when England had begun to import Flemish men instead of Flemish cloth. Certain articles, originally imports and part of our foreign trade, became first home manufactures, and then exports in the foreign trade. The immigrants of Tudor and early Stuart times did not greatly fear unpopularity, for there was a new bond of sympathy between them and their hosts. Most of them had left their homes because of the persecutions they endured for professing some Protestant form of religion.

Alien immigration in the sixteenth century.

Of course, during Mary's brief reign some of the Protestant refugees left England; but there was a large influx again at

the beginning of Elizabeth's reign, including many from the Spanish Netherlands. Diplomatic relations with Philip of Spain made Elizabeth's position with regard to these aliens frequently rather difficult, but, for the most part, all that happened was that they were ostentatiously dispersed from London, and allowed to settle unobtrusively in the provinces instead

Thus, between 1560 and 1570 Walloons,* who were cloth-workers and fishermen, settled in the neighbourhood of Sandwich; some settled in Norwich as clothworkers, and in Maidstone as threadworkers. A little later laceworkers from Alençon and Valenciennes settled in Honiton, Bedford, Bucks and Northampton, and gave rise to characteristic schools of lace there. Starched linen was introduced into Elizabeth's Court by a Flemish lady, who taught the art of starching, and thereby caused ruffs to come into fashion. The French Huguenots also came in Elizabeth's time, and brought silk-weaving and needle-making. Other industries introduced for the most part by refugees were ribbon-weaving, glass-making, bookbinding, comb and button making. The manufacture of paper, soap, cutlery, hats and watches, was greatly stimulated by the advent of foreign artisans.

It was common in Elizabeth's time for the refugees to be granted the privilege of continuing their religion in the form to which they were accustomed. In 1561 the Walloons were given part of the crypt of Canterbury Cathedral, which is still set apart for special services, and may be seen by visitors. The "French Church" in Wandsworth is said to date only a little later. Some Walloons were allowed to take possession of the deserted Abbey of Glastonbury. The Huguenots were often able to take advantage of the privileges given to the Walloons.

Religious privileges.

* "Walloons" came from Flanders, Brabant, Hainault, Namur and Luxembourg, and spoke a form of French. "Flemings" were chiefly Dutch, and spoke a Teutonic dialect. See Dr. Cunningham's "Alien Immigrants."

This kind of immigration went on at intervals until the time of the Revocation of the Edict of Nantes in 1685, when still more silk-weavers and paper-makers, with new processes, were absorbed into the nation. Since then we have had no great influx of religious refugees, and no great change in our processes through aliens, although the supply of alien immigrants has never actually ceased.

After this digression, we must go back some centuries to take up the inquiry as to how these industries were organized and arranged in the towns. So far we have merely indicated how they came into existence. We have seen that the associations of merchants, known as Merchant Gilds, formed the first attempt to organize trade. Very often these developed into an organization of burghers or townsmen, in which we see the beginnings of town government. Meanwhile organization of the workers in each particular craft became necessary, and thus gilds of craftsmen came into existence soon after Merchant Gilds. The great City Companies, such as the Clothworkers and Mercers, are mainly survivals of the crafts gilds. Each member of the gild carried on his trade in his own house, and took apprentices, each of whom hoped to become in time a master.

Gilds of craftsmen.

What were the regulations of these gilds? Besides machinery for preventing strangers, and workers outside the gild, from taking their trade, the number of each person's apprentices was limited, so that there should not come to be too many masters of one craft in the town. Further, the rules did attempt to guarantee and enforce good work to enhance the gild's reputation. They had in their best days a high ideal of honesty and thoroughness of work. They also considered it right to help members who were ill and unable to work, and to show charity generally among themselves. It was inevitable that the wealthiest among them should gradually become the rulers, and this result was probably hastened by the custom adopted by the members, of wearing expensive

"liveries" on great occasions, which sumptuous attire the poorer members could not compass. The remembrance of such facts makes Lord Mayor's Show perennially interesting.

The great educational value of the gilds to our civilization was that they promoted powers of local organization and government, in teaching people how to act together, and that they fostered also a sense of professional responsibility.

An interesting detail to trace is the habit of the crafts to live in the same street, which was sometimes called after them. Trade in exactly that stage can now be seen in Chinese and Japanese towns, where, it should be noted, associations now flourish of the nature of our gilds. The writer has passed through a street in the Chinese part of Singapore where a brass-worker was to be seen in each doorway, finishing his trays and pots in the open air. In London the smiths collected in Smithfield, the bucklers in Bucklersbury. In Bristol the tuckers ("tucking" is a process in weaving) lived in Tucker Street. In London, also, the saddlers collected round St. Martin le Grand, the lorimers in Cripplegate (see Ashley, "Economic History").

What happened next? One of the regulations which proved to be a great disintegrating influence in the crafts was that which limited apprentices. If a master had more business than he could manage with his few apprentices, he now began to employ men of a new type, called "journeymen." It is not very clear whether a journeyman implied originally a man employed by the day, or one who might travel from master to master; but at any rate he was an adult worker who did not hope to become a master, although he may have entered the trade as an apprentice with this hope. Thus he was the beginning of a new class—the "working man."

Rise of journeymen.

Another reason for change was that occasionally the gild or other trade regulations became so strict that a master might decide to move out of the town in order to be free from what were rather quaintly styled its "liberties."

Facilities for trade were given to these isolated workers by the middlemen merchants, who were willing to procure and sell the raw material, and equally willing to find a customer for the finished product.

Thus the next stage of industrial life, spoken of as the Domestic System in contrast to the Gild System, was typified by the small master, living where he liked in town or country, but working still in his home, receiving raw material from a merchant or factor, who took the risks of distributing the finished goods in a larger and more scattered market, where he alone could gauge the demand. The craftsman had worked for a very definite limited market, if not on special orders. The significance of the word "customer" should be noted—not a casual buyer, but a person whose "custom" it is to deal with the worker or trader.

Rise of "the small master."

The Domestic System was developed most fully in England in the processes connected with the spinning and weaving of wool, that industry in which so much of early English history and development is involved. There were five great districts in which cloth was made: the Eastern counties, the West Riding of Yorkshire, Lancashire, Somerset and Wilts, and Devonshire. Wool was taken out to the villages from the trading centres Norwich, Leeds, Manchester, Frome and Exeter, and brought back finished; often on pack horses, but in later times there were special carriers. Professor Ashley considers that the system was in full working throughout England from the middle of the fifteenth century to the middle of the eighteenth, but many industries are still actually carried on in this way. Everybody knows something of the method in which the roughest sorts of tailoring and dressmaking remain now in our midst as a form of domestic industry—how the women fetch the material, and bring back finished coats, trousers, shirts, blouses or skirts; but there are many less-known industries of a similar type (though involving more skilled work), such as boot making, furniture-making (often called cabinet-making), and straw-

The Domestic System.

plating. Toys are made in this way in the Black Forest, and watches in Switzerland.

What was the nature of the work done within the houses? It was domestic, in that the master utilized the labour of his wife and children as far as possible, without getting outside help. There were some journeymen, but not many apprentices, in these industries we speak of as "textile," where material is spun and woven. There was a certain amount of apparatus in the shape of wheels and looms, and this was constantly increasing and developing. Such machines were usually worked by human effort, but water-power was used in simple forms of mills, especially in the hilly districts.

It was possible quite lately to find in remote parts of North Wales a little mountain stream turning a mill-wheel, and to find on investigation that the mill was being worked by one man, aided by his family, and was used to spin the rough wool obtained in the neighbourhood, and to weave it in a simple loom. He would retail the cloth if there was custom, but usually disposed of it to one of the large well-known Welsh "warehouses" which send Welsh flannel and cloth over England, France, and Germany. Most of these water-mills, though, are now deserted.*

Use of water-power.

There was, nevertheless, a good deal of division of labour in the woollen industry. We can see this by the names carders, combers, spinners, weavers, and fullers, or tuckers. These processes were mostly undertaken in separate establishments, but spinning and weaving were often combined. This combination was the origin of that stimulus towards labour-saving inventions, which developed into the construction of great machines, and great factories in which to put them.

Division into different processes.

The impetus came, however, not in the woollen industry

* The old-fashioned book, "Evenings at Home" (1792), has a very good account of a weaver and his family at work on the old domestic system. Another book by the same writers (Dr. Aikin and Mrs. Barbauld), "The Arts of Life" (1816), gives an account of "the cotton-spinning machine of Sir William Arkwright on the banks of the Derwent."

itself, but in the cotton industry, where also spinning and weaving were often carried on by the same family. At the beginning of the eighteenth century the two were in rather different condition. The cotton industry was much newer, and more limited in distribution and in number of workers. It was also limited by the fact that cotton material at this time was cotton only "one way," to use the colloquial expression. The warp was made of linen, the weft of the slighter, more fragile cotton threads.*

The cotton industry.

Linen warp; cotton weft.

The distributing merchant brought to the domestic worker his cotton-wool for carding and spinning, and also the linen warp ready prepared. (It was made in a small warping-mill, too large to be used by one master in his own dwelling.) But the use of cotton was increasing, and its price was decreasing, owing to the constant expansion of foreign trade. About 1720 there was some strong feeling against the use of cotton goods (chiefly those woven in India), which feeling caused a riot in Colchester. Those engaged in the woollen trade distrusted the introduction of cotton as a formidable rival. They were right in so far that everything now combined to bring down the price of raw cotton, and to increase the price of raw wool, which was almost entirely home-grown. By the end of the eighteenth century there was a serious scarcity of English wool.

New inventions for weaving.

This difference in the supply of the two main materials for weaving would tend naturally to stimulate labour-saving inventions in cotton rather than wool. The *flying-shuttle*† was invented by Kay about 1733, but came into use rather slowly. By its means a man was enabled to manipulate the weaving shuttle

* Sheets and pillow-cases "made to last," as the old-fashioned housekeepers say, are still altogether or partly linen. In the writer's family there are still being used linen sheets which were part of a wedding outfit in 1829, and sheets which are "linen one way, cotton the other," part of a similar outfit in 1867.

† A flying-shuttle in a simple form of loom has been on view in the textile exhibits at various recent exhibitions, especially in the exhibits of "homespuns" from various parts of Scotland or Ireland.

through twice his arm's length instead of once. He could weave "double width" alone, whereas previously two men had been necessary. Kay's contrivance could be used for both cotton and wool. In Colchester, where he first introduced the shuttle, it met with a good deal of opposition, as the weavers feared that some of them would be thrown out of work; but it was adopted more readily in the West Riding. Arthur Young notes it as rather new and interesting in Colchester itself in 1784. This seems to us a very slow rate for an improvement to be taken up. But long before this the invention had created a new difficulty, in that the spinners of threads were not able to keep up with the weavers, now working at double rate. The pressure was felt chiefly in cotton-spinning, so that Hargreaves' new invention to accelerate spinning, the *spinning jenny* (1764), was for cotton. This enabled one person to manipulate a number of spindles. So far the motive power was unchanged—it was still human labour. But in the working of cotton another improvement followed very quickly on Hargreaves'—Arkwright's method of drawing out cotton threads mechanically by means of rollers (1769). This was worked by water-power. Next the two improvements were combined in a third and still more complex machine—Crompton's *mule* (1779). It should be noticed, too, that the cotton yarn was so much strengthened by these inventions that it could now be used alone.

These new developments caused the decisive change in the manufacture of cotton. They were incompatible with the domestic system of working in one's own house. A "mule" of some considerable size was essential. Moreover, the rate at which yarn could be spun had now outrun the rate of weaving it, and thus it was necessary for a new motive power to be applied to weaving. The new invention was Cartwright's *power loom*, to be worked by water or steam power, introduced in 1785, but not extensively used till about 1820. Meanwhile—that is, during all the latter half of the eighteenth century—the supply of cotton was increasing rapidly, owing

to its cultivation in the United States and the improved speed in transport. It was becoming impossible to use up all the cotton supplied without new machinery and more power.

The first mills.

Thus the first mills, or factories,* were cotton-mills, and were built where there was considerable water-power.

They were deserted to a great extent when the use of steam-power became more common. This is the reason why in certain places, notably the West Riding, we see large ruined deserted mills situated by streams.

Dr. Cunningham ("Growth of English Industry and Commerce") states that it is much more difficult to trace the transition to the large factory in the woollen industry. While the flying-shuttle and the spinning-jenny were adopted for wool and caused increased speed, they were used in the workers' homes without any change in motive power. Moreover, the actual adoption of these two inventions lagged behind, especially in the West of England. The older industry was wider spread and probably more conservative. But the price of wool became so dear that some new power had to be utilized to save labour, if the industry was to yield any profit at all; it was not "paying" at the rate the old-fashioned hand-workers produced it. About the beginning of the century, as we have said, power looms like Cartwright's came into use. Meanwhile, between 1782 and 1790, Watt and Arkwright separately were experimenting successfully with the new form of power—steam.

Adoption of the inventions in woollen industry.

At this period the whole course of the industrial revolution will be seen to depend upon another industry of vital importance to England—the manufacture of iron. Iron has been smelted in England from very early times; we noted in the first chapter that its use was essential in domestic life. But

* The term "factory" had been used previously where a number of looms were collected under one roof; but such cases were rare, and attracted attention. In some places they were forbidden.

the process of smelting entailed the employment of charcoal, and by the beginning of the eighteenth century forest wood for charcoal was becoming scarce.* It had become quite common to import Swedish iron. Fortunately, early in the century there was a great revival of the industry, caused first by the discovery that coke could be obtained from coal, and used instead of charcoal; and, secondly, by the new process of smelting with coal itself.† Other improvements in smelting followed fast, so that by the middle of the century the iron industry was ready to respond to the extraordinary new demands about to be made on it, to supply the material for the new machines. Coal now became more important every year, for where steam-power was coming into use fuel was needed as it had never been before.

Vital importance of iron-smelting.

A very striking result of these changes was the gradual displacement of industries according to the new needs. Some of the iron districts, in which the smelting was dependent on the neighbourhood of forests yielding charcoal, decayed gradually when charcoal was not used. Some of these were in Sussex, Lincoln, and Leicester. Meanwhile, districts where coal and iron were to be found close together sprang into sudden activity and prominence. Such were the Cleveland district and the Tyne; the large district on the north-west coast comprising Cumberland and North-West Lancashire; South Wales; and the Lowlands of Scotland.

Development of new districts.

The factories, instead of finding out the streams with a good "head" of water, began to congregate near the coal and iron. Other considerations affected the choice of place, such as proximity to a port, whence raw materials could be obtained, and from which finished goods could easily be transported.

* Another ancient industry, tanning, was also affected, by the insufficient supply of tree bark.

† For the history of these discoveries see Smiles, "Industrial Biographies."

Liverpool grew from a mere hamlet into a large town at the beginning of the nineteenth century, owing to its power of obtaining cotton from the United States, and linen from Ireland. Later on it began to receive foreign wool in great quantities from Spain, South America and Australia. Factories sprang up in Manchester, Bolton, Burnley and other towns in South-West Lancashire, because of their proximity to Liverpool and to the coalfields and ironfields. By the middle of the nineteenth century England had new specialized districts for certain industries. Large towns sprang up in these districts, towns of a new type, congested as none had ever been before, and dependent upon other places for their food and all their supplies. In Staffordshire the supply of suitable clay, as well as of coal and iron, led to the development of the Potteries; Birmingham and Wolverhampton specialized in wrought-iron goods. The woollen industry slowly gathered round the Yorkshire West Riding (where it was in good connection with ports, coal and iron, to the west and to the east), and decreased greatly in activity in the Eastern counties and in the West of England. The latter district became dependent on its connection with Bristol and Cardiff.

Another aspect of the great change must now claim our attention—what sort of people built the new factories, and the amount of money it took to build them. The merchant distributor of the domestic system had now to solve entirely new problems of finance. He was to supply the building as well as the material; he must rent land and build on it. Then he must fill the building with machines, which every few years had to be replaced or reinforced by others, of greater cost and complexity. If steam were used, there must be engines and engine-houses in addition to the mill and its looms. For the first year or two his money would be spent in creating his mill, and he could reap no profit at all. When the mill began working, there were wages of all sorts to be paid, and a

Rise of the "manufacturer."

stock of fuel stored, besides raw material. It will be clear that an amount of ready money hitherto unheard of must be at hand to start a mill. One built in Stalybridge in 1835 cost £88,000, and this would be a small sum in modern estimation.

The person who had this large amount of ready money became known as a "capitalist"; he had the "capital" required to meet these initial expenses. When he had started the factory he still had the capital, but it had been changed from ready money into buildings, machines, and other things Like the original middleman merchant, he needed to know where to buy material and where to sell goods; he needed, still more, power of organization and knowledge of the best kind of machinery for his purpose. But he was in no sense a craftsman; he hired persons with technical skill, such as engineers to take charge of his engines, and foremen to supervise his machines.

"Capital" required.

The merchant now found his business very different from what it had formerly been. He began to buy the finished goods from the manufacturer, instead of giving his own materials to the workers to be made up for him. His knowledge of markets still enabled him to sell the goods to advantage. The manufacturers formed a new class in English society and acquired great wealth and influence, both in trade and in politics. The younger sons of the landed aristocracy often became manufacturers when they could obtain the necessary capital. Above all, there had come into existence a new method of investing savings—that is, using them with profit. Mr. J. A. Hobson has remarked that up to the end of the eighteenth century there were very few safe investments, in the modern sense. To keep one's sovereigns in the proverbial stocking was by no means the irrational proceeding it would be nowadays. If one wanted fairly safe investment, one could deposit money with the Bank of England, one could be a member of the East India Company, or one could lend money

to the Government as part of the National Debt. None of these methods was then as secure as similar ones are to-day, and the anxiety for other investments, even very risky ones, was shown in the excitement over the South Sea Bubble.

It was now possible for people to combine their savings and "join stock" in a new manufactory. At first a business was started usually by only a few men, each with a large amount of capital; because personal superintendence was necessary.

A new class in society.

Nevertheless, the number of persons subsisting to a large extent on the profits of savings increased greatly. This leads us to note a general development which has a good deal of effect on the whole subject of this chapter. It was the growth of a new class, still increasing, which commands specialized services in a way in which none but the great feudal lords commanded them in medieval times. In this class the women and children of the family never engage in work; the women especially, in comparison, have more and more service rendered them, and do less and less in their own households. The effect of the increase of this type of family has been still more to encourage the specialization in industry, which we have seen results partly from demands for more service. The manufacturer was now usually in the position of seeing more and more opportunities for investment, more and more ways of using fresh savings. He was therefore naturally anxious that the profits from his mills should be as large as possible, for never, perhaps, in the world's history had savings appeared more desirable.

The effect of all these new developments was to lower the position of the worker. The last one mentioned, the preoccupation of the employer with profit, seemed to force the worker inevitably as low as possible. He gave now only his labour, not skilled, technical labour, as it used to be, but chiefly the much less skilled attention to a machine. Nothing was his own but his hands and his strength, whence the expressive term "factory hand." The employer supplied raw material, tools, place to

Position of manual worker.

work in, mechanical power, general superintendence and the market for the goods. It was paramount with him to keep wages down. For this purpose women were employed instead of men, and the labour of children in large gangs was used. There is no sadder picture in all English history than this; children from five years of age onwards deprived of all play-time, robbed alike of strength, health and youth. The hours of labour for everyone were excessively long. Also the combination of workmen among themselves to attempt to raise their wages or shorten their hours was forbidden by law. The nation was not slow to repudiate some of these hard conditions. The laws against combination were repealed in 1825, and Parliament proceeded much more slowly to various Acts of factory legislation, which regulated the work of children and women chiefly.

It must not be forgotten that by 1825 the manufacturers were fairly well represented in Parliament, though thirty years before their interests had been entirely neglected. All Factory Acts were very thoroughly debated, as there was often formidable opposition to new regulations. The manufacturers pressed for the extension of foreign trade, and that it should be freed from all restrictions, so as to increase the supply of raw material and the demand for goods. They also pressed for the repeal of the Corn Laws, as a special case of restriction on foreign trade; as in that way they could obtain cheaper food for their operatives, which would tend to keep wages down. It is only fair to say that there were other more philanthropic motives for urging this step on the nation.

Legislation bearing on these questions

The position of working people in factories in the early part of the nineteenth century was very terrible; but this was no sudden change. There had been much poverty and misery in the last days of the Domestic System, owing to such causes as the wars with France, and the dearness of food, especially corn. Nevertheless, the dislocation caused by the industrial changes was very great. They brought the pros-

Great distress in early part of nineteenth century.

pect of long hours at low wages, in barrack-like surroundings with the hated and dreaded machines There was no alternative but starvation. Sometimes starvation from unemployment was the only prospect. To realize these things is to feel that the riots against the introduction of machines were not unreasonable, and that the workers could not see that they were to gain anything by the change. The repeal of the Combination Laws gave them their chance of Trade Unions. With union came the opportunity of adopting well-informed rational plans, and of organization and concerted action; they had further the help of factory legislation of various kinds, and the lowering of prices for all necessaries.

This brief study of the Industrial Revolution must have made it clear that the development of all modern industries has depended vitally on the extension of foreign trade, which has also revolutionized many details of our own expenditure.

CHAPTER V

GROWTH OF EXCHANGE AND TRADE · THE DEVELOPMENT OF FOREIGN TRADE · THE FOUNDATION OF OUR COLONIES

It has already been suggested (p. 22) that in early English times the King and the nobility were tempted to trade with merchants from other countries for various articles they could not get at home. The vast majority of people continued to do without such things; they were obviously what we call "luxuries." Among those that were first sought after were spices, pepper and almonds · edibles which in even small quantities relieved the monotony of English food, especially in winter. Next, folk were attracted by silks, jewels, and delicate things to wear. The nobles who adventured forth in the Crusades gained much more vivid knowledge of the wealth of Eastern countries, and the ability of Eastern traders to supply all the coveted goods. The Genoese, the Venetians, and the inhabitants of other Italian ports, engaged in the Crusades for definitely commercial reasons, and they consequently opened up a new trade which connected England with Italy and with the Levant.

The Italians brought Eastern goods.

The clergy in England, the Bishops, Abbots and Priors, who were founding cathedrals and monasteries, created a trade of their own, even before the Conquest, with Italy and France, which was very important, though it hardly merged or developed into the general trade. Between 1100 and 1400 many of our most beautiful cathedrals came into existence, and the stone and the window glass, with endless details of

the decorations, came for the most part from the Continent. The Church dignitaries, too, had clothes and jewels as beautiful as the nobles.

After the establishment of trade with Italy and the East, the next development was apparently much more prosaic—trade with the North Sea and the Baltic. An alliance of merchants, known for centuries as the Hanseatic* League, offered skins, hemp and timber from Norway and Russia, they also could offer Eastern goods, especially drugs, which had travelled through Russia instead of through the Mediterranean.

The "Hanse" merchants in North Europe.

What did the English folk offer to these foreign merchants to take back with them? Whenever merchants come to a foreign country, they want to buy as well as to sell. It would be very unsatisfactory trade if they took back only money and ships empty of cargo. The double transaction will give a double profit; "one turns the money over twice," to use the trading phrase. Thus, in the intercourse between nations, when imports begin exports must also begin. Moreover, in most countries at this time the sending of coin out of the realm was forbidden. But until the fourteenth century raw wool was the chief article the English had to exchange. Besides wool, there was leather, tin, lead, and sometimes corn. England was, to these nations offering it luxuries, in the position of a country of inferior civilization or development; it could offer only raw material, as, in far later days, its own colonies have given it raw material in exchange for manufactured articles. But England was in a strong position compared with other nations in regard to wool. Early in the fourteenth century the English Kings had managed to bring the export of wool into a well-controlled system. A few places on the Continent, notably

What were our exports?

* "Hanse" (originally an entrance fee) was a general name for an association of foreign merchants: English people spoke of the Cologne Hanse, the Flemish Hanse.

Bruges and Calais, were constituted the "staple" towns to which all wool was sent. There were also about ten towns in England, ports or connected with ports, in which the wool was collected before it was taken across the Channel. These were also called "staple towns," being recognized places of sale. The merchants were called the "staplers." The whole sale was encompassed with rules and regulations made by the Crown in order to secure its dues on exported wool.

The "staple."

But the aspects of the trade in wool began to change very soon after the full establishment of the staple (see p. 30). By the middle of the fourteenth century our woven cloth was offered for sale abroad, competing favourably even with Flemish cloth.

English traders now began to realize for themselves the prizes open to, and the difficulties besetting, foreign trade. There must have been some envy, and some unwilling confession of inferiority, underlying their general jealousy of the foreigners.

The man who ventures abroad, using a strange tongue and adapting himself to strange customs, has more initiative, energy and resourcefulness, than others, and he becomes a more enlightened, better educated man The business is much more lucrative, but much more dangerous. To meet the dangers he develops a power of working in combination with others for mutual protection. The caravans which brought the Oriental goods over the deserts to Constantinople or into Russia were conducted by traders in association for mutual protection. The Venetian and other Italian traders worked also in conjunction. Such a habit becomes the more necessary when goods, instead of being merely carried across the narrow seas, are sent on a distant voyage. The ship is a venture common to several adventurers. Thus we find the foreign trade in medieval times undertaken by leagues and companies somewhat similar to gilds, and, indeed, sometimes bearing that name. But this new kind of associa-

English traders venture abroad.

tion, with its peculiar risks, needed more than any other the countenance and help of legal authority. The common property, though subject to so much risk, could not be defended at law like the property of a single individual The legal method of surmounting this difficulty is for the Crown to grant a charter to a group of individuals, giving them the power to join together for certain purposes, and to act as if they were one person. The law then recognizes them as a unit, and provides means by which they may protect their joint property, instead of each member having to act for himself and look after his own interest. This method of incorporation was devised originally by the Romans, and was applied to the religious Orders which were pre-eminent in the Middle Ages.

A charter.

Thus we shall understand why the English merchants who first ventured abroad in their own ships formed themselves into a company, called the Merchant Adventurers, and why they obtained a charter from Henry IV. in 1406. After they had secured their charter, they had overwhelming advantages over any English traders who might try to operate outside the association; but at first their chief rivals were the Hanseatic League we have mentioned. We have indicated that the Kings and nobility favoured foreign trade much more than the townsfolk approved. During the whole of the fourteenth century this League had strengthened its position in return for heavy dues paid to the Crown. It had been allowed to build the "Steelyard" on the banks of the Thames, a fortified and guarded building which served as a residence as well as a warehouse. It stood on the site now occupied by Cannon Street Station.

The Merchant Adventurers. 1406.

But at the beginning of the fifteenth century the supremacy of the Hanseatic League became very insecure. It was the century of great new impulses in discovery, navigation, and commerce. The most important event, which shifted the centre of all the trade of Europe, and altered its general

direction, was the taking of Constantinople by the Turks in 1453. The invaders expelled all the Italian merchants who had made this city the constant channel for Oriental trade. The problem for all traders was to find another route, a sea route, to India. Thus the countries formerly at the margin of the civilized world, Portugal, England and Holland, found themselves in the most favoured positions, with advantages over the countries with Mediterranean or Baltic ports. So rapid was the course of discovery that, 150 years after the fall of Constantinople, England found herself in the centre of the trade of the world instead of being at its edge. There came a great rush of exploration, at first with trading as its main object; but later on exploring led to settling. The history of English foreign trade during this epoch is the history of various companies, each with its charter from the Crown to trade in specified parts of the world. At the beginning of James I.'s reign the following companies had received charters:

Fall of Constantinople, 1453.

1. The Merchant Adventurers (the earliest)—trading from the Cattegat to the mouth of the Somme. Chartered in 1406.

2. The Russia or Muscovy Company—to Russia, Persia, and the Caspian Sea. Chartered in 1555.

3. The Eastlands Merchants—to Norway, Sweden, and the Baltic. Chartered in 1579.

4. The Levant Company—to the Mediterranean and the East. Chartered in 1581.

5. The East India Company—to the East by the new routes, therefore to Asia, Africa, and America. Chartered in 1600.

6. The South Virginia Company—to Maryland, Virginia, and Carolina. Chartered in 1606, but had only a short existence.

7. The Plymouth Adventurers—to Pennsylvania, New York, and New England. Chartered in 1606.

8. The Guinea Company, afterwards the African Company—to West Coast of Africa. Chartered in 1618.

Thus very little of the known world was left to the private trader.

The history of each of these companies will be found instructive, but cannot be undertaken here. The important question is, which in this list survived and left a permanent mark in national development? First, no doubt, the East India Company, which actually existed as a company until late in the nineteenth century. Next, the companies in North America, which developed into our colonies, their members becoming settlers rather than traders. We note that the companies fittest to survive were those which were directed to less civilized countries than our own, where it was possible to obtain land, and supremacy over the natives. Thus the endeavours of our traders were gradually turned away from Europe and from any North-East Passage to India, and long sea-voyages became a necessary part of the ventures.

Companies that survived.

The East India Company, realizing the length of the voyages and the greatness of the risks, wished to trade as a joint stock company. They wished to own jointly a ship and its cargo. The earlier companies (called "regulated" in distinction from "joint stock") had worked in a looser partnership; the trader paid fees to obtain certain privileges, and traded as an individual with his own goods, observing whatever rules there might be. Thus it might be said that, when Dick Whittington parted with his cat as his contribution to a venture he was trading with his own goods. The ship generally belonged to one man, who might or might not be a trader; but the voyages were usually brief.

"Joint stock."

But the new joint stock method was evidently more just for associations subject to great perils from stormy seas and savage lands. From this time companies of this kind became customary; and many statutes dealing with them were passed during the next century, a period of much discussion as to their advantages and drawbacks. We have referred to this

method in Chapter IV. as the one inevitable for the development of businesses with a large amount of capital, and we shall discuss joint stock companies again in Chapter VI., in connection with the building of railways.

The first voyages of the East India Company were chiefly experimental; only small groups of more venturesome shareholders actually risked their money in subscriptions. But there was sometimes more than 200 per cent. profit on such voyages, though it is true they entailed about three years of doubt and suspense. Thus in 1612, when the scale of venture increased and for the first time all the original members contributed, the profit was still very high; and one is not surprised that 954 people came forward when a second subscription, of about a million and a half sterling, was invited in 1617. The venturers included "15 dukes and earls, 13 countesses and other titled ladies, 82 knights (including judges and privy councillors), 18 widows and maiden ladies, 26 clergymen and physicians."* But their golden hopes were hardly realized, for troubles with the Dutch began very shortly afterwards, and dividends fell to about 12½ per cent.

East India shareholders.

One might predict trouble and disputes for a company whose charter allowed it to trade "in the islands, ports, havens, cities, creeks, towns and places of Asia, Africa, and America, from the Cape of Bona Esperanza to the Streights of Magellan." It did not, however, avail itself of all these privileges. The continents of Africa and America were for the most part left to those companies we have already mentioned in the brief list above; but, in addition to the special Indian trade which it succeeded very soon in establishing, it opened up commerce with various islands in both the Atlantic and Indian Oceans, especially when the idea of the North-East Passage was given up, and the vessels went round the Cape of Good Hope. The trouble began in the "Spice Islands," over cloves from Amboyna and the

Trouble with the Dutch.

* Hewins, "British Trade and Finance."

neighbouring Moluccas. The English and the Dutch came to actual warfare here in 1623, but it must be noticed that the dispute, which was not finally settled till Cromwell's time, was entirely about trading with the islands, not settling there. But projects for annexation of islands, and of land for little settlements in India, soon had to be considered by this company. St. Helena, a barren little island in the Atlantic, had been deserted by the Dutch, and was peacefully annexed by the company as a halting-place for their ships, not as a place for trade. The first settlements in India were on the west coast, near Bombay. The responsible local officers were called "factors," and their offices and warehouses (often fortified) were known as "factories," though no manufacturing was carried on there. Bombay was originally a Portuguese settlement, but a piece of good fortune befell the company when Charles II. received it in 1661 as part of the dowry of Catherine of Braganza, and granted it to them in 1669. A small settlement had been made at Madras in 1639; the similar one at Calcutta, on the west coast, was not established until 1696. During most of this century the Government at home left the settlers very much to their own initiative; their charter included power to make laws, to punish unlicensed rivals, and, if necessary, to carry on warfare to defend themselves. In many ways each settlement was treated like a town corporation. The charter given to Madras in 1687 granted permission to have a Mayor and Aldermen, with silver mace and scarlet robes "made after a form convenient for the hot country," who should also "have and for ever enjoy the honour of having rundelloes and kattysols born over them."* The company was very anxious for money—not for profits only, but that it might be able to keep a military force to protect the trade and help it to increase.

Settlements in India.

We must turn now to a brief review of the history of those companies named in our list, who were making settle-

* Shaw: Charters, High Court, Madras, p. 12.

ments of a very different type on the east coast of North America.

It is true that the desire of the English for foreign trade caused the first impetus towards the West Indies and the continent of America; it is also true that the English Government came to realize vividly in the seventeenth century that a large amount of trade had developed in these parts, over which trade they found they must have much more definite control. Nevertheless, the first settlements in the West were not made by traders, but by men of a very different type; and their settlements were entirely different from those in India and in the Indian Ocean. To begin with, the climate in these Western lands was for the most part much more temperate; the natives encountered were less numerous, less civilized, and less powerful. Land was acquired here, and cultivation at once begun. The new type of settlement was called a "plantation" or "colony." The goods to be sent home were intended to be crops raised by the colonists, not articles obtained from the natives. The settlements were made usually by men of property and title, accustomed to managing estates at home; or sometimes they were made by bands of less important people, all experienced in agriculture, who desired to escape from certain religious disabilities under which they suffered in England.

Settlements in the New World.

The first colony, an unsuccessful one, was Sir Humphrey Gilbert's in Newfoundland in 1583. The Duke of Buckingham founded a successful one in Guiana in 1627; in the same year the Earl of Carlisle initiated a colony in Antigua, and the Earl of Montgomery one in Trinidad. General Heath started a plantation in Carolina in 1629, Lord Baltimore one in Maryland in 1632, Sir William Alexander initiated two —Nova Scotia in 1621, Long Island in 1635. Sir Walter Raleigh was responsible for Virginia; but he had insufficient command of finance, and his first settlement failed for want of winter stores. He was obliged to call in the help of a

company of London merchants to make a fresh start, with more resources behind him. But his intention remained the same—to plant estates and to raise produce, not to purchase native goods. These are all instances of plantations created by men of position.

The Pilgrim Fathers in New England, men of a different type, desired to live according to a new conception of social life derived from their study of the Scriptures. In Rhode Island and in Carolina general religious toleration was the great desire of the colonists; while Maryland, being founded by a Catholic peer, was peopled to a large extent by Catholics, who began to find themselves unpopular in England. For the most part, however, the feeling among the colonists was anti-Catholic, especially at first; for in Elizabeth's time there was the definite desire to counteract Spanish influence, as it was believed that the doctrines taught by the Spaniards should not be allowed to spread among natives and over the world generally.* There was a desire to convert natives peacefully to Protestantism, but this very soon disappeared, as before the middle of the century the petty warfare with the Indians became so serious that union among five separate northern colonies became necessary, to withstand their attacks. This was the beginning of political union.

But the economic aspects of the new colonies are much more important to our purpose of tracing the development of trade. They separated broadly into two kinds: the self-supporting colonies, such as New England, Massachusetts, Plymouth, which grew their own food, and were not anxious for trade with the home country except to obtain goods they could not produce; and the large estates in Virginia, Maryland, and Carolina,

Two types of colony.

* See the sentiments expressed by the narrator, and by Sir Richard Grenville, in Tennyson's "Revenge"; see also Kingsley's "Westward Ho!" and R. H. Benson's "By What Authority?" The last named and most recent work presents vividly the difficulties experienced by Catholics in Elizabeth's reign.

which had been planted by influential men with tobacco, sugar, and other crops, for export, not for consumption. The colonists of the northern type lived in small homesteads and devoted themselves to agriculture; new-comers were not welcome unless they were industrious and religious men. The tobacco and sugar estates in the South, and still more in the West Indies, required large numbers of dependent labourers. It was impossible to keep out criminals altogether. At the beginning James I. had definitely wished them to be sent thither; but later on it became very convenient to ship out large numbers of political prisoners, for whom some place out of England had to be found, and who were of a much less objectionable type than the ordinary criminal. Later in the century, when England was more settled, and there was no longer a supply of prisoners, there arose a system of kidnapping of all sorts of innocent people to secure a supply of labour for these estates, and terrible stories are told of this cruel practice. When it was stopped, the importation of negroes began, with many of the same abuses.

The later history of the United States has been influenced very deeply by this essential difference we have noted between the two kinds of colony.

The Navigation Acts.

At the period at which we have arrived, the middle of the seventeenth century, the most important factor affecting trade was the passing of the Navigation Acts in 1651 and 1660. These enacted that no goods from "Asia, Africa, and America," were to be imported into England except in ships belonging to England or to one of her plantations. The master of each ship and the greater part of the crew must be English. These Acts were directed to the increase of the English carrying trade, in order to demolish the supremacy of the Dutch at sea. It seems that on the whole the new regulations suited the tobacco and sugar plantations, and helped them to develop; but the agricultural colonies, with much less export trade, and a greater import trade, in proportion to their population, suffered under the

Acts, some encouragement to local shipbuilding being the only advantage gained. There was widespread evasion of the law. The Government began to find the difficulty of enforcing laws in settlements that were practically self-governing.

Even in those settlements that nominally belonged to English companies (such as the Massachusetts and Plymouth Companies), as all the proprietors lived in the colony, all administration was conducted there, and there was no interference from stockholders in England. The Hudson Bay Company was an exception. It resembled the East India Company, being exclusively concerned in trading with the natives, exchanging skins for guns, cloth and other manufactures. This venture was greatly assisted by the Navigation Acts, and it attained great success and wealth.

The Mercantilist Policy.

These Acts were an important part of a new policy in the government of England; a definite reasoned regulation of trade which is known as "the Mercantile System," or "the Mercantilist Policy."

About this time it became usual to discuss public affairs by means of printed pamphlets, and an enormous number were written and published about the "Ballance of Trade," as it was called. The men who wrote the pamphlets were not what we should call professors of political economy; there were no such people, and there was no science of political economy. They were usually business men, members of the East India Trading Company or some other company, or members of the London Exchange, and thus interested chiefly in finance.

The central theory of the Mercantile System was concerned with the amount of money in the country. The writers knew what it was to be short of coin and of the precious metals, and therefore they tended to measure the wealth of a country by the actual stock of these it possessed at any moment. Thus the great thing to be avoided in transactions with other nations was the actual passage of money from our country

into any other. This meant that our exports, for which we were paid, must exceed our imports, for which we had to pay. Further, at first at any rate, it was believed that we must try to arrive at this sort of "Balance" with each country separately, and not by a general readjustment all round, which would prevent a drain of the precious metals out of the country. Of course this was not a settled doctrine which was received without controversy; but it was sufficiently established to affect legislation, and to affect all our foreign policy for at least a century; indeed, its influence shows to the present day. It seemed best to aim at exporting manufactured goods, so that the work done on them had to be paid for, and at importing raw material, on which there was no work to pay for. All English manufactures were to be encouraged and supported, by "bounties" and in every possible way (whence the welcome and encouragement given to alien artisans, of which we have already spoken). Goods of foreign manufacture were consequently discouraged, chiefly by heavy duties. Our colonists and settlers were to be restricted to the goods manufactured at home.

Money must not be drained from the country.

Again, how could we preserve our balance with the Dutch if we were continually paying them money for carrying our goods to and fro? We must certainly carry them ourselves, and have these charges for freight flowing into the country, not out of it. The Navigation Acts were the obvious result of the new theory.

The East India Company found itself plunged constantly into the discussions of the Mercantilists, because there was not the least doubt that it was importing more from the East than it exported back, and it had to justify this. It did so by two arguments: First, that this condition of things was temporary, and that the scattering of bullion in the East might be compared to the sowing of seed, from which one would reap later on; second, and more practical, that the imports from the East must be

East India Company at fault.

exported to other countries as fast and as much as possible. This would tend to make our carrying trade more significant also. They insisted that England must take the position with regard to Indian trade that Italy had held in much earlier days.

In the general discussions on the organization of trade to the greatest advantage, this company was again subject to attack for continuing to work on the joint stock system.

A new East India Company.

So many merchants were convinced that trade to the East could be conducted better on the older "regulated" system (see p. 50), that a rival company was inaugurated in 1692. It began by offering the Government a loan of two millions; which would seem rather extraordinary if it were not pointed out that Charles I. and Charles II. had both obtained loans in various ways from the old company, so that it was the obvious way of getting favour from the Government. The old company feared the new rival so much that it subscribed some of the new capital in order to gain control over it. There were many fluctuations and vicissitudes, until the two were amalgamated and made a fresh start together in 1706. These fluctuations are interesting when one comes to study the working of joint stock companies. For instance, the East India stock was at 158 before the new company was started; in six years it had fallen steadily down to 41, and then climbed up again until, when amalgamation was suggested in 1702, it became 102. The price of the stock of the new company fluctuated, but was always above that of the old until they united.

The extraordinary position of the East India Company in its relation to the Government of the time is supremely important in the history of the next century. It was acquiring territorial power in India to such an extent that it soon became a factor in all war manœuvres, and needed military support; in addition, the Government fully realized the great significance of the company in English finance and trade.

The general history of the eighteenth century is so deeply concerned with the developments of the relations of England with the United States, Canada and India, that the main facts are well known to every student of history, and can therefore be passed over briefly in this chapter. What were the effects of these great changes on foreign trade? The whole effect of the mercantile system was to make our interests clash with those of every other country. It was to be assumed that each nation of Europe would try to get the "Ballance of Trade" on its side, as we did; it was a simple form of game in which one was the winner, one the loser. We opposed ourselves to Holland and won. The next great rival was France. This nation was striving for alliance with Spain and Portugal, to share in the advantages of their geographical position, and to help them to restore their decaying colonies, which had promised such great wealth originally. It should be observed that the condition of Spain and Portugal seemed to contradict the prevalent theories about money being wealth, for they had been able to import larger quantities of gold and silver from the New World than any other nation; nevertheless their trade was far from being prosperous. France, however, had a valuable footing in India and in North America. In the latter it had left the seaboard, for the most part, to the English and Dutch, and had developed settlements on the two great rivers, the St. Lawrence and the Mississippi, which gave extremely strong positions.

Effect of wars of eighteenth century.

Everyone knows what was the end of the long struggle between England and France, all over the world, in the eighteenth century. We gained the supremacy in Canada and in India, and thereby laid the foundations of that trade which modifies almost every detail of our lives at the present day. We were obliged to set our North American colonies free to govern themselves, and to trade where and how they liked; because the principles on which we tried to organize trade with them

Secession of the United States.

issued in regulations which proved too irksome. The new "States" would not observe our Navigation Acts, and would not consent to buy our manufactured goods and no others. These were the most fertile causes of discontent, as well as the unpopular methods of taxation, which were the immediate cause of rebellion. The States found they were in a very strong position with regard to trade, so that they developed their own views as to the best course to pursue in its organization. The secession of the States was bound to result in a modification of our attitude towards our colonies; and the time was very soon ripe for the modification of our theories with regard to the regulation of trade. The reaction from the mercantile system was very naturally in the direction of freedom from restriction; in this direction it was also propelled by the new ideas of liberty and freedom issuing from the movement in France. The theories which replaced the mercantile system have been given several titles and described in several stages; it will suffice here to say that they developed finally into the doctrine of Free Trade. Although the United States themselves have not adopted this newer principle for their foreign trade, nevertheless the trade between them and the mother-country is very considerable in amount, and important in its influence on our daily life, as we must now point out in detail. To lose the actual possession of the States seemed at first to our nation so crushing a blow that we naturally turned to our newly-gained power in India as the most obvious consolation, although the conditions there were so extraordinarily different. We found ourselves by no means possessed of land in a temperate climate to cultivate according to our own wishes, but charged, inevitably, with the duty of taking over and reforming the government and administration of a densely-populated tropical country, with religions, with political and social customs, as old as, if not older than, our own. There was bewildering opportunity for trade here, but none for colonization. Thus the discovery by Captain Cook

New theories of trade.

of a sparsely populated new continent in the Southern Hemisphere attracted the attention of all our politicians, though it was not till the nineteenth century that the possibilities in Australia began to be realized.

Discovery of Australia.

There is not very much to say about foreign trade with other European countries during the eighteenth century, because constantly recurring warfare made such peaceful intercourse very intermittent and hazardous. During most of the time, even when we were not actually at war with France, she was considered so deeply our hereditary enemy, that French trade was discouraged by heavy duties, even by actual prohibition. In 1703 the negotiations of a private merchant, Mr. Methuen, resulted in a treaty giving preference to Portugal with regard to duties—in particular, duties on wine. This was done mainly to encourage the Portuguese to buy English cloth, instead of prohibiting it, and thus to cause a flow of bullion from Brazil into our treasuries. It also had the effect of lessening the demand for French wine (which was largely smuggled in to supply the demand of the richer classes who had for centuries been accustomed to it), and of creating that taste for Portuguese port and sherry which came to be considered so typical of the Englishman of 1800 and later.

European trade in the eighteenth century.

At the end of the eighteenth century, as we all know well, England found herself in possession of colonies or dependencies in all parts of the world; these having been acquired mainly in a struggle for supremacy in commerce. The way in which these colonies are now connected with the mother-country will be discussed briefly in Chapter XVII. India has always proved the most difficult to govern, owing to its singular history. Immediately after Clive's successes and annexations (which were merely undertakings to govern and to administer laws over large territories and turbulent nationalities) a Regulation Act was passed in 1772, which transferred to

Regulation Act for Indian Government, 1772.

the English Government some of the administration and responsibility. Pitt urged the Government at this time to take over complete control, but his India Bill was rejected. Thus it was not until after the Mutiny, in 1858, that all powers of government were removed from the company and delegated to a Secretary of State and Council for India. The old company actually came to an end only in 1870.

We have said that at the end of the eighteenth century there developed a new desire for unchartered, unregulated trade with all countries of the world, and have called this the movement towards Free Trade. It was partly the result of new stimulus in economic theory; but it was also due to pressure caused by the great developments in English industry. Employers demanded cheap cotton for their factories and cheap corn for the food of their factory workers. Another great influence bringing momentous change was the facility of transport, caused by the rise of railways and steamships. The details of these changes may be read in Professor Bowley's "English Foreign Trade in the Nineteenth Century." The following important events indicate the march of affairs:—

Nineteenth-century stimulus to trade.

Opening of the first English railway ...	1830
Wheatstone's telegraph	1837
First ocean steamer	1838
Settlement in New Zealand	1840
Reduction of duties on raw materials ...	1842
Repeal of Corn Laws	1846
Commercial treaty with France	1860

The first three of these events were of extraordinary importance in altering our relations with all our colonies. The development of railways has entirely changed the administration of India. It has caused the opening up of regions like the central part of Africa, formerly quite inaccessible because there were no navigable rivers. The existence of steamships and telegraphs has accelerated the supply of goods from

the colonies, and has made it possible to give definite news of their quantity and time of arrival well beforehand

It is through these changes that our own relations to shops and shopping differ entirely from those of our ancestors. We buy goods, in bewildering variety, which have had their origin outside England, while we are frequently unaware whether they are home-grown, from our colonies, or from foreign countries. Two hundred years ago, when Defoe wrote his "General History of Trade" (1713), he enumerated many goods brought from India and from North America which could very well be done without, and which the majority of English folk did do without. In those days luxuries, not necessaries, were imported. We glance down the list (the whole book is well worth a reference), and see tobacco, sugar, tea, chocolate, pimento, ginger, cochineal, logwood, spices, shellac, muslins, carpets, china, umbrellas, cabinets, diamonds; much the same as two centuries earlier, only increased greatly in quantity and somewhat in variety since the days when the "Venetian fleet" came into Southampton Water, as it did once a year between 1340 and 1540.

Foreign trade now in necessaries as well as luxuries.

Nowadays we obtain many of our necessaries from abroad, and in particular a very great proportion of our food. We should begin a modern list with corn, cotton and wool; and of late years we should lay great stress on frozen meat, and living cattle to be killed and used as food, on bacon, cheese, and butter, and on tinned and preserved fruits—imports which have made great changes in our diet, and in the actual work and cares of our housekeepers. Diet is, of course, beyond comparison more varied, but there is some tendency to obliterate any variation caused by seasons, for many edibles can now be obtained all the year round.

Statistics on these subjects are apt to be bewildering, if not misleading, but some useful information may be obtained from the following: Of about £470,000,000 worth of imports in the year 1900, £200,000,000 worth may be considered to

be food, and £115,000,000 worth raw material. To balance against these things, we export chiefly textile materials, iron and steel, machinery made from these, and coal.

We have said that change in method of transport has been a great factor in producing these changes in our shopping; we have now to see what place this transport takes in our actual expenditure.

NOTE ON REGULATED COMPANIES (see p. 50).

The main idea in establishing these companies was that, by forcing all the merchants interested in a particular trade into one company, it would be easier to regulate that trade by rules applicable to everyone concerned. The result was not fully attained; "free" traders were a constant source of difficulty to the regulated companies, and to the first joint stock companies.

CHAPTER VI

THE TRANSPORT OF COMMODITIES IN MODERN TIMES

A HOUSEKEEPER does not as a rule devote much attention to the consideration of the amount she pays to railway and steamship companies, as one of her items of expenditure. Cost of "transit," by which we generally understand personal expenditure in travelling, is easily estimated. Railway or steamer fares in the annual holiday of a family may be quite a serious item, but we are apt to classify all holiday expenses together. In London or a large town there may be constant daily expenses for travel; but where season tickets are taken, they are often counted by the housekeeper, in her estimate of expenses, as an addition to the rent paid for the suburban house, for this rent is always affected by the cost of daily access to town.

However, a moment's thought reminds us that we can buy in a town very few articles of which the cost is not very largely cost of transport, which has to be added to the value of the article at the place of its production. Coal is perhaps the most striking example of this. The price at the pit's mouth and the prices in various parts of England, according to their distances from coal-pits, show most instructive variation. It is interesting to trace the rise in price of coal as one proceeds from London through Croydon to Brighton; or the variation in the suburbs of London, according to their distance from goods-stations. Often the price of coal may be seen while passing through a railway-station, as it is quoted at the agents' offices close to the station-yard.

We pay for transport on every article.

Another good example of cost of transport is the price we pay for coffee. It can be produced at very little expense, but it has to be sent a long voyage from the plantation to the English market, where it commands four or five times the original price. Thoughtless people often grumble at the price paid for refreshments in inaccessible places, such as isolated railway-stations, or (more vehemently) on the top of Beachy Head or of Snowdon. They require to be reminded that one is not paying only for coffee and buns, but for their being on this particular spot when we ask for them.

We see, then, that in all the housekeeper's purchases a large proportion of the expenditure (of course, varying greatly with the kind of article) is for the transport of the goods; it is this money, much more than that paid for passengers' tickets, that supports our railway and steamship companies, and other organizations for locomotion. In the economics of the modern State, the problem of transport has become very important and difficult, and in particular the effect of competition between the various methods of transport.

It need hardly be said that the whole history of the subject, especially transport on land, is economically interesting. The very evolution of the cart, in particular the evolution of the wheel, deserves a book to itself; and after we have arrived at the stage-coach, there is the development of the "coach" attached to the modern locomotive, and the development of this locomotive from the Cornish pumping-engine. This may be read in Mr. Wells's "Mankind in the Making." We are not able here to make any proper historical connection between Chapter II. on Roads and the present chapter on Transport. But one epoch, the rise of railways and of companies for managing them, must arrest our attention, as the changes at that time have affected greatly our lives as citizens, and as actual or prospective owners of savings.

The first change of importance came from the necessity of having separate ways or roads for rails. The very first railway (Wandsworth to Merton, 1825) went along a public road

like a modern tramway; but the Stockton to Darlington (1825) and the Manchester to Liverpool (1829) railways were on private roads. Originally it was thought that various owners would each run their own trains on a common railroad, paying tolls for its use; but that was found impossible, because very dangerous. The land had to be bought for the private road; then much capital had to be expended on the laying of rails and building of bridges, before they began to think about the general stock of locomotives and coaches. A railway could be built only by a "company" of subscribers who could command comparatively immense capital. These were naturally joint stock companies. We have seen that the later trading companies elected to be of this nature, chiefly for the purpose of sharing risks (p. 50). We have seen also that, when great factories began to be built, it was constantly done with money subscribed by a group of people rather than by one employer. For the most part all these people were interested in the management of the factory. But in this new case of railways there was room for an immense number of subscribers and only a very few expert managers. The subscribers no more thought of administering the railway affairs than the Countesses in James I.'s time thought of going to India to trade. The manufacturers themselves now had savings which they might wish to invest in some venture not so dependent on their personal effort. There was so rapid an increase in the number of joint stock companies that legislation to regulate them became necessary.

Early history of railways.

The new joint stock companies.

Moreover, they needed the assistance of legal enactments more than those of an earlier type had ever done. They could not make railways without some power of compelling the sale of the land that they needed; otherwise the owner of even a small piece of land might frustrate the making of a line by refusing to sell at all or asking some exorbitant price. The companies had to ask for an Act of Parliament to authorize

the construction of each separate railway, to compel the sale of the necessary land and fix the conditions of sale.

Legal assistance required.

But this was not the only difficulty needing legal interference. The first few railways were a success financially; therefore, there was a great rush into this form of investment, and much waste, loss of money, and pecuniary distress Between 1816 and 1850, £150,000,000 were invested in railways, chiefly by small investors, and in a very short time the value of the railways made was not more than half that sum. Companies sprang up to build short railways from anywhere to anywhere else, without due consideration of the traffic probable between the places, or the position of other lines. Our present railways are not really a system, as in Belgium, where all the State railways were planned by Stephenson when engaged to do so by the Belgian Government. Other countries profited by our mistakes and disasters as pioneers in railway-making. Our railways may be considered a "survival of the fittest" among many failures. When a company failed and became bankrupt, the help of legislation became necessary to "wind up" the business. At first every shareholder was liable to be called on to help to pay the debts with all the available money he might possess. It was this that caused such unheard-of distress and privation among small shareholders. In 1855 an Act, rather sarcastically nicknamed the "Bubble" Act, introduced for such companies the principle of limited liability, by which each shareholder was never liable for more than the whole of the share he had undertaken to contribute. The majority of business investments are now of this nature, but there are still exceptions, a fact of which investors should be aware.

The rush into railway investment.

"Limited liability" introduced.

In ways like these Government assisted the shareholders who undertook, through expert management, to run railways. But a modern Government, like a medieval King, never gives help for nothing. It considers that, though the ownership of

a railway may be private, the use is public. It therefore protects the interests of the public at every turn.

But there have always been in England a number of competing lines, although, after the numerous failures, there was a great deal of joining up of fragmentary lines and general amalgamation (delayed somewhat by differences of gauge—*i.e.*, the width between rails). Does not such competition act sufficiently for the benefit of the public? To some extent it does; but many lines have a monopoly of traffic between certain places. Moreover, when they begin to compete, there is usually at once an agreement not to lower charges to any extent.

Government interference.

Competition leads chiefly to increase in speed and in convenience of conditions for both passenger and goods trains, but for the lowering of fares and railway rates we have had to look to Parliamentary interference.

Effect of competition.

A maximum limit was fixed for passengers' fares, but a much more important stipulation was that a certain number of trains must be run, on which the minimum fares were not above 1d. per mile. At first these were slow trains ("Parliamentary" trains), but in 1872 the Midland set the example, now almost entirely followed, of running all their expresses with passengers at Parliamentary fares. Government keeps continual control over railway companies; no steps for additions to the line or the size of stations in towns can be made without an Act for the purpose. Thus, recently, when a great line wished to enlarge its London terminus, Parliament was able to exact as a condition a more liberal arrangement for workmen's trains.

But Government has really more concern with goods traffic than passenger traffic, where it again controls rates rather than conditions. The problems to be solved are extraordinarily complex. They are as a rule discussed only by economists, and by the business men immediately concerned with them, but they actually affect our daily life much more than we

know. In 1890 the goods carried on English railways amounted to 350,000,000 tons, and the amount has since largely increased. Many of the early railways were intended chiefly to carry passengers; it was thought that the canals would continue to carry the goods, which were so conveniently stored or warehoused on a canal barge, with its additional convenience of being able to stop anywhere. But it was soon made clear that a railway could cross hills, and even mountains, which a canal cannot; and at the same time the canals were getting so congested with traffic that they were becoming quite inadequate. After the great development of the Lancashire factories, there came a time when cotton took as long to go up the Manchester and Liverpool Canal as it did to cross the Atlantic. During almost the whole of the nineteenth century the railway arrangements for goods transport were not greatly in competition with road or canal traffic, nor with coasting steamers, except in particular instances. The recent development of motor-cars on ordinary roads is diverting some forms of inland traffic, particularly of perishables. The railways have to a large extent acquired control over the canals to prevent their competition. They also own steamers, for instance, the Channel steamers, for passenger traffic and for perishables.

Government and goods traffic.

Effect of railways on canal traffic.

Meanwhile the great change which influenced our foreign trade as much as the introduction of railways was the development of ocean-going steamers, constantly increasing in speed and size. Some results of this latter growth are now beginning to be serious. The English railways are suffering severely from congestion of traffic caused by the arrival of immense ocean steamers, even though the greatest possible rapidity has been achieved in the transfer of goods from ship to train. Mr. Douglas Owen ("Ports and Docks") states that 1,000 tons of cargo form on the average 125 railway truck loads; that a vessel may bring 10,000 to 20,000 tons,

Railways alone cannot cope with great steamer cargoes.

and that three or four may arrive at once. The chief remedy he proposes for this congestion is that the whole canal system, and also the old water-ways, should be developed and modernized, with the use of better-built barges and systems of steam-hauling, such as are in use in Germany and the United States. There are many conveniences in canal traffic; it is naturally the most economical method of transport, especially as the cost of maintenance is so little increased in proportion to increase of traffic.

CHAPTER VII

THE DISTRIBUTION OF OUR EXPENDITURE: HOUSEHOLD BUDGETS

WE have had occasion to notice in Chapters III. and VI. that any single payment we make for an article is really the sum of a large number of small amounts which pass to different members of the community. To take coffee again as an instance: when we buy one pound, the price includes that of the labour expended in growing, collecting, and preparing it; the cost of its transport in various stages from plantation to retail shop; and a tax to Government, besides other charges. To determine the amount and ultimate destination of each of these elements of the price is extremely difficult. In this chapter, instead of such complex analyses, we have to suggest an arrangement of all our payments under a few headings; a classification of each individual's expenditure, on some simple plan which will be directly useful and profitable to himself. The collection and comparison of such "budgets" of classified expenditure prove also to be very instructive and valuable to economists.

The word "budget" has properly a political meaning; it has been used since the middle of the eighteenth century for the financial estimates presented annually to Parliament by the Minister responsible for the nation's expenditure and revenue. But it has been applied quite lately to any attempts to summarize and analyze private annual expenditure after it has taken place, not in forecast. It is best to take the budget of a family as estimated by the housekeeper, because its expenses generally cover a wider field than one individual's.

It may seriously be said nowadays that it is the plain duty of the father and mother of a family to keep a constant analysis of their expenditure—primarily for their own guidance, and also because a collection of such analyses is most valuable to those making investigations concerning trade, industry, or social life in any aspect. Dr. Aikin and Mrs. Barbauld gave excellent advice to young people on this subject in 1792, in their "Evenings at Home," that still delightful book for children which we have already mentioned (p. 35, note). In "Things to be Learned" and "Order and Disorder" the mother urges upon the daughter the necessity of learning to "cast accounts" and of keeping most business-like account-books.

The disposal of an income.

It is common now to see in weekly papers, especially those for women, suggestions to couples about to marry, with regard to the proper disposal of their incomes in rent and rates, fuel and lighting, food, clothes, and so on. These are simple forms of budget under a few headings, and will often be found worthy of study, as they give, at any rate, some idea of the proportion of income to be allowed for rent, the weekly allowance to be made for the food of each member of a household, and similar matters. The analyses should, of course, be the result of some actual experience if we are to consider them budgets in the new sense; but the suggestions made are only in round numbers, to give some scope to individual tastes.

A more detailed budget is of much greater value. The head of a family, being a householder represented in Parliament, ought to be able to estimate with ease what change will be caused in his own yearly budget by an increased tax on tea, flour, wine, tobacco, or anything else he consumes; or by a general rise in the price of coal or butcher's meat; or by any changes in prices which may be due to changing one's place of residence. In the same way, the politician, to whom these statistics are very important, ought to be able to get a collection of detailed budgets if he is to predict with any certainty

how any specified class of people would be affected by a change in prices or in taxation.

To take merely minor instances of points interesting to investigate, one might like to know what proportion of income is spent by different classes of people on soap, soda, and other cleansing materials, according to their standard of life. Incidentally, one would have to ascertain in this inquiry whether a family lived in town or country, whether washing was done at home, and so on.. Another useful fact to know, and much simpler to find out, would be whether it is profitable nowadays to make jam at home, if one lives in a town, and can procure both good jam and good fresh fruit.

A form of annual household budget—*i.e.*, suggestions for the classification of yearly expenditure—is appended to this chapter. It is being used by an investigator for collecting information on household management. The results seem likely to be valuable.

Rent, rates and taxes, will play a prominent part in most budgets. The consideration of these payments has not entered in any way into our discussion of shopping in the preceding pages. They will form the subjects of the remaining chapters.

In connection with saving, which appears also in most budgets, we must observe that the amount of money devoted yearly to buying furniture and other permanent possessions should always be classified separately as far as possible The reason for this separation will become clear if we consider what a careful housekeeper would do with an unexpected acquisition—a "windfall" of £20. She might decide to spend it on a new sideboard, as "something to show for the money." We should then consider her very sensible—much more sensible than if she spent it in champagne, fruit and chocolate, for her family, but also distinctly more sensible than if she spent it in bacon, cheese and butter. The reason is that such a "windfall" is not of the nature of income, which recurs, or should recur, regularly, but of the nature of capital. She ought to get the

Capital expenditure.

household provisions out of her income, and any "lump sum" she may obtain is better spent in something more permanent—at least, something that does not need constant renewal. To buy furniture, table linen, or table silver, may be considered capital expenditure, while to buy potatoes, blacking, or coal, is income expenditure.

But windfalls are very uncommon; they cannot be taken into account in estimates for coming expenses. The difficulty in apportioning a small fixed income is to find any money for capital expenditure. Struggling people with insufficient incomes have great trouble in compassing anything of the kind. Indeed, it is found in a working man's budget that very little is spent on clothes, as they are needed much less often than food or fuel. When the income is very slender, clothes "have to last"; in other words, they become part of capital expenditure, the money being got by careful saving. In middle-class families clothes are renewed regularly, so that they fall naturally into the income expenditure. The distinction, therefore, is not hard and fast, though it ought to be fairly clear. A young housewife realizes instantly that supplying her kitchen with new saucepans, tins and enamelled ware, is an entirely different form of expenditure from that of getting her first store of groceries. She may be optimistic enough, however, to put her pudding basins and pie dishes into the first category; and it is only after a few years that she will become wise enough to allow for replenishment of kitchen crockery quite once a year, and therefore out of her income. But it will occur to us at once that her ironmongery is not going to last for ever, nor any of her new furniture, although there will not be pressing need of the renewal of these things for a long time. To provide for this need is called providing for "depreciation of capital." When the provision is made in a large business, it is part of the "sinking fund."

Depreciation.

We can, of course, obtain permanent possessions in a more rapid way than this thrifty one, of saving for them out of

income; we can borrow money for the purpose of making capital expenditure. In that case we shall have to pay interest. This proceeding is justifiable, as sound and careful policy, only if the new permanent possessions tend to increase one's income, so that it will bear the strain of paying the interest.

Let us suppose that a lady wishes to keep a boarding-house for holiday residents She may borrow money to purchase a house and garden, also to furnish the house, if necessary. She must pay interest every year for the loan If her boarding-house should succeed only moderately well, she could go on paying the interest on the house and garden for an indefinite period, and still be considered prosperous. But if she is to carry on her business quite soundly, she ought certainly to make enough profit to save something every year towards paying back the loan for her furniture. When that is her own, she should continue to save for the purpose of replenishing furniture. That is to say, she ought to be in a position to allow for depreciation, but we should not consider her extravagant because she had borrowed money to buy the house and garden (which will probably not depreciate in value), and had no plans for repaying that loan. But if we found that she was borrowing money to pay her servants and tradespeople, we should be sure that she was conducting her business badly, and would shortly fail to carry it on at all. If, on the contrary, her profits were very large, she would naturally begin to put by money with the object of making the house and garden her own. This sort of consummation would, as a rule, appeal to any single individual conducting business; but there are many companies, such as railways, which do not aim at paying back any borrowed capital, but are satisfied if their profits allow them to pay the interest only.

Recourse to a loan.

It has been necessary to approach here the subject of the contrast of capital and income expenditure, though it belongs properly to economic theory, and we must return to it in discussing rates and taxes.

When we wish to consider the possibility of saving on any given income, we shall always have to make some attempt to discover what is called the "minimum standard of living" or of "efficiency" for the given individual, whether factory-worker, engineer, clerk, lawyer, banker, or any other typical member of society. At present it is difficult to obtain sufficient statistics to make the fixing of such a standard at all valid or reliable. There are two difficulties – the want of information as to the mode of living for each class, and the want of agreement among doctors and physiologists as to the diet and general life necessary for efficiency. An interesting and most useful attempt for the lowest working class in York has been made by Mr. Rowntree in "Poverty: a Study of Town Life"; but more work in other fields is badly needed. The careful reporting of individual budgets in the method suggested at the end of the chapter would go far to solve the first difficulty, if a large number could be collected and placed at the disposal of trained economists and statisticians.

Minimum standard of life.

When an income is large enough to admit of a good many luxuries as well as necessaries, budgets become rather diverse owing to variety of taste, and are more difficult to compare. On the contrary, budgets where the total family income is below twenty-five shillings a week show astonishingly little variation. It must not be forgotten, also, that it is not possible to apportion an income in anything like a judicious way if it is not regular, and cannot be foreseen approximately. Reports on the expenditure of an income which was uncertain from week to week or month to month are certainly of value, but they cannot represent adequately the individual's judgment, or his wishes, or his standard of living.

There is another point of great importance to housekeepers. It would be illustrated fully in the course of inquiries of the kind we have outlined, into the relative cost of bought and home-made jam, dress-making and laundry-work within or without the home, and so on. The amount of money spent

on services outside the home, and on hired service within it, must depend very greatly on whether the family contains members above the age of childhood who have time at their disposal. If it does, there will be notable economy effected by home-made articles of all kinds, whether food or clothing. Where the time of each member of the family is worth money, because they are capable of paid work, the advantage of making things at home becomes doubtful. It will "pay better" to sell one's own services and buy other people's if one's own time is worth more per hour than that of the other people in question. Of course, considerations other than economic may alter the point of view. In any case, speaking generally, it is always worth someone's time and energy to administer the household expenditure in detail with proper attention, intelligent grasp, and some previous training. Several convenient forms of account-books for domestic expenditure have been published of late years.

Schedules of the kind given here can be obtained from the author, on sheets of convenient size for giving details. It should be noted that *name and address are not required*, the information being strictly confidential.

SCHEDULE OF INQUIRY INTO INCOME AND EXPENDITURE.

DATES OVER WHICH RETURN EXTENDS:

From _____

To _____

PLACE OF RESIDENCE GENERALLY (not address): _____

INCOME OF HUSBAND _____

WIFE _____

CHILDREN _____

OTHERS _____

Total _____

HOUSEHOLD EXPENSES.

Rent, or Value of House _____

Rates _____

Water Rate _____

Fire Insurance _____

Light ( )* _____

Fuel ( )* _____

Wages of Indoor Servants _____

Food, Drink, and Cleaning Materials _____

Washing _____

Repairs, Renewals, Extra Cleaning † _____

New Furniture _____

Garden ‡ _____

Stable or Motor ‡ _____

Miscellaneous Household Expenses _____

Total _____

Total Personal Expenses _____

GRAND TOTAL _____

PERSONAL EXPENSES.

Meals Out _____

Season Tickets or Travelling to Work _____

Income Tax _____

Dress _____

Doctor, Dentist, Chemist _____

Saving and Insurance _____

Education _____

Stamps, Telegrams, Telephone _____

Stationery _____

Balance _____

Total Personal Expenses _____

DETAILS OF EXPENDITURE OF BALANCE.

DETAILS OF MISCELLANEOUS HOUSEHOLD EXPENDITURE.

* State kind used.

† Under this heading should be put such items as window-cleaning, chimney-sweeping, extra labour for spring cleaning, etc.

‡ Including wages.

DETAILED ADDENDA.

(*a*) NUMBER AND SEX OF PERSONS IN HOUSEHOLD (excluding Servants), with Age of Children.

(*b*) NUMBER, OCCUPATIONS, AND WAGES, OF SERVANTS (if any):

(*c*) AMOUNT AND COST OF FOOD, for one Sample Four Weeks:

	Amount.	*Cost.*		*Amount.*	*Cost.*
1. Meat			9. Vegetables		
2. Poultry			10. Fruit		
3. Fish			11 Bread		
4. Bacon			12. Groceries		
5. Cheese			13. Beer		
6. Eggs			Wine		
7. Milk			Spirits		
Cream			Aerated Waters		
8. Butter			14. Miscellaneous		

COST OF CLEANING MATERIALS, for one Sample Four Weeks:

DETAILS OF EXPENDITURE ON DRESS, distinguishing (if possible) separate persons.

CHAPTER VIII

THE RENTING OF A HOUSE

In the budget of an ordinary householder in a town, the word "rent" signifies, as a rule, the money he pays yearly for hiring the house in which he lives, from its "owner." Superficially the transaction would seem to be very similar to that of hiring a gas-stove from a gas company or hiring some articles of furniture. The essential difference will be seen if we ask further, How does one "own" a house? Does the man who builds a house own it, as a manufacturer owns a gas-stove or a piano? Can he sell a finished house in the same way as other finished products? Obviously he cannot. Before he can build a house, he must buy or hire the land on which it is to stand. He must assume the position described by the word "landlord," although often his actual power over the land is only small. This hiring or purchasing of land is a complicated affair, to be managed by expert lawyers, and causes much discussion among economists. At present we merely ask, Why is it a matter for lawyers? Land is evidently not bought and sold like an ordinary commodity; its transfer is fenced about with many legal formalities. The main reasons for these formalities are, first, that the amount of land in a settled country is limited in quantity. Next, there remains a fiction in law that land belongs to the Crown. English constitutional law derives without any definite break from feudal times, when the lord of each manor acknowledged in one form or another the Crown's paramount right to the land. At the time of transfer of land, therefore, the conditions under

Rent of land.

which it is held must be stated clearly and fully by the vendor.

Moreover, there is a very practical difficulty about the transfer of land. It cannot be handed over and taken away like a commodity. It must be described minutely for identification in its position and boundaries, by some document usually called a "conveyance." Land is regarded as a form of "real" property—*i.e.*, it cannot be destroyed.

Freehold land.

It may be possible for the builder of a house to buy outright the land upon which it is to stand, except for any Crown claims or restrictions on it. It is then said to be "freehold." He may also hire the land, paying a yearly rent called a "ground-rent." But a simple arrangement to give up the hired land at short notice on either side would not be convenient. The builder needs to be sure of undisturbed possession for what may be called the natural lifetime of his house (a period which shows a tendency to decrease greatly in modern times). He therefore obtains the land on a lease, for some definite period such as thirty, sixty, or frequently ninety-nine years. He may pay the ground-rent yearly, or he may compound for it, and pay one sum to be in possession for the full time of his lease. A lease for 999 years would seem to be practically the same as buying freehold land; but the conditions of purchase are not the same. The usual reason for such a lease is some condition forbidding sale in the grant of land to the original owner. At the end of a lease the buildings on the land generally become the property of the landowner.

Leasehold land.

Our natural respect for and interest in the old buildings which have shown their quality by surviving so long must not lead us to forget that in modern times it is not advisable to try to build houses which will last as long as they have done. The construction of a house nowadays is subject to some amount of Government interference, mainly in respect of its sanitation; and the rapid stream of modern inventions gives rise to con-

stant change in requirements We cannot expect or wish ordinary dwelling-houses to last more than two or three generations. Moreover, we are beginning to recognize the social evils caused when houses sink into a dilapidated condition at the end of a long lease, and are inhabited by undesirable tenants.

We can hardly touch here on the much more complicated question of the renting of a farm from a landlord. In this case the tenant of the farm is constantly making readjustments which he hopes will be improvements, in the property he has hired. The relations here between landlord and tenant influence the development of agriculture throughout the kingdom, and thus affect a housekeeper very definitely. They are not only complex, but differ in different districts and at different periods. It is sometimes claimed that English law has been as a rule on the side of the landlord's rights and privileges as against the tenant's, but that English tradition has made the landowner strive to be just and considerate. Unfortunately, a class tends to be judged by its worst members, and legislation has often been necessary to prevent injustice.

Rent of a farm.

If we consider further the hiring or renting of a house, we find the conditions under which this is done vary in some degree in different parts of the country, the variations showing direct connection with the scarcity or plentifulness of houses of each kind and size. Most small or medium-sized houses in a large town are taken on three or five years' agreements, and the tenant is not as a rule responsible for repairs, the landlord undertaking to keep the house in good condition. We find the expression "annual value" of a house often used, for instance, in connection with municipal rates. This is supposed to be the net annual income which the house yields to the landlord, and is commonly (though not always) estimated as the rent after deducting the average yearly cost of repairs. In the ordinary way the annual value is about six-

House agreements.

Annual value.

sevenths of the rent. Of course it is more difficult to fix the annual value of a house in which the owner is living, so that no rent is paid. There are countless other cases in which the determination is difficult; in fact, the subject has many complications.

It is convenient for people in receipt of weekly wages to pay their rent weekly, and to be able to leave at a week's notice. It would then be troublesome to collect rates from them. The custom is for the landlord himself to pay the rates, this consideration naturally affecting the rent.

In speaking of the landlord keeping the house in good condition, it should be remembered that a tenant may be liable at the end of his few years' agreement for dilapidations which are considered not "fair wear and tear," and that he is not permitted to remove certain kinds of fixtures which in removal would dilapidate the house, most usually by disfiguring the walls. A house may be taken by a tenant on a repairing lease. In this case the rent is naturally lower, but the house when vacated must be in as good condition as when taken, allowing for reasonable wear and tear.

In the case of the bankruptcy of a tenant, house-rent is treated differently from ordinary liabilities. It has to be paid in full out of the assets, and shares this privilege with rates and taxes and the wages of all employés.

CHAPTER IX

RATES: THE HOUSEHOLDER'S GREAT GRIEVANCE

WE must all be familiar with the injured attitude of the householder who receives a blue paper stating that he owes to the authorities in his town a certain sum every half-year. It is a large sum, comparable with his quarter's rent, perhaps half or two-thirds as much as that, but payable twice a year instead of four times (one third of the rent is about the proportion rates bear to rent in London). Sometimes he looks quite as miserable over his gas bill; but after he has considered the amount, he passes on to inquire how much gas he has been using. And this inquiry may possibly pacify him a little; he will say: "Well, it seems we have consumed all this gas, what with the fogs, and the late hours, and so on." Now, perhaps he would be less unhappy if he stopped also to consider what he had had from the town authorities in return for his money. This we must do for him.

How lighting is charged for.

But we shall find it useful first to consider the nature of the gas or electric light bill. A solitary country house cannot compass the use of coal-gas without great expenditure and trouble. A private plant for electric light, too, is an expensive luxury, unless the establishment is very large, and is often unsatisfactory. We depend on the common need of a number of neighbours for this sort of lighting. A group of people with capital (usually a joint stock company) offer to make arrangements to supply all the houses in a district with lighting. They need permission then to dig up the roads and to disorganize traffic temporarily, in order to lay pipes or cables; and thus-

the authority in charge of local affairs has some concern in the matter.

Very much the same sort of thing may happen with regard to a regular water-supply laid on to a collection of houses. A company which undertakes to obtain and supply suitable water must also get permission to dig up the roads, and to continue to dig them up at intervals. Often the local authority wishes to have entire control of its water-supply; then it constructs its own waterworks, or buys the waterworks of one or more companies, as happened in London in 1905. In the same way it may decide to manage its own lighting, and to possess the gas or electric light works. But in any case the bill for lighting will certainly come to the householder apart from his rates, and probably the water bill will also be separate.

Water-supply.

Why is this? It is quite simple in the case of lighting. The amount consumed in each house is measured by a "meter," so that the householder pays for exactly what he has used. This has always been considered the just way, though it has its inconveniences. The meter must work automatically, and is a rather complicated machine. It must be inspected periodically by a skilled person in the interests of both parties. The householder sometimes grumbles at having to admit strangers of this kind to his house without question. Indeed, the arrangement does give an opportunity for the intrusion of dishonest persons.

A meter.

Water is not usually measured, as it was so long customary to obtain it gratis, and it is difficult to devise a suitable meter. It is convenient to assume that the amount used in each house is more or less proportional to its size, and that the size is more or less proportional to the rent. The charge made for water-supply is therefore a definite proportion of the rent, a "rate" of a certain number of pence for each pound of the annual value already mentioned. The charge is modified according to such circum-

A rate.

stances as the number of bathrooms, or of garden appliances for watering; or it may be increased if there are several taps high up in the house, where it will be more troublesome to supply water at a sufficient pressure. Special arrangements must also be made for factories requiring a large supply. The rough approximative method of a rate instead of actual measurement is nevertheless generally used, and modifications prove so easy to apply that it has been proposed to charge for gas and electric light also by a rate.

Now we must consider what are the general services which are rendered by a local authority to all the householders in its district. The services are of a kind which it does not attempt to measure as if supplied to each individual according to his special tastes and needs, but such as it assumes to be shared among these householders in proportion to the rent they pay. The obvious fact that houses of the same size in different streets often pay different rents does not prove the method unfair. A man who lives in a house in a quiet side-street pays less rent, and therefore less rates, than one with a house of the same size in a busy thoroughfare; but the latter will probably be receiving more services from his municipality because he lives in a more important street.

To realize what these services mean to us, let us imagine domestic life without them. Friends from colonial farms, from ranches, or from the tropics, can often describe to us experiences of this kind. Here is an account of life on a small island, one of a group, in the Indian Ocean:—

Life without rates.

"On our island there was no supply of water available; our water-boat went several times a day to the next island, and the water was brought in pails to each house, where the chief part of it was used each morning to fill up the great earthenware baths which stood in the tiled bathrooms under each bedroom. Of course, no one ever got into one's bath—that would have been dirty and wasteful; one just ladled water out of it over one's body,

and the water ran away along a sluice* and through a hole in the wall into the outside drain. These drains were built when the house was, and the servants had to keep them clear and clean right down to the sea. The servants had to empty the commodes in each bathroom twice daily into a cesspool we had had made in a field at the back. Every now and then this was filled in, and a new hole dug somewhere else; we dared not neglect the matter.

"For lighting, of course, we used oil. We had to keep several storm lanterns to go out at night; we often had to cross the island ourselves, or take our friends across, and then a servant had to be kept up late to see to the lighting. It was the more necessary because sometimes cobras would come out of the jungle to lie on the path, which was warmer at night than the underwood. This path across the island we had made ourselves with slag from our works, and we kept it neat and tended it ourselves; the jungle growth was very quick to encroach on it. This was the work of our gardeners. Besides our path, we had made, and had to keep repaired, little wooden landing-places on each side of the island. Sometimes, when there was unrest among the natives, we felt the need of a night-watchman. Of course we had to pay him, but it was difficult to get one who was reliable.

"We didn't pay rates. But our bill for servants' wages would have appalled you. Besides two gardeners, who rarely did any gardening, we had one man as water-carrier, whose sole work was with the water-supply and sanitary arrangements."

What was the state of things in earlier times in England? As soon as there was any organization in town life the citizens began to look after these matters But at first services were given, not money; people took their turn to be watchmen at night,† just as they took their turn to guard the city walls

* The drawbacks to an open sluice are illustrated in Kipling's "Rikki-Tikki-Tavi" (Jungle Book).

† London had various Acts for the purpose in Edward I.'s time, the watchmen to be "skilful men and fluent of speech."

in times of war. We have already indicated how they gave services in attending to roads and bridges. About 1450 the towns had become large enough to require some regulations concerning the disposal of refuse, and the prevention of pollution of water-supplies. Before this it was for the most part only in times of emergency, like visitations of plague, that the townspeople made spasmodic efforts towards cleansing the streets and initiating better sanitary arrangements. There can be little doubt that these pestilences made more havoc in town than in country. Paving in the towns was decreed by several Acts of Parliament at this epoch (the middle of the fifteenth century); in some places each citizen had to pave a certain area in front of his own door The water-supplies began to be organized about the same time; and such acts as killing swine in the street, or throwing out stable refuse, dyers' refuse, or red-hot cinders, or the "windowing" of the dust from corn, were specifically forbidden. In 1497 there was a statute prohibiting the killing of any beast within a walled town. Up till Tudor times the householder disposed of his own refuse, and was not assisted by the town authorities. Most people have heard of the old French cry, "Gardyloo!" (Garde de l'eau!), used in Edinburgh up to the end of the eighteenth century, when anyone in an upper storey wished to throw water out of window.

Sanitation in medieval towns.

Civilized habits in these matters have been of very gradual growth, and the standard of cleanliness and decency has been raised only slowly. Anyone who cares to read Gay's "Trivia; or, The Art of Walking the Streets of London" (1716), will learn many details about the customs of those days, and will see that they were far from attaining Gay's own ideal. One realizes how necessary it was to assert one's right to the wall side of the pavement on a wet day, and how valuable pattens were to the ladies, whose shoes might be wrenched off in the mire. One may read also of the jolting coaches in frequent collision; the

London in 1716.

block of traffic at the "Pass of St. Clement's," near the Strand, where coal-waggons and bullocks for slaughter met all the other vehicles; the pitchy darkness at night; the frequency of thieves by night and by day; and of countless other discomforts. Even a century later we find Miss Austen's matrons commenting on the rashness of young ladies who go very far on foot, and we realize that a good walk was almost impossible for them in winter.

The householder pays rates, then, in order that he may walk or ride abroad both day and night in streets that are decent, clean, paved, well lighted and safe, with all their traffic regulated. He pays that he may not have to look after these things himself, and though he may occasionally suffer some discomfort from the arrangements not being perfect, he does not hesitate to complain loudly at once, and is sure of a hearing. He need not assume Gay's whimsical philosophic attitude.

Our rates are intended to pay for our whole drainage system, for the mending, sweeping, cleaning and lighting of our roads, including the upkeep of parks, greens, squares, and other open spaces (often enhanced by special gardening as well as general care); for policemen; for the care of our health, especially by all arrangements concerned with disinfection, and the care of the sick who have infectious diseases; for libraries, museums and other public buildings; and for organized immediate help in case of fire. We have named only the most important items. See also the table in Chapter XII. The reader should compare the summary in this table with the summary published by his own local authority, usually printed on the back of the annual application for the payment of rates.

What rates pay for.

Those who live in London may find that their attempt to estimate what they receive in return for paying rates is not altogether easy. They will be under a small local authority, which does much of the local work itself, but hands over a considerable propor-

Rates in London.

tion of the sum obtained by the rates to the much larger body, the London County Council, to pay for such services as are rendered to London as a whole, being more easily organized on a large scale. Thus, the borough of Paddington or Fulham looks after its own streets and its sewers; but London looks after the main drains which pass under the main thoroughfares.

Further, inspectors of various kinds, and most of the details of general administration are under the London County Council. This body also looks after the parks (except royal parks) and public spaces, and initiates schemes for the clearing of slums to make new main streets such as Kingsway and Aldwych. With regard to London police, it must be remembered that the Metropolitan Police are the servants of the Central Government, and take their orders from the Home Office; but this does not apply to any place but London. The general scheme of local organization, which makes England a reasonably safe and clean place to live in and to travel about, will be sketched briefly in Chapter XII.

But if we are reading a brief analysis of the rates, we shall come across two important items not yet mentioned here—the Poor Rate and the Education Rate. "Now," says the still dissatisfied householder, "I don't grumble at paying for good streets, for good drains, or for policemen. In these cases, it is true, I am paying for value received. But what can I be said to get out of these two rates as long as I keep myself and my family out of the workhouse, and don't send my children to the elementary school where they pay no fees?" Thus it is when these two rates are excessive that his grievance against his local authority becomes great. What is the history of these rates? Each is so important that its history is worthy of a separate chapter.

Two rates still grudged.

CHAPTER X

THE POOR RATE

In all civilized communities the relief of the poor has first appeared in the form of a religious duty. In England even before the Conquest the care of the poor was part of the duty of the Bishop of the diocese, who exhorted all his flock to charity. The great drawback to this method of relying on individual compassion—at first sight, perhaps, the best—is one that can be stated quickly, but it has results both far-reaching and long-reacting. It is the underlying idea that the ultimate effect of the transaction is to benefit the donor rather than the recipient. The result of this is that the consequences to the recipient are often neglected.

The State and early charity.

Most usually the State has begun to interfere in charitable matters with the object of suppressing beggars. Or it has been necessary to attempt to classify them into able-bodied people, for whom work must be found, not charity, and impotent people, for whom provision must be made somehow, and who might therefore be given some form of licence to beg.

In England, State interference on a large scale became necessary in the sixteenth century because of the great increase in destitution. The reason generally given for this is the suppression of the monasteries, by far the most important charitable agencies, with hospitals for the sick as well as the dispensing of alms at their doors. Further, the dissolution of the monasteries produced numbers of monks without means of support for themselves. (See Traill, "Social England.")

But there were other causes of the destitution. After centuries of warfare, England was for the first time without a civil or continental war, and there were thousands of disbanded soldiers without occupation. Meanwhile the development of the woollen industry, which has been mentioned in Chapter IV., had caused a great increase in large sheep-farms, and a corresponding decrease in the amount of land devoted to growing corn and other crops —the land that had long been cultivated by the small village groups round the manors of feudal times. More sheep and fewer crops meant much less demand for agricultural labourers.

Distress in sixteenth century.

Thus it is no wonder that by this time the necessity for classifying the poor was pressing very heavily. From Henry VIII.'s time onwards we have Acts for the punishment of rogues, "sturdy vagabonds," and "valiant beggars" of both sexes, who were the terror of the roads. They were often called "Egyptians," or gipsies; they represented themselves as palmists, necromancers, jugglers, or as a group of actors, "players of interludes." Or they might say they were shipwrecked sailors, disbanded soldiers or homeless scholars. Distress among these people did certainly exist, whence the plausibility of the tales. All sorts of arrangements were made to give some form of licence or authentication to the genuine cases; very often a badge round the arm was their licence to beg. By the time of James I.'s accession the "rogues" seem to have tried to pass themselves chiefly as actors, or as "glassmen," selling glass.

Rogues and vagabonds.

These people were treated with extraordinary severity. Branding on the shoulder was quite usual as a legal punishment—V for vagabond, in Edward VI.'s time; R for rogue, at the beginning of James I.'s reign. An Act of Elizabeth's in 1597 provided for their being soundly whipped in any parish they entered; they were then to be sent back to the parish of their birth, or the one where they had last resided for a year. If neither of these parishes could be ascertained, they were to be sent back to the last parish through which

they had passed without a whipping! If brought before Justices of the Peace, these authorities had power to banish them or send them to the galleys; in the Act at the beginning of James's reign they might be sent to "New-found Land, the East and West Indies, France, Germany, Spain, or the Low Countries" (see Chapter V.). In the midst of all this harsh treatment there is to be seen also some idea of providing work for able-bodied people, and provision of the kind was definitely attempted in the Elizabethan Acts, which we shall mention presently.

But what was meanwhile the treatment of the poor who were really "impotent" and needed help? We have seen that there were not enough resources now available for them. Until quite the end of the sixteenth century, it was hoped that all that was necessary was constant exhortation of the godly, from the pulpit in each parish, to give voluntary alms. Various small Acts of Parliament attempted to organize the exhortation, as well as the collection of the alms. Bishop Ridley's great movement of charity in London, in 1552, was a sign of the feeling at the time among thoughtful religious people. The care of the poor in his London diocese was the Bishop's first thought. He preached a very moving sermon in April, 1552, before Edward VI., and roused the young King to ask at once for counsel as to what ought to be done. The Bishop asked leave to confer with the Lord Mayor and other London citizens, and to present a petition to the Privy Council. The main result was the renovation of St. Bartholomew's Hospital, and the founding of St. Thomas's and Christ's Hospitals, with the King's special interest and assistance. Probably we have all realized that "hospital" was then a vague general term compared with its modern meaning. The poor to be looked after, according to Bishop Ridley, were the "sick and impotent" (including the aged), and "the succourless poor child"; and all these were to be sheltered and fed in the hospital, with no definite attempt at either medical aid or education.

Bishop Ridley's movement.

Some of the hospitals devoted themselves chiefly to children, notably Christ's Hospital, which became the "Blue Coat School," and one or two others of less importance, which are schools at the present day.

The immediate effect of Bishop Ridley's enthusiasm was certainly the working of "great marvels," but the general result of continual exhortations through the country was not at all satisfactory. State action was imperative, and took the form of the great Elizabethan Poor Law, which controlled the relief of the poor for more than two centuries. The date is usually given as 1601, but the Act of that year only extended and improved the Act of 1597, to which reference has already been made. These were, indeed, the completion of a series of Acts.

Compulsory contributions.

The important new development was the compulsory levy on each householder according to his means. Four "overseers of the poor" (substantial householders) were to be appointed for each parish by the Justices of the Peace. The latter authorities have been mentioned previously in this chapter. They were the creation of Edward III., and were defined as "good men and lawful assigned to keep the peace" in each county. They were to be men with considerable estates in the county, and some were to be learned in the law. Their chief duties were legal, as they had to hold the quarter sessions, acting as judges. But they had also to see that various ordinances and proclamations of the King were carried out, which gave them considerable administrative duties. The district over which the Justices presided was usually a whole county; but the appointment of the overseers marks the creation of a local authority for a country district, the only one until comparatively recent times. It consisted of the Rector, the churchwardens, and the four overseers in each parish. Its main duty was to collect and distribute alms. The whole amount of money needed quarterly in the parish was first estimated; then the householders were "assessed" to compute the share each should pay.

Overseers and Justices.

Assessment (the decision of the amount each householder was to contribute, according to his property in the parish) was made by the overseers, supervised by the Justices. In the seventeenth century the decision was often modified by special considerations, such as the number of children the householder had. The work for which the overseers were entirely responsible was the distribution of relief to the poor, in money or goods, the apprenticing of the children under their care, and the provision every week of material, such as flax, hemp, wool, thread or iron, on which the able-bodied poor might work. (Bishop Ridley's little committee had a plan of making London merchants supply material for the same purpose.) The overseers had a formal meeting with the church authorities in the church or in the vestry on a Sunday afternoon once a month.

Assessment.

We have said there was very little legislative modification of this Act until the new Poor Law of 1834; and for about half of this long epoch the organization did not work at all badly. But in the latter half the social changes were so deep and so rapid that the existing legislation lost all grip of, or control over, the problems of poverty.

The chief new development of the eighteenth century was the gradual establishment of workhouses. These were mainly the result of attempts on the part of various parishes to find some new solution of their difficult task—finding work for the unemployed. In 1697 Bristol was permitted by a special Act of Parliament to unite several parishes into a "union," which was to build a workhouse managed by a corporation of "guardians of the poor" representing each parish. A citizen of Bristol, John Carey by name, had conceived this idea as the "best means of restraining idleness," and also as a means of equalizing rates among the parishes. Other towns followed suit between 1703 and 1711; among these were Worcester, Hull, Exeter, Plymouth, Norwich, each needing a small Act of Parliament for the

Workhouses.

purpose. In 1722 a general Act was passed empowering the overseers and churchwardens of any group of neighbouring parishes to combine into a "union" and build a workhouse if they desired. In the period between 1725 and 1730 London began to erect separate establishments for each parish.

The idea which took quite deep root among these advocates of workhouses was that the work done would produce a profit for the union, and "relieve the rates," as we say in modern days. They did not consider very much the effect on the wages of the ordinary workman producing the same goods, though it was pointed out very forcibly by Defoe in one of his pamphlets at the period.* They did sometimes attempt special regulations about the distribution of the finished goods, which regulations were meant to consider the interests of the merchants of the neighbourhood. But the hope of making any profit on the paupers' work proved illusory. The Bristol workhouse had to ask for benefactions to keep it going. At this time the distinction between public and private charity was by no means as clearly marked as it is in our own times. In the early days of workhouses they often received subscriptions, or a collection might be made for them at a church service. The custom survives in occasional donations of small luxuries to the inmates of a workhouse. With regard to the work accomplished by these inmates, it was much affected by the facts that good craftsmen did not stay in the workhouses, and bad ones spoiled the work. Nevertheless, the ratepayers did begin to reap benefit, because there was great disinclination to enter the workhouse, where the conditions were very hard. It was becoming a necessary part of the whole scheme, to offer the shelter of the house instead of relief to the destitute in their own homes, and thus the amount actually expended on the poor became noticeably less. This fact was a source of great satisfaction to the authorities, because for the time the amount of

Financial effects.

* "Giving Alms No Charity, and Employing the Poor a Grievance to the Nation," 1704.

outdoor relief was considerably lessened, and the workhouses were not filled to a corresponding extent.

But now we come to the changes which strained the organization of poor relief beyond all its powers. We have spoken already (Chapter IV.) of the distress among the people, the depression in wages and rise in prices, at the end of the eighteenth century, owing to the great developments in industry, the wars with France, and the bad harvests. The depression of wages in agriculture was more widely spread over England than any of the similar troubles caused by dislocation of industry; for the latter were chiefly local, and were also balanced by new demands for labour in other parts. There was general dislocation in agriculture, owing to the enclosures of the common lands, and the gathering up of small farms into large ones. The result was that outdoor relief had to be given again in most parishes to a quite alarming extent, and chiefly to supplement the scanty wages of the agricultural labourer, who literally could not keep himself and his family alive on his earnings. The extraordinary state of things forced upon the authorities was to collect money from the whole community in order to supplement the insufficient wages paid to certain of its members for their work. It cannot be denied that in many cases the men actually entrusted with the distribution of relief were farmers who were finding it extremely difficult to pay their own labourers, and who were naturally tempted to take this opportunity of augmenting wages at the expense of the rates. The general effect was very bad. Farmers had no inducement to try to raise wages, and labourers were not encouraged to improve their own efficiency in order to increase their wages.

Agricultural distress at end of eighteenth century.

It should be observed, in passing, that while the amount of outdoor relief administered increased in this manner, it became customary to appoint a paid officer in each parish, called the "relieving officer." This was the first regularly paid official outside the workhouse.

The unsatisfactory state of affairs with regard to Poor Law administration was the subject of so much comment that the Parliament of 1832 appointed a Commission to investigate the matter It will be remembered that this Parliament was the first after the passing of the Reform Bill, and that it was an assembly unusually eager for further reform, and for the redress of grievances. The first Parliamentary grant for education was made in 1833, the new Poor Law followed (as a result of the Commission) in 1834, and the Municipal Corporations Act in 1835. These three Acts were destined to modify profoundly the general conditions of life in England.

Poor Law of 1834.

The machinery created in 1834 to deal with destitution still continues to work (1911), with various modifications and developments

The great obvious change in the new Poor Law was the appointment of a central authority to control all the local organizations. Until then the administration had been quite chaotic in the want of uniformity in treatment of the poor at different places. The authority was at first a temporary one, a continuation of the Commission itself, composed of its most influential members, and called the Central Board of Commissioners. This sat from 1834 till 1847, and was then replaced by a permanent Poor Law Board, which merged in 1871 into the Local Government Board then created.

New central authority.

Another feature of the new Act was the constitution of a new body for each parish, or union of parishes,—the Board of Guardians. The overseers remained, and were still appointed by the Justices of the Peace, but their main duty was the assessment of the poor rate. The new Board of Guardians of the Poor was to undertake the distribution of outdoor relief, the management of workhouses and any other duties connected with the spending of the poor rate. Some of the guardians were

Board of Guardians.

appointed by the Justices, others were elected by those inhabitants of the parish who had property assessed at the annual value of £5 or over. By a more recent arrangement all the guardians are now elected, none appointed.

The general spirit of the new regulations for relief was that outdoor relief was to be minimized, and not given to able-bodied men in receipt of any wages however small. (It was not considered, apparently, that this principle applied to able-bodied women subsisting on their own earnings.) Destitute widows, sick persons and the aged, might receive help in their own homes; and in pressing cases able-bodied men with families and no immediate means of support might receive similar help, which should be food or fuel rather than money. Medical relief might always be given in the shape of medicine or advice But as as far as possible the aged and infirm, the sick, destitute children, and able-bodied men and women, were to be taken into the workhouse. They were considered individually not as families, and this was emphasized by the fact that separate institutions were prescribed—generally four buildings, for (*a*) aged and impotent; (*b*) children; (*c*) able-bodied men; (*d*) able-bodied women.

Different classes of workhouse advised.

The two great principles which animated the Commissioners were (*a*) national uniformity, and (*b*) one which has been called the "principle of less eligibility," which was implied rather than stated—that the conditions offered by poor relief should always be harder and less tolerable than that of the poorest labourer independent of relief. The latter or "deterrent" principle caused the extension of the workhouse system. Though the central authority specifically desired separate establishments in order to treat the aged and sick with less rigour than the able-bodied, and to provide some training for the children, yet in practice the mixed workhouse continued to be common in all poorer unions, and the arrangement was for the most part permitted without comment.

It was the definite deterrent policy in these workhouses

which caused them to be hated and detested. The very word "union" is still loathed by the poor. About the middle of the last century we find Charles Dickens, in "Oliver Twist" and other writings, giving his whole energy to the denunciation of the cruelty of the system.

Deterrent policy.

Nevertheless, the amount of outdoor relief given tended continually to increase, especially that given to able-bodied men, and several orders were issued by the Local Government Board with the object of regulating it. It was limited by certain clearly defined conditions; or else a labour test was imposed, with the view of ascertaining if the relief were really needed. The chief work done by the central authority between 1878 and 1885 was to inspect the local authorities' arrangements very thoroughly, to enforce deterrent policy, and to limit new developments. There was not, however, very much uniformity except as regards vagrants. A union might or might not have separate kinds of workhouses, and there was much variety in the treatment of children. Critics of the present system in its latest stages, such as the members of the recent Commission on the Poor Law, have emphasized the fact that the principle of less eligibility is hardly now adhered to, except in the casual wards for vagrants. The board and lodging in the ordinary workhouse is expected to reach a minimum standard which is by no means reached at present in the homes of the lowest classes of the population.

These critics also notice an increasing tendency to apply curative treatment to the sick and infirm, and educative treatment to children and young adults, which shows a new disposition to "make the best of" the individuals who come under the jurisdiction of the Poor Law. Further, in modern days the action of Poor Law authorities is continually overlapped by that of more recently created bodies, with regard to children, the sick and the aged.

Recent developments.

Again, there is a new policy of compelling destitute persons

to remain some time under regulations, as a substitute for the deterrent policy which would get rid of a pauper as soon as possible. This expresses itself in certain rules by which individuals are detained for fixed periods if they once enter a workhouse.

No doubt the final result of the criticisms of the Commission on the present state of the Poor Law will be that a Bill to alter it will be introduced. The members of the Commission were not unanimous in their recommendations, and it cannot be foreseen at present exactly what policy will be adopted in new legislation.

But if, in closing this chapter, one reverts to its beginning, it may very well be asked, What has meanwhile been the effect and use of private charity? This has been so little organized in the past that it is impossible to give any short decisive summary in answer. Those interested in the subject will find the "History of Philanthropy," by Kirkman Gray, very useful. But the work of one society is so well known, and so important in the present outlook, that its name must be mentioned. This is the Charity Organization Society, known perhaps to most people as the C.O.S. It took form in 1869 as the result of a good many committees and meetings, in which numerous people strove to express their diverse aspirations and wishes in the co-ordination of charitable effort. There were the reformers who desired to start such enterprises as relief works to employ those out of work, concentrating all the charitable subscriptions and help they could get on such efforts. There were also those who wished for no special form of activity except the national co-ordination of all forms of benevolence, individual and combined, and the general investigation of the most profitable channel into which to direct charity. The first society was one for Organizing Charitable Relief and Suppressing Mendicity; and the original movers, who were not satisfied with this, formed at the same time an organization for providing industrial employment. The first-named society

The Charity Organization Society.

offered to constitute district committees to co-operate with the Poor Law officials. This was approved by the Poor Law Board, which intimated that it had not funds at its disposal to arrange for a register of deserving cases, and would be willing to accept the services of a voluntary committee to draw up such a register. Thus the C.O.S. came into existence in its present form.

The exact place to be taken by voluntary workers as helpers in the new Government scheme for relief, when this is organized, is a matter still to be decided.

CHAPTER XI

THE EDUCATION RATE

WE have the habit of thinking that our national system of education, which imposes the education rate, is comparatively recent, dating practically from 1870; but it will be useful to glance, though very briefly, at the history of the growth of systematic education in England.

The ancient Universities are our oldest institutions for education. For the most part they were originally built and endowed for the training of priests, both those who were going to be parish priests and those who were about to join religious houses. Youths also came to them if they wished merely to be "clerks." One became a clerk when one acquired some knowledge of the "three R's" (partly, if not wholly, carried on in Latin, even with the use of Roman numerals in calculations). The sons of noblemen often came for these clerkly accomplishments, although they were destined for a military life; for the powers of a clerk were valued greatly by the nobles. Indeed the Kings of England from Plantagenet times onwards desired to be good clerks, and sought generally after learning.

Ancient Universities.

Schools of some sort were established in the fourteenth and fifteenth centuries in connection with the monasteries; they no doubt taught certain children to read and write, but they chiefly undertook religious instruction. It is not easy to trace the extent of their work, as the only great schools still existing, which date from this period without break, are Winchester, founded in 1397, and Eton, founded in 1441. Nevertheless, many of the later schools very likely did not

begin in absolutely fresh soil, but carried on or resuscitated some ancient monastic school which cannot now be traced.

We have all heard of the Renaissance of classical learning at the very beginning of the sixteenth century, and have learned to connect this movement with the names of Erasmus, Sir Thomas More, Dean Colet and others. We have also realized that the breaking up of the monastic system, and consequent destruction of schools other than the Universities, began only a little later in the century. The Renaissance pioneers, in consequence, found themselves responsible for a much greater work than that which they originally intended and for which they are chiefly famed—the inculcation of the love of learning among the Royal Family and the nobility, the most striking feature of education in Tudor times.

The Renaissance.

All through this century grammar-schools of various kinds were started and endowed, replacing the old monastic teaching, but also bringing the new knowledge and the new ideals in education, which were to be spread as widely as possible. There could not have been much education throughout the country while it was customary for boys to come to the University at twelve and leave at sixteen, keeping the standard of attainment far below that which the reformers desired.

Some of these sixteenth-century schools exist as our best-known boys' public schools to-day, and are very proud of their traditions. The list includes St. Paul's; various Edward VI. grammar-schools, particularly in Birmingham; Christ's Hospital; Repton; Westminster; Merchant Taylors'; Rugby; Harrow; Uppingham; also some Queen Elizabeth grammar-schools. Apropos of Queen Elizabeth, any education for girls which may have existed in monastic times seems to have disappeared after the Reformation, except for members of the aristocracy Of course in the nunneries the Abbess or Prioress and some of her immediate

New grammar-schools.

subordinates had a fair equipment of clerkly learning, as they kept strict accounts of house and estate.

The great influx of young men to the Universities, owing to the attraction of the New Learning, supplied teachers for the numerous schools; and there was a vigorous movement towards a better state of things. But in many cases, unfortunately, the new grammar-schools came to an end: sometimes the endowments were insufficient to keep them going; sometimes an endowment (being always in the form of land) was misappropriated, or lapsed to the Crown for want of trustees.

This new education was, for the most part, what we call at the present time "secondary," the word being rather loosely interpreted as education for the upper and middle classes. It is true the endowment was often explicitly for "poor boys"; but they were trained to be priests or to follow some clerkly pursuit, and thus ceased to belong to the lowest class. Religious instruction was still provided for all by the Church, but the idea that everyone ought to be able to read and write did not dawn till nearly two centuries later.

Antiquarians occasionally publish interesting collections of churchwardens' accounts preserved in country parishes, and often dating back two or three centuries. In these it is seen that in Elizabethan times the churchwardens of each year, evidently people of weight in the parish and of trusted business capacity,* always employed a clerk to write down the annual accounts, and paid him "iiijd." or so for the work.

During the eighteenth century there was a development of "charity schools" for poor children in large towns. The general scheme and idea of these schools may be connected in some ways with the rise of the workhouse system. The children received in the new institutions were usually set to work at a very early age; they

Charity schools.

* It may be remarked that frequently one was a woman.

did not receive much schooling, except a little religious instruction, which was in certain places given to adults as well. Thomas Firmin, who lived in London in 1681, issued a pamphlet suggesting that poor children should be taken into school and taught to earn their living. He started a school himself, to which the scholars of both sexes came at three years old; for a year they learned to read, and at four years old they were put to some form of labour; when five or six they earned twopence a day, and later threepence. Afterwards they were apprenticed to various trades. Reading and religious instruction were continued for each child, while at school, for a short period every day. It was impossible to do more, because the parents would not send the children at all unless they were earning money. Voluntary subscriptions were necessary to keep this school going; but charitable people were sufficiently impressed by the success of the scheme to start more schools of the kind in London and the provinces. The prevailing idea was to prevent these children from becoming wastrels and vagabonds in later life, and to inculcate moral lessons. About this time (1698) the Society for the Propagation of Christian Knowledge (S.P.C.K.) came into existence, and helped very greatly in the formation of these schools. Each school was, as a rule, in the hands of some religious body, generally Church of England, but sometimes Quaker or Nonconformist. The movement was fairly successful until about the middle of the next century, and then lost ground. About the end of the century there were not more than 30,000 children in the schools; and more and more they became workshops, partly because financial difficulties made it desirable that the schools should make a profit, partly because the central idea always was to produce men and women trained to the simplest manual labour, and content with it. In some places the boys learned the "three R's" before they began their wood-cutting or shoe-making; the girls had only two of the "R's," because there was no need for them to keep accounts; they passed on then to spinning, knitting, and sewing.

Education in Scotland.

Scotland meanwhile was far ahead of England in its conceptions of education. About 1570, Knox declared in his "Book of Discipline" that every child ought to learn to read and write. This saying was remembered, and produced its effect. After various minor attempts, education for everybody in Scotland was established by an Act in 1692, which laid the duty of providing it on the kirk in each locality, controlled by the central Synod.

Schools for all.

The idea of universal education did not take root definitely in England until the end of the eighteenth century, a hundred years later than in Scotland. It belongs to that time of social and political upheaval and new ideas which we connect with the French Revolution, although there was enough change going on in England itself, as well as on the Continent, to explain upheaval of all sorts. It could hardly be a practical scheme at first, because there were no teachers, to teach everybody to read and write.

This truly embarrassing difficulty was the first with which the early reformers had to grapple; and they seized eagerly on the system termed "teaching by monitors," which was suggested by Dr. Andrew Bell in 1797, and independently by Mr. Joseph Lancaster in 1798. The new idea was that children who had once learned to read could immediately teach others. One of its earliest advocates expressed it thus, vividly and extravagantly: "Give me twenty-four pupils to-day, I will give you twenty-four teachers to-morrow!" Enthusiasts pictured a great hall containing a thousand children in groups of ten, being taught by a hundred youthful monitors superintended by one master.

In those days, when the pressing problem was the overwhelming number of children to be led a few steps along the road of learning, perhaps there could have been no other plan available. We must remember that by far the great majority of children at quite an early age were put to some sort of serious work, which we should now think adults' work, though

doubtless they were hardly expected to achieve it exactly as adults would

Thus, about 1780, we find little Robert Owen, of course precocious beyond all his associates, "usher" in a Welsh school at seven years old, and passing on to be a draper's assistant at nine years old! Nelson entered the navy at very little over this tender age. As late as 1845 a member of the writer's family, who had chosen teaching as a profession, was earning his own living at fourteen years of age, and was independent of his parents Most children seem to have had very few play years. We must not think of them as playing instead of being at school; they were often working very hard.

What was taught by the young monitors? Reading and spelling were taught out of the Bible. For a long time the use of any other book was considered unnecessary and injudicious Great publicity was given to a wish expressed by George III., that every child in his dominions should be able to read the Bible. We may look upon this aspiration, perhaps, as a direct effect of that Puritan spirit of the seventeenth century, the spirit which makes personal study of the Bible the essence of the religious life. The same conception had just gained new life and vigour in the rise of the Wesleyan and Methodist Churches.

Use of the Bible.

From the beginning of the new movement some people were convinced that the education of poor children must be made a national business, a public undertaking as much as the relief of the poor. As early as 1807 Mr. Joseph Whitbread brought in a Bill to establish a school in every parish, and to pay for it out of the local rates. This Bill was passed by the House of Commons, but thrown out by the Lords. England was by no means as fortunate as Scotland in the time chosen for urging the need of national education; the interests and issues at the moment were conflicting and confused. The effect of the unrest on

Whitbread's Bill.

the Continent operated in opposed directions. On the one hand men were inspired to desire that all their fellow-beings should have the "light of reason," the guidance of their developed intellects, and that they should experience the craving for equality and fraternity. On the other hand there was the equally strong, equally defensible, fear of giving power to the "masses," and the conviction that in the existing state of European relations thousands of fighters, not thousands of clerks, were needed to help England The Lords could commit themselves only to a statement that they desired instruction of the poor "which renders them patient, humble, and moral, and relieves the hardship of their present lot by the prospect of a bright eternity."

The failure of Whitbread's Bill resulted in the rise of two societies destined to last many years and produce great effects. One was Dr. Bell's, called the National Society for Promoting the Education of the Poor in the Principles of the Established Church. It was connected with the organization of the S.P.C.K., and was founded in 1811. The other was the British and Foreign School Society, and took final shape in 1814. Both were supported by voluntary subscriptions, the latter naturally attracting the Nonconformist interest, and being thus distinguished from the former, a Church organization.

After the peace of 1815, the desire that all classes should have some education gained strength rapidly. Practical men saw that the working classes might be much more efficient instruments if their intelligence was awakened; and theorists believed in the great decrease of crime that would result from a training in reasoning and moral judgment. The extension of the franchise in 1832 formed a very strong argument for the education of voters. The next year Parliament voted £20,000 for general elementary education, and this grant was made annual. The money was used in helping both societies to build more schools, the Treasury undertaking to contribute as much as was collected

First Parliamentary grant.

by voluntary subscriptions. Special encouragement was given to schools in large towns.

In 1839 the young Queen showed great interest in the subject, and in particular drew attention to the insufficient number of qualified schoolmasters. At her wish a committee of the Privy Council (see Chapter XVII.) was formed to deal with the annual grant, though the proposal met with some opposition from the Lords It was decided that money must be devoted to training teachers. We see the idea of monitors still persisting (and something of the old apprenticeship idea as well) in the scheme which allowed "pupil-teachers" both to teach and to learn for a period of about five years, with some payment for maintenance. After this apprenticeship period they had the opportunity of proceeding to training colleges as Queen's scholars. An examinational test was established for teachers as early as 1847 They were not, however, required to pass through any definite course of training.

In 1856 the committee of the Privy Council was combined with another committee which had arisen in 1851 as part of the Board of Trade. It was for the "Encouragement of Science and Art," and as it was concerned with education other than elementary, we will postpone any further account of it until later, merely remarking that the combination was called the Education Department, and remained still part of the Privy Council.

Education Department.

Ideals for elementary education continued to grow more rapidly than the machinery for carrying them out. A Commission investigated the subject from 1858 till 1861, and reported a very unsatisfactory state of things, both as to the number of children actually taught and the standard they reached before leaving school. About two-thirds of the children supposed to be in the schools of the two societies were in actual attendance, but only about one-quarter of these ever reached the upper classes. These alone were inspected by Government, and could therefore be deemed tolerably efficient. The system called

First Commission.

"Payment by Results" was inaugurated as a first consequence of the investigation; an examination of all the pupils, and a grant made to the managers of the schools on each child that satisfied the inspectors. By this time very much more money was naturally being spent on this organization of education, but it was realized that it was not enough.

No one could blame the two societies for lack of effort, or for failure to realize responsibility. The Church Society had been able to get more money than the National Society, and had established more schools on the whole, they had both done their very best with limited funds on the one hand, and no power of compulsion on the parents on the other. Though the Commission reported a state of affairs very unsatisfactory to any lover of education, it was a state of most hopeful advancement compared to the condition of things when these societies were founded. There was still a good deal of opposition to be encountered, though of different form to that in earlier days. Writers like J. S. Mill contended that the State must require education—*i.e*, must require a parent to educate his child—but must not provide the school.* Meanwhile education could go no further for lack of funds. The only way to get more money satisfactorily was to establish a compulsory local rate for education, such as already existed for poor relief, and to make a locality responsible for its schools.

Education Act, 1870. The great Education Act of 1870, followed by various amendments in later Acts, introduced these essential features:—

1. A compulsory local rate was imposed to establish schools in any district where the supply was insufficient.

2. The administration of the rate and of the new schools was to be in the hands of a new elected body, the School Board.

3. Attendance of children at these schools was made compulsory unless they were receiving other education. This was not fully carried out until 1882.

* J. S. Mill on "Liberty," published 1859.

A small weekly fee was to be charged, as at the existing schools, distinguished as "voluntary." No denominational instruction was permitted in the Board schools. Attendance was to be compulsory till the child had reached a certain standard. The voluntary schools were not to share in the local rate, but were, in compensation, to receive a more generous Government grant than before. Localities were not at first obliged to have School Boards if the number of schools already was sufficient. The area which could create a School Board was either a municipal borough or a parish, but a union of parishes or boroughs was possible.

The religious denominations built a very large number of new schools directly after the passing of the Act; it gave them great stimulus towards the establishment of schools of their own sort It is estimated that in the seven years between 1869 and 1876 about £3,000,000 was collected in subscriptions for voluntary schools. But there was a good deal to be done before the Act could insure, as was intended, the education of every child in England.

Position of "voluntary" schools.

We do not often realize, when we think that a law has been framed to carry out some obvious reform—to say that certain things are to be done or are not to be done—that the said law will be inoperative unless there is a well-organized machinery to see that it is carried out. The machinery in this case took ten years to get into full working order. First, places must be created for all the children compelled to come into school. The number was computed from the 1861 census, allowing for the increase during ten years. It was estimated at about 3,682,000. The existing schools had places for about 1,800,000, only half the number required. Of these places, not more than 1,100,000 were filled by children attending regularly, as there was no means of enforcing attendance. Next, the immense number of places to be supplied must be properly distributed; it would not help an overcrowded school in Yorkshire if there was plenty of room in a school in

Norfolk. Then various small Acts had to be passed for such purposes as punishing parents who did not send their children to school, preventing parents from taking them away too early to put them into wage-earning employment,* and empowering Poor Law guardians to pay the weekly pence for neglected children. A School Attendance Committee, with inspectors, had to be organized in each place. At first attendance was compulsory only where there was a School Board with its own schools. This caused many districts to adopt School Boards for the sake of organizing the attendance.

When this compulsion had become a reality, not an aspiration, no long time elapsed before it was followed by that modification which is to many English people its logical sequence, according to the conception that what is compulsory must be free. An action which the State makes compulsory should be made possible to each individual without expense; otherwise it assumes the form of a tax.† Elementary or primary education became free in 1891. It must be remembered how small a part of the cost was ever covered by the weekly fees charged. After this time Board schools subsisted on their Government grant and their local rate; voluntary schools had their Government grant and their subscriptions and endowments, and were still allowed to charge a weekly fee.

Free education.

During the next ten years the chief changes in elementary education were that in 1893 arrangements were made to instruct blind and deaf children, and (in some cases) those

* The system of children being "half-timers," partly in factories, partly in school, was sanctioned and arranged in Acts in this period (1871-1881).

† To take an unimportant instance, it may be optional, in a public building, for you to part with your umbrella and give it to a caretaker. In that case you will probably have to pay a penny for doing so. But if there is an injunction that you must leave your umbrella with an official, no penny should be charged.

crippled or otherwise physically afflicted; and that in 1899 the present Board of Education was constituted to replace the Educational Department under the Privy Council. During these ten years the investigations of the Education Department brought to light a very unsatisfactory state of things. As time advanced, the ideals of national education had become higher. The condition of the voluntary schools left much to be desired, and secondary education was in an entirely unorganized and chaotic state. Special reports on educational subjects were made under the direction of Mr. M. E. Sadler, and revealed, among other facts, that we were very much behind other countries in many respects, notably in organization.

Further organization necessary.

To consider the voluntary schools first. They found finance very difficult, because they were unable to count on subscriptions to keep them on the same level as the Board schools (see p. 113). By trying their utmost for efficiency, by satisfying inspectors and making appeals to Government for special purposes, they might get their grants increased; but when this increase was made known to the public, the inevitable consequence was that subscriptions fell off. Thus their income was constantly reduced below that required for efficiency.

We have mentioned that in 1856 the committee managing elementary education amalgamated with another which was concerned with the teaching of "Science and Art." From this date onwards, therefore, the Education Department had charge of a certain amount of secondary education. The latter committee was originally one appointed by the House of Commons in 1835 to inquire into "the best means of extending a knowledge of the arts and the principles of design . . . among the manufacturing population." The immediate result (1837) was the establishment of a Normal School of Design in London, at an annual cost of £1,500; this was managed by a permanent committee of the Board of Trade. Similar schools were started in the provinces, and in 1852 the annual expenditure amounted to £15,000.

Science and Art Department.

One of the effects of the Great Exhibition of 1851, the first of its kind, was to turn the minds of politicians to the question of education. The Exhibition was in many aspects a blow to our national pride; it proved that we were seriously behind other countries in artistic design and execution, and in the application of science to our industries. The need for taking Government action became manifest.

During the next few years large central schools of science and art were established at South Kensington, and scholarships, with maintenance grants, created at these schools. A system of registered classes and examinations was inaugurated all over the country, and payments made to teachers for successful candidates. These classes were partly secondary, partly technical, education; and for many years the "Science and Art Department" was the only form of State effort in this direction. But in 1890 the newly-established County Councils found themselves charged with the duty of inaugurating specific technical education of various kinds, as they were entrusted by a vote of the House of Commons with the funds generally spoken of as the "whisky money." These funds were the annual proceeds of a certain part of the tax on spirits, which had been originally set aside for purposes of compensation to publicans who were injured by some changes in the Licensing Act. The House, after deciding that this compensation was after all unnecessary, had found itself with the funds unappropriated. Polytechnics and technical institutes were started by County and Borough Councils all over the country between 1890 and 1900. Meanwhile a certain amount of higher education especially scientific was being given by the School Boards. There were now always a great number of scholars whose parents desired to keep them at school after fourteen years of age for further study, which was provided partly by higher grade schools, partly by evening classes. The education in these schools was often not very far removed in type from the ordinary secondary education.

Technical Education Act, 1890.

The latter was being carried on by (1) old endowed schools; (2) new schools founded by companies on a business basis; (3) private enterprise schools. Of these only the endowed schools were in any way under Government, as the Board of Education since 1899 had been supervising their finance (though not their work) in place of the Charity Commissioners.

Secondary education.

The time was ripe for secondary and technical education to be co-ordinated into a unified system. The Education Act of 1902 was directed specially to this achievement, and has therefore already produced immense changes in our school system. Before describing these briefly, it must be pointed out that the most direct and obvious change made by the new Act was the abolition of the School Boards, and the transfer of their work to Education Committees, selected by the local authorities from their own members. Local government had been entirely reorganized since the School Boards had been established (see p. 121), and the opinion was now held generally that the new authorities could organize education better than *ad hoc* bodies

An *ad hoc* body is a group of persons elected to attend to one particular business only. There is now a widely-spread though not unanimous conviction that, instead of constituting a number of these groups, each elected for a certain purpose, such as a School Board or a Board of Guardians, it is more satisfactory to elect one body, as large as may be convenient, of the most able men in the locality, chosen for their general administrative capacity, and to give them authority to perform all the manifold functions of local government. They must then appoint committees for special tasks, choosing the members best fitted for each purpose. On this principle the School Boards have been replaced by Education Committees; it is now (1911) under discussion whether the Boards of Guardians shall be replaced similarly. There is no doubt that a ratepayer is harassed by a multiplicity of small elections; he ceases to take proper

An "ad hoc" body.

interest in them, and comes to consider his vote as a burden instead of a privilege.

Changes in voluntary schools.

To return to the provisions of the new Act. The desired improvement in the finance of the voluntary schools was effected by the decision that the local authorities, as well as the Government, should assist in the maintenance of these schools, which therefore must be under local control as well as under Government control. They were no longer to be called "voluntary," but "non-provided," in distinction to those "provided" by the local authority, for which the name "Board schools" had also become unsuitable. What did the non-provided schools still contribute to their own maintenance which distinguished them from provided schools? Chiefly the buildings and fittings, which represented the subscriptions of some definite religious denomination and often some old endowment. As this is their contribution, it is considered fair that the religious bodies should retain the right to arrange religious education of the kind they wish in their schools.

The Government did not find itself able to buy these buildings and assume entire control, as was suggested. It was not only the great expense involved which deterred them, but the fact that to grant all this money to the various religious organizations would place the latter in an awkward dilemma. The money would still represent endowments and subscriptions given entirely for education, and they would not be able to spend it on this object.

Local authorities and higher education.

Lastly, the new Education Act has given the County Councils and other local authorities power to establish or assist schools of the usual secondary kind, and even Universities and University colleges in their respective areas. They may "provide" secondary schools if the accommodation for that kind of education in the district is deemed insufficient. They may acquire whole or part control over existing schools. The only limitation to their efforts is that the rate for secondary and

higher education (imposed separately) may not be more than twopence in the pound for the large districts, a penny in the pound for smaller districts. At the same time the definition of elementary education has been narrowed, so that the schools of this kind do not offer secondary education to their older scholars, but transfer them to the proper type of school.

Polytechnics and technical institutes are still under the control of the local authorities which created them, but are properly co-ordinated with the Science and Art Department of the Board of Education.

CHAPTER XII

A LOCAL AUTHORITY AND ITS POWERS

WE have stated in Chapter IX. that rates are levied and received by a local authority, which performs the work we wish to have done with the money that is collected. We saw also that the name, form and duties, of the authority vary in different places. We must now try to realize what is the present organization and division of England for local administration. The system, as we shall describe it, is of recent creation, and dates almost wholly from Local Government Acts of 1888 and 1893.

At the time of these Acts there was certainly a very pressing need for co-ordination of the local bodies already existing.

Existence of "Boards" of all kinds.

It will no doubt have been manifest in the course of the last two chapters that *ad hoc* bodies had been created whenever and wherever they seemed necessary to do some particular work, such as looking after the poor or after schools and scholars. The history of the nineteenth century shows many instances of the appointment of such local committees, each step of the kind being urged upon Parliament by people interested in one sort of reform only. Thus there were Highway Boards for roads, Public Health Boards for sanitation, Burial Boards for cemeteries. These Boards were elected (or nominated) by their districts, but the respective districts were by no means the same, and the duties were liable to overlap as much as the districts. It was very usual for unions of parishes to cut across county boundaries. Every year there was a series of trivial elections in which no one took much interest, unless they had special

selfish motives In the midst of this confusion, we may note that there were three chief types of area for government—the parish, the municipal borough, and the county. We have treated already of the *Parish* in Chapter X., and have shown very briefly that, while it began as an ecclesiastical organization, in which a rate was collected by the churchwardens to meet church expenses, it developed into a civil organization in which overseers collected the poor rate. *Municipal Boroughs* were the modern form of town organization, of which the early stages only were traced in Chapter II. Towns grew up so much isolated in their conditions that the development of the government in each was apt to take a different line, and there was little or no uniformity. The Act of 1835, which gave all municipal corporations the same form of constitution, was the outcome of an inquiry which had revealed an extraordinary state of corruption in the towns. The inhabitants were certainly not represented in most corporations, which had become close bodies. The town councillors were often self-elected—*i.e.*, elected each other—and might remain in their positions for life. In Plymouth, with a population of 75,000, 437 freemen of the town elected the council, and of these 145 were non-resident. The councillors usually acted as magistrates, and occasionally these magistrates could not read or write. In 1835 the franchise for town elections was made somewhat similar to the Parliamentary franchise established in 1832 (see p. 161).

Act of 1835.

Up to 1888 the only county authority consisted of the Justices of the Peace, the most ancient of all the institutions, who were charged with the general administrative work for the county as well as their legal duties. They looked after highways, bridges, police and lunatics, and organized various forms of inspection.

The two recent Acts for local government have created the *County Councils* for all these administrative duties, and have also reorganized all the smaller bodies. Each county in England has a single council, with seven exceptions. York-

shire is divided into three ridings, Lincolnshire into two; Sussex, Hampshire, Northamptonshire, Cambridgeshire, and Suffolk, are also subdivided. London by itself forms a county Thus for administrative purposes there are sixty-two counties.

Certain large cities and towns are practically given the same privilege as London, in being allowed to govern themselves, and not to be under the jurisdiction of the county in which they are. To emphasize the fact that they have similar powers to a county, they are known as *Counties of Cities* or *Counties of Boroughs*. These boroughs must contain over 50,000 inhabitants.

Next come the *Municipal Boroughs*, very much as they were in 1835, but not allowed to be entirely independent of the county authority. Next the *Urban Districts*, of houses and people crowded together so that the latter may be said to be living under "urban conditions." One of these districts may, and often does, contain a larger population than a municipal borough. The distinction is mainly historical. A small town which was a borough before 1835, and has its Mayor and Corporation, continues as a borough; an urban district, with only recent history and little tradition, has only a chairman of its council. Next come the *Rural Districts*, which have their own council; and lastly the *Parishes*, which may have each a parish council, or only a parish meeting once a year. The distinction between urban and rural conditions may be best understood by the generalization that in the urban districts the average population is about 4,068 per square mile; in the rest of the country (excluding, of course, the towns) it is 154 per square mile. But the student will find it useful and interesting to contrast the conditions in detail from experience. It will be obvious that all urban districts will require more internal regulation of drainage, police, roads and road lighting, than rural districts, and therefore will require more freedom to act independently of their County Council. The latter keeps up a general supervision. With regard to the rural districts, the division of the duties between

them and the county is left to some extent to option; a district or parish may undertake certain duties itself, or may delegate them to the county Every district council must have a medical officer of health and an inspector of nuisances. The different forms of local authorities may now be tabulated:

1. Counties, 62 in number
2. Counties of cities, such as Norwich, Bristol, 19 in number
3. Counties of boroughs, such as Halifax, Liverpool, 64 in number.
4. Municipal boroughs, 307 in number.
5. Urban districts.
6. Rural districts.
7. Parishes.

It should be added that the county of London is divided for local purposes into twenty-eight Metropolitan boroughs, such as Islington, Paddington, Kensington, which do not hold quite the position of municipal boroughs, but are subject to more control by their county authority. There also exists still in London the Corporation of the City, which elects the Lord Mayor, and has many ancient privileges as well as duties, its only electors being the "liverymen" of the City companies *

Councillors, varying in number with the size of the district, are elected for each of these local authorities, and hold office for three years. All may retire together, or one-third of the number each year.

The four larger kinds of areas, as tabulated above, have *Aldermen* in addition. The aldermen are usually about one-third the number of the councillors, and are elected by the latter; they hold office for six years. The aldermen may or may not be already councillors; if a councillor is elected alderman, his seat as a councillor becomes vacant, and there must be another election.

* London government is in many respects singular, and the details given in the following paragraphs do not necessarily apply to it.

The qualifications for voting in an election of councillors are the same as those for voting in Parliamentary elections, with one important exception (see Chapter XVI.).

Since the replacement of the School Boards by Education Committees of the local authorities, practically the whole of local administration is undertaken now by these bodies, with the important exception of Poor Relief. They usually appoint committees to deal with their separate duties in detail. The nature and number of these can be arranged by each local authority to suit its work, except that there must be two "statutory" committees—one for Education, one for the "Watch."

The work of Poor Relief is still carried on by *Boards of Guardians* separately elected by each parish or union of parishes, but in rural districts each councillor is *ex officio* a guardian. In urban and all larger districts the council and the Board of Guardians are still separate, although some of their duties overlap The abolition of these Boards of Guardians, and the delegating of all their duties to the various committees of each local authority, is advised by certain members of the recent Poor Law Commission

In speaking of the election of representatives to local authorities, we must remember that these bodies are constituted for two purposes—to carry out the duties imposed by Parliament or by the Local Government Board (the central authority), and to carry out the wishes of the ratepayers in every direction where there is still freedom. English local government has been framed with the express intention of giving a considerable amount of local freedom, more than exists in Continental countries. A large number of Acts of Parliament state what a local authority may do if it wishes, rather than what it must do. If a certain group of people feel that their wishes are not being considered, they are often to blame for not using their votes. More interest should be taken in voting for one's local representative. A vote should never be wasted.

Value of representation.

If no candidate available represents one's positive wishes, it is certainly useful to give one's vote against the candidate who advocates a policy to which one objects. In judging of a candidate's qualifications, we must realize that his duties will not be like those of a Member of Parliament; he will not be engaged in legislation, but in administration. The sort of men needed are those who have shown they can build up and organize a business efficiently; but they do not enter the council as experts in any particular business, but by virtue of general capacity. We also want to feel assured that such business men will not be conducting our local affairs for their own interest. The best way to secure this is to see that many interests are represented, and not to allow one trade or class of people to have preponderance in the council.

In criticizing the way in which our local authority spends the money it collects as rates, we have to bear in mind the distinction between capital and income expenditure (see pp. 74-76). A municipality is never expected to "save" out of the rates; if such saving were apparent, the ratepayers would demand to have their contributions lowered. It cannot accumulate capital, but it can borrow money for capital expenditure. The ratepayer then wishes to be satisfied that this expenditure is of the right kind, and means some permanent improvement, considering that the community will be burdened with the annual interest on the capital raised.

Capital expenditure.

A municipality is allowed by law to raise a loan to make capital expenditure. But it cannot choose whether it pays back the loan or not, as we have seen a private person or a business firm usually can; nor can it, like the private person, choose its own time and rate of payment. It is as a rule legally bound to pay the whole back within a certain number of years; thirty, sixty or eighty years are common periods. The loan raised by a municipality is therefore often spoken of as a "debt," but the word must not convey the idea that the debt is a disgrace

Municipal loans.

and has involved foolish and extravagant expenditure. There is, however, a definite reason for the compulsory paying back of the loan. We have said that it is really sound business policy to make capital expenditure only when it will bring an increase of income to insure the payment of interest on the amount borrowed. But a municipality borrows money for such undertakings as the making of new roads, the clearing of slums and dilapidated dwellings. In these there will be no money profit to pay interest; it must be paid out of the rates. If the loan remained a debt for ever, the ratepayers of the future would be burdened with the consequences of every improvement that had ever been made. Therefore it has been enacted that there must be a termination to the paying of interest. The local authority is to be like the housekeeper whose furniture and linen must be her own, although from want of capital she may purchase them on the hire system, and pay off the debt during a few years. The municipal furniture will consist of good roads, satisfactory sanitation, museums, parks, and such common "capital" property.

We have spoken chiefly of substantial loans for extensive building purposes, or clearing of old buildings, with about fifty years for their repayment; but there are often smaller, less important loans raised for shorter periods. A considerable area of wood pavement, or the adoption of a new form of street lamp, may be financed by a loan which will be paid back in three years, and thus the business concluded. This, again, is analogous to similar negotiations by private people.

Every loan must be sanctioned by the Local Government Board. This body has itself raised a fund called the Local Loans Stock, which may be regarded as its own "debt." It makes small loans from this stock to the smaller councils, at the same advantageous rates at which large loans can be contracted.

Local Loans Stock.

We hear often that the "rates are going up." It is true that a tabulation of the annual amounts of the whole local expenditure in the United Kingdom shows a most startling

increase in the last seventy years. Mr. Gladstone pointed out in 1860 that the amounts had grown in twenty years from about thirteen to about seventeen millions per annum, comparing this with a similar increase in central (government) expenditure. But the total local expenditure was well over one hundred millions before the end of the nineteenth century. It was during this time that the necessity for capital expenditure on the part of local authorities developed with so much rapidity. In 1900-01 the annual local expenditure was 133 millions; in 1906-07, 162 millions. There is the same sort of increase in central expenditure. A table is subjoined which gives the total central and total local expenditure for the United Kingdom for the last fifteen years.

Increase in expenditure.

IMPERIAL AND LOCAL EXPENDITURE: UNITED KINGDOM.

Year.	Imperial.	Local.
	£	£
1895-96	105,130,000	92,051,000
1896-97	109,725,000	95,837,000
1897-98	112,338,000	102,797,000
1898-99	117,671,000	111,542,000
1899-1900	143,687,000	121,384,000
1900-01	193,332,000	133,258,000
1901-02	205,236,000	144,418,000
1902-03	194,251,000	152,068,000
1903-04	156,756,000	153,519,000
1904-05	151,769,000	163,619,000
1905 06	150,413,000	162,436,000
1906 07	149,638,000	162,457,000
1907-08	151,812,000	*
1908-09	152,292,000	*
1909-10	157,945,000	*

* Accounts not yet issued.

It should be observed that certain amounts are included in the total in both columns—namely, the grants made by the Government to local authorities for purposes such as education, police, and certain parts of poor relief (*e.g.*, pauper lunatics). We must consider the nature of these grants a

little more fully, for they constitute the most important feature in the central control over local authorities. "Grants in aid" are given by the Treasury, representing the Central Government, to these authorities for specific services performed. The pressure on their funds is always sufficiently great for them to welcome relief to the rates in this form. But it has gradually been established that the grants are given only if the Government has the power to inspect and criticize the results of the expenditure. The help is accepted subject to these conditions; and if the Government is dissatisfied, it may cancel or curtail the grant. This is the English form of central control over local government; other nations adopt different systems.

Grants in aid.

With regard to the great increase of expenditure shown in both columns of the table, it is natural to reflect that there has been an increase of population, and of national revenue, keeping pace with the growth observed. It can also be seen that the influx of our population into the towns must increase the amount of money necessary to keep these towns in good order. But it is most important of all to realize the extraordinary increase in variety and amount of the duties imposed upon local authorities in these years, and indeed since 1870—the development of education, the vigilance in preserving public health, and the more humane consideration shown to the destitute. It is in connection with the second of these aspects of public work that the necessity for public loans has chiefly arisen.

The table on p. 129 gives a brief analysis of the revenue and expenditure of all local authorities taken together in the year 1906-07.

Anyone wishing to realize the great complexity and multiplicity of the duties devolving on local authorities nowadays should consult Messrs. McMorran and Dill's "Local Government Act of 1888." In this they give incidentally a list of all the Acts affecting local government between 1870 and 1900. The list extends over twenty closely-printed large

octavo pages Besides the more important matters upon which we have touched, it includes such rarely remembered ones as regulations for explosives, chimney-sweeping, race-courses, allotments, shop hours and diseases of animals, with many others.

In conclusion, let us refer to the frequent complaint that the rates are felt as a severe burden. In many cases re-

TOTAL INCOME AND EXPENDITURE OF LOCAL AUTHORITIES (UNITED KINGDOM), 1906-07.

Revenue.	£	Expenditure.	£
Rates	68,600,000	Education	32,111,000
Government contribution	24,987,000	Electricity	5,577,000
Tolls	6,185,000	Gas	9,004,000
Water	5,616,000	Harbours	7,330,000
Gas	8,983,000	Highways	17,806,000
Electricity	3,612,000	Hospitals	2,349,000
Tramways	8,486,000	Libraries	903,000
Miscellaneous ...	12,750,000	Lighting	2,620,000
Loans	24,389,000	Lunatics	5,131,000
		Markets	1,119,000
		Parks	1,698,000
		Police	2,089,000
		Poor	14,992,000
		Improvements ...	1,861,000
		Sewers	7,948,000
		Trams	12,107,000
		Water	9,037,000
		Other purposes ...	28,775,000
	163,608,000		162,457,000

adjustment is more necessary than actual diminution. There are numerous instances of genuine hardship. For instance, if a jeweller and a furniture-storer are rated simply according to the size of their business premises, the latter will obviously be handicapped much more in his business than the former. Some adjustment here ought to be possible. Again, it ought to be feasible to relieve people with incomes below a certain minimum entirely from rates, as they are relieved from income-tax. We do not like to think of a charwoman giving up the money she ought

Ratepayers' hardships.

to spend in boots, which she sadly needs, to rates, which will supply her generously with museums and parks as substitutes

It is sometimes said that all rates are ultimately paid by the landlord, as the rent he can charge is affected so obviously by the rates. No one ever agrees to rent a house without inquiring into the consequent rates But it is not always true that the landlord bears the cost of the rates Let us suppose he lets dwellings in the slums, of the lowest possible kind If the rates are raised, the landlord can raise more rent from his unfortunate tenants, because there are no lower and cheaper dwellings to which they can betake themselves Again, a man may have such strong reasons against moving at all that he will bear an increase in rent rather than submit to the great drawbacks attendant on removal

Rates and rents.

CHAPTER XIII

THE NATIONAL BUDGET. EXPENDITURE AND REVENUE

We have now to consider an important and rather complex item in household expenditure; the "taxes," or money paid to the Central Government—*i.e.*, money given to the State to spend on our behalf. It is almost as difficult to trace the whole amount of this money in any family budget as to trace that paid for transport of goods, but fortunately taxes are somewhat more explicit. The head of a family no doubt records what he pays in income-tax, and in that tax on his house-rent called "house-duty;" also his licences, such as dog, gun or carriage licences. These are direct taxes, but he contributes probably much more in indirect taxes in the form of duties on various commodities.

To understand how his payment is prescribed and regulated, we must realize that the State expenditure is planned exactly in the reverse way from that of an ordinary individual. Most people, as we have said, know fairly well, or attempt to estimate, their income for a year or for several years. They then fix the rent they will pay, their general standard in food and clothes, how their children are to be educated, the holidays they can afford, and so on. The Minister who is responsible for the State's finance estimates what must be spent in the coming year, and then considers how the money (the revenue) is to be obtained from the whole community. This Minister is the Chancellor of the Exchequer; his estimates for expenditure* and pro-

The estimates.

* Professor Bastable states ("Public Finance") that in the years 1889-1892 the average error in these estimates was a little over 1s. per £100.

posals for raising the required revenue are presented to Parliament every spring as his Budget. The amount needed and raised will vary from year to year.

This reverse way of treating finance is usual for public institutions. Municipalities and other local authorities estimate their necessary expenditure before they fix how many pence in the pound the rates must be for the year. Following the same plan, we will give first the chief headings of State expenditure. The estimates made for the coming financial year are of two kinds: First, permanent charges, which are the same every year, and do not need to be granted annually as exact sums by the assembled Parliament. These are called *Consolidated Fund Charges*. Secondly, the *Supply Charges*, which must be voted annually, and for which the exact sum voted may be in certain cases subject to some discussion. The items of the two divisions may be briefly summarized thus.

Consolidated Fund Charges	Supply Charges.
National Debt services.	Army Services
Courts of Justice expenses	Navy Services.
Civil List.	Civil Services.
Payments to local taxation.	Collection of revenue.
	Post-Office and Telegraph Services.

The Consolidated Fund Services amount to about one-third of the total expenditure.

The expenses in connection with the National Debt form the subject of Chapter XV. Those connected with the Courts of Justice include the payment of Judges and of the staffs of the courts. The Civil List begins with the allowances to the Royal Family, and includes most Government pensions. We have mentioned the relief to local taxation in the last chapter. The Army and Navy estimates do not need comment here, as they usually prove to be the part of

the Budget which calls forth most comment in the newspapers each year as it is presented.

A large number of different expenses are included in the Civil Service estimates, besides the more obvious, such as the maintenance of all the Government offices other than the War Office and the Admiralty. The work done under the heading Civil Service includes that supervision and inspection of the work of local authorities to which we referred in Chapter XII. It also includes imperial control over colonies and dependencies, over ecclesiastical property and charitable funds; the administration of Crown lands, woods and forests; the preservation of national archives. These are only a few of the innumerable functions comprised in these services. A large number not yet enumerated have been classified apart by some writers as concerned with the Encouragement and Regulation of Industry and Commerce.

Civil Service estimates.

Under this heading we have the issue of coins; the control of railways and shipping; the regulation of joint stock companies; the inspection of mines, factories, and workshops; the adjustment of labour disputes; the control of trades unions, friendly societies, savings banks, insurance companies; the protection of inventions; the collection and publication of commercial information; assistance to emigration. We may add the inauguration of exhibitions and model institutions; the afforestation, or deforestation, or draining, of various districts. The establishment of the Post-Office, the Post-Office Packet Service, and the Telegraph Service, may be considered as originally undertakings with the same object. The opening up of districts by the construction of railways is similar. The Government has not done this in England, but it has to a large extent in India. Many financiers have pointed out that the construction of a railway in a new district involves the sinking of capital for which very little return can be received for a long period, although meanwhile commerce may be greatly stimulated both within and without the district,

Therefore the development of railways of this kind is particularly a function of the State. The English Government has taken this view in furthering diverse schemes for the growth of our colonies

Duties of a State.

It will be obvious that different views of the duties of a State are taken by different nations—indeed, by the same nation at different periods, as has been amply illustrated in the history of our foreign trade. The same nation may also adopt a different policy for each colony In modern days the general policy may change rapidly with change of Ministry, if successive groups of Ministers hold diverse views on State economy. Our own general conception of the duties of a State may often strike a stranger as inconsistent in detail; as, for instance, that we provide lighthouses of the greatest possible efficiency wherever needed, but do not provide lifeboats.

Economists have been able to lay down very few generally accepted principles for the guidance of States in their expenditure. Opinions are diverse, especially with regard to the encouragement of commerce. It is agreed that a State should not favour private interests as opposed to public interests; that its area of work should not overlap that which is being done efficiently by individuals or voluntary associations; and that its agencies need not produce profits, although undertakings such as the Post-Office and State railways frequently are remunerative.

On the whole, no doubt, the modern tendency is towards great increase in our State expenditure, not only in preparation for defence, but in the encouragement of commerce all over the Empire, and in developments of social organization (such as education), which are now considered necessaries, not luxuries, for each individual.

It may be pointed out that the benefits we obtain from the Central Government are, as a rule, much less concrete than those we obtain from a local authority. It is much more difficult to estimate in money the value of protection from aggression and

promotion of progress, than that of clean, well-lighted roads and well-kept parks.

One department of State expenditure we have not yet mentioned is that concerned with National Statistics—*e.g.*, the Registration of Births, Deaths, and Marriages, and all the administration connected with the Census. **Statistics.** Such figures are now esteemed as of the greatest national importance, and there is an increasing demand for more information of this nature. The Census when first proposed was considered in its inquiries to infringe too much on the "liberty of the subject," but as a mass of classified knowledge it certainly is very much a concern and interest to "the subject." When we think of the State as a means of obtaining information, we are regarding it in still one more new aspect— that of a publishing firm. It is not often realized that the Government is by far the largest publisher in the United Kingdom, through its so-called Stationery Office. **The State as publisher.** The annual reports published amount to about 150 thick folio volumes, commonly known as Blue Books To these must be added numerous publications, of the nature of Orders, for the use of Government officials only; and a great variety of scientific reports of the same type as the "Voyage of the *Challenger*," with frequent reprints of historical documents of the nature of records and chronicles

We will next consider whence the State obtains its revenue. When we review the diverse and complex forms of modern State expenditure, we realize how far removed we are from the days in which personal service was the main way in which an individual discharged his dues to the State. The English seem even further away from this method than the Continental nations, which still exact military service. Nevertheless the English State demands compulsory legal service from every citizen in requiring him to sit on a jury when called.

Personal military service originated in the idea of rendering dues to an overlord rather than to the State. A very large

part of English history, as we have all learned it, is concerned with the history of taxation, so there is no need to recapitulate it here; but we may emphasize the vital importance of the chronicle concerned with the struggle of the people to get control over State finance instead of leaving it with the King. We estimate best the work done by men like Hampden in realizing how impossible nowadays would be a struggle like that over Ship-money.

Early forms of taxation.

In this new context—discussing the methods of raising revenue—we are more concerned, perhaps, to note that Ship-money is an instance of a plan now obsolete, of assigning a special kind of revenue receipt to meet a special expenditure charge. In the same connection we may now make a few historical notes to illustrate early forms of taxation, rather than any constitutional principles.

A very common early form of paying feudal dues to an overlord was to supply him with food as well as service. The idea of receiving supplies in goods or money, as commuting military service, occurred first to Henry II., when he found difficulty in inducing his subjects to follow him in continual warfare on the Continent. The tax took the form of scutage, or shield-money, in 1159.

The main difficulty in all early taxation (one that persists to some extent to the present day) is not so much the fixing of the rate of payment as the ascertaining of the valuation or assessment of the wealth on which it is paid. An estate could be estimated, roughly and comparatively, by extent; but the warlike Plantagenets developed a tendency to exact tithes (tenths), or some fraction, of other forms of property. In 1181 Henry II. instituted a tax on "movables"—*i.e.*, personal property of most kinds, excluding clothing, arms, and other requisites for military service. Richard I.'s Saladin tithe to get money for the Crusades was a further development of this conception.

Nearly a century later (1274) Edward I. instituted an

inquiry, of which the results were recorded as the "Hundred Rolls." This record resembled Domesday Book, but aimed at collecting much more information about sources of income; for Edward's desire was to discover what were the real rights and dues of the Crown, to detect laxness in payment and dishonesty of officials Thus the dues from markets and tolls from fairs were investigated, and a new source of revenue became more prominent—that from granting privileges in trade.

We find Colchester burgesses or town merchants paying taxes (one-seventh) to Edward in 1295 We have already referred to the manner in which the succeeding Kings exacted dues from all foreign traders, and proceeded to exact similar taxes from Englishmen engaged in foreign trade, especially when they received charters. We see the beginnings of division of taxation, into direct and indirect, in this attention paid by our medieval Sovereigns on the one hand to forms of property, on the other to methods of trade. The first sort of taxation is now for the most part on income rather than capital.

But we find, on reference to our tables of figures (p. 139), that the State Budget is not primarily concerned with this classification of taxes which is so obvious in the private budget (and important also when we wish to consider upon whom and to what extent taxation may be a burden). For practical purposes the revenue is divided merely into tax and non-tax revenue. The subdivisions convenient for the taxes are given in the table at the end of the chapter. Non-tax revenue is money which comes to the State as to a private individual, such as by owning land, owning shares in enterprises like the Suez Canal, or carrying on business such as the Post-Office.

Non-tax revenue.

In most countries in Europe the Sovereign retains personal power over, if not actual possession of, a considerable area of land, as a survival of the feudal system. In our own country the power and the possession have been carefully decreased;

the State has taken over the administration of the Crown lands, and reaps any profit therefrom, paying the Sovereign a fixed sum as substitute. The actual Crown lands thus owned by the State in England form a very small proportion of the whole, but produce an income of nearly half a million. In India our Government now owns three-sevenths of the whole area of the country. It is the rent paid for this land which is sometimes incorrectly called the "land-tax" in India.

The English Government has shares in the Suez Canal and in the Cape Railway, from both of which it has annual dividends. These, the income from the Crown lands, and the profits from the Post Office and Telegraph, make about 16 per cent. only of the whole revenue This will be seen in the subjoined table, giving both the revenue and the expenditure under the headings we have mentioned for the years 1908-09 and 1909-10

The Budget of 1909-10.

At the time of writing the latest Budget available for our table is that of 1909-10. But the revenue during that year was collected in exceptional circumstances which will doubtless be remembered by the reader Certain proposals for taxation were novel and somewhat revolutionary. The House of Lords rejected the Budget, and it was not finally sanctioned until after the General Election of January, 1910. The Budget of 1908-09, which presents no exceptional features, is given for comparison and as an example of a normal year. It will be apparent, on comparing the figures, that certain taxes could not be collected while there was any doubt about the legality of changes which had been proposed in them.

In addition to these two examples of revenue and expenditure in detail, we give a second table which shows the total of each annually during a period of fifteen years. It will be seen in this that revenue may exceed expenditure in any year, or *vice versa*. It is only occasionally that they nearly balance,

A surplus is devoted to paying off some of the National Debt (see Chapter XV.); a deficit, if small, is made up by supplementary estimates during the year, as soon as it is realized and explained; or it may have to be carried into next year's estimates. The large deficits so obvious in the table were due to the Boer War, and were met partly by special loans, partly by increasing the National Debt. The last deficit we have already explained; it was made up by the collection of certain taxes after their due time.

Surplus or deficit.

DETAILS OF IMPERIAL REVENUE AND EXPENDITURE (UNITED KINGDOM) FOR 1908-09 AND 1909-10.

REVENUE.	1908-09.	1909-10.
	£	£
Customs	29,200,000	30,348,000
Excise	33,650,000	31,032,000
Estate duties	18,370,000	21,766,000
Stamps	7,770,000	8,079,000
Land-tax	730,000	150,000
House duty	1,900,000	560,000
Income tax	33,930,000	13,295,000
All taxes	125,550,000	105,230,000
Post-Office	22,300,000	23,030,000
Crown lands	530,000	480,000
Suez Canal shares	1,171,000	1,269,000
Fees, patents, etc.	1,023,000	1,037,000
Other sources	1,004,000	651,000
	151,578,000	131,606,000

EXPENDITURE.	1908-09.	1909-10.
	£	£
National Debt Service	28,000,000	21,758,000
Consolidated Fund—viz.:		
Civil List	470,000	470,000
Justice	518,000	519,000
Pensions	272,000	265,000
Salaries and miscellaneous	409,000	400,000
Local taxation	9,824,000	9,445,000
Army	26,840,000	27,236,000
Navy	32,188,000	35,807,000
Civil Service	32,388,000	40,018,000
Customs and Inland Revenue	3,320,000	3,342,000
Post-Office	18,113,000	18,603,000
	152,292,000	157,945,000

TOTAL REVENUE AND EXPENDITURE OF THE UNITED KINGDOM, 1895-1910.

	Revenue.	Expenditure.	Surplus (+) or Deficit (−).
1895-96	109,340,000	105,130,000	+ 4,209,000
1896-97	112,199,000	109,725,000	+ 2,473,000
1897-98	116,016,000	112,338,000	+ 3,678,000
1898-99	117,857,000	117,671,000	+ 185,000
1899-1900 ...	129,805,000	143,687,000	− 13,883,000
1900-01	140,124,000	193,332,000	− 53,208,000
1901-02	152,712,000	205,236,000	− 52,524,000
1902-03	161,319,000	194,251,000	− 32,932,000
1903-04	151,341,000	156,756,000	− 5,416,000
1904-05	153,183,000	151,769,000	+ 1,414,000
1905-06	153,879,000	150,413,000	+ 3,466,000
1906-07	155,036,000	149,638,000	+ 5,398,000
1907-08	156,538,000	151,812,000	+ 4,726,000
1908-09	151,578,000	152,292,000	− 714,000
1909-10	131,696,000	157,945,000	− 26,249,000

CHAPTER XIV

TAXATION IN DETAIL · DIRECT AND INDIRECT TAXES

THE householder who pays rates in his district makes that payment, in the main, for definite benefits received. This seems hardly as true of the citizen when he pays taxes, although in earlier days it was more nearly true. Thence, no doubt, came the idea of a special tax for a special purpose. The more modern view, for the nation even more than for the locality, is that we aim at collective rather than individual benefits, and hope to achieve what is called "solidarity"—on the conception that what benefits all benefits each.

A much more practical question is, What is a good form of tax? Obviously, there can be no simple direct reply; for if there were such a form it would have already solved the problem of taxation, and have become the only tax levied. The adoption of a "single tax" is still frequently advocated, and proposals of the kind were made even more than a century ago, always in the belief that some nearly perfect form of tax could be found. But whenever such a tax is suggested, investigation shows that it cannot be even approximately just in its "incidence," *i.e.*, in the way in which it affects all individuals. There seem always to be some specially injured and some specially privileged persons; so much is this true that it is very natural to fly to the other extreme, and declare that justice can be found only in a great multiplicity of taxes; for with extreme variety there is a good chance that the distribution of the burden will become equitable. With great subdivisions each tax may become almost imperceptible, a most desirable result.

No perfect form of tax.

But the expenses of collecting and regulating these taxes would be enormous

Most actual systems of taxation have grown up slowly, with constant readjustment, and are therefore compromises between these two extremes, modified according as a desire for abstract justice on one hand or anxiety to save trouble and expense on the other, might prevail. Of course we must not assume that our present form of compromise is by any means the best that could be devised; but there is always one great advantage in a complex system; small adjustments and rearrangements such as are necessary each year can easily be made It is said that a tax should be just, productive, economical, and simple, any given tax is likely to excel in one of these qualities and fall short in the others.

We have already pointed out that the household budget naturally divides taxes into direct or obvious, and indirect or implicit. The first kind comprises the income-tax, all forms of licences, and all duties separately paid, such as the inhabited house duty, the various forms of estate duties, and explicit duties on documents. The indirect taxes are those on commodities—tea, sugar, alcohol, and so on. Most of our direct taxes are paid out of income, like the income-tax itself; the death duties, however, are paid out of property when it changes hands, as is also the case with the new land-tax of 1909. We referred in the last chapter to early forms of property tax in England, such as the Saladin tithe This form survives as a general principle much more in other countries, notably in France. An income-tax like ours has not been very generally adopted in other countries, which tend to tax on property value instead.*

There is a tendency of late years to place direct taxation more and more upon the individuals with larger incomes. This is achieved by the adoption of graduated rates (the

* Neither France nor the United States has an income-tax. In Germany and Switzerland, where there is subdivision of government, such a tax is used for State, not Federal, purposes.

percentage levied being increased as the total sum assessed increases), and by the entire exemption of small amounts or incomes. Further, there is a sentiment that indirect taxation should not affect the necessaries of life, so that a proposition for a tax, or increased tax, on tea, sugar, or corn, is brought under strong party criticism. Since 1841 there has been a great proportionate increase in direct taxation, partly because the Free Trade policy adopted by England has tended to diminish the revenue from indirect taxation.

Direct Taxes.

Referring to the table on p 139, we will now consider some taxes in detail, beginning with the income-tax, perhaps the most interesting. It was originally used by one of our great financiers, Pitt, to obtain money for war purposes, and was imposed for the first time in 1799, a critical time in the finance of all European nations. It was repealed in 1817, and used only intermittently for the next few decades. In 1842 it was reimposed with a new purpose, that of making up the loss caused by reforms in the direction of Free Trade. But there was still connection with war, for it reached its highest rate in 1856 during the Crimean War (1s. 4d. in the £), and in 1902 after the Boer War (1s. 3d in the £). It was at its lowest in 1874 (2d. in the £), under Gladstone's able financial administration. His great desire was to abolish it; and in that year the abolition was proposed, but vetoed. He has not been supported by later financiers. At present there is some consensus of opinion to fix it at about 1s. in the £, without reference to war or peace. In the Budget of 1907 a somewhat new method of regarding the distribution of taxation was suggested; that one should aim at getting money for special emergencies, such as war, from all citizens alike by taxes on common commodities; whereas the income-tax should be approximately constant to provide a definite part of ordinary revenue. It is generally expected at the present rate to yield about thirty millions a

The Income-tax.

year. The highest total yet reached was thirty-eight millions, in 1902.

There has been a good deal of readjustment in graduating our income-tax. At present incomes below £160 a year pay no tax. On incomes below £400, £160 is subtracted, and the tax paid on the difference. A similar subtraction, decreasing in amount, is made on incomes between £400 and £700, from which latter sum £70 is still subtracted, and income-tax paid on the remainder Incomes above £700 pay on the full amount.

Graduation.

In 1907 a feature quite new in our history was introduced—the distinction of earned from unearned incomes. On incomes which are actually and directly earned the tax was reduced to 9d.; on unearned incomes, such as those resulting from the possession of land or other investments, the tax continued to be 1s. in the £, and has since been raised to 1s. 2d. The distinction is still greatly under discussion as a principle, but on the whole it is generally admitted that it is directed towards greater justice in the incidence of the tax. It will be seen that the idea is always to relieve the poorer and harder-worked members of the community, and that we are indeed far removed from the days when, as in the France of the fourteenth century, a hearth-tax was instituted which deliberately and obviously taxed the poor more heavily than the rich.

The collection of the income-tax can hardly be called a simple matter. It depends primarily on the "return" or statement of income made by each individual, and there is always great temptation to under-estimate a dubious income. It has been found to simplify collection in many ways to "tax income at the source"—that is, to remove at once the proportion due to the Government from the dividend paid by companies to their shareholders, the salaries paid by Government (and by many companies) to their employés, the rent paid to the owner of a house by the tenant, and similar sums easily examined and determined.

Of course too much may be subtracted in this way, as no account is taken of the proper deductions to be made when the full income of the individual taxed is known. There is a special department for the consideration of claims on this ground. This method of taxing at the source has nevertheless proved very convenient to the revenue.

The Estate Duty mentioned in the table at the end of the last chapter comprises a set of taxes collected when an estate changes hands at the death of its owner, these being generally known as the Death Duties; they were revised and simplified by an Act in 1894 Exactly two hundred years previously they had been introduced for the first time with the Stamp Acts, both being new systems adopted from Dutch legislators. We shall not consider these various duties in detail, as it does not usually fall to the lot of an individual to be affected by them many times in his life. The chief aspects to be noted are that the estate duty itself is graduated, like the income-tax, to fall more easily on small estates; that the legacy duty is graduated according to the legatee's kinship to the deceased, nearer relatives paying less than more distant relatives, and these less than people without any kinship. A certain proportion of the whole amount levied is now assigned to the general account of local taxation.

The Estate Duty.

The Inhabited House Duty bears on people's incomes much in the same way as the income-tax; it is calculated on the rent of the house occupied, and not imposed on houses rented at less than £20 a year. It is a survival of a tax older than the French hearth-tax, and with a similar idea. Before the Conquest people paid "smoke-farthings" for having chimneys. This tax fell into disuse gradually; it was revived by Charles II. as a "hearth-tax"—2s. per year for every fire-hearth. It was repealed in 1688, but re-enacted in William III.'s reign as a house and window tax. It was considered less of an intrusion into a citizen's dwelling to count his windows from outside than to

The Inhabited House Duty.

count his fireplaces from within. A fixed charge was made on each house, raised gradually from 2s. to 6s. a year; and extra had to be paid for every window more than ten. The definition of a window was comprehensive; it need not be glazed, and was often little more than a hole. This counting of all and sundry apertures led to that terrible method of building houses with insufficient light and ventilation in the eighteenth and early nineteenth centuries. Bedrooms were often built without any windows at all. We still see with wonder the imitation windows in black paint which disfigure the outsides of houses of this epoch. An agitation concerning the effect of this form of economy on health and sanitation began in 1832, and ended in the repeal of the tax in 1851. There has been very little grumbling at the simple inhabited house duty which took its place.

The Stamp Duties.

The Stamp or Documental Duties are very various, and we can give only typical instances of their application. This form of tax arose first in Holland. During the dearth of State funds caused by the great struggle with Spain, the Government offered a prize for the best new device for a tax. This was the suggestion which gained the prize, and the method was adopted in Holland in 1624, in England in 1694. The idea is to give the authority of Government to "deeds or written instruments which are the evidence or record of acts or transactions more or less transitory."* The original Dutch stamp was the impression of one or the other of the two Government seals. Stamps, as their name suggests, were originally all impressed, and showed the date of stamping; an adhesive stamp can in some cases be used for legal purposes, but does not bear an authentic date.

It is useful to bear in mind one distinction in the kinds of stamp duties. The duty may be fixed as a certain amount on each transaction, or may be a percentage charge, proportional

* S. Dowell, "Stamp Duties."

to the amount of money (or something estimated in money) which changes hands in the transaction.

A Government stamp gives legal authority to—

1. Statements—such as a receipt, a bill of lading, an affidavit, a certificate of holding scrip (such as railway stock), a lawyer's deed, a copy or extract from a will or any similar legal document.
2. Agreements—such as leases, mortgages, insurance policies.
3. Appointments—such as commissions in the army, marines, or navy.
4. Permissions—such as to marry, to change one's surname, to use armorial bearings, to sell cards and patent medicines, to issue bank-notes, to have the custody of lunatics.
5 Authorizations—such as giving "power of attorney" (*i.e.*, power to act as legal representative), writs, cheques, certificate of genuineness of wares.
6 Grants by Government of letters patent.

There does not seem to be anything controversial or open to discussion nowadays in these stamp duties; yet probably most of us associate with the words "stamp duty" some reminiscence of grievances, of agitation.

Trouble was caused by these duties in that great quarrel with the American colonies which ended in their secession. It was a matter of principle with the colonists. They contended that they were not to be taxed by the Government merely to obtain revenue for war or other general purposes, but that their taxes should be definitely for the purposes of improving trade. The distinction was one which it was practically impossible to enforce, as was shown by Benjamin Franklin; but there was an actual repeal of the Stamp Acts for the States in 1766.

One development of the stamp duty which was specially resented in England was its application to newspapers. It

was imposed in 1712, and was at first slight, but it was quadrupled in rate in the middle of the century. It became an intolerable burden on the development of the daily and weekly journal, and its effect is interesting to trace in the history of literature. In 1819 the presence of a Government stamp was demanded on leaflets and tracts. This last encroachment on the "freedom of the press" caused an agitation which ended in the abolition of the duty on newspapers and pamphlets in 1851. Another change which bore on this matter vitally was the abolition of the duty on paper (coming under our second class of taxes, those on commodities) in 1861.

Quite apart from stamp duties, which now generally take the form of actual stamps purchased at a post-office, we have

Licences.

Government licences, which may cost from five shillings to many pounds sterling. They may be classified thus for convenience of survey:

Licences for—Male servants, carriages, armorial bearings, guns, stills.
Dogs.
Game.
Manufacturing beer, spirits, sweets, vinegar, tobacco, playing-cards.
Selling beer, cider, wine, spirits, sweets, tobacco, postage stamps, game, gold and silver plate, patent medicines.
Auctioneers, appraisers, pawnbrokers, house agents, refreshment-room keepers, hawkers and pedlars.

On p. 139 a land-tax is mentioned, bringing in the sum of £730,000 in 1908-09. This seems a very small amount to be

The Land-Tax.

produced by any general tax on the land of the United Kingdom. The history of the tax is most intricate. It is natural that in a country which has been governed on a feudal system a tradition should

remain that the State has a claim on land. But the tax in its earliest forms was levied in conjunction with taxes on other sorts of property without distinction. Another great difficulty was the assessment of the value of land, and also the habit of allowing assessments to remain for lengthy periods without any revision. The first attempt at a system of special land taxation was in 1697, and this remained unchanged until 1798. We have already spoken of Pitt's financial difficulties at this epoch. He provided an alternative to the annual tax—the payment of a capital sum to obtain perpetual exemption from the levy as then fixed. This proved a popular arrangement, and about half the land was gradually freed from taxation, the money being used to pay some of the debt due to war expenses. But meanwhile, during all the next century, the changes in the actual value of the land, chiefly in the direction of increase, were enormous. Some attempts at readjustment were made in 1896 and 1898, but many difficulties remain. It has been suggested that it would be better to extinguish it altogether by some further adaptation of Pitt's method of redemption.

These licences and duties, we must repeat, are all parts of direct taxation—items easily named and assigned in a house hold budget, and therefore making it easy for one to see at once on what members of the community they fall, and how these individuals will be affected.

Indirect Taxes.

We must now explain how the State derives revenue from our consumption of certain commodities. It is convenient to the Government to classify these duties (as on p. 139) into Customs levied on foreign goods when they enter our ports, and Excise levied on goods manufactured in the British Isles; the distinction being that they are collected by a different set of officers with a different system. In fact, the most convenient practical classification

for the collection of taxes takes no account whatever of direct or indirect; the main revenue of the Government is collected, on the one hand by Customs officers, on the other by Inland Revenue officers; and Inland Revenue includes Excise duties, stamp duties, licences, the income-tax and inhabited house duty, and others.

But the matter in which we are chiefly interested is, On what goods are Customs and Excise duties levied?

The detailed list of the Customs dues seems to contain a fairly large number of apparently disconnected articles, but they may be classified under a very few heads:

1. Sugar and commodities into which it enters, such as candied fruit, sweets.
2. Tea, coffee, chicory, cocoa, chocolate.
3. Dried fruits, such as currants, raisins, prunes, figs.
4. Tobacco, with cigars, cigarettes, snuff.
5. Spirits, wine, beer, wood-spirit or naphtha, and various substances in the manufacture of which alcohol is concerned, such as perfumes, collodion, ethers (various), chloroform, and transparent soap.
6. Playing-cards.

The few articles manufactured in England on which Excise duty is charged are naturally the same as those on which Customs dues are charged when they are imported, and therefore occur in the list above.

This statement is extremely simple in comparison with the formidable catalogue which existed up till 1841. At that time no less than 1,150 articles were taxed, but in that year it may be said that the movement towards Free Trade made a definite beginning. It was no wonder that merchants petitioned for a removal of some of these duties. The agitation resulted in a series of repeals of Acts restricting trade, culminating in the repeal of the old Navigation Laws in 1849.

In modern days we assume that Customs are altogether on imports, and never on exports, but it was not so before the

days of Free Trade. Export duties began in the times of the Staple, when dues were exacted from people exporting wool (and similarly on those exporting leather) by the Crown's regulations. The "poundage" of "tunnage and poundage" was charged on exports and imports equally. But export duties were swept away entirely in 1842 under the influence of the new ideas. One duty was reimposed quite lately, as an expedient for raising money after the Boer War. It was a duty of a shilling in the ton on exported coal, imposed in 1901 and repealed in 1906. It had been the last export duty to be suppressed, lingering till 1845; and its reimposition was not a generally unpopular measure in 1901, but met with very strong opposition from coal exporters.

Another form of Government interference with trade, now entirely obsolete, is the system of bounties to encourage our manufactures—money actually paid by the Government on exports of manufactured goods. But at the present time Government does actually refund money on certain manufactured goods which have paid duty as imports on reaching the country, and, instead of being consumed here, are at once reimported. Such sums of money are called "drawbacks." The necessity for the payment and return is often avoided by the articles being kept "in bond"—*i.e.*, in a bonded warehouse, where they are technically considered not to have been landed in the country.

Returning to the Customs duties now imposed, some elasticity is still necessary, not only in the rate levied, but in the articles actually taxed. Very frequent change is undesirable, but small readjustments are both desirable and necessary, for we want always some power to decrease or increase the revenue for each year, according to the expenditure to be compassed. This is seen in the plans submitted in the Budget; and it is always interesting to compare the estimated effect of a change with the actual effect. Both are usually quoted after the new arrangement has been tried for a year.

Change in duties.

During the last ten years the chief variations have been in the duties on tea and on sugar, both being commodities in which a small change of duty makes a marked change in the revenue. The duty on tea was increased from 4d. to 6d per pound in 1900, to 8d. in 1904, and back to 6d. in 1905 In 1906 it became 5d., and remains at that figure Mean while coffee and cocoa have remained the same--about 1½d. per pound for the former, 1d. for the latter. The duty on sugar, repealed in 1874, was reintroduced in 1901 at the rather large rate of 4s. 2d per hundredweight; this was reduced in 1908 to 1s. 10d. A small duty on corn was imposed in 1902, after the South African War, but was in force only one year. During the same ten years the taxes on dried fruits and playing-cards have not varied (7s. per hundredweight; 3¾d. per pack). Spirits and tobacco suffered but slight change till 1909, when there was an increase of about 25 per cent. on each.

These variations are important if we remember the tendency to tax luxuries rather than necessaries. Another form of this aspiration is to desire the "free breakfast-table" for the working man, which means no tax on tea, coffee, cocoa, sugar or corn. But it is also urged that, as the working man pays no income-tax and few direct taxes, the only way he can contribute at all to the expenses of government is through the commodities he uses. There is also the new theory of taxation advocated by a recent Chancellor of the Exchequer (see p. 143).

A common complaint about all these indirect taxes (especially that on tea) is that they are levied at so much per pound whatever the quality. Many advocate an *ad valorem* tax, which would tax expensive tea or tobacco more heavily, and thus press more hardly on those who use choice kinds as a luxury. The idea of a graduated scale such as we have for income-tax seems attractive; as it would be probably more just though more complex.

There are always two somewhat opposed ways of regarding

a tax on luxuries. The Government may impose one for the direct reason that the luxury is so largely consumed that the tax will be profitable; or it may be actuated by the consideration that the use of the luxury is harmful, and may be checked by a tax. In the latter case it must not look for large revenue, but must hope that the tax will end by being almost non-lucrative.

For or against particular taxes there are often special considerations to take into account. A tax should not be so burdensome as to make smuggling profitable, for the extra administrative expenditure to detect the smuggling will neutralize any financial benefit from the extra amount levied. Also a tax on a commodity should not bear severely on, and so discourage, manufacturing industries which depend on the commodity The objection to a sugar-tax is that it affects the manufacture of jam, candied fruits and many other industries. Similarly, trouble was caused in many trades concerned with varnishes and lacquers by the tax on alcohol, until this was alleviated by allowing the undrinkable mixture we call "methylated spirit" to be sold free of duty.

CHAPTER XV

THE NATIONAL DEBT

THE State raises an annual income or revenue to meet annual expenditure. Has it not, however, the same need as a locality for capital as well as income expenditure? The principles of finance for local authorities have been developed in modern times, and, though not yet out of the region of controversy, they have been approached in a scientific and logical way. We have therefore found it feasible to discuss the propriety of local authorities having a "debt" at all, and the purposes for which the so-called "debt" may be incurred. But we find that all civilized countries have National Debts, often the heritage from past centuries, with an annual interest which seems a permanent burden on the people. Comparatively young nations raise loans for such practical matters as constructing roads and railways, and generally opening up the country to commerce. These purposes resemble those of local authorities. But the debts of the older countries are mainly the legacies from their great undertakings in war during the last three centuries, although a few have, it is true, developed State railways. The table on p. 155 gives the chief National Debts in 1905.

France has the largest National Debt of all. We can readily perceive that this should be due to the enormous indemnity she paid to Germany at the end of the Franco-German War of 1871; but besides this, the sum representing the debt includes all the capital (£300,000,000) raised to create the French national railways. The debt in Germany also represents to some extent railways and other profitable investments.

We have read in many contexts how in the earliest times Kings accumulated treasure to use in times of emergency. It was not necessarily coin, though it was more usually precious metals. The Egyptians, we know, accumulated corn as a provision for famine. Indian potentates treasured gold and jewels—the theme of many Indian stories, notably Kipling's "King's Ankus" ("Jungle Book"). Some modern States still keep a large quantity of bullion or coin; but from a modern

THE CHIEF NATIONAL DEBTS IN 1905.

Country.	Debt in Round Numbers.	Amount per Head of Population	Interest per Head of Population.
	£	£ s. d.	£ s. d.
Austria	168,000,000	61 0 0	5 1
Belgium	129,000,000	17 0 0	18 4
Denmark	13,000,000	5 0 0	3 4
France	1,228,000,000	31 0 0	25 2
Germany	166,700,000	2 14 0	1 10
Italy	499,000,000	14 0 0	13 5
Netherlands	95,000,000	17 0 0	10 1
Norway	17,000,000	7 10 0	5 9
Russia	885,000,000	7 0 0	6 2
Spain	379,000,000	20 0 0	17 3
Switzerland	231,000	1 0 0	1 4
United Kingdom	789,000,000	18 0 0	12 9
United States	486,000,000	5 0 0	1 2
China	121,000,000	5 11	3¾
Japan	191,000,000	4 0 0	6 6
Australia	227,000,000	56 15 0	2 0 0
New Zealand	59,900,000	66 0 0	2 6 3
Canada	79,000,000	14 4 0	9 11
India	214,000,000	14 0	6

point of view this is waste of capital, as it is unused and brings no interest, resembling savings in a stocking.

Private loans.

The next step in civilization was that men who had accumulated capital for the purpose made private loans to the Kings. Such men were the original bankers, generally looked upon as "usurers" in early times. The first bankers in this sense in England were Jews, who lent money to all our Norman Kings. These

monarchs found them very useful, but made them pay for permission to settle in the kingdom. Popular feeling generally ran high against them for the practice of "usury," so that they were extremely dependent on royal favour. Even that hardly made their lives endurable; they frequently petitioned to be allowed to leave the country, and were not permitted. But in 1290 a Papal Bull was issued forbidding England to harbour Jews. To obtain money for his wars, Edward I. had to fall back on the Lombard bankers, who had that grasp of finance which the Italian traders were then foremost in showing.* This new channel for obtaining money was used by the Plantagenet Kings during most of the fourteenth century. Edward III. contracted loans with two influential firms in Florence, who were reduced to beggary by his inability to repay. The English Kings after this catastrophe had recourse to the Hanseatic League, or "Hansards."

The repayment of these large loans was rather an uncertain matter, as it was dependent on the word of credit of an individual, who was apt to have arbitrary and regal views as to his right to take money. As late as 1640, Charles I. treated the East India Company in a way which has been described as infamous, over the "pepper loan." He received a whole crop of pepper from them, and sold it, but failed to redeem his promise of paying for it in instalments. But previous to this time debts contracted personally by a Sovereign had become much less common, owing to the fuller development of methods of taxation, and to the undoubted talent for finance possessed by the Tudor Kings. The last repudiation of debt was by Charles II., who, with the knowledge of his Cabal Ministry, borrowed a considerable sum in 1670 from some London financiers. After some years even the interest on the loan ceased to be paid, a grievance which naturally persisted up to the time of the Revolution of

* The Lombards came to England originally on Papal business. In 1361 there was a Lombard Master of the Mint. Probably we have all realized the significance of the name Lombard Street.

1688. This was the last occasion on which the Sovereign was permitted to obtain loans for public purposes on his personal credit

The Government then undertook the negotiation of national loans, pledging the national credit instead of the King's, they agreed to become responsible for half the amount of Charles's debt (about £660,000). The expenses of the war with France were met in 1694 by raising a special loan of £1,200,000 at 8 per cent. The alliance of merchants supplying this loan formed themselves into the Bank of England. The East India Company lent another £2,000,000, at the same rate of interest, in 1698.

National credit pledged in 1690.

The debt now rose very rapidly with the constant succession of wars in the eighteenth century. Between 1763 and 1783 it was almost doubled; between 1783 and 1802 it was again more than doubled. In 1815 it was £876,000,000, the highest total yet reached. During the next forty years various financial schemes for decreasing it produced very good effect, while we were at peace. But the Crimean War and Indian Mutiny increased it again. Similarly, it had fallen very considerably (to £627,000,000) in 1899, but became nearly £771,000,000 in 1903, at the end of the Boer War. The numbers for the last fifteen years are given in the table on p. 158, and show a decrease since that time. The Boer War would have raised the debt considerably more, but some of the necessary funds were raised by a special war loan, with a promise to pay back at a given date.

There is no such promise to pay back the capital borrowed for the original National Debt. It will be asked—What are the arrangements by which it decreases, as shown in the table? Out of many schemes suggested for reducing it by small repayments every year, several are actually in operation. This subject, and that of change in the interest paid on the debt, are matters for expert financiers. These advisers have to consider the merits and demerits of any particular scheme for "extinguishing" the

Decrease of debt.

debt. It is a debateable subject whether a National Debt is more an evil or an advantage to a nation, and how far this depends on the amount of the debt. At the beginning of the nineteenth century the rapid growth of our debt was naturally a matter of great concern with statesmen and economists. These fears were followed by a reaction caused by the great increase of national prosperity. Macaulay declared about 1850 that a rich, busy nation could stand a very large National Debt. He urged that it formed a sound investment for savings, in contrast to the bogus

THE NATIONAL DEBT OF THE UNITED KINGDOM, 1895-1910.

Year.	Debt.	Increase(+) or Decrease (-)	Year.	Debt.	Increase(+) or Decrease (-)
1895	659,602,000	- 8,829	1903	798,349,000	+33,133
1896	652,286,000	- 6,716	1904	794,498,000	- 3,851
1897	645,172,000	- 7,114	1905	796,736,000	+ 2,238
1898	638,818,000	- 6,354	1906	788,990,000	- 7,746
1999	635,394,000	- 3,424	1907	779,165,000	- 9,825
1900	638,920,000	+ 3,526	1908	762,326,000	-16,839
1901	703,934,000	+65,014	1909	754,121,000	- 8,205
1902	765,216,000	+61,282	1910	—	—

companies of the time of the South Sea Bubble, and prophesied that England in the twentieth century ought to be able to sustain a debt of 1,600 millions!

It will be clear that later financiers have hardly accepted this view. The simplest method of reducing the debt is that, after the final closing of State accounts for every year, any surplus remaining (excess of revenue over expenditure) is, as a rule, at once applied to this purpose. It is used to buy through stockbrokers a corresponding amount of the stock from private holders.

This stock held by private holders is now generally

known as "consols." The main part of the debt, acquired at different times and different rates of interest, has been consolidated into one debt, but there are always outlying sums (such as the special Boer War loan) and other temporary liabilities which form what is called the "floating debt," and are under slightly different conditions. The process of consolidation frequently has been accompanied by one of conversion—*i.e.*, change in the fixed rate of interest. Money has never been borrowed again at the high rate of interest given to the old East India Company and the original Bank of England. Moreover, it is obviously fair that the rate should change somewhat with the current rate of interest from other investments, although it should not be subject to constant fluctuation. Conversions have always, so far, been reductions. The first considerable one was made in 1749, when various loans at various rates were consolidated, and fixed at $3\frac{1}{2}$ per cent. interest for seven years, after that to become 3 per cent. There was no further change in interest till 1889, when a large portion of the debt was converted into stock at $2\frac{3}{4}$ per cent., reduced after fourteen years to $2\frac{1}{2}$ per cent.

Consolidation and conversion.

During the eighteenth century another complication in estimating interest was caused by debt being created at a higher amount in name than the money actually subscribed, a process equivalent to transferring stock "below par." Thus £90 subscribed might be treated as a loan of £100.

To return to the use of the word "consolidated," we spoke in Chapter XIII. of a Consolidated Fund which pays the interest and general expenses of the debt among other permanent charges. This fund is the result of combining various permanent sources of revenue which were put aside originally to bear the expenses of the debt. The process of amalgamation which has produced this fund is an entirely separate matter from the consolidation of the debt, and the two must not be confused.

Consolidated Fund.

Besides the application of any surplus of each year's

imperial revenue, there is another process in working by which the debt is being paid off or extinguished. This is the institution of terminable annuities. The Government annuities which we purchase through the Post-Office Savings Bank are of this kind The purchase money is at once applied to the extinction of the debt. The annuity to be paid forms, of course, an interest charge at a somewhat high rate, but it comes to an end with the life of the annuitant.

Terminable annuities.

We noticed in Chapter XII. that it is considered unjust for local authorities of the present day to burden posterity with the perpetual payment of interest. Fresh National Debts have been usually contracted when considerations of expediency, rather than those of abstract justice, came first. In England in 1800, with a harassed, poverty-stricken, and comparatively small population, most of the war expenses had to be thrown on posterity, in 1900 the number of the population and England's comparative wealth and prosperity justified the war expenses being met in large part by immediate taxation of brief duration. There can be no doubt that a growing desire to decrease the National Debt is making itself felt in politics.

CHAPTER XVI

THE REPRESENTATION OF THE ENGLISH PEOPLE IN PARLIAMENT

It is impossible now to grow up in England ignorant of the main outlines of our system of representative government. We all know that Parliament is summoned by the Sovereign, and is said to consist of the three estates of the realm—the Lords Spiritual, the Lords Temporal, and the Commons. This expression should not be confused with the three branches of the legislature —King, Lords and Commons. Two estates of the realm sit in one house—the House of Lords. The Lords Spiritual are the Archbishops and Bishops; the Lords Temporal are the peers, and take their place usually by hereditary right. Not all peers, however, have this right; it pertains to peers of the United Kingdom. Peers of Scotland and of Ireland are represented by certain of their number, who are elected by the whole.

Estates of the realm.

Generally speaking, power to vote for a representative in the Commons belonged originally to holders of property, that property being usually land. Before 1832 a person was required to possess land in order to vote for the county representative. The franchise for the boroughs was very diverse, but depended generally on owning a house and the land on which it was built. In some cases only members of the town corporation had votes, and there were other forms of restriction. The right to be a burgess was defined differently in different towns.

Parliamentary franchise.

The new principle of the Act of 1832 was that occupation

of a house gave the right to vote, whether it was rented or owned. The franchise was first given to the occupiers of all houses above a certain rental (£10 in the boroughs). In 1867 the limitation of a minimum rental was removed in the boroughs, and in them the vote was also given to lodgers.

In 1884 the same franchise, dependent on occupation of a house or other premises within the area, was extended to counties. This is sometimes spoken of as Household Suffrage. The elector must be registered on an electoral list, which means he must have occupied this abode for not less than twelve months previous to July 15 in each year. He must not be an alien, nor have received parish relief within twelve months. At present for a Parliamentary election he must be of the male sex. Since 1888 women, if properly qualified, have been allowed to vote in elections for County Councils, and since 1893 for other local bodies. While School Boards existed, they had votes for their election. Women are now eligible as members of County and Borough Councils; they have long been eligible as Poor Law Guardians, and always were as members of School Boards. This is not the place to discuss the desirability of their being allowed to vote in Parliamentary elections. We may remark that under the present system only a limited number of women can be enfranchised; so that any more far-reaching scheme, particularly for married women as well as spinsters and widows, must be some form of advance towards a system of "Adult" instead of "Household" Suffrage.

The introduction of the secret ballot in 1872 was a very important change in procedure at elections.

In England alone there are over 2,000,000 electors in the boroughs, and over 3,000,000 in the counties. The Universities, which are represented separately from the towns in which they are situated, bring up the total number of electors to about 5,800,000, electing 495 members. Altogether in the United Kingdom there are 7,260,000 electors and 670 members.

What duties do we consider that our representative member has to perform? What in general is the work of Parliament? It may be classified under four heads: **Duties of Parliament.**

1. Legislation.
2. Administrative and executive control.
3. Financial policy, and management of revenue and expenditure.
4. Discussion and redress of abuses and grievances.

The first and fourth of these are recognized by everybody as the chief business of Parliament. If we read the accounts of what goes on "in the House," we find there is a very large amount of debate, and that this is occasionally followed by the passing of an Act with much elaborate ceremony. The second and third heads seem rather to be in the hands of the special members who are appointed Ministers of the Crown, aided by permanent officials who are neither representative nor elected. The most important of these Ministers form the "Cabinet." We also speak of them all, vaguely, as the "Government"; and everybody has an idea, also vague, that it is the Government that does most of the work, not the House of Commons generally. This impression is correct in the main, especially as more and more in later years proposed legislation, in the form of "Bills," is initiated by the Government. Only a small, and a decreasing, amount of time is put aside for "private members' Bills," and they must always give place to Government Bills. The conception is that the latter represent a settled system of policy, and have had more attention from legal experts in their drafting. Moreover, private members may not introduce Bills to spend or to raise money.

Therefore, to comprehend at all adequately how we are governed, it is necessary, and not very easy, to have a clear conception of the Cabinet system.

Before this is discussed, it will be well to indicate somewhat

in detail the process by which a Bill passes both Houses, receives the King's sanction, and becomes an Act. The first proceeding is that a member asks leave to introduce a Bill dealing with some specified subject. He makes a speech indicating the need for some legislation, and the general purport of the changes proposed. The motion put to the House is that the member be allowed to introduce the Bill, and that it be read a first time. When this motion is passed, a copy of the Bill is presented to the Clerk of the House, and not actually read. There is then an interval during which copies are printed, and one sent to every member. After due time for consideration, the matter is again brought before the House, on the motion that the Bill be now read a second time. A debate follows, in which the general principles of the Bill are very fully discussed, and exception may be taken to details. If now the Bill "passes the second reading," it must be considered clause by clause in a committee for the purpose. Committees for the discussion of well-defined branches of legislation are constituted at the beginning of every new Parliament, selected members with special qualifications for dealing with certain subjects being appointed by the assembled House. In matters of grave importance, the details will be discussed by a "committee of the whole House." The procedure in committee is different from that in the House. A chairman presides instead of the Speaker, and any member may speak several times instead of only once. Amendments to each clause may be proposed, and thus the Bill considerably altered. After it has been exhaustively considered by the committee, it is reported to the House. At this last stage, amendments may again be proposed by members who may or may not have sat on the committee; thus every chance is given for modifications in detail. After the report stage there is a motion that the Bill be read a third time, when it may be discussed once more in principles or details. The Bill when read a third time is passed, and is then sent to the other House. The word "House"

How a Bill becomes an Act.

has been used purposely instead of House of Commons, because a Bill may originate in the House of Lords, and pass through the same procedure. In either case the order of events is repeated in the second House, but usually takes less time. Any amendment passed in the second House must, however, be referred back to the first for confirmation. Such modifications may often be accepted without difficulty; but what happens if the two Houses are definitely opposed either on the principle of a Bill or on certain details? Technically the Bill must be dropped, if consultations between the leaders of both Houses cannot produce agreement or compromise. In case the House of Lords refuses to pass an important Bill passed by the Commons, it is open to the leader of the Commons, if he considers the matter vital, to ask the King to dissolve Parliament. If a majority in the new House of Commons is still in favour of the Bill, it is usual for the other House to give way. On the other hand, if there is a definite change of opinion in the new House, the Bill naturally is not again introduced. This proceeding is often called the "appeal to the people." When Mr. Gladstone appealed to the people on his Home Rule Bill in 1885, the majority in the new Parliament was against him, and the subject was not revived; when Mr. Asquith made a similar appeal in January, 1910, after the Lords' opposition to the Finance Bill, the majority was with him, and the Bill was then passed by the Lords (see Chapter XIII.). But the delay entailed great financial inconvenience, and the question most discussed in politics at present is whether an alteration in the existing relation of the Houses is desirable.

Divergence between the two Houses.

When both Houses concur on a Bill, it is presented to the King for his assent, and then becomes an Act.

We must now give some account of the "Cabinet," which is one of the most important features in our government. At the present day the King reigns, but does not govern; but until the seventeenth

The Cabinet system.

century he did actually govern. The change to the system now existing was gradual, and is not easy to trace. From the earliest times the King has selected the most able of his subjects to assist him—some as his servants in administration, others as merely advisers or councillors. The two groups were spoken of together as the "King's Council," or, later, as the "Privy Council"; but their organization into a body was not very definite.

As life became more complex, the councillors were selected on account of their special knowledge of some sort, and the number existing at the same time gradually became so great that the affairs of the nation were discussed by the King in small committees instead of in general council. Charles II. preferred to govern with the advice of a small committee, composed chiefly of his officers, known as the "Cabal"; and William III. had an even smaller number of advisers.

Meanwhile Parliament had become much more powerful, and one of its claims was that the King's servants and advisers should be subject to its approval. Ultimately all the important councillors were chosen from among its members, and it followed naturally that they should be members of the party dominant in the House of Commons at the time. These came to be known as Ministers, although they are still technically called "His Majesty's Servants." They remained members of the Privy Council; and therefore if an individual appointed to Ministerial office is not already a Privy Councillor, he is at once made one. It has happened in this way that the Cabinet is at the same time a committee of the Privy Council and an assembly of the leaders of the party in power in the House of Commons.

Another great constitutional change is that the Sovereign is no longer present and presiding at Cabinet meetings. This was the result of the apparently unimportant fact that George I. did not understand English sufficiently well to take charge of a meeting of the Cabinet. About the same time it

was established that the King's written and signed orders cannot take effect without the counter-signature of a Minister.

The power and scope of these double-signed orders is greater than is generally realized. The King, with the Minister concerned or with the whole Cabinet, can disband all the forces, declare war, give away territory, make anybody and everybody a peer, create Universities, and pardon all legal offenders, without reference to either House.*

What is the power of Parliament over Ministers? Any legislation must be passed by both Houses, and the House of Commons controls finance. The raising of revenue must be discussed in a Committee of the whole House, called a "Committee of Supply"; the estimates for expenditure, in a similar "Committee of Ways and Means." It is this control which has led to the custom that the King's Ministers must belong to the party which is in the majority in the House of Commons, and must change with each new Parliament.

The Sovereign chooses one Minister—the Prime Minister or Premier. Before December 2, 1905, the position of Premier was not formally recognized. The Minister took both position and title from some other office, generally as First Lord of the Treasury; but he directed the business of the Cabinet, and was generally responsible as the head of affairs. By a royal warrant of the date given, the Premier as such was given official position as an officer of the Crown, though without salary. As leader of his party he is responsible for much general policy and control, and should not be overburdened with administrative work.

The King, after consultation with the Prime Minister, appoints the other Ministers from members of his party, each being given the charge of a special administrative department, for which he is responsible to Parliament. Most departments have a Secretary and an Under-Secretary, and it is usual

* Bagehot, "British Constitution."

for one to be appointed from the Commons, one from the Lords, so that the department is represented in both Houses. A list of these Ministers is given below; the reader will learn from it what are the chief departments of administrative government:

Formation of a Cabinet.

I. IN THE CABINET (1910).

First Lord of the Treasury.
Lord Chancellor.
Lord President of the Council.
Lord Privy Seal.
Secretary of State for Home Affairs.
Secretary of State for Foreign Affairs.
Secretary of State for the Colonies.
Secretary of State for War.
Secretary of State for India.
Chancellor of the Exchequer.
First Lord of the Admiralty.
Chief Secretary for Ireland.
Postmaster-General.
Secretary for Scotland.
President of the Local Government Board.
President of the Board of Agriculture.
President of the Board of Trade.
President of the Board of Education.
Chancellor of the Duchy of Lancaster.
First Commissioner of Works.

II. NOT IN THE CABINET.

Lord Lieutenant of Ireland.
Lord Chancellor of Ireland.
Parliamentary Secretary to the Treasury.
Financial Secretary to the Treasury.
Attorney-General

Solicitor-General.
Judge-Advocate-General.
Paymaster-General.
Lord Chamberlain.
Lord Steward of the Household.
Comptroller of the Household.
Treasurer of the Household.
Master of Horse.
Attorney-General for Ireland.
Solicitor-General for Ireland.
Lord Advocate for Scotland.
Solicitor-General for Scotland.

The number in the Cabinet used to be fifteen or eighteen; of late years it has been increased to twenty. Usually the particular King's servants who are selected to form the Cabinet are much the same in each Parliament, but the Premier has a certain amount of choice. It is thus that the Cabinet comes to be practically a committee of the party in power in the House of Commons, containing also members of the House of Lords in sympathy with that party.

Connection with Privy Council.

What is now the connection of the Cabinet with the Privy Council? We have said that each Minister is made *ex officio* a Privy Councillor when he becomes a member of the Cabinet. The title Right Honourable pertains to a Privy Councillor, not to a Minister. Members of the Council other than Cabinet Ministers are still invited to join special committees where their expert knowledge is required. Their advice may be needed in connection with the various Boards mentioned in our list. These Boards consist legally of small committees containing one or more members of the Privy Council. But the President is the only responsible official; he has no formally summoned meetings with his committee, but may consult them individually as occasion arises.

A very interesting point about the Cabinet is its procedure,

It has always been a secret committee. Not only are its members bound not to divulge what has been discussed or decided at a meeting, but no agenda are sent out and no minutes are taken. None of the business is officially committed to paper at all. From this there has probably arisen the custom (already in several instances profitable and interesting to posterity) of Ministers keeping private notes and diaries with reference to Cabinet meetings.

Does this Cabinet system work well in carrying out the administrative functions of government? The theory is that the politically appointed head of each division of administration is the link between that division, in its detailed work, and the nation that is employing it to do the work. It is true that the direction of administration must be on some general political scheme on which the Cabinet is agreed. But it is a very obvious criticism that the man put by his party in charge of a certain department will quite frequently have neither special qualification nor special training for his work Moreover, his tenure of office depends on the majority in the House of Commons.

The system is rendered much more reasonable by the fact that each department has also a permanent head, and a set of permanent officials, who have all the expert knowledge and experience desired. It is believed that these officials may reasonably be put under the final control of a man who may often be merely an intelligent, non-specialized outsider, who is not in charge of detail, but of general policy, and who knows the wishes of the House of Commons and the people.

Criticism of a Minister.

What is the procedure if the House of Commons disapproves of the administration of one Minister? Questions attacking his actions may be asked, and he is thus brought under severe criticism, especially from members of the other party, or Opposition, who are prepared to take office. After very severe criticism the Minister may resign, or he might conceivably be im-

peached. But in general, a whole Ministry would resign together, as they are created together; all are responsible for the actions of each. A Ministry, acting under its leader, the Premier, may choose to resign when there is an adverse vote of the House of Commons on some matter of policy which they consider of vital importance. A majority against them on a single division does not necessarily result in their resignation. If they resign, the Sovereign may ask another Member of Parliament, usually the leader of the Opposition, to form another Ministry. The new Government may continue in office if they believe they have, in contrast to the last, the definite support of the House; but it is more usual, especially of late years, to have a General Election to determine in which party the country as a whole has confidence. Indeed, the defeated Ministry may choose to dissolve Parliament and have a General Election without resigning.

Our "party" system.

There is no other country with a "party" system of government resembling ours. It would be a mistake to imagine ours as unchangeable; there are constant changes and developments going on. The political history of the last century shows us that there is no well-defined line between our two main parties, in action or in tradition; and that circumstances continually recur which divide public opinion into more than two camps, so that both the "Government" and the "Opposition" are composed of groups of various shades of opinion extremely likely to part company on special questions. Unexpected stability is given to the workings of the system in practice by a strong, though unspoken, prejudice against upsetting past legislation if it can possibly be avoided. Many English people seem to have an indefinite belief that government must be best carried on by having two parties opposed in general views of policy, and giving each side what might be called an "innings," with the other side as adverse critic.

It has been pointed out by many recent English and foreign

writers that of late years the greatest power of political criticism has been vested in the press, which in effect rivals, if it does not surpass, a Parliamentary Opposition. The humorous name, "Fourth Estate of the Realm," has some serious meaning. The man who writes a newspaper leader is not, however, in the position of the members of the Opposition—prepared to take part himself in the direction of public affairs. It is often not very clear whom he may be considered to represent in the community.

The "Fourth Estate."

The aspects of politics we have just noted are instances of the constant modifications in our political development—a slow growth moulded by forces of which most of us are unconscious until they have become irresistibly strong.

We often hear the words "the British Constitution"; and in the same context, instead of learning about its solidity and permanence, we are apt to hear the rather perplexing remarks that "there is none," and that it is "unwritten." These statements are comparative rather than absolute The comparison is with such countries as the United States and France, which have each had a revolution in their form of government within recent times, and have found it desirable to make an accurate definition of the relations of subject to government in some fundamental statute. Therefore each country has a written Constitution, which is a clear and definite statement of the structure and principles of its government. The British Constitution has grown slowly; there has never been an occasion to state it all at once concisely. It consists partly of Acts of Parliament, partly of decisions in law courts, and, lastly, of a large amount of convention, which is the only unwritten part. Finally, it may be said to be continually changing by means of new legal decisions, and in other ways; because we have never had the custom (which comes naturally in a collection of States like North America) of separating Acts of Parliament into those which affect the Constitution

The British Constitution.

and those which do not. Consequently almost every year some new Act may, by some of its clauses, actually modify our Constitution without any marked comment on the change. Mr. Medley defines it as the product of "all rules which directly or indirectly affect the distribution or the exercise of the sovereign power in the State."

CHAPTER XVII

THE GOVERNMENT OF OUR COLONIES

THE people who are represented in the legislation and administration described in the last chapter are, or are assumed to be, the taxpayers of the United Kingdom. The present theory of government is that to pay taxes to the revenue gives the right to be represented in the disposition of the expenditure of the nation. Does this apply to the immense number of subjects of the British Empire overseas? Do they pay taxes? Have they any share in the government of the Empire? The only approach we have made to an answer to this question is to indicate the existence of a Colonial Office and an India Office, which administer affairs for the colonies and for India respectively. There is no simple direct answer to give We have seen briefly in the chapter on Foreign Trade that each of the British colonies has become connected with the mother-country through a train of events, a history peculiar to itself. Each contains a population somewhat different in nature. Further, the exact form of government in each has probably passed through several stages, and may pass through more. With regard to many small possessions, it is advisable to consult the last edition of the "Statesman's Year-Book" to discover how any particular one is being governed at present.

Some general outlines of classification may be given; especially as colonies, as a rule, have advanced from the stage of being entirely governed by the Colonial Office, to stages of more and more self-government. At one extreme we have

possessions like Ascension Island, St. Helena or Gibraltar. These are each under a military rule and a military Governor, with a set of army officials. The conditions of discipline on Ascension Island have caused it to be compared to a ship in mid-ocean, with a captain in supreme command. Practically, in all stations other than these places representative government appears in greater or less development. Usually the next stage is that the Governor (still appointed by the Colonial Office) is assisted by an Executive and a Legislative Council. Officials who have been appointed by the Colonial Office have, like the Governor himself, a right to sit on both these councils; but they are assisted by unofficial members. These may be nominated by the Crown or by various local groups of people, the idea being to have the special interests of the colony, probably its traders or cultivators, represented Hong Kong and Trinidad are examples of this second stage.

Evolution of colonial government.

Next, these assemblies, especially the Legislative Assembly, may have their unofficial members elected—not nominated—as in the case of Cyprus, Jamaica and British Guiana. The exact control of the Colonial Office over the appointment and number of official members varies in different cases.

But in all these colonies mentioned so far, no legislation is valid unless it has been ratified by the Crown, which thus has the final responsibility. Colonies where the above conditions hold are known as Crown Colonies, and are under the general control of the Colonial Office, with reference to the King or the Cabinet on legislation.

It is interesting to note that with increased facilities for communication the Governor in one of these colonies has actually less freedom and initiative than he would have had in the seventeenth or eighteenth century. In those days prompt action had often to be taken without any possibility of reference to the authorities at home; the man in command had to act on his own responsibility. Nowadays the Governor can obtain advice or instructions within a few hours by cipher

telegrams, and he is not usually expected therefore to make weighty decisions without reference to Downing Street

In the next stage of colonial government minor officials are wholly withdrawn, and the colony is under the rule of a Governor appointed by the King, with the assistance of an entirely representative assembly for legislation and administration. The Crown still has the power of veto on legislation, but this is used only when the legislation proposed is considered to be detrimental to the general interests of the Empire. This form of government obtains in Canada, Australia and South Africa; it was initiated for the separate colonies in each continent at various periods since 1840. In 1867 federation of all the separate parts of Canada took place, and more recently in Australia and South Africa, so that there is now one Governor-General for each. But the forms of federation in these continents are not the same. Canada, excluding Newfoundland, forms a single self-governing colony with provinces. Australia and South Africa consist of self-governing colonies united into a commonwealth.

If we were merely giving an outline of the evolution of colonies in political independence, we might press this evolution to a logical conclusion by saying that the condition of the United States ought to be the final stage, the last two links with the mother-country—the Governor and the veto—being here broken. But statesmen nowadays do not contemplate this as the inevitable final step for each colony. It may be said that England lost her control over the United States because her rulers had not then the experience which might have enabled them to try these successive stages of allowing colonies to grow, with constantly increasing freedom and local responsibility. England has made the fullest use of the lessons learned in the War of American Independence. While it is quite true that this war was caused by undue pressure from home on the new colonies, both by taxation and by annoying restrictions, it should be noted that the idea of the English government with regard to the local government of these

colonies was always that they should have elected representatives for internal legislation and administration. These plantations were made (see Chapter V.) by Englishmen accustomed to be represented in their Parliament. In other places there has been a general tendency to grant representative government and self-government without much delay where there is an active white population (not necessarily English), and to delay it where there would be many coloured voters, or where the tropical climate rapidly enervates the white population In certain islands in the West Indies* the privilege of representative government has actually been taken away without very strong objection being made.

It will have occurred to the student that the simple form of military rule has obviously existed only for islands or territories annexed suddenly, and usually as military conquests. Many settlements have arisen out of trade, not out of wars. We have only to point to the history of the two greatest chartered companies—the East India Company, ending in the Empire of India (to which we must shortly devote special attention); and the Hudson Bay Company, which possessed the "North-West Territories" until 1870, when they were purchased by the Government, redivided, and renamed.

Companies have been chartered for trade and granted privileges for government in quite recent times. They have thus formed colonies rather different in their first stage from possessions under military rule; they have a greater degree of freedom from the beginning, because the traders are always allowed a certain licence in initiative and decisions, and there is no Governor appointed by the Crown. Nigeria was administered by the Niger Company from 1849 to 1899, and the British North Borneo Company and the British South Africa Company in Rhodesia still exist.†

Modern chartered companies.

The general modern form of a company's charter has been,

* Grenada, St. Vincent, Tobago, and Honduras.

† "Statesman's Year Book," 1910.

permission to administer law and justice in their territory, approval of their internal organization and control, directions as to the auditing of accounts, and restriction in the raising of money at home. They may appoint their own Governor, who must be approved by the Crown. It has been said that the character of a colony in its early stages alters entirely as soon as it becomes possible and desirable to invest English capital there.

There is a modern form of connection with Great Britain, very different from a colony, for which the name "protectorate" is used. It is a development of British control over native governments, and is common in Hindostan, especially in outlying regions. It will be considered more conveniently after India. There are also several protectorates in the Malay Peninsula, known as the Federated Malay States.*

It may be pressed still as a practical point, Do the inhabitants of our colonies pay taxes? They certainly pay them to their own Government for benefits received; the exact details of such taxes can be studied in the Budget of each colony. They do not at present pay taxes to the imperial revenue. In fact, they are an expense to the mother-country, an expense estimated in a superficial way as that of the establishment of the Colonial Office; but we are not likely to undervalue the great effect they have on our national prosperity, especially in trade and commerce. A very important question, connected with what is called the "federation of the Empire," is whether they should take part in imperial taxation to help to support our army and navy, and possibly other imperial services. The large colonies would also like to be represented directly in discussions and decisions on imperial affairs. Of late years the first great question has been approached in various ways

Taxation of colonies.

* In this connection the student is recommended to read some account of Sarawak, an independent State in Borneo, which is ruled by an Englishman, Sir James Brooke, as Rajah. Although there is no official relationship with the mother-country, the ties which bind Sarawak to us are really very strong, and, if certain emergencies arose, would become very close.

by the spontaneous action of certain colonies during recent wars. New South Wales and Canada both sent small contingents of soldiers to the war in Egypt in 1885. Almost at the first outbreak of the Boer War offers were made of contingents from Canada, and from Australia in its various parts These were accepted after very short delay, and were followed by others as the gravity of the situation increased, until about 25,000 colonial troops were engaged. More recently certain Australian colonies and Cape Colony have tried the plan of contributing in money to the expenses of the navy, but with the suggestion that more ships should be allotted to their own naval stations. One of the most important subjects of discussion at the Colonial Conference in 1902 was whether the colonies should merely pay a subsidy to the British navy, or whether they should man, maintain, and if possible build, the ships for their own service. This is still under discussion.

Our colonies make their own legislation with regard to duties on imports and exports, and have for the most part imposed duties on imported manufactured goods, so as to encourage their own industries.

India.

The fact that the affairs of India are administered (so far as this is done in England) by a separate Secretary of State and a Council, emphasizes two things—first, its great size and population; and, secondly, that it is governed on principles essentially different from other colonies. The federating of several large colonies, with their diverse populations and interests, as in Australia, is a small, simple problem compared with the scheme of government adopted for those diverse territories under English rule which we call by the single name India, and regard somewhat complacently as one possession inhabited by one nation. As Sir John Strachey observes, "There is no India and no people of India." In the peninsula of Hindostan there

India not a single nation.

are about 294,000,000 people, speaking about seventy languages and dialects, and with at least six widely different forms of religion—the Hindu (or Brahmin, a very elastic form to which by far the great majority belong), Mohammedan, Buddhist, Christian, Parsee, and Animistic. It is obviously necessary for a single unifying Government over such peoples to have a very large military force. But it is noticeable that the immense army in the peninsula is only one-third British troops, the remaining two-thirds being native troops. The forms of government used may be said to derive locally from the forms used by the Sultans, Nawabs, and other dignitaries, for whom the English originally began to govern, and to derive in England from the privileges originally granted to the East India Company, under Government control.

Its government.

We have therefore at the present day three grades of government:

I. The Secretary of State (a member of the Cabinet), assisted by the permanent officials of the India Office and by a Council. A new member of this Council is nominated by the Secretary of State as a vacancy occurs. It consists of not less than ten members; nine of these must have served at least ten years in India, and must not have been home more than ten years. The part of the government undertaken at home is the superintendence of finance, the military defence, and all relations with Foreign Powers.

II. The Governor-General, or Viceroy, assisted for general purposes by a Council of six ordinary members (appointed by the Crown) and the Commander-in-Chief. There are nine administrative departments supervised by this Council. For legislative purposes sixteen additional members are nominated by the Viceroy, and the deliberations of this Council are public. Besides making all the laws for the government of India, the Viceroy's Council superintends railways, canals, postal and telegraphic communication, collecting of revenue, and the general principles of the fiscal policy.

III. The country preserves most of the ancient divisions as provinces for local administration. Each province has a Governor with an Administrative Council, and a Legislative Council for local affairs. All forms of local government are now developing rapidly, especially in the form of municipalities for the large towns. Moreover, local bodies are more and more becoming elective, especially the municipalities. All changes in India are likely to be in this direction, but the question of representation is not a simple one. In other colonies enfranchisement has been granted for the most part to people British by descent, or at any rate of white race. In India it is granted to natives, and there is at present great difference of opinion as to their fitness for self-government. There is no doubt that one effect of the Indian Mutiny was to give our rule there a strong autocratic tendency. On the other hand, the great lesson learned by the English at the time was that they must give much more attention to understanding the customs, traditions and desires of the natives.

India is to be governed for the benefit of its native inhabitants rather than for the Anglo-Indian residents, who are expected (by the modern conception of our imperial affairs) to have a high standard of disinterestedness. This idea will tend to produce constant readjustment in the administration of this vast domain, which is as yet imperfectly understood by the great majority of English people, and intimately known only to a very few. It has, indeed, been suggested that it will never be possible for England to govern it according to her own ideal without a very great development of native resources — material, intellectual and moral, including the creation of much independent power of self-government.*

A "Protected State," under the protection of the British Government, has a British Resident officially appointed to assist its ruler with advice, especially legal and financial.

* See Sir Charles Dilke's "Greater Britain."

The conditions imposed are that the ruler cannot make war or peace without the consent of England; cannot send Ambassadors to other States, far or near; cannot develop his army beyond a prescribed limit; and cannot receive official representatives of other European States without the consent of the Resident. In case of bad misgovernment by the ruler of a protectorate, the British Government, by its representative the Resident, takes his place, and does his work until a permanent solution of the difficulties has been found. It may depose the ruler and appoint his successor, usually the heir according to native law. If the heir is a minor, the Resident undertakes the supervision of his education. Sometimes a group of small States has a single Resident. In Hindostan there are forty-five native States, or groups of States, with populations varying from Hyderabad with about 11,000,000 inhabitants, to Jaisulmere with 73,000, and Sandur with 11,000.

Protectorates.

There are five native States in the Malay Peninsula, each with a Resident, and one Resident-General in addition.

There are a few protectorates in West Africa of a slightly different type. Beyond the boundaries of such colonies as Nigeria, Sierra Leone, Gambia, are closely connected territories which are inhabited by uncivilized tribes governed by numerous petty chiefs. In each of these protectorates peace is maintained by a British military officer called a Commissioner or Consul-General.

BOOKS RECOMMENDED FOR FURTHER READING

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THEORETICAL ECONOMICS

CHAPTER I

INTRODUCTORY

THE object of this book is to consider the general economic laws underlying all activities of wealth-getting and wealth-distributing.

Economists usually divide their textbooks into three sections, treating respectively of the production, distribution, and consumption of wealth; and this little manual will follow that example, except that exchange and distribution will, for reasons explained in the preface, be taken first. Our first section, then, will discuss money, banking and the mechanism of exchange, markets, and the general conditions according to which prices are fixed; the second will deal with the production of wealth, and the methods by which all the people taking part in that production are rewarded; while the third will treat of the way in which the wealth so produced is used up.

Divisions of the subject.

But first in this chapter we must define some general terms which, even from the beginning, we must constantly employ. There is a special difficulty about the use of words in economics; most sciences invent new words for their special conceptions, to which can be given a clear and precise meaning—as, for example, "sine" and "cosine" in trigonometry, "atomic weight" in chemistry, and "stamen" or "monocotyledonous plant" in botany. Now,

Definitions.

economics deals with very complicated sets of facts, which yet, notwithstanding their complexity, are partly familiar to everyone. It would be pedantic and absurd to make quite new words; therefore we must employ words already known to everyone—such, for instance, as wealth, value, rent, wages, market. But since steady thinking about any subject always reveals new facts about it, and forces us to make distinctions which the ordinary person fails to comprehend, so in economics we shall use many words whose meaning any newspaper-reader believes that he fully understands; yet as economists we shall be obliged to use them with slight alterations of significance, and to make subtle distinctions in different usages, in order to give these words a distinct scientific meaning. One of the most interesting of these words is "rent," which has a quite special use in economics, different to, and yet derived from, its significance in everyday life. In this chapter we shall confine ourselves to two words of fundamental importance in this study of ours, and in discussing their meaning we shall at the same time be able to throw more light on the questions: "What is economics about? What sort of subjects does it deal with?" These two words are "wealth" and "value."

Economics treats of the exchange, production, and consumption of wealth. What, then, is wealth? Most people think that they can answer that question at once, and would reply: "It means having plenty of money."

What is wealth?

But some of us remember the story of Robinson Crusoe and the coins he found in the wreck. At first he was delighted, believing himself ever so much richer than before; but soon he realized that, since he could not buy anything with this money, he had gained absolutely nothing. An iron pot or a blanket would have been wealth to Crusoe, but £100 in gold was just so much heavy yellow metal, good for nothing at all. Wealth does not consist in money unless we can exchange the money for other things, and a man who has money is only wealthy

Money? No.

because he can buy houses, furniture, food, clothes and books.

These, then, are examples of wealth. But we must try to make a more general definition Why was a blanket wealth to Crusoe, and gold coin not? Because the blanket could be used to keep him warm—to satisfy a need; while in his desert island the gold could do nothing for him. All wealth must satisfy some need. The rare metals containing radium were not wealth until the scientists discovered the marvellous properties of that element. Now people who are fortunate enough to have a mine from which radium can be extracted are likely to become very rich indeed. Furniture is wealth, because people need chairs and sofas to sit on, beds to lie on, tables to eat at. Whatever is wealth must satisfy some need, real or imagined, and a man with money is wealthy precisely because he can exchange that money for things which satisfy desire. If for any special reason he cannot, then he is not wealthy, though he possess mountains of gold and silver coin.

Wealth must satisfy a need.

But not all things which satisfy desire are wealth. The atmosphere satisfies our primary and greatest need—*i.e.*, to breathe. But nobody reckons the air in the list of our wealth, because everyone can have air for nothing. So, too, sea-water on the beach, or blackberries on the common are not wealth. But blackberries picked and sent to market are wealth, for in the town everyone cannot have them simply by gathering them. Here, then, we see the second characteristic which must be present in any object that is to be reckoned as wealth. It must be scarce—*i.e.*, there must not be so much of it that anyone who wants it can have as much as he desires.

Wealth must be scarce.

An attempt has sometimes been made to define wealth as that which is produced by labour. Now, most wealth is so produced, and is wealth precisely because, if it can only be made by labour, it must be scarce. But a diamond picked up on the mountain-side is

Is wealth that which is produced by labour? No.

still valuable, though no labour went to its discovery; and a picture which took months to paint is not valuable if no one desires to buy it and hang it on his walls

These two elements, then—scarcity, and the power to satisfy a desire—must be present in all wealth Now let us turn to the word "value," and, after discussing it, come back again to the different kinds of wealth.

Value.

Economists distinguish two kinds of value—*value in use and value in exchange.* Value in use is simply the power to satisfy a desire which we have already mentioned; air, furniture, books, all have value in use. They may or may not have value in exchange. My address-book, for instance, has for me the greatest value in use, but to another person it would have no use at all. Therefore I could not, if I became very poor, exchange it for another good of which I had greater need. But I could sell many of my other books or my furniture. A cotton manufacturer can sell his cloth; a colliery company, its coal. Cloth and coal, then, have value in exchange.

(*a*) In use; (*b*) in exchange.

Now, here arises an interesting question: Must all wealth have value in exchange? Most wealth certainly has. To a merchant or manufacturer his goods are wealth (or have value) precisely because they are exchangeable, and, as a general rule, wealth is used in this sense as equivalent to concrete, exchangeable goods; but I cannot, for instance, exchange my right to walk in the public park. Yet that right certainly satisfies a need; it was not to be had for nothing, since the Town Council had to spend money on making the park. Wealth of this sort—*collective wealth* it has been named—is very difficult to appraise. But individuals in a community which collectively possesses schools, parks, and libraries are certainly wealthier than those belonging to a community which has failed to provide itself with these institutions.

Collective wealth.

Again, a singer cannot exchange her voice, nor a surgeon his knowledge or manual dexterity. Endowments of this

sort do not fall in that division of concrete, exchangeable wealth named above. Yet the singer can gain an income by her voice. It satisfies the need for music; its beauty is scarce It is a special form of wealth, which we may name "immaterial wealth." The immaterial wealth of the country consists of all the natural and acquired power of its citizens mutually to serve one another. Now, these two forms of wealth—collective and immaterial—

Immaterial wealth.

are easily overlooked in an analysis dealing mainly with marketable objects, such as food, furniture, etc. But none the less are they very important, and, after the mistake of identifying money with wealth, the worst error which an economist can make is to exclude the collective and immaterial possessions of the community from the category of wealth.

The term "goods" is often used as a convenient plural equivalent to wealth, and so, too, is the word "commodities." Using these words, let us make our last distinction between different kinds of wealth. Food satisfies a need directly; it is named a consumption-good, because it is the value placed on it by the final consumer or user which makes it wealth. A cash-register, on the other hand, or a crane for lifting goods, is not a commodity which anyone uses for the pleasure of using. Such goods are of value because they help on the processes of manufacture or of trade—because they assist production. These, then, are production-goods.

Consumption-goods and production-goods.

The student will now understand more clearly what is meant by "wealth." In its ordinary sense it means the mass of material commodities—all that we eat, drink, and wear, furniture, houses, books, horses and carriages, steamers, motor-cars, etc., all the necessaries, luxuries, and conveniences, of daily life which by labour men wring from Nature. It also includes all the machines which, of no direct use in themselves, are of value because they assist human toil, and make the production of consumption-goods

What wealth is.

easier. In some cases we must reckon in, too, parks, museums, schools, and colleges, and the natural and acquired talents and capabilities of the people whose wealth we are studying.

Now, the fundamental task of political economy is to discover and state the general conditions under which these goods are made and shared. It must endeavour to explain why diamonds are dear, and wheat cheap; why dock-labourers earn barely enough to keep themselves alive, while successful music-hall artistes make princely salaries. It has to investigate the origin and significance of trade unions and trusts, the causes of unemployment, pauperism, booms and depressions of trade. The study of economics, in short, though often thought to be dull and uninteresting, goes to the very roots of modern society, and ought to be neglected by no one who desires to understand the world of industry and commerce. Nay, its value extends farther even than that. Economic circumstances play a large part in determining character and all the expressions of character—art, politics, and literature. It is never possible fully to understand a man without comprehending the condition of the class from which he comes, and a class is moulded by the economic rôle which it plays in the life of the nation. Therefore he who would pierce beneath the surface of the cross-currents of politics or literature dare not be ignorant of economics.

Task of political economy.

The most important feature in economic relations to-day is the division of labour and consequent elaborate exchange of goods.* Specialization is carried to an extreme point. One girl, for instance, as her contribution to the work of the world, does nothing but pack sweets in paper boxes; in return, society through her employer pays her a wage, by which she can buy for herself food and clothes and house-room. Her food consists of bread made of flour brought from the Far West of Canada; her little bit of meat on Sunday is chilled lamb from

Exchange of goods and division of labour.

* *Cf.* [illegible]. 10, 49 97.

New Zealand, followed by a banana from Jamaica. Meanwhile, the sweets which she has packed, co-operating thus in their production with many other workers, go in their turn all over the world. *Exchange of goods* is the keynote of modern industry, and therefore, in beginning our study of economics, we shall take exchange first, and describe the mechanism by which finished goods are exchanged and transported over the whole world. Next we will take up the conditions under which commodities are made; and lastly we will deal shortly with that much-neglected division of the subject—the final use or consumption of goods.

SECTION I

EXCHANGE

CHAPTER II

THE FUNCTIONS OF MONEY

WE have spoken of the girl who spends her working hours packing sweets in a box, and in exchange for her work receives, among other things, Canadian corn, New Zealand lamb, and Jamaican bananas. But she would not recognize her own situation if it were described to her in those terms. It is hidden from her by the use of money. She would say that she earns nine or ten shillings a week, and with her wages she buys her food. These very obvious and apparently simple phrases conceal a whole series of most complicated economic exchanges, only made possible by the existence of money.

The work of money.

But all exchange does not depend on money. Within the family, for instance, or between a pair of friends, exchange without money, or "barter," may often take place. One sister exchanges a blouse that has become too small for her for a hat of which another has grown tired. Barter is sometimes practised by means of advertisement; in the columns of a ladies' paper one may see a perambulator (fairly new) offered in exchange for a lawn-mower and garden-roller. Among savage peoples direct exchange was the ordinary method of trading. A primitive community of agriculturists would barter their surplus corn, the skins of their beasts, or other goods which

Barter.

they could not use themselves, for the agreeable superfluities —the wine, the spices, the precious stones—which their own district did not produce.* Barter, however, has many disadvantages. The merchant might, for instance, specially want wheat, but find that he is offered barley instead. The little savage tribe might desire above all other things iron to repair its ploughs, while the merchant had brought only spices and silk. Barter always requires an elaborate coincidence of wants and superfluities on both sides, which in practice would rarely occur. It involves, moreover, another difficulty: spices are to be exchanged, let us say, for barley; but how much spices for how much barley? Long and complicated bargaining would be necessary before that question could be settled, and must be repeated for each separate act of exchange. And almost always in the long-run one side would have much the best of the bargain. But if exchange becomes at all common, it will be found that there are one or two commodities which everyone is willing to receive and keep for a time, knowing that others will in turn take them again: Sea-shells, for instance, were valued in the South Sea Islands for their beauty and durability. Merchants found that natives from whom they wished to procure goods would always receive shells in exchange. The natives found that other merchants would take shells for the rum or cotton they desired from them. Shells, then, were established as a medium of exchange, or, in other words, as *money*.

Its disadvantages.

Use of a third commodity, which everyone wants, as a *medium of exchange*.

And very shortly they would be found to play another function. A man who gave a dozen cocoanuts in exchange for a hundred of the finest shells would remember that ratio —100 shells a dozen; and when the next merchant came

* It is almost certain that primitive trade began in the way indicated. It was not an exchange of necessaries for necessaries, but of superfluities for luxuries. At the earliest stage it may even resemble an exchange of hospitable gifts rather than the driving of a hard commercial bargain.

who wanted cocoanuts, and was prepared to give shells, the bargaining would start on a more definite basis. In other words, the shells would serve as a measure of the worth of the cocoanuts, and bit by bit would grow up the related conceptions of price and value, which we shall have to work out in detail later on. First, however, we must discuss more fully the characteristics and functions of this curious expedient, money, which has made possible all the widespread movements of trade, and in so doing has changed the face of the earth and profoundly affected the destiny of man.

Money as a measure of value.

We have already noticed two of its functions. It acts as the medium of exchange and as the measure of value. The importance of the first will be partly understood from what has been already said. Exchange must always be clumsy and difficult so long as it is carried on by means of barter. Indeed, under that system the bulk of the people will get their living direct from the soil, exchanging only their superfluities. To live by producing goods for the market will under those circumstances be impossible But if a man knows that the possession of money will always enable him to purchase what he needs, then he will be willing to part with what he has, and does not at the moment need, for money. Nay, if it turns out that he has a special gift for, let us say, carpentry or weaving, then he can spend all his time at one occupation, selling his product and buying what he requires; while another man with a special turn for farming spends all his time at that work. Thus, money first makes possible the division of occupations, with all the advantages that result from it.

Money facilitates exchange, and makes trade possible.

Money, acting as the medium of exchange, also facilitates what has been called "regional specialization." If one district produces corn easily, but fruit with difficulty, while in another the converse is the case, then the largest product would be grown if each district produced exclusively what it produces most easily.

Regional specialization.

But this specialization depends, among other things, on the use of money. Therefore that interchange of commodities from distant countries which adds immensely to the comforts of life, and minimizes the effects of any local scarcity, could never come into existence save by the use of money as a medium of exchange.

By acting as a *measure of value*, money makes exchange easier in another way. It accustoms people to think of one commodity in terms of another, and thus suggests the idea of exchange. That every object should have a price, and that thus we should be able to compare the value of one thing with another, is a convenience to which we are so well accustomed that we hardly notice it.

Measure of value again.

Money performs also two other functions. It serves as a *carrier of value*, (*a*) in space and (*b*) in time. A man goes to a distant country for a holiday. Goods must be supplied to him there for his maintenance. If he had to transport the products of his own labour, and exchange these on the spot for the food he needs, the expenses of his journey would be greatly increased. Instead, he sells his goods, obtaining in money a "store of value," and takes this money with comparative ease and safety to the foreign land. So, too, a man may desire not to exchange immediately his products for the various things he needs, but to save for some future emergency. In many cases it would be difficult to store either what he makes (if, for instance, he is a baker) or what he needs (meat, milk, etc.). But money goes into small compass, can be easily guarded, and does not deteriorate.

Money as a store of value, (*a*) in space, (*b*) in time.

Money is also used as a standard of value in facilitating borrowing and lending and the payment of debts. A man in temporary need requires, let us say, corn in the spring when corn is dear. If he were to pay back the actual corn in the autumn, when its value has fallen owing to the influx of the new harvest supplies, he would really pay back less than he

Money as a standard in borrowing and lending.

received. But the price—*i.e*, the value in money—serves as a standard, showing the change in value of the corn; and the borrowing and lending is conducted on a fairer basis when money is used than when the actual goods are lent and returned. It should be noted, however, that even the value of money is stable only for fairly short periods. The value of a shilling or a penny in the Middle Ages was a very different thing from the value of a shilling to-day.*

Money, then, to sum up, acts as a medium of exchange, a measure of value, a carrier of value, and a standard of value.

Summary. These different functions should be carefully kept in mind in turning to our next subject—the characteristics which should be possessed by any commodity which is to be used as money. It will be found that no single substance can easily be used for all these functions, and therefore systems of money are usually more or less complicated.

* "A carpenter at the present day earns as many pennies in an hour as his medieval predecessor earned in three days—3½d. per day being the medieval rate before the Plague" (Nicholson, "Principles of Political Economy," vol. iii., p. 95).

CHAPTER III

THE CHARACTERISTICS OF MONEY

MANY commodities have been used as money. Homer states the value of a man's armour or a bride's dowry in cattle. Skins, shells, corn, iron, slaves, ivory, olive-oil, have all at different places and times been employed as media of exchange and measures of value. But over the greater part of the world at the present time two metals—gold and silver—are the commonly-used forms of money, with less valuable metals and alloys (nickel, bronze, etc.) for subordinate coins. If we consider the combination of qualities which are desirable in a commodity that is to perform the various functions of money, it will be easily understood why gold and silver are now by common consent the usual money-substances.

Different commodities used as money.

First and foremost, a material which is to serve as money must—at least, in the early development of money—possess value apart from its use in that capacity. Some writers express this by saying that the money-substance must have "intrinsic value." But nothing in the world has intrinsic value. Gold had no value for Robinson Crusoe; diamonds have none for savages who cannot distinguish them from other pebbles. Value always depends on the use that can be made of the good—*i.e.*, on its relation to human well-being—and never inheres in the substance itself. Now, in the beginning, money gets into circulation precisely because it has a value—*i.e.*, a use—of such a kind that the person accepting it in payment for goods believes that other people will in turn

Necessary characteristics of money: (*a*) Value.

accept it from him In later periods it is, indeed, found convenient that definite portions of this substance should be divided out and marked in such a way as to guarantee a certain weight and fineness—*i.e.*, that the metal should be coined. But all money derives its original value, *not* from its use as money,* but from the demand for it for other purposes—in this case for adornment.†

The second characteristic essential for the money-substance is durability. Fruit, for example, which will not keep, could never be used as money. Skins of animals must have been liable to deteriorate, and must often have involved those who employed them as money in unexpected losses.

(*b*) Durability.

Money should be easily portable. Coals, for instance, would not make a suitable form of money, because the labour of transporting enough coal to pay a bill would be very great. On the other hand, diamonds, being very small in bulk to a high value, would be too easily lost. In order that money should be portable, it should be made of a substance, the value of which is high, but not too high, in proportion to its mass.

(*c*) Portability.

There would be another objection to the use of diamonds as money. One diamond differs in value from another in ways not easy of detection by the ordinary person. The money-substance should be of the same kind throughout, or, putting it in other words, should be homogeneous.

(*d*) Homogeneity.

Moreover, it should be easily divisible. It must have been one of the great objections to the use of cattle as money, that an ox could not be halved or quartered without greatly diminishing its value.

(*e*) Divisibility.

Again, the money-substance should be stable in value, in order that it may over a long period be a reliable measure of the value of other goods. When, for instance, through the

* Save paper money. But compare Chapter V.

† Its value is, of course, *increased* by the use of it as money. We could all have more gold brooches, and would therefore value each less (*cf.* p. 58), if gold were not needed to make sovereigns.

discovery of the mines of the New World, more silver was suddenly poured into England in the sixteenth century, the value of silver fell, and the level of prices was disturbed.* Debtors gained, for they had really to pay back less than they borrowed, while creditors lost. All people who worked for fixed wages lost, for they could procure fewer goods for the same money. Gold and silver, as already suggested, though stable enough over short periods, may vary considerably in value over periods covering a century or more.

(f) Stability of value.

Lastly, the money-substance should be of such a kind that its value is easily evident even to untrained persons. There should be no risk that unscrupulous people should impose on others by passing off as money some other substance resembling it, but of less value. It is this need which has led to the custom of coining money — *i.e.*, dividing gold, silver and other metals into definite weights, and impressing on the pieces certain recognizable marks, which cannot easily be imitated. Many people have a hazy idea that a sovereign is valuable because it is coined and issued by the Government. This is not the case; it is valuable because it is gold, and because all over the world people are always willing to take gold in exchange for goods. The coining is only a convenient way of assuring us that we are receiving a certain weight and fineness of gold. The coinage is, so to speak, only a Government guarantee of quality. The coining of money was not always a Government function. In the Middle Ages it was often undertaken by private persons. But so important is it to trade that the medium of exchange and measure of value should be well administered and free from all suspicion of adulteration, that all civilized countries now regard it as essential that money should be issued by their Governments. In the same way the provision of roads was once to some extent left to private persons, but is now always a duty of the community.

(g) Cognizability.

Coining.

* Silver at that time was our commonest form of money and the standard of value.

CHAPTER IV

THE ENGLISH SYSTEM OF MONEY

THE most important element in our English system of coinage is the gold sovereign, for gold is now in England the standard of value. It has not always been so; in the Middle Ages silver was the standard, and for several centuries prior to 1816 both gold and silver circulated together. Since 1816, however, gold alone has been our standard. "But," the reader may say, "we still use both gold and silver; how, then, can gold alone be the standard?" It is true that we still have both gold and silver coins, but the silver coins get their value solely because they stand by law in a certain ratio to the gold coins. The actual value of the silver is much lower than its face value. Two half-crowns weigh about an ounce, were we to melt them down, and offer the resulting silver for sale in the market, we should receive, instead of five shillings, only about half a crown.* But we know, and everyone else knows, that the Bank of England will at any time give us a sovereign in exchange for twenty shillings; therefore one shilling equals one-twentieth of a pound, although the actual value of the silver in a shilling amounts only to one-fortieth (sixpence). Moreover, if for any debt under £2 I offer silver, and if the creditor refuses the silver, he cannot afterwards sue me for the debt.

The gold sovereign is the English standard of value.

Silver coins subsidiary.

Actual value of silver.

Copper coins are in the same position. The actual value is much lower than their face value, but the latter is kept up

* At the present date (August, 1911) the price of an ounce of silver is just above two shillings.

because 240 pennies can always be exchanged for £1. Coins which derive their circulating power, not from their own value, but because they can be exchanged in a definite ratio for the standard unit of value, are called token money. The English shilling, the French franc, and the German marc, are all token coins, for in all those three countries gold has been adopted as the standard.

Token money.

Now, when the value of copper and silver is so low, it would be obviously unjust to allow a man to pay a large debt exclusively in these metals. Therefore the creditor for any sums over £2 can demand gold, and for any sums over one shilling can demand silver. Putting it in technical language, silver and copper are legal tender to the amount only of £2 and 1s. respectively. By the term "legal tender" we mean money which, if tendered by the debtor, must be accepted by the creditor. For all sums above £2, gold coins and Bank of England notes * alone are legal tender; and although I have been at some pains to impress on the reader that gold is money because of the value of the gold, and not because it is coined, yet, in order to prevent fraud, and to make the methods of commerce quite clear and definite, debts can only be legally paid—except when the creditor agrees to another method—in the gold pieces guaranteed by the Government, and bearing the Government stamp, or, in other words, "coined."

Legal tender.

The advantages of coining are—(1) to prevent counterfeiting, or the use of metals other than gold or silver; (2) to prevent what is called "sweating"—*i.e.*, the extraction from the inside of the valuable metal of which the coin is composed, and the substitution of some inferior substance of the same weight, leaving the skin of the original metal on the outside. It is to prevent sweating that the edges of our more valuable coins are nicked or "milled" in a complicated way very hard to imitate, and that designs are chosen which cover nearly the whole surface of the coin.

Objects of coining: (*a*) To prevent forging. (*b*) To prevent sweating.

* See p. 24 *et seq.*

The third object is to reduce loss by legitimate wear and tear. It is partly for this reason that the round shape has been adopted for coins. Square or oval coins are more likely to be worn unevenly.

(c) To minimize wear and tear.

Theoretically, any man who has uncoined gold in his possession is entitled to take it to the Mint and to receive back his own gold later in the form of coined sovereigns. But it is easier and simpler not to wait until the gold has passed through all the complicated stages of weighing, melting, assaying, etc., and in practice gold is exchanged on the spot for sovereigns, £3 17s. 9d. being paid for one ounce of gold. This sum is slightly below the true value of the ounce, which amounts to £3 17s. 10½d., but the 1½d. is retained by the Government in consideration of the fact that payment is made at once.

The exchange of gold for sovereigns.

Neither sovereigns and half-sovereigns, nor shillings, half-crowns, and sixpences, consist of absolutely pure gold or silver, as without any alloy these metals would be too soft to stand the wear and tear of circulation. In the sovereign, eleven parts of fine gold are mixed with one part of an alloy consisting mainly of copper. The weight and fineness (degree of admixture of an alloy) are, of course, carefully defined for each coin; but the only figure which the student need trouble to remember is that the sovereign should weigh 123·27447 grains; a variation of two-tenths of a grain on either side is allowed. This permitted variation is technically known as the "remedy."

Fineness or degree of admixture with an alloy.

Coins wear out in time or become defaced. Sometimes counterfeiting is so successfully practised that large numbers of base coins come into circulation. In England the standard of our money is now so well kept up that all our coins circulate at their face value with practically no question. But this was not always the case. In Elizabeth's time our coinage was in a

Circulation of bad money.

very bad state; constant trouble and inconvenience were caused to those who had received light or bad money unwittingly, and who found themselves unable to pass it on. One curious fact was observed at this time. Good full-weight coins were issued from the Mint, but were never found in circulation They vanished, while the old, battered, doubtful money still passed from hand to hand. The explanation was given by Sir Thomas Gresham. He pointed out that people did not merely use coin to pass on immediately in purchase of commodities. They wanted it also to hoard, to melt down for various purposes, or to send abroad, where it would only be worth its weight as bullion, not its face value in the English system of coinage. For any of these purposes the new good coins would naturally be selected, not the old bad ones. Therefore it will always be found that good and bad coins will not circulate together, but that "bad money drives out good." This statement is known as "Gresham's law," and is of the utmost importance to those statesmen who desire to provide their country with the blessing of a pure and reliable coinage. If faced with the problem of a debased coinage, they must not simply issue good coins; they must call in the bad ones, giving in exchange new money either at the face value of the old coins or at some fraction of that value.

Gresham's law.

There are many other technical questions, connected with money and coinage, which in an elementary book need not be discussed. But before we leave the subject there are one or two terms which ought to be explained. One of them is "money of account." This means the denominations in which sums of money are reckoned. In medieval England, for instance, the shilling was not actually coined. Yet it was constantly used in statements of accounts So, too, was the mark.

Money of account.

Our English sovereign is an actual coin, is the standard of value, and is also money of account; but it is not necessary that these three moneys should coincide. In France, for

example, the unit of value is the gold franc, but it is too small to be coined with convenience, and larger gold pieces alone are in actual circulation

"Seignorage" is another term whose significance the student should know. It means the profit made by the Government through the difference between the face value of a coin and the metal actually contained in it. Since we have now free coinage of gold in England,* seignorage occurs only in the case of token coins When Jevons wrote his book on "Money," the seignorage on silver coins was 9 per cent. of the value of the coin; but so greatly has the value of silver decreased that the seignorage on silver coins now amounts to more than 50 per cent.

Seignorage.

This fall in the value of silver is due partly to the opening up of large new silver-mines, which greatly increased the amount of silver in proportion to gold, and also to the fact that since 1870 several important countries (*e.g.*, Germany) have made gold instead of silver their standard of value. It affected very seriously our relations with India, which was until 1893 a silver standard country. Its standard coin was the rupee, which was equivalent in value to one-tenth of an English sovereign, or two shillings. When the value of silver fell, the value of the rupee, which was not a token coin, like our florin, but depended on the actual worth of the silver in it, fell also, and there was a serious disturbance of financial relations between England and India. A Civil Service official, when he had to send money to England to pay for the education of his children, found that, instead of getting £1 for ten rupees, he could get only fifteen shillings or less. These difficulties, and others connected with the same set of events, lead to the demand for "bimetallism," or the use of two metals as standard money simultaneously. Bimetallists think the Government should coin both gold and silver freely, at the same time establishing by law a fixed ratio of value between them.

Fall in value of silver.

Bimetallism.

* Since 1663.

It is hard to understand how the State could maintain a fixed ratio between two commodities whose relative value is certain to change. But the bimetallists have many arguments which show (so they claim) that this difficulty could be overcome. The question is much too complicated for discussion here. and the student must be content merely with this general reference to its significance. He should carefully note, too, the difference between the position of silver under such a scheme and under our own system. At present, while anybody may claim the right to have his gold coined—though in practice he usually sells* the gold to the Bank of England —there is no similar right in the case of silver. The Mint buys such silver as it requires at the current market prices, which vary much, and have greatly declined within the last thirty years

* The price, of course, remains constant, as price *means* amount of gold that can be procured for any good.

CHAPTER V

BANK-NOTES

THE earliest method of saving was by hoarding, a plan which is still sometimes adopted by ignorant or very suspicious people. But hoarded money is hard to guard. It is dangerous, too, for it provokes robbers. In short, if we hoard our savings, it will cost us constant anxiety, and even money, to insure their security. Now, suppose a goldsmith with a safe strong-room offers to take charge of them for us. We shall be glad to accept his offer, and so, too, will other people, and in a short time the goldsmith will have a very large sum of money confided to his care. He will give to his customers receipts for the money they deposit with him. Perhaps these may take the form of slips of paper, signed by him, stating that on demand a certain sum of money will be paid to the bearer. If the goldsmith's credit is perfectly good, and people are sure that the money will be paid when such a piece of paper is presented, then they will receive the paper slips instead of money in payment of debt. And in the long-run these slips, or notes, will come to circulate from hand to hand in place of money. Or the goldsmith may keep an account of the money a particular person has deposited with him, and when another person presents a note signed by the customer, and ordering that so much money should be paid to this person, then the goldsmith will pay it out, altering the customer's account by that amount. The first

The hoarding of savings.

The deposit of savings with a goldsmith.

Origin of bank-notes.

Origin of cheques.

of these methods corresponds to the use of bank-notes, the second to the use of cheques

Before we leave our hypothetical goldsmith—and yet he is not so hypothetical after all, for in England the first bankers were goldsmiths—there is one more point to be noted He would find that all of his customers would not withdraw their money at one time. Further than that, he would find that on an average drawings out would balance payments into his strong-room, so that there would always be a considerable sum there. One day it would occur to him that it was foolish to have this amount—let us say, for the sake of clearness, that it amounted to £50,000—lying there idle, when so many people wanted to borrow money and were willing to pay for the use of it. He would offer to lend money, charging, of course, a rate of interest, and he would find this so profitable that before long he would induce more people to put their saved money in his strong-room by actually offering to pay a rate of interest on savings, lower, naturally, than that at which he lent the money out, but still sufficient to make people willing to put the money they had saved into his hands rather than to hoard it at home. And now our goldsmith would be a full-blown banker, issuing bank-notes, honouring cheques, and lending money to any merchant or manufacturer whose business required more cash for its development. In case many of the depositors wanted their money all at the same time, it would be necessary for him always to have a substantial sum in reserve ready to meet their demands, but experience would soon show that in practice the reserve need only be a fraction of the total amount confided to him.

The loan of money by bankers.

The payment of interest on savings.

This simple outline describes the beginning of banking, and, in fact, there were in England at the end of the eighteenth century many banks which carried on business exactly on the lines indicated. But to-day banking, in so far at least as regards the issue of

Beginning of banking.

bank-notes, has been brought under the control of the Government. And we must therefore next note briefly how this came about.

We must begin with the establishment of the Bank of England, which took place in 1694. Before that time there had been small private banks, mostly managed by goldsmiths; because they were small and were carried on by people who did not know how large a reserve to keep, they often failed. At that time it was thought there were many advantages in having businesses in the hands of men who had a Government monopoly, in return for which definite duties were laid upon them. These were called "chartered companies"; the old East India Company, which had a monopoly of the trade to India, is one of the best examples. Trade was expanding at this time in England, and people were feeling more and more the disadvantages of having no satisfactory banking system. At the same time William III. and his Ministry were in great need of funds to carry on the war in the Low Countries. Finally, in 1694, a group of wealthy men undertook to lend the Government £1,200,000, and in return they received a charter constituting them the Governor and Company of the Bank of England. The Government was to pay the Bank £100,000 a year for the loan, and in addition the Bank was also authorized to deal in bullion, to lend money, and to perform other functions which had hitherto been in the hands of goldsmiths and money-lenders. In 1697 it received the right to issue notes payable to bearer on demand, which became the foundation of the use of paper money in England. It also received a monopoly of joint-stock banking. By later Acts it was declared that no other body corporate, exceeding the number of six persons, should have the right to issue bank-notes.

The foundation of the Bank of England.

Probably the establishment of this monopoly was a disadvantage to the country, for the Bank of England did not maintain branches in the provinces, and the issue of bank-

notes there fell into the hands of private persons, who had smaller funds at their disposal, and were more likely to be rash in their operations. In fact, the monopoly of the Bank of England led to the establishment throughout the provinces of weak local banks, whose failures often brought disaster. It is said that in 1793 there were in England 400 country banks, and that in the crisis of that year as many as one hundred failed. The Bank of Scotland never possessed a monopoly, and in consequence other joint-stock banks — *e.g.*, the British Linen Company — came into existence, and founded branches in many districts. Hence, while England developed a large number of small local banks, Scotland developed a small number of large and well-managed banks, working by means of branch establishments. It became so obvious in the beginning of the nineteenth century that English trade was suffering through the monopoly of the Bank of England, that in 1826 that monopoly was partly abolished. Joint-stock banking was then permitted at a distance beyond sixty-five miles from London, and in 1833 it was further established that even in London joint-stock companies might act as bankers, provided they issued no notes. This points to the fact that the cheque system was beginning to take the place of bank-notes. But still there followed a great increase in the issue of bank-notes, and when at the beginning of the forties a serious depression of trade occurred, many people attributed it to overissue of bank-notes. The Government, under Sir Robert Peel, was much impressed by these views, and in 1844 was passed the Bank Charter Act, which still regulates the note issues of all English banks. The main object of this Act was to restrict note issue, and to secure that a sufficient reserve, either of Government securities or of coin and bullion, should be held by all banks. It was evidently the intention of the Bank Charter Act to limit as far as possible the right of issuing of bank-notes to one bank, the Bank of England.

Disadvantages of the Bank's monopoly.

Scottish banking.

Bank Charter Act of 1844.

All banks were required to make returns showing the average number of notes outstanding during the twelve weeks ending April 27, 1844, and no bank except the Bank of England is allowed to exceed that amount. Moreover, if a bank closes, or becomes bankrupt, or establishes itself in London, it loses altogether its right to issue notes.

The regulation of the Bank of England.

The position of the Bank of England is safeguarded in another and quite different fashion By the Act the Bank was divided into two departments—the Issue Department and the Banking Department. All dealings with notes were confined exclusively to the former, while the latter undertook the other forms of banking business—receiving deposits, discounting bills,* etc. The Issue Department was allowed to issue bills to the amount of £14,000,000, without holding gold; but for every note above that amount gold in coin or bullion to the face value of the note must be deposited in the vaults of the Bank. In the case of the £14,000,000, Government securities must take the place of gold. The Issue Department was required every week to publish a statement in this form:

ISSUE DEPARTMENT.

	£		£
Notes	20·2 millions	Government debt...	11 millions
		Other Government securities ...	3 ,,
		Coin and bullion ...	6·2 ,,
			20·2 ,,

When, however, other banks gave up their note issue, two-thirds of the amount relinquished might be added by the Bank of England to the number of notes issued by it without the necessity of holding coin or bullion. This policy clearly aims at concentrating note-issuing under the control of the Bank of England, and insuring that even by it it should be carried on under very definite restrictions.

* See next chapter.

It has been so far successful that country bank-notes are now rarely seen, and will soon entirely disappear, and that English bank-notes are accepted almost as freely as coin through all civilized countries.

It might be argued, however, that these regulations would have been too stringent for the increasing commerce of the country, had not the growth of the cheque system provided what is practically another form of paper currency. But before passing to this subject, we may briefly explain one or two remaining points in connection with the issue of bank-notes.

The English reserve is guarded in the way already described, named by Jevons the "partial deposit" method. The curious point in this system is that in times of panic, when on the Banking Department of the Bank there is a sudden demand of depositors for their money, it is found necessary for the Government to suspend the Bank Charter Act, and permit notes to be issued for a time in excess of the amount allowed. It was necessary to take this step in the years 1847, 1857, and 1866, all of which were years of financial crisis. The Germans, in founding the Reichsbank, adopted our plan, but improved on it. Their bank may exceed its usual issue on condition that it pays a tax of 5 per cent. on all notes over the limit. Jevons names this the "elastic limit" method, and points out that it has the merit of providing a safety-valve in time of danger, while yet normally the issue of notes will be restricted to those on which it is not necessary to pay a tax.

Methods of safeguarding a bank's reserve.

"Partial deposit."

"Elastic Limit."

Other methods are those of "maximum issue" and "proportional reserve." The former is that enforced on our provincial banks, which are, as we have already seen, forbidden to issue more than a certain amount of notes. According to the latter, the bank is required always to hold in coin a sum of money equal in amount to some pre-

"Maximum issue" and "proportional reserve."

scribed fraction—say one-fourth—of the value of all the notes issued.

In some cases banks have held other forms of property than coin or bullion or Government securities. Many theorists have argued that, as land is one of the most secure forms of property, bankers ought to be permitted to hold their reserve in land or mortgages on land. But, unfortunately, though land is ultimately the best form of security, it is often hard to convert it into cash at a moment's notice. And bank-notes, as Jevons puts it, are not to be paid ultimately, but *on demand*. Therefore a bank which has property in land may have to declare itself insolvent, not because it could not meet its liabilities in the long-run, but because it cannot realize its property (or sell it for cash) with the necessary speed.

Land as a bank reserve.

So far we have spoken of bank-notes for which money must be given on demand, or, in other words, of convertible paper money. But bank-notes are sometimes made "inconvertible"; that is to say, the obligation to pay gold for them on demand is no longer enforced on the bank, while the public are required to take notes in payment of debts, as well as gold and silver An inconvertible paper currency is often resorted to by Governments in time of war. In the Napoleonic wars, for instance, and during the Civil War in the United States, the Governments borrowed the cash reserve of the banks, relieving them for the time being of the obligation to pay cash on demand for notes. With very careful regulation a country may not suffer from an inconvertible paper currency, and the use of paper in place of the more valuable metals is a great economy. So long as people are willing freely to receive and pass on the paper money, no harm is done, and the Government at a time of need gets the use of what it most requires in war—namely, the possession of a supply of coin and bullion with which to meet immediate liabilities, payable often in foreign countries. Unfortunately, it has often happened that

Inconvertible paper money.

the supply of paper money has been excessive. Gold takes some time and trouble to secure, paper money can be manufactured with ease. If there is an overissue, the level of prices is disturbed, and many complications ensue. The paper money cannot circulate abroad; doubt may be felt as to whether the Government will ultimately redeem it. People will begin to prefer, whenever they can get it, to take gold instead of paper. The result will be that the value of the paper will sink relatively to that of gold, or, in technical terms, the paper will become depreciated. When this happens, endless trouble and suffering result, and some men have held that a depreciated paper currency is a greater evil to a country than a disastrous war. Moreover, even when an inconvertible paper currency is very carefully regulated, it is difficult to adjust it exactly to the demands of trade. The coining of gold need not be regulated in amount, since gold possesses value apart from its use as money, and cannot be obtained easily. But paper money is an artificial thing, and mistakes can easily be made in its issue. Great Britain for nearly a hundred years* has resolutely maintained the convertibility of its bank-notes, and has thus preserved the credit of the country at a very high level.

Dangers of overissue.

* Since 1819.

CHAPTER VI

THE CHEQUE SYSTEM

COINS and bank-notes are the foundation of our system of money. But, as a matter of fact, both alike play an ever-diminishing part in our mercantile arrangements. The great majority of debts to day are paid neither in sovereigns nor in bank-notes, but by cheque.

Cheques.

Let us go back to the goldsmith, receiving and guarding the hoarded money of his customers—the origin of all banking. Since one piece of money is, generally speaking, as good as another, the goldsmith will not keep separate the different sums confided to him. It will merely be entered in his books that Mr. Jones has deposited with him £300, which must be paid to him on demand. Now, Mr. Jones, when he has a debt to pay, may, of course, draw out his money in gold, and hand over that gold to the debtor. But it will be more convenient in practice that he should give a note to the debtor, addressed to the goldsmith banker, asking him to pay the necessary sum of money to the person named in his letter.*

* An early example of such a letter may be found in McLeod's "Theory and History of Banking" (vol. i., p. 281):

"*November* 16, 1689.

"MR. JACKSON,—Pray pay to the bearer hereof, Mr. Daniel, broker, five pounds, and place it to the accompt of

"Your loving friend,

"JOHN WYNYARDE.

"To Mr. ROGER JACKSON,
"At Sir Francis Child's goldsmith,
just within Temple Bar."

Soon the banker will find it useful to give customers books of forms, properly prepared in order to prevent fraud as far as possible, in which the customer has only to fill in the date, the sum, and his name These books are usually provided with counterfoils, so that the customer when he writes a note to his banker, or *writes a cheque*, may enter the sum of money and the person to whom it is made payable, and any other particulars he may wish to remember, and thus may have a convenient record of his financial transactions. This, then, is the cheque system in outline.

Lessened use of cash payments.

Very often money does not pass at all in transactions conducted by means of cheques. If two men, Mr. A and Mr. B, both bank with the C bank, then, if Mr. A in return, say, for meat supplied to his household, writes a cheque for £20 to Mr. B, the butcher, Mr. B will not draw out the money. He will hand in the cheque, and £20 will be taken from Mr. A's account and added to that of Mr. B. The alteration will simply consist of a change in some figures in a ledger. Mr. B may then wish to pay his landlord, Mr. D, who also has an account with the same bank. He gives a cheque for £10, which Mr. D presents, and again there is an alteration in figures in a ledger, but none of the people concerned have actually handled money, nor has the bank taken in or paid out any cash at all. It has simply transferred money from the account of Mr. A to Mr. B, and from Mr. B to Mr. D. If there was only one bank in the country, and we all had accounts with it, our business could be carried on in as simple a manner as that described above. This, however, is not the case.

Settlement of cheques paid into different banks.

There are many banks in the country, and if I (Mrs. P, having an account in Bank X) pay a cheque of £5 to my greengrocer, Mr. Q, who has an account in Bank Y, what happens then? Mr. Q might, of course, take my cheque to Bank X, hand it over the counter, and receive five golden sovereigns or a bank-note for £5 in exchange. He could

then take the sovereigns or notes to his own bank, and pay them in. As a matter of fact, however, he will endorse the cheque (write his name on the back), and pay it into his own bank, Y. Thus Bank Y will hold a cheque payable by Bank X. In the course of the day it will probably receive several such cheques; Bank X, on the other hand, will receive cheques payable by Bank Y. The bundle of cheques might be presented to Bank X by a messenger from Bank Y, and *vice versa*, and the necessary coin paid out and transferred; this simple method of adjusting accounts is still practised in small country towns and between adjacent groups of suburban branches of banks. But it is not necessary in London, for instance; all the important London banks have accounts with the Bank of England, and, instead of presenting to each other all the cheques paid in and receiving coin for them, the banks have set up an institution called the "clearing-house," whereby the settlement of their transactions with one another is greatly simplified. The London clearing-house is the most important in England—indeed, in the world—and is the centre and focus of all the money transactions which make possible our elaborate trade system, and indirectly our wonderful civilization. Eighteen banks belong to it, and three times a day each bank sends a clerk, or several clerks if necessary, with the cheques paid in by its customers, but drawn on other banks. These are sorted into seventeen bundles, one for each of the other eighteen banks, and the amounts are entered in the "out" clearing book. When the clerks are settled each at his proper desk, the cheques drawn on each bank are presented, each bank giving out and receiving seventeen bundles of cheques. The in-coming cheques are entered then in the "in" clearing book, each under one or other of the seventeen banks. Thus Glyn's Bank, for example, has a list of the cheques paid into it, but drawn on the Union of London and Smith's Bank; the Union of London and

The City clearing-house.

Smith's, has in its turn, a list of those paid in by its customers, but drawn on Glyn's Bank. There are thus seventeen in-clearing and seventeen out-clearing lists; and since each cheque appears in each list, it is clear that the two will equal one another, and thus provide an automatic check on the accuracy of the calculations. The transactions between each pair of banks, however, will very rarely, if ever, equal each other. One bank will have received more cheques than it has paid out, and there will be a balance owing, say, to the Union of London and Smith's Bank by Glyn's Bank. Originally that balance was paid by means of bank-notes, but now it is discharged by a cheque on the Bank of England, where all the joint-stock banks have accounts.

The average daily clearings at the Bankers' Clearing House amounted in 1910 to £48,000,000. In addition there are clearing-houses in some of the provincial towns, where cheques are cleared without being forwarded to London at all; and West End banks and provincial banks also employ the London clearing banks as agents, and settle some of their accounts with them. Thus, the greater part (by far the greater part) of the financial transactions of this country is carried on without any transference of coin at all, simply by the alteration of figures in ledgers. This has many advantages. It enables us to economize our gold and silver. If still, as in the Middle Ages, we made all our payments in hard cash, we should require much more coin. In fact, the necessary coin probably could not be provided, prices would fall (since a larger amount of goods must exchange for the same amount of gold and silver), and trade would be hampered. Secondly, cheques can be made out for odd sums, and therefore the great difficulties of giving and getting change are avoided. Thirdly, cheques can be safely and easily sent by post, and thus make it easier to transfer money.

Other clearing-houses.

Advantages of the cheque system: (*a*) Economy.

(*b*) Cheques can be made out for odd amounts.

Fourthly, they make account-keeping simpler. The counterfoil, if carefully entered up, provides a record of all transactions; and so also do the cheques, which are commonly returned to the customer after having passed through the banker's hands. These returned cheques are useful as records in the event of payments being disputed, and thus serve as receipts. In fact, cheques given for salaries by some institutions are now used as receipts, and in that case must be signed, and (if over £2) stamped on the back with a penny stamp by the recipient.

(c) Cheques are easily sent from place to place.

(d) They simplify account-keeping.

Lastly, if certain precautions are adopted, the use of cheques makes fraud more difficult. Bearer cheques, indeed, which are payable to anyone who presents them, do make forgery easy. But bearer cheques are seldom used now; order cheques, which must be endorsed by the person in whose favour they are drawn, have taken their place. Moreover, to secure greater safety, cheques are now commonly "crossed"—*i.e.*, two parallel lines are drawn across the cheque, which means that the sum of money will not be paid across the counter, but will only be paid into a banking account. For additional security a cheque may even be crossed with the name of a special bank, which means that it can only be paid into the banking account of the person or firm named at that bank. Since the transaction is so carefully guarded in every particular, it becomes almost impossible for an unauthorized person to get possession of the money. The system is specially valuable for charitable societies, large business firms, and others who employ many clerks or cashiers, for it insures that all cheques received on behalf of the corporate body must be paid into a particular account.

(e) They prevent fraud.

Crossed cheques.

There are, however, certain disadvantages attaching to the use of cheques. We must obviously keep coin for small sums; and people whose income is paid and spent weekly have no use for a bank account. Therefore wages cannot be paid

by cheques. A maid-servant who receives her monthly £1 15s. or £2 through a cheque is put to much more trouble than if it were paid to her in money, and no considerate master or mistress should ever give a cheque to a servant without inquiring if it is convenient that the money should be paid in that form.

Disadvantages of cheques.

Again, our cheques are of no value to people who know nothing of us, for the possession of a cheque-book is by no means a proof of the possession of a bank balance. Therefore railway companies and hotels commonly refuse payment by cheque, and for travellers banknotes are a more convenient form of conveying money than cheques. In the same way, there is a possibility of fraud through a cheque being given against a bank account that is exhausted or overdrawn. The banker will then return the cheque without paying the money, or "dishonour" it, and the creditor can proceed against his debtor for dishonesty. Finally, if a cheque is not carefully written, alterations may be introduced by the person to whom it is made payable. An extra "0" may be slipped in, or a "ty" added to a figure, and the amount of the sum to be paid over will be multiplied by ten. For these reasons the sum named on a cheque is always written twice, in words and in figures, and deep black lines should be drawn over the spaces between the figures to prevent any addition.

If these precautions are taken, the use of cheques is a device whose value can hardly be over-estimated. It is at once a convenience to the individual, a source of economy to the State (since it diminishes the wear and tear of coin), and an invaluable instrument of commerce. It is curious to observe that although the use of cheques is increasing, and in countries at an advanced stage of financial development is superseding other forms of paper currency—bank-notes—the British Government as yet makes no attempt to control the reserves held against the right to draw cheques, or (what is the same

Value of the cheque system.

thing) the amount of customers' deposits. The science of banking is now much better understood than formerly, and, notwithstanding recent failures of small and insecure banks, the business of deposit banking and granting the right to draw cheques proceeds safely and conveniently without Government supervision or interference.

CHAPTER VII

BILLS OF EXCHANGE

THERE is still another document which plays the part of money, and facilitates the exchange of goods by passing from hand to hand in payment of debts. This is the Bill of Exchange. Its peculiar characteristics depend on one habit deeply rooted in the human heart—that, namely, of preferring a present good to a future one, and a smaller certain advantage to a greater uncertain one. If I am offered the choice of £100 to-day or £100 three months hence, I shall unhesitatingly choose £100 now; and in order to induce me to wait for three months, the choice must be between £100 three months hence and some smaller sum at the present moment. Therefore sums of money due at a distant date are never at the present moment worth their face value; they are worth something less, or, to put it in technical language, are subject to a discount.*

Bills of exchange.

Preference of the present to the future.

Now, a retail dealer who buys goods from a manufacturing house is often not in a position to pay for them at once. He intends to make a profit by selling them, and expects to realize that profit in, say, three months' time. But the manufacturer wants his money at once; his workpeople require their wages, or new machinery must be ordered. Yet if he presses for cash down he will not get the order at all. Merchants confronted for many generations with this situation have hit on a most ingenious device,

Problem of the retail dealer.

* Latin *dis*, apart. Something is counted off, or apart, to find the present value.

which enables the one man to pay no cash till his profit is realized, and yet permits the other to have money, if he needs it, as soon as the goods leave his hands. The debtor allows his creditor to "draw on him a bill of exchange," which in its essence is simply a letter instructing the debtor to pay at a certain date, usually thirty, sixty, or ninety days after sight of the bill, a sum of money either to the creditor himself or to any person to whom he may assign the bill. The assignment is carried out by the person in whose favour the bill is drawn writing his name on the back. Thereafter the bill may pass from hand to hand.

Its solution by means of a bill of exchange.

There is usually another formality before this stage is reached. A bill payable so many days after sight must be "accepted," and a bill payable so many days after date is regarded as more secure if it is "accepted"—that is, the person on whom it is drawn must show that he acknowledges the liability to pay the bill when it becomes due, and is presented. This he does by writing across it the word "Accepted," with his signature beneath. To return to our special illustration, the wholesaler, whom we may call Mr. Brown, can, if he pleases, keep the bill until it is due. But we have supposed that Mr. Brown wants ready-money. If the retail dealer—let us call him Mr. Robinson—is known to be a reliable person, sure to pay his debts when they fall due, or if Mr. Brown himself enjoys good credit, Mr. Brown will find that plenty of people will give him money now for the bill of exchange, counting on recouping themselves by presenting it to Mr. Robinson at the end of three months. But a man who buys a bill not payable for three months will not give its face value for it. He must be recompensed for doing without his money during that time—that is, as we explained in the first paragraph of this chapter, the bill will be subject to a discount. Still, Mr. Brown, wanting cash down, is glad enough to sell his bill even at a discount. And bankers in particular are always glad to buy bills, because

"Accepting" a bill.

"Discounting" a bill.

they are what are called "liquid" securities; they can easily be exchanged for money, as they must be paid when they arrive at "maturity," as it is called—that is, the time fixed for payment. Thus Mr. Brown's banker will buy the bill at a discount, keep it for three months, and then receive the full sum from Mr. Robinson, who in the meanwhile has probably sold his goods, and has the necessary money at his command to pay or "meet" the bill. Even if Mr. Robinson has not been as successful as he hoped with his goods, he will nevertheless meet the bill if he possibly can, even at the cost of very great sacrifices. For a merchant who fails to meet a bill when it is presented damages his credit, and will find it hard to get people to trust him in the future.

Let us take another example. Hodge and Co., wholesale butchers of London, order a consignment of frozen mutton worth £1,000 from New Zealand, from Mr. Laming, who possesses a large sheep farm in that country. Mr. Laming then draws a bill on Hodge and Co.; and since he can show the order, and Hodge and Co.'s credit is good, he can easily sell the bill, and have ready-money at once with which to pay his men. The banker at Christchurch will transmit the bill to his London agents for realization from Messrs. Hodge and Co., and the amount will be placed to the banker's credit in London

Bills of exchange used to pay debts in distant countries.

And now usually another factor comes into the situation. Another New Zealander, Mr. Angus Jackson, has ordered from London furniture and pictures worth £1,500 for a new house he is building. How is this sum to be paid? Mr. Jackson has no banking account in London; a cheque on his Christchurch bank is of no use to Waring and Gillow in London. He could, of course, send 1,500 golden sovereigns; but the cost of transmitting gold to England is very heavy. The gold must be guarded and insured, and takes up room on the ship. In short, it costs, we will suppose, 7d. to send £1 to England from New Zealand. To send £1,500, then, would cost

Difficulties of transmitting coin.

£43 15s. Mr. Jackson has heard that bankers have cheaper ways of transmitting money, and in his difficulty he goes to consult the bank manager. The bank manager has just sent to his London agent the bill of exchange for £1,000 drawn on Hodge and Co., and another for £500 drawn on James Robson of Covent Garden, for value received in fruit. Therefore he sells to Mr. Jackson a draft on London for £1,500. Mr. Jackson despatches this to Waring and Gillow by post, and Waring and Gillow pay it in to their bankers; they draw for it on the London agents of the New Zealand banker, and the agents receive the money when the bills become due, from Hodge and Co. and from James Robson, who give cheques for £1,000 and £500 respectively Now observe that what has actually happened is that furniture made in England and transported to New Zealand has been exchanged for frozen meat and apples coming thence to us. And from first to last no actual coin passed in the transaction. Instead, two debts due in England have been used to cancel a debt due in New Zealand to an English firm. Thus bills of exchange not only bridge over times that are distant from one another, but also over distance in space.

Through the use of bills of exchange commodities pay for commodities.

But we must return to one point that has been slurred over. Mr. Jackson, we said, bought this "draft"—a term used for a bill of exchange drawn by a banker. How much would he be willing to give for it? If he cannot secure a draft, he would be forced to transmit gold at a cost of 7d. per £1. This, then, is the outside price he will pay—£1,543 15s. for two bills of £1,500.* But, of course, he would prefer to give less if possible. Will the banker take less? That will depend entirely on the number of people in Christchurch who want to transmit money to London, and that depends on the amount of trade that

Price of a bill of exchange depends on the state of trade.

* The discount is neglected here for the sake of simplicity in exposition. It can be supposed that bills practically at maturity, or "short" bills, are under consideration.

London is doing with New Zealand—literally on the amount of clothes, machinery, books, furniture, cutlery, etc., that are ordered to be sent down to the wharves in London to be packed on to the New Zealand steamers. If many goods are coming from England, and many people want to transmit bills to London, then the banker knows he can get £1 0s. 7d. for every £1 that has to be paid in London. If, on the contrary, New Zealand has had a bad year, and few people can afford to buy new things, then the cost of the right to pay £1 in England may be in New Zealand only £1 0s. 1d. Sometimes it may fall below £1. Suppose there have been in New Zealand many sales of meat and wool and corn to English dealers; then the bankers will have a large supply of bills. Suppose, too, the money earned by the New Zealand producers is being saved, or spent in Australia, and that very little of it is being used to order goods from England; then few people in New Zealand will want to transmit money to England, and the demand for bills of exchange will fall. The banker could, it is true, send the bill to England, get the money in cash, and have it shipped to New Zealand. But that is an expensive method of doing things, as it costs 7d. per £1. Therefore, if a New Zealand banker cannot sell bills on England at £1 or over, he will offer them for less than £1, and may, indeed, be willing to take only 19s. 5d., since if he sent the bills to England, and paid the cost of bringing the gold out, he would find that he received only 19s. 5d. for each sovereign. That is to say, the value in New Zealand of a sovereign in England varies between 20s. 7d. and 19s. 5d., and these two points are fixed by the cost of transmitting cash or specie from one country to another. They are therefore called "specie points."

Rate of exchange between England and New Zealand.

Specie points.

So far we have, for the sake of simplicity, been considering exchanges between two distant countries which have the same system of coinage. Usually, however, different countries have different systems of coinage. In England the standard is the

sovereign, in France the gold franc, in the United States the gold dollar. How are exchanges between England and France, or England and the United States, adjusted? Here we approach the very difficult subject of the "foreign exchanges," so complicated and technical, indeed, that an elementary book such as this cannot pretend to explain fully all its details. For these the student must be referred to some book dealing specially with the question. Yet—technicalities aside—the main principles are simple enough, and a little attention and imagination will enable the student to grasp their essence.

Exchanges between countries with different systems of coinage.

The foreign exchanges.

In England the standard is a gold sovereign; in France, a gold franc.* The value of each is determined by the amount of pure gold it contains. The pure gold, then, is the common denominator, in reference to which the value of one can be equated to the value of the other. If a sovereign were melted and recoined into francs, it would make 25 francs and a little over, the surplus being equal to 22½ centimes. Thus a sovereign exchanges for 25·22½ francs, if the quantity of gold alone in each set of coins is taken into account. This is called the "mint par" of exchange, and in the case of New Zealand a similar "mint par" would be secured when the exchanges stood at such a point that £1 in London could be bought for £1 in New Zealand, and neither more nor less.

The Mint par.

But the rate of exchange between England and France very seldom stands at this level. It could only do so if the value of goods ordered from France for England was exactly equal to the amount of goods moving the other way. Compare the supposed case in New Zealand where a thousand pounds' worth of meat and five hundred pounds' worth of apples are exchanged for fifteen hundred pounds' worth of

* This, the reader is reminded, is not coined; only multiples of it are in actual circulation (see pp. 19-20).

furniture. If these were the only exchanges between New Zealand and England in a given time, then the exchange would be at par. Usually, however, there is a balance of indebtedness on one side or the other. Let us imagine that very good silk has suddenly become popular in England, and that there have been heavy consignments of Lyons silk from Paris to the London drapers, while French people on their side have not been buying many of our goods. There will then be a balance of indebtedness in favour of France, how will that affect the exchanges? There will be many bills in Paris on English firms, but banks will not be anxious to buy them; therefore they will offer fewer francs, and the value of the sovereign as compared with francs will fall, and that of francs as compared with the sovereign will rise.* The exchange will be said to be favourable to France. Thus a sovereign, in place of exchanging at mint par—*i.e.*, for 25·22½ francs—will fall below this point. How far below? This, again, is determined by specie point. The cost of transmitting gold between England and France is 12½ centimes per franc; therefore the exchange might fall to 25 francs 22½ centimes minus 12½ centimes—*i.e.*, 25 francs 10 centimes. But it cannot go lower, for when it reached that point the French merchant would not sell his bill to a Paris banker for fewer francs than he could obtain if he sent his bill to London to be presented. The resulting gold sovereigns would be transmitted to him in Paris, and he would send them to the French Mint to be coined into francs. On the other hand, if England had been making heavy shipments of goods to Paris, then the contrary situation would develop. Parisian merchants wanting bills on London would find a very scant supply, and the price would go up to 25 francs 22½ centimes

The balance of indebtedness.

The transmission of specie.

* In exchanges between two countries, it is simply a matter of custom which of the coinages is stated in terms of the other. The Argentine dollar is always given in English money; in exchanges with France and Germany the opposite principle is followed: the value of the sovereign is stated in francs or in marks.

plus 12½ centimes—*i.e.*, 25 francs 35 centimes. At that point customers would be prepared to ship gold instead of buying bills, and the further rise would be stayed. The gold in this case comes into use because the two streams of commodities between the two countries are no longer in equilibrium, and gold must be brought into play to redress the balance. Thus

Influence of harvest on the balance of indebtedness.

the countries that produce raw material—corn, say, or cotton—commonly have a balance in their favour at harvest-time. When the South American harvest is moving, England is very heavily indebted to the Argentine Republic; the exchange will be unfavourable to England, and gold will probably be shipped from England to South America. This

"Favourable" and "unfavourable" rates of exchange.

use of the terms "favourable" and "unfavourable exchange" needs, perhaps, a word of explanation. It used to be thought by statesmen that it was advantageous to countries to have a large supply of the precious metals;* therefore they strove to promote trade that brought gold into the country, and to discourage trade that took gold away. The one they called a favourable balance, the other an unfavourable. This particular theory has been given up, but the terms have firmly established themselves, and cannot now be set aside. In the last-mentioned instance, however, England is not really worse off, because she receives much corn from South America. On the contrary, the cheap corn makes living easier and healthier for all her people who eat bread.

To recapitulate, then, bills of exchange perform three very

Recapitulation.

useful functions: (*a*) they bridge over distance in time; (*b*) they bridge over distance in space; (*c*) they facilitate exchanges between countries with different systems of coinage.

* In days when wars were financed by treasure in coin and bullion, and not by adding to the National Debt, this opinion was probably sound enough.

Hitherto we have been speaking exclusively of the best grade of bills of exchange—those which are drawn in exchange for produce actually in existence, but not yet marketed. These are called "produce bills," and, if the crop is insured against accident, are practically certain to be repaid, and are therefore nearly as good as actual money. But sometimes bills of exchange are created, not against crops, but against ordinary property, or sometimes are simply vouched for by the credit of the men drawing and accepting them. Thus a New Zealand fruit-grower might want to order some new kind of manure or expensive chemical for killing a blight that threatened his trees, and might have no money in hand to pay for it, while his apple crop would not be ready for several months. In such circumstances he goes to his banker, and gives him security for a loan—say, the deeds of his estate. The banker then arranges with a firm in London whose business it is to finance bills of this description, that a bill will be honoured when presented. These firms are known as "accepting houses," because they "accept" the bills. They are not actual dealers in produce, as in the cases we took earlier, but devote themselves entirely to finance. Their credit is, of course, high, and a bill accepted by them can easily be sold. The fruit-grower, giving his title-deeds as security, creates a bill on an accepting house, which of course charges a commission for the service, and at the same time makes inquiries into the solvency of the fruit-grower, or, more probably, of the bank which guarantees the sum advanced. The "finance bill," as it is called, is used to pay for the manure or the chemical. In due time it matures, and is met by the accepting house; but meanwhile the crop of apples has ripened, has been consigned to Covent Garden, and another bill—a true produce bill this time—has been drawn against them, and forwarded to the accepting house in payment of their claim. The fruit-importers meet it: the accepting house is repaid;

Produce bills.

"Accepting houses."

Finance bills.

the decorations, came for the most part from the Continent. The Church dignitaries, too, had clothes and jewels as beautiful as the nobles.

After the establishment of trade with Italy and the East, the next development was apparently much more prosaic—trade with the North Sea and the Baltic. An alliance of merchants, known for centuries as the Hanseatic* League, offered skins, hemp and timber from Norway and Russia, they also could offer Eastern goods, especially drugs, which had travelled through Russia instead of through the Mediterranean.

The "Hanse" merchants in North Europe.

What did the English folk offer to these foreign merchants to take back with them? Whenever merchants come to a foreign country, they want to buy as well as to sell. It would be very unsatisfactory trade if they took back only money and ships empty of cargo. The double transaction will give a double profit; "one turns the money over twice," to use the trading phrase. Thus, in the intercourse between nations, when imports begin exports must also begin. Moreover, in most countries at this time the sending of coin out of the realm was forbidden. But until the fourteenth century raw wool was the chief article the English had to exchange. Besides wool, there was leather, tin, lead, and sometimes corn. England was, to these nations offering it luxuries, in the position of a country of inferior civilization or development; it could offer only raw material, as, in far later days, its own colonies have given it raw material in exchange for manufactured articles. But England was in a strong position compared with other nations in regard to wool. Early in the fourteenth century the English Kings had managed to bring the export of wool into a well-controlled system. A few places on the Continent, notably

What were our exports?

* "Hanse" (originally an entrance fee) was a general name for an association of foreign merchants: English people spoke of the Cologne Hanse, the Flemish Hanse.

Bruges and Calais, were constituted the "staple" towns to which all wool was sent. There were also about ten towns in England, ports or connected with ports, in which the wool was collected before it was taken across the Channel. These were also called "staple towns," being recognized places of sale. The merchants were called the "staplers." The whole sale was encompassed with rules and regulations made by the Crown in order to secure its dues on exported wool.

The "staple."

But the aspects of the trade in wool began to change very soon after the full establishment of the staple (see p. 30). By the middle of the fourteenth century our woven cloth was offered for sale abroad, competing favourably even with Flemish cloth.

English traders now began to realize for themselves the prizes open to, and the difficulties besetting, foreign trade. There must have been some envy, and some unwilling confession of inferiority, underlying their general jealousy of the foreigners.

The man who ventures abroad, using a strange tongue and adapting himself to strange customs, has more initiative, energy and resourcefulness, than others, and he becomes a more enlightened, better educated man The business is much more lucrative, but much more dangerous. To meet the dangers he develops a power of working in combination with others for mutual protection. The caravans which brought the Oriental goods over the deserts to Constantinople or into Russia were conducted by traders in association for mutual protection. The Venetian and other Italian traders worked also in conjunction. Such a habit becomes the more necessary when goods, instead of being merely carried across the narrow seas, are sent on a distant voyage. The ship is a venture common to several adventurers. Thus we find the foreign trade in medieval times undertaken by leagues and companies somewhat similar to gilds, and, indeed, sometimes bearing that name. But this new kind of associa-

English traders venture abroad.

foundation of our whole system, and an increase in the production of gold will still affect prices to some extent. But in considering the exchange of goods in the rest of this book, we shall neglect alterations in the amount of the circulating medium, and devote ourselves exclusively to the other side of the negotiations.

It is obvious that, for exchange of goods, buyers and sellers must somehow be put into communication with one another. In a very simple form of society, a particular place in a town is set aside for people who have things to sell, and there exchanges of butter, cheese, corn, chickens, cloth, etc., are affected. This place is called a "market," and the word later on is slightly altered in meaning to signify any organization by which buyers and sellers are put into communication with one another.

The primitive market.

Let us, for example, take the case of corn, and see how the market for this commodity develops as circumstances change. At first, in the primitive medieval market, corn was sold at almost every booth, and any special town (Southampton or Newcastle-on-Tyne) was supplied only by the farmers living close at hand, and bringing their corn in along with butter, chickens, and eggs, in their market carts. The price of corn in Southampton at this stage does not and cannot affect the price of corn at Newcastle-on-Tyne, because the buyers and sellers in one town are unaffected by the proceedings of buyers and sellers in another town. And corn is bought and sold by the same people who are at the same time buying and selling other things. The primitive market, in fact, is both narrow and undifferentiated. But as means of communication improved, merchants began to come to Southampton from London; they did not buy butter or eggs or chickens, because these before the time of railways could not easily be transported to London. But they bought corn, and soon one special place was set aside for dealers in corn. There was a special corn-market.

It is local and undifferentiated.

Dealers from London would also go to Bristol and to Newcastle-on-Tyne, and if a London merchant learnt that corn was cheap and plentiful in the West, he would buy there, but not in Newcastle or Southampton. The market is extended in area; there are no longer a number of little limited markets, each centring round one large town. Instead, merchants in one town are in touch with merchants in another town, and the whole of the country is one market as far as corn is concerned.

Extension of the market area.

To-day, in all corn-stuffs, the whole world forms but one market. Our means of carrying commodities and of sending news of changes in price are so marvellous that, if there is a bad crop in the Argentine, the price of corn goes up in Canada and in Siberia. The reason for this is that Canada and Siberia and the Argentine supply corn to all countries that cannot grow enough for themselves; and if there is a falling-off in the amount produced in one of those countries, more people will order wheat from the remaining countries. In such a commodity as wheat, buyers and sellers all over the world are in communication with each other. There is, to put it in other words, an "international market" in wheat.

To-day there is an international market in corn.

Now observe how the meaning of the word "market" has changed in the preceding paragraphs. To begin with, we meant by it a special place—usually a square in the middle of the town—where buyers and sellers met. But there is no "place" where the buyers and sellers in the international wheat-market meet. Yet they communicate by letter and telegraph, and in this way the exchange of wheat is carried on. Thus, we mean now by "wheat-market" simply the organization whereby buyers and sellers are put into touch with one another. And this is the essential characteristic of the "market" in the modern use of the word—that there should be free communication of com-

Essential characteristic of a market: free communication of buyers and sellers.

modities and of news throughout the area of the market. The people who form the market may never meet; nay, further, they may never handle more than samples of the goods in which they deal. But if the dealings of a merchant in cotton in Egypt are affected by the dealings of another merchant in cotton in New Orleans, then they both belong to the same cotton-market.

Markets in modern times, as already suggested, tend to become more and more specialized in relation to the goods dealt in, but more and more extended in relation to the area from which the goods are drawn. One man devotes himself entirely to buying and selling eggs of different grades; another specializes in tea, another in bacon, etc. Here we are, of course, referring to wholesale dealers—to men, that is to say, who act as intermediaries between the farmer or manufacturer and the shops where the customer buys the goods he is going to use. Retail shops, on the contrary, are tending to become less specialized, and the place of the separate butcher, baker, and grocer, is taken by great general stores like Whiteley's.

Modern markets are (*a*) specialized, (*b*) international.

In relation to area, the tendency in modern times is to international markets; the whole world is but one market for corn, cotton, bacon, leather, paper, lamp-oil. But there still remain plenty of commodities for which the markets are local and restricted. The price of cut flowers in many parts of the United States in winter is very high, so much so that people with moderate incomes must go without them altogether. The price of cut flowers in London is very low. Here, then, are two separate markets. Why do they still remain separate? Because the cost of keeping flowers fresh during the voyage from London to New York is so heavy that the increased price in New York would not compensate the dealer. Therefore my cousin in New York will continue to pay 50 cents (2s. 1d.) for flowers to adorn her Sunday dinner-table, while I buy flowers just like them in

Remaining local markets:

London for 6d. So, too, there are separate local markets for such perishable commodities as fish. The low price of fish in the West of Ireland does not affect the price in London, because while the means of communication are undeveloped it is impossible to bring fish from Connaught to London in an eatable condition. Thus fragile and perishable articles tend to have a restricted market.

In perishable articles.

So, too, do articles which are at once bulky and cheap, for their cost of carriage is large in proportion to their price. Thus, the market for coal in England is unaffected as a general rule by the price of coal in the United States.* Heavy common articles of furniture may be sold at quite different prices in adjacent countries, because the extra profit gained by exporting from the cheap to the dear country is swallowed up by the expenses of transportation.

In articles bulky and cheap.

There are two other cases of special markets. If the reader goes down into Hoxton or Whitechapel, and investigates the prices of tomatoes or fish in the open-air markets there, he will discover they are several pence a pound cheaper than in the respectable shops of his own well-to-do suburb. The reason is that the suburban shopkeeper and the East End coster are serving two groups of customers whose social habits are so different that they do not come into communication. The lady who pays 6d. a pound for tomatoes in Kensington is not tempted to turn out late on Saturday night and visit the street markets by the fact that there she can buy tomatoes at 2d. a pound. The two customers, the labourer's wife and the middle-class lady, do not come into competition with one another as buyers. To coin a phrase, there are in some commodities specialized "class markets."

Specialized class markets.

Finally, the existence of tariffs or systems of taxing goods

* This is only true to a certain extent. Under exceptional circumstances —*e.g.*, a rise in price due to a strike—it may pay to send coal from one side of the Atlantic to another.

as they enter a foreign country hinders to some extent the formation of perfectly competing international markets If the tax is low, the taxed goods will enter, and the price inside the tariff barrier will usually be raised by the amount of the tax. If the tax is very high, the imported goods may be shut out altogether, and in that case two separate markets will exist, in which prices are independently determined.

Separate markets produced by tariffs.

We will conclude this chapter by explicitly stating one law which has been implied throughout—viz., that there cannot be two prices for the same kind of goods in the same market. If in that primitive medieval market one market woman asked a higher price for her butter than her neighbours, her butter would not be sold; or if it were observed that so many people were wanting butter that some were forced to buy the higher-priced article, all the market women round about would immediately raise their prices to the same level. The seller is always anxious to sell at a high price, the buyer is anxious to buy at a low price (in so far as they are influenced by economic motives alone), and therefore the buyers, if there is a difference in price, will all, as far as possible, buy the lower-priced goods; while the sellers, if some of them succeed in obtaining a higher price, will *all* raise their prices. Thus, in any group of buyers and sellers having free communication with one another (*i.e.*, in any "market"), the tendency will be for a single price to be established.

In each market there is only one price for the same goods.

CHAPTER IX

THE DETERMINATION OF PRICE: DEMAND PRICE

THE principles to be discussed in this chapter are, as it were, the hinges on which the most important theories of economics turn. They seem, however, on a superficial reading so platitudinous—indeed, so trivial—that most students are a little impatient at the apparent obviousness of the different stages of the arguments. Yet exchange of goods and services is the great fact in the modern world of industry and commerce. Practically no one to-day makes goods for his own use, or for the direct service of those to whom he is bound by ties of love or of fidelity.* He makes goods for the market, there to exchange them for money, and will exchange that money again for the goods he and his family require. These exchanges all take place by means of money—*i.e.*, by the fixing of a definite *price* for each thing exchanged. Therefore, in studying price we are studying the central conception of economic science, and can hardly devote too much attention to attaining clearness as to the motives and mechanism by which price is determined.

Importance of the theory of price.

We will follow the example of a recent writer on the subject—Mr. J. A. Hobson †—and take as our first instance a deal in horses. Now, if a man has made up his mind to sell his horse, he is not therefore willing to accept any price. He enters the market with a

Example: a deal in horses.

* The great exception to this statement is the unpaid work of the mother of a family

† See "The Industrial System," by J. A. Hobson, pp. 155-161.

certain reserve price more or less clearly present in his mind. But he hopes to get more than this reserve price, and will take any higher price he can secure. Sooner, however, than risk having the horse left on his hands, he will accept this reserve price. Suppose, then, there are three horses to be sold which are all of the same quality. A, the owner of the first horse, is in desperate straits for money, and is willing to accept £20 rather than not sell his horse at all. B wants money to make some additions to his stock of manure, and will let his horse go at £25. C hesitates whether or not to sell, but thinks if the price reached £35 it would pay him to do so. Similarly buyers enter the market, also with price limits hovering in their minds. But the buyers' position is different: they will buy as cheaply as possible, and their reserve is a maximum, not a minimum. Suppose there are three buyers—O, P, Q; the limits of price to which they will respectively go are £25, £30, £40. At what price will the sale of the horses be effected? If the price £40 is named, all the sellers will offer their horses, but only one buyer (Q) will present himself. Now, A, B, and C, would all like to have £40; but it is apparent that if £40 is insisted on only one horse will be sold. Each seller fears he may be the man left out, and therefore lowers his price, hoping to attract more buyers. But at £35 C withdraws his horse, and only A and B are left in the market. At £30 there are still two sellers; but now another buyer (P) has entered the field. There are, therefore, two sellers and two buyers willing to effect a sale at £30. If P and Q, knowing A's circumstances, and guessing that he would take very little for his horse, hope to get it for even less, they may both hold off; and A and B will see their hopes of a sale at £30 recede. If, however, P and Q forced down prices still further to £25, then at that level O would enter the market, and B would withdraw. There would then be one seller and three buyers. But

The sellers' reserve prices.

The buyers' reserve prices.

The higgling of the market.

P and Q want horses with some intensity; both would be afraid of being left out, and would raise their offers again to above £25, when once more there would be two buyers and two sellers. Therefore two horses would be sold at a price somewhere between £25 and £30. C with his reserve price of £35 would make no sale at all, and O, whose utmost price was £25, would make no purchase. Price, then, is fixed at a rate where the number of goods offered and demanded is equal. In any given instance there may be several prices named (in this case £26, £27, £28, £29) which would satisfy that condition, and the exact determination of the price will depend upon bluff or skill in higgling, or on the superior knowledge of one party to the bargain of the special needs of the other.

Price is fixed and exchange occurs at the point where the amount of goods offered and demanded is equal.

We can now introduce two very useful technical terms—"demand price" and "supply price." Demand price is the largest price which will be given by the buyer for any article. In this particular instance, P's demand price was £30; O's, only £25. The supply price, on the other hand, is the lowest price which will be accepted by the seller; thus, B's supply price was £25. Using these terms, we can vary the statement given above by saying that in any market sales can be effected when the demand price and supply price of a given amount are in equilibrium. Thus, when three horses were in the market, the supply price was £35, but the demand price was £25; but when two horses were in the market, both demand price and supply price alike ranged between £25 and £30.

Demand price and supply price.

Let us now take a more complicated instance. A horse must be bought as a whole or not at all. But most objects are susceptible of subdivision: butter is sold by the pound, corn by the quarter, etc. A corn-dealer does not fix a minimum reserve price for the whole of his stock. He has rent and wages to pay, and therefore is willing to part with some of his corn at a very

Another instance: Corn.

low rate in order to secure the necessary cash. But another portion he will keep back, expecting that prices will rise again next week or next month. A second and a third corn-dealer will do the same, although the amounts they will sell at different prices will vary. Thus we could construct a list showing the amounts of corn that will be put on the market at different prices. This list the economists call the "supply schedule." Similarly, the buyers will buy different quantities as the price varies.

The supply schedule.

If the price of corn is very high, then people will use bread carefully, and buy less. All stale bread will be eaten; poor people will use more oatmeal, and so economize. Artists would give up using bread as a substitute for rubber, and young ladies would no longer employ it to clean their white kid ball-slippers. But as the price fell, more and more would be bought. The corn-dealers, knowing this, would increase their demand for wheat as the price declined, and we could therefore construct a demand schedule, showing the various demand prices.

The demand schedule.

Two imaginary schedules and the price they indicate.

Now, suppose that in a given day the following schedules represented the state of the market:

Price per Quarter.	Amount Offered.	Amount Demanded.
	Bushels	Bushels.
34s.	20,000	12,000
33s.	19,500	13,500
32s.	18,000	14,000
31s.	17,000	16,500
30s.	17,600	17,300
29s.	17,200	17,800
28s.	16,800	18,000
27s.	16,000	18,500
26s.	15,000	19,000
25s.	14,000	20,000

In a market whose conditions are represented by this schedule, the price will be between 29s and 30s., somewhere between these two points the amounts offered and demanded will be in equilibrium, and at that point—say, 17,395 quarters at 29s. 7½d.—the price will be fixed, probably after some fluctuations.

We might construct a schedule representing finer gradations of price, but as a general rule these finer levels of price will only be defined, in the course of bargaining, by the "higgling of the market." Indeed, the fixing of the price depends to a very large extent on the knowledge and skill of the bargainers. If either side is weak, the price really paid may differ considerably from that warranted by the state of the market, were that fully known.

We may now turn to consider the question, What determines the demand price and supply price for certain quantities? The two interact on one another, but it will be convenient to consider demand price first.

What determines demand price?

The price which I am willing to pay for any goods depends primarily on whether or not other more urgent needs are satisfied. Thus, a man must first supply himself with food and shelter before he wants books, and there is no demand, and consequently no demand price, for luxuries in a section of the community not furnished with the necessaries of life.

The demand for the first portion of any commodity is very intense, but falls off as the want is satisfied.

When a want enters the region of effective demand—*i.e.*, when the other more urgent needs have been so far satisfied that a margin is left for the less urgent—then it is at first felt with great intensity. Thus, when tea was first introduced into England, it was regarded as a great delicacy; little was used, and that only at parties, and the price was £3 and £4 per pound. The demand price, that is to say, for a single pound of tea was £3, and one can imagine that even to-day in a besieged town as high

a price might be given for a small supply of tea for an invalid's use. But a housekeeper willing to give £3 for a single pound would only give £2 for a second, and only, perhaps, 16s. for a third, and so on, until a household using 50 lbs. of tea in a year is just induced to buy the fiftieth pound when tea is 1s. 6d. per pound. If tea rose to 1s. 8d., the mistress would urge the cook to be more careful; the extra cup of tea made with a strainer for a late comer would be cut off, and the consumption of tea would be reduced in the year by perhaps 2 lbs. Now, putting these very obvious facts into technical language, we say the demand price for any increased quantity of a commodity is determined by the previous degree of satiation of the want satisfied by that commodity. Thus, to illustrate again, a man starving on a desolate island, and found there by an inhuman ship-captain, would, if the latter bargained closely, give away half his fortune at home for quite a small supply of wheat or flour. But he would not give the second half for another similar supply of wheat or flour. His want would be partly satisfied, and therefore the value to him of the wheat or flour and the price which he would pay for it would have diminished Now, here we may introduce another technical term of the utmost importance in economics—*i.e.*, the word "marginal" or "final," applied usually to value. There is clearly a distinction to be made between the value of any commodity in its whole effect upon my life, and in the importance of the last portion of it which it is worth my while to buy at a given price. The value of the whole we name the "total" value; but the value of the last portion bought at a certain price is the marginal value, and it falls as the supply increases. Thus the marginal value of butter, useful foodstuff though it is, is not so great to the middle-class housekeeper as the marginal value of fresh fruit. And if the price of butter falls, the middle-class housekeeper will not buy more—or not much more—but will use the money saved on butter to buy

Marginal or final value.

Total value.

more fruit. The marginal value of fruit will under those circumstances be greater than that of butter, though the opposite would be true of total value. This distinction between marginal and total value will solve for us many apparent contradictions. Is water, for instance, valuable or not? Its total value is obviously very great, for without water we cannot live. But its marginal value will depend on how much of it we have already had. One glass of water per day is a necessity of life, three are desirable; but to drink six is hardly worth the trouble, and to drink twenty would be a positive injury. The marginal value has sunk to zero, and, indeed, has become negative.

Illustrations of the important distinction between these two meanings of "value."

This shows clearly the falsity of the view that value is something inherent *in* the object, independent of its relation to mankind, or that it is intrinsic. Ruskin in one of his books speaks of the inherent value of a quarter of wheat or a yard of linen cloth. But these have no value save in relation to the wants they are to satisfy; and should no one who can pay want more wheat or more linen, then wheat and linen would have no marginal value. Mr. Bernard Shaw in a lecture said once that he was less valuable than a charwoman. But Mr. Shaw was forgetting the distinction—which no one has stated more clearly than himself—between marginal and total value. The total value of charwomen is much greater than the total value of Mr. Bernard Shaw. If we had to choose between giving up *altogether* the services of charwomen or the services of Mr. Shaw, everyone—save a few misguided enthusiasts—would choose the latter alternative. But there is but one Mr. Shaw, and therefore his marginal value is high. There are, unfortunately, only too many charwomen; consequently *their* marginal value is low, and amounts, indeed, only to 4d. or 5d. per hour.

Intrinsic value non-existent.

Mr. Bernard Shaw and the charwomen.

To restate, then, marginal value determines demand price for

the last portion of a commodity which is to be bought and sold; and as in one market there can be but a single price, it determines also the price of the whole amount of the commodity put upon the market.

Demand price determined by marginal value.

It has been already implied that the marginal value will be different in different classes. The middle-class housekeeper, we said, would not buy much more butter if butter fell in value. But the working-class housekeeper will She has, perhaps, been using margarine, with butter as a treat only on Sundays. The marginal value of butter is still very high for her, and therefore, if the price falls, she will increase her consumption—or, rather, her family's consumption—of butter very considerably. Thus the demand price of different classes for the same commodity varies very widely. Wealthy people will buy strawberries at 2s. 6d. or 3s. a pound. The middle-class housekeeper buys a few as a treat when strawberries reach 1s. At 4d. she buys as many as her family will eat, but would not buy many more at 3d. or 2d. Working-class people will buy none at all till they reach 4d., but will increase their purchases largely as the price declines to 1d.

Marginal value in different classes.

Some wants are very urgent in their first development, that are easily satisfied; this is the case, for instance, with the need for bread or water. After a certain minimum, we do not greatly increase our consumption of either, as the price falls or our income increases. The demand remains "inelastic"; it does not lengthen out with the diminution of price. Neither, on the other hand, will it greatly decline should the price rise or the income fall off. The consumption of bread, for example, is about the same in a fairly well-to-do artisan family and in a middle-class family. And if by some disaster the price of bread were doubled, the consumption of it would certainly not be halved. For other commodities the demand is very elastic. Newspapers and magazines are an example, also articles of

Elasticity of demand and the reverse.

dress and passenger traffic on railways. When railways first began, the companies paid much more attention to the first-class than to the third-class passengers; but when Parliament forced them to run cheap trains for the latter, it was discovered that the numbers increased tremendously, and to-day the third-class passengers are regarded as far more important than the first.

So much, then, for demand price. It depends on the force of the want – not for the commodity as a whole, but for an increased supply of it; and that depends on income, on the satisfaction of wants of greater urgency, and on the degree of satiation of the particular want under discussion.

Summary.

CHAPTER X

THE DETERMINATION OF PRICE (*Continued*): SUPPLY PRICE

In modern conditions supply rather than demand is the decisive factor in fixing price.

We have discussed the causes determining the highest price which the buyer will give for a certain supply of a commodity. Now we must turn to the other side of the bargain, and discuss the causes fixing the lowest price which the seller will accept. The former is in one sense more important. All markets are in the long-run constituted by the intensity of the demand. Yet, in a wealthy civilization like our own, all fairly well-to-do people habitually buy things at low prices when, rather than go without, they would be prepared to give a much higher price. Therefore supply rather than demand is the decisive factor in modern commerce, and many economists, not to speak of the ordinary public, are apt to overlook the more subtle and less easily detected part played by demand.

Supply price of a perishable commodity.

In the market for a commodity which is both perishable and localized, the supply price may in particular circumstances be fixed solely by the unwillingness of the seller to take his product home again. If, for instance, an unusually large catch of herrings comes to market, it must be disposed of at once, or the herrings will go bad. Therefore, towards the end of the time during which the market is open, sellers will compete with one another so eagerly that herrings may be almost given away. In fact, in modern competitive commerce, a large supply of such perishable goods as fish or strawberries is no advantage to the fishermen or market-gardeners, for the

price may sink so low that the producers will not even be remunerated for their outlay.* On the other hand, in commodities such as these, which cannot be stored, a sudden increase of demand will send the price up in as marked a degree. The price on any given day is determined solely by the existing demand and existing supply, and such a price is named the "short-period price." In perishable commodities it is evident that it will tend to fluctuate violently.

Short-period supply price.

Now let us compare this short-time price ("market price," some economists term it) with the average price over a whole season. If the market-gardeners, on making up accounts at the end of the year, found that the prices received for strawberries had not repaid the time and money spent in cultivating strawberries, then they would use the ground given up to strawberries for gooseberries or raspberries instead. They would not be greatly troubled by the fact that on one or two days the price of strawberries had not paid for the cost of growing them, if on other days the price had been in excess of the cost of production.† They would strike an average over the whole year, and if this average was satisfactory, they would continue growing strawberries. This average we may call the "normal price."

Normal supply price.

But suppose this normal or average price turned out to be in excess of the cost of production, what would happen then? Men would observe that strawberry-growers seemed to be doing extremely well, were saving money or living in a better style than their neighbours. People starting for themselves in the world would inquire about strawberry-growing, and, comparing average or normal prices with the outlay in growing the fruit and sending it to market, would discover the

* Compare Shakespeare's farmer "who hanged himself in the expectation of plenty."

† This term will be more fully discussed later (see p. 65). Its meaning here is clear enough.

existence of a handsome margin; therefore new men would enter the business, the volume of supply would be increased, and prices would fall.

Therefore normal supply price tends to approximate to the cost of production if a sufficiently long period is taken. Price at any particular moment is determined solely by the relative volume of demand and supply, and may (nay, more usually does) depart widely from the cost of production, but in any article which is freely produced and in steady demand * there must in the long-run be an equilibrium between price and cost of production. But although this statement is true as a general rule, the student ought to be prepared to find many exceptions to it.

Supply price tends to equal the cost of production.

In a durable article with a wide market (*e.g.*, sugar), the variations of supply price will be much less marked. A fishmonger must sell all his stock at any price he can get on Saturday night, for it will be useless and unsaleable at any price on Monday. But the grocer need not sell off his sugar or his coffee if, on a particular Saturday, the demand for them is small. He knows that they will keep, if necessary, for weeks, and therefore he will not lower prices in response to a temporarily lowered demand. On the other hand, if in a particular area the demand for sugar suddenly increases, fresh sugar can be procured before long from other places, and the price will only be raised if the demand over the whole world increases so unexpectedly that some time must elapse before fresh land can be devoted to growing cane or beet; this was the case with the demand for rubber a year or so ago. Thus the prices of commodities having an international market will maintain a steadier level than the prices of commodities serving only local and temporary markets, and will approximate more closely to the cost of production.

* These conditions should be borne in mind. If either is not fulfilled, the price may bear no relation to the cost of production, and is certainly not determined by it.

It is now time to consider more exactly what we mean by "cost of production." Let us take the case of boots. The retail dealer (or, as is often the case with boots, the selling department of the boot-producing business*) must make enough to pay the boot manufacturer the wholesale price of the boots, to pay the cost of carriage, the rent of the shop, the salaries and wages of the clerks and shop-assistants, the cost of the counters, show-cases, and other shop fittings. The manufacturer, again, on his part must receive enough to pay rent, salaries and wages, and the costs of advertising, of the raw material, and of the coal or other source of power employed to run his machines. Moreover, those machines in a modern factory are very expensive; a man starting in business would not have enough money in hand to pay for them at once He must borrow money, paying a certain sum every year for the use of the money; and since the machines will wear out after a term of years, he must put aside money enough each year to be able to replace them when that time comes. Thus, the price put down in the shop for the boots must, when added to the money paid for all the other boots turned out in a year by the factory, pay for the land used in making or selling the boots, for the labour of the people making, transporting, and selling them, for the money borrowed to set up the necessary machines, and for a contribution to a fund for replacing those machines when they are worn out. Lastly, it must yield the manufacturer a surplus for his own use at least equal to that which his energy and talents would earn in any other sphere which might be open to him. All these various factors enter into the cost of production, and play their part in determining the price which I have to pay for a new pair of boots. If there was a decreased demand for boots, and prices fell, then before long the less prosperous boot manufacturers would be

Explanation of cost of production.

Relation of price and cost of production.

* Many boot manufacturers do not sell to middlemen, but dispose of their goods direct to the public through branch shops.

forced from the trade, the supply would decline, and prices be raised again to the cost of production. Thus, with manufactured articles, the supply price can only very occasionally and for a short time fall below the cost of production; and should the market price be above the supply price, thus yielding an extra profit to the manufacturer, the influx of fresh labour and fresh machinery into the trade will again pull down the price. It is therefore true that normally, in markets supplying the great bulk of manufactured articles, the price varies only very slightly from the cost of production.

Exceptions to the tendency for price to be determined by cost of production.

But there are many exceptions to this statement, which expresses only a tendency, and not a fixed and unalterable law of Nature, comparable to the law of gravitation, or to the chemical law that elements combine only in proportion to their atomic weight. Note some of these exceptions:

Monopoly goods.

(*a*) Where a commodity is produced by a monopoly, the price is not determined by the cost of production. But this case can be better discussed at the end of the next chapter.

Artistic goods.

(*b*) Objects valued for their artistic merits, as old furniture or the pictures of great masters, will bring prices absolutely out of proportion to the original cost, because obviously these articles cannot be freely reproduced.

Fashion goods.

(*c*) That price tends to equal cost of production is only true where there is a steady demand easily gauged by the manufacturer. At the time when I write, some of the big drapers are endeavouring to place upon the market a new device for using up cloth, entitled "the harem skirt" (*jupe-culotte*). The public seems little inclined to take to it; and should this disinclination continue, the price of the harem skirts will fall to a level which has no relation to the cost of production. Or, again, a manufacturer may make a mistake in producing a colour which he thinks

will be fashionable, but which, notwithstanding all the efforts of the fashion papers, still remains unpopular. A parasol-maker tells me that in the summer of 1910 great efforts were made to popularize vieux-rose, and many parasols were produced of this shade. But the public did not care for it, and the price of the vieux-rose parasols had to be greatly reduced in order to clear the stocks near the end of the season

(*d*) An improvement in the method of manufacture will reduce the price of all goods manufactured according to the older and dearer process. In such a case it will be cost of reproduction rather than of production which will determine price.

Effect of an improvement in methods of production.

(*e*) Particular goods are often sold by modern department stores below cost price as an advertisement. The draper or grocer advertises a special "line" at a very cheap price, hoping thus to attract customers from his rivals, and then to get back his losses on one article by the increased sales of others.

Selling cheap for purposes of advertisement.

(*f*) In trades where employment is not constant through the whole year, manufacturers expect to make what is called the "standing charges"—rent, salaries, etc.—during the busy season. Then, during the slack season, they can afford to undertake business at a much lower rate, and, indeed, are glad to do so, if thereby they can get employment for a staff whom they would otherwise be obliged to dismiss or to keep on only half occupied. Thus, it is always possible to have a new dress made much more cheaply in January than in April or May. Accountants usually call the cost of raw material and work employed in making any commodity the "prime cost," while the other fixed charges which must be met in the long-run, by an addition to the prime cost of all or some of the goods turned out, are named "supplementary cost." Therefore we can restate this position by saying that in slack seasons manufacturers may for a time be willing to sell goods at no more

Prime cost and supplementary cost.

than a slight profit on "prime cost," expecting to make the whole of the supplementary cost in the busy times.

(*g*) Similarly, if a manufacturer can manage to sell in two markets, the price-levels of which do not affect one another, he may make the whole or greater part of his supplementary charges in one market, and sell goods in the other at no more than prime cost. This happens in the specialized class markets already named. A baker makes his supplementary charges by sales to his regular customers. Bread left over on Saturday night he will sell off to poor women at little more than the cost of labour and flour. So, too, when markets are differentiated by tariffs. The American steel manufacturers make their supplementary charges by the high prices they can get for steel in their own protected country. Consequently, in other countries, they can afford to dispose of any surplus steel rails (which they could not sell at home without bringing down the price) at a level corresponding to prime cost plus cost of carriage. This is the phenomenon known as "dumping." Many superficial economists have declared it would not pay manufacturers to practise "dumping," or selling below cost price. This is true only if all their goods enter a single market. But if different markets with different price-levels are open to them, then it may pay to sell in one at the full cost of production (including supplementary cost for the whole volume of goods turned out), and in another at prime cost only. This expedient will be practised most largely when goods are produced by a monopoly.

Effect of selling in two markets.

Dumping.

So far we have been speaking as though the market for each kind of commodity was quite separate from that in another commodity. But in actual fact this is not the case. Most human needs can be satisfied by one of several goods or services. We need, for example, artificial light in our rooms at night. Artificial light can be made by candles, oil, gas, or electricity. Therefore if one of these illuminants, say electricity, becomes a

Substitution.

great deal cheaper, it will affect the markets for the other forms of light. So, too, the price of strawberries will influence that of raspberries or gooseberries. If strawberries in any season are exceptionally dear, then gooseberries will increase in price also, because part of the normal demand for strawberries will be transferred to other kinds of fruit.

Conversely, one commodity may satisfy several wants. Alcohol, for instance, is used to satisfy thirst and to exhilarate our spirits. But there is also a demand for it for use in various manufacturing processes. Wood is used both for making furniture and for making paper. If the demand for the commodity for one of these objects rises or falls, then the price paid for the other purpose must also vary.

One commodity demanded for several purposes.

There are complications, too, on the side of supply. Wheat and straw must be produced together; a larger supply of beef involves at the same time a larger supply of leather. And, therefore, if the community eats more bread or beef, there will be more straw and leather brought into the market. Thus the demand for beef affects the price of leather. Sometimes manufacturers have neglected for years the value of a commodity which is produced together with the original object of manufacture. Such commodities are called "by-products." In the manufacture of gas for lighting purposes, for example, other gases and liquids are also driven off from the coal. For a long time no use was made of these, but in the end they were utilized, and were found, as has been the case in many other instances, to be almost as profitable as the coal-gas.

Joint production of commodities.

By-products.

Thus, it will be apparent that the interrelations between the demand prices and supply prices of commodities are extraordinarily complicated, and can, indeed, only be fully known to people whose special business it is to buy and sell the goods in question.

CHAPTER XI

THE DETERMINATION OF PRICE (*Continued*): THE LAW OF INCREASING AND DIMINISHING RETURNS—MONOPOLY PRICE

THERE remain one or two miscellaneous questions which ought to be discussed before we pass to the next section of the subject.

In the first place, it has been assumed that an increased demand for a commodity always raises its price. This is the case provided that the conditions of supply are not affected by the larger production necessary to meet the larger demand. But the condition in the last clause is frequently not fulfilled. An alteration in the volume of supply of any good changes in one direction or the other the cost of production of the good. Let us take two different cases. Suppose a farmer wants an acre of land to produce twice as much corn as it raised last year. He and his men must work much harder; they must plough deeper, harrow and hoe more carefully. The seed must be specially selected, the manure be of the best possible quality. In short (supposing no marked advance in agricultural methods occurs), it will take *more than twice* the amount of labour and outlay in tools, seed, and manure, to raise twice the amount of corn; or, putting it another way, double the amount of labour and expense will not double the amount of corn produced. The returns from the acre of land will not be increased proportionately, but diminished. In short, agriculture is subject to the "law of diminishing returns," which

The cost of production is affected by alterations in the volume of supply.

The law of diminishing returns.

and that three or four may arrive at once. The chief remedy he proposes for this congestion is that the whole canal system, and also the old water-ways, should be developed and modernized, with the use of better-built barges and systems of steam-hauling, such as are in use in Germany and the United States. There are many conveniences in canal traffic; it is naturally the most economical method of transport, especially as the cost of maintenance is so little increased in proportion to increase of traffic.

force, and the product of those last three hours will be inferior both in quantity and quality to the product of the first three. An increased amount of labour will not give a proportionately increased product.

It must not be thought, however, that the law of diminishing returns invariably operates in the extractive industries and in agriculture, and the law of increasing returns invariably in manufacturing industry. Improvements in technical processes may for a while cause the former to obey the law of increasing returns. Thus, the great agricultural pioneers of the eighteenth century,* when they first introduced deep ploughing, marling and a scientific rotation of crops, found that the outlay of more money and labour on the land under these new conditions produced a return far larger in proportion than a smaller outlay under the old conditions. So, too, with coal-mining. When a pumping machine was invented which succeeded in keeping deep workings free from water, it was found more profitable to sink mines farther into the earth than to continue the shallow bell-pits, production in which had long come under the law of diminishing returns.

The effect of technical improvements.

On the other hand, it would not pay a manufacturer to enlarge his factory indefinitely. It would become too large for effective supervision; the increased amount of account-keeping and checking of returns would swallow up the extra profits; a larger supply of power might not be available save at a greatly increased price (if, for instance, the factory were run by water-power). Thus businesses and industries may at one time be subject to the law of increasing returns, and at another to the law of diminishing returns.

The limit of increasing returns in manufacturing.

How under these varying circumstances is the price

* "Turnip" Townshend, Coke of Holkham, etc. (see Prothero, R E., "Pioneers and Progress of English Farming").

affected? If there is demanded an increased supply of a commodity subject to the law of diminishing returns, the price must be raised at once; for the production of the increased quantity costs more, and in one market there can only be one price. But if it is subject to the law of increasing returns, the price need not, and probably will not, fall immediately. The manufacturers already in the business will increase their production, but will charge the same price. Why should they not? The increased demand shows that the public wants the article, and the manufacturers will not lower their prices out of philanthropy.* Therefore for a time their profits will be increased (since the price is the same and the cost of production is lowered). In consequence, more people will enter the business, the supply will be further increased, and in the end prices will fall till they again approximate to the (new) cost of production.

Price under diminishing returns.

Price under increasing returns.

A rather curious paradox follows from these considerations. If an article the demand for which is irregularly elastic is also subject to the law of increasing returns (to put the same thing in another way, if the cost of production per given quantity declines as the supply produced is increased), then equilibrium of supply and demand may be established at several points. It may either be produced on a small scale at a high price, meeting only a very small demand, or it may be produced on a larger scale at a lower price, meeting a much greater demand. Bicycles are a good example. A few years ago a good bicycle cost £20 or £25, and bicycling was a recreation only possible to the very wealthy. Now, had the price been lowered merely to £18, the manufacturers would probably have lost, because the demand would not greatly increase, as there are not many people who can afford £18 and cannot afford £20.

The possibility of several price levels.

An example.

* In the telling American phrase, they are "not in business for their health."

When, however, bicycles were reduced to £12, multitudes of middle-class people could afford to buy them. The number of bicycles produced increased, and the cost of production per bicycle diminished. A new price-level was established, equally profitable to the manufacturer, but depending on a new equilibrium of supply and demand. And within the last few years the process has gone farther. Satisfactory bicycles can now be bought at £6 or £7; the young artisan and the shop-girl can and do buy them in increasing numbers. Of course the £20 bicycle of the early nineties is not exactly comparable to the £6 bicycle of to-day; but the illustration will serve to show the possibility, and indeed the actual existence, of various remunerative price-levels, when supply price (*i.e.*, cost of production) and demand price both vary irregularly. Another good example is railway fares, but I will leave the student to consider for himself the relative advantages to the railway companies and to the public of a small number of passengers carried at high rates, or a larger number at lower rates.

An instance where price remains high, although the commodity obeys the law of increasing returns.

Not in every case, however, will the producers of a commodity subject to the law of increasing returns find that it pays them to decrease the price. A drug for curing a rare and painful disease will be bought by those who need it, whatever its price may be, and they will not greatly increase their consumption if the price be lowered. For such a commodity the demand is extremely inelastic; and although it could be produced much more cheaply if a larger product could be sold, the lower price-level will, as a matter of fact, not be reached.

The reverse case.

Now consider the reverse case—a commodity the demand for which is extremely elastic, but the supply price of which remains constant, or increases with an increased production. It, too, will be stationary at a comparatively high price, since the increased consumption would only be possible with a lowered price,

and at that lowered price the manufacturer would lose. Most goods in which hand-work plays a great part will come into this class. Hand-knitted stockings and the washing and ironing of clothes are good examples. I should certainly use more than twice as many clean washing blouses as I do now if the cost of washing fell to 2d. or 3d. each. But laundries do not find that they can wash and do up an increased number of blouses at a decreased rate per blouse; therefore I have no alternative save to continue to pay 6d. for each clean blouse, and to use a smaller number.

A few words must be said, before we leave this question of price, about the prices charged by monopolies. We shall discuss later* the causes of the tendency towards monopoly in modern industry. But the reasons for the existence of a monopoly do not affect its policy in fixing prices, and the latter, therefore, may conveniently be treated at this point. The great difference is that a monopoly—*e.g.*, the Standard Oil Trust,† or a tram company or tram department of a municipality—has no competitors to fear. The buyers of oil or of tram-rides must take what they need from the one producer or go without The only competition possible is that of substitutes. If the price of oil is set too high, then people will use gas, candles, or electricity; if the cost of a tram-ride is too heavy, wealthy people will take cabs, and poor ones will walk. In some cases, too, the competition of suburban trains may affect the use of trams. Still, when all these qualifications are made, there must remain a large and steady demand for the products of each of the two typical monopolies we have in mind. What determines the price charged to the public? From some uninformed criticism of monopolies, we might

Monopoly price.

* See Chapter XXI.

† The reader should perhaps be informed that in the production of mineral oil Mr. Rockefeller's American business, its European branches, and the foreign producers with whom an understanding has been achieved, control so large a proportion of all the mineral oil produced that they are practically supreme in the international oil-market.

imagine that they possessed an unlimited power of raising prices. Clearly, however, it will not pay a monopoly to put its price too high. If, for example, a tram company charged 6d. for every ride, so few people would make use of the trams that they would not pay their way. Yet, on the other hand, a monopoly will not be compelled, as a competitive undertaking commonly is, to bring down its prices to the cost of production. Suppose that the cost of production of oil is 2½d. per gallon. But the demand for oil at 2½d. is about the same as that for oil at 3d.; the difference of ½d. extra will not cause many purchasers to refrain from buying oil. The price therefore will remain at 3d., although, clearly, at that price the monopoly will receive an unusually large amount of profits. To make this clearer, consider the case of another monopoly —that of cotton-thread. Suppose that the cost of making cotton-thread is ¾d. per reel, and that the demand schedule runs as follows, the third column stating the amount of profit earned at each price-level:

Price.	Quantity	Profit.
¾d.	60,000,000	—
1d.	40,000,000	£41,666 13s. 4d.
2d.	30,000,000	£1,512,500
3d.	10,000,000	£93 750

The cotton-thread monopoly could, if it pleased, put the price up to 3d., and its sales would still be considerable, or it could lower the price to ¾d. Obviously, however, its most profitable course will be neither the one nor the other. If the price is fixed at 2d., its net profits (*e.g.*, the difference between the total takings and the total cost of production) will be greatest. So 2d. will be the price. Thus we conclude that monopolies fix prices at that point where the profit on each article or service sold, multiplied by the number sold, amounts

It is fixed at the point of greatest net profit.

to the greatest sum, and that point will correspond, usually, neither to the highest price at which sales are possible, nor yet to the cost of production.

Monopolies, it is clear, may earn larger profits than competitive businesses. For supposing that anyone who pleased could start making cotton-thread to-morrow, then young men with capital to spare and managing ability available would be attracted into cotton-thread-making* by the fact that every reel was earning a profit of 1¼d. out of 2d.† The supply would be increased; the public would be slow to buy more reels at 2d.; one of the competitors, afraid that his sales were going to be too small to repay his outlay, would lower his price; the others would be forced to follow his example, and a competitive price based on the cost of production would soon be established. But when competition is not possible (which, for reasons to be given later, is the case with the commodities or services mentioned, together with many others), then price approximates, not to the cost of production, but to the level of greatest net profit.

How competition, if possible, would lower prices.

There is another way in which monopoly prices differ from competitive prices. The monopolist can divide his market into sections, and can sell at one price in one district, and at another price in another district. Thus, he can charge the amount of the commodity sold in one country, or part of a country, with the whole of the supplementary cost, and can sell in another at prime cost only. This is, of course, possible only when any set of buyers is confined to a special area, while the monopolist can send his wares anywhere through the world or over a considerable part of it. Such a situation, however, is not uncommon in modern commerce. The buyer must get his lamp-oil in the town where

Monopolists can establish different prices in different sections of the market.

* Why exactly this is not possible must be discussed later.

† These figures are, of course, hypothetical, and for the sake of argument are much exaggerated.

he lives, the Oil Trust can send lamp-oil over the whole world.

It will be seen, then, that price is a very complicated phenomenon, determined by many factors both on the side of demand and of supply. It depends on a series of complicated balancings of needs and of capacities. Normally, each element entering into price on the side of production tends to receive its cost of production only, or to sink to supply price. If, however, there is a shortage in the supply, the price rises, and a scarcity value or surplus appears. One of the most interesting tasks that awaits us in our subsequent work is to trace the different parts played by this surplus in the price paid for the use of land, of labour, of saved-up wealth and of organizing ability, respectively.

Summary.

On the side of demand, wants are, by a wise purchaser, so balanced against one another that an equal amount of satisfaction is received for the final or marginal sum paid out in each section of our expenditure. To adjust purchases so that payments follow this rule is no easy task, and mistakes are constantly being made. But it is the attempt to carry it out that determines demand price. And the interaction of demand price and supply price, influencing one another as they do in the many complex ways already described, finally fixes market price.

SECTION II

PRODUCTION

CHAPTER XII

THE FACTORS OF PRODUCTION

WE have discussed the conditions under which goods are exchanged for one another; the next task awaiting us is to investigate the general circumstances under which they are made or produced. Two factors must invariably co-operate; a third becomes more and more important as civilization increases; and a fourth is almost always present under modern conditions. The first two are land and labour.

The next division discusses the factors of production.

There is no material commodity of use to man which is not in some way derived from the raw material of this globe. Corn springs from the soil; fishes are taken from the sea; coal is extracted from the bowels of the earth. The manufacture of cloth can only be carried on in buildings situated on the land; even the services of a physician or a singer require the use of a consulting-room or a concert-hall. In some way or other, control of a portion of the surface of the globe is essential for the production of any economic commodity or service. This is what the economist means by saying that "land" is an essential factor in all production.

Two are essential: land and labour.

Land.

So, too, labour is always necessary. Food, clothes, shelter,

are all provided for us by the earth, but only after the hands of men have shaped, often with lengthy toil, the products of the soil—corn, meat, cotton, wool, stones and clay

Labour.

In some few cases, as where a man gathers wild blackberries or mushrooms, the labour involved may be hardly more than that of transportation; even then some labour is essential. And generally labour—*i.e*, the exertion of human power—plays as great a part in the production of wealth as does land.

Very rarely, however, are labour and land alone sufficient for the making of commodities. Even the gatherer of blackberries or mushrooms requires a basket or tin pail, the miner cannot get to work until shafts have been dug and winding-gear provided; the farmer needs buildings and ploughs; the cotton-weaver needed in old days his cumbrous wooden loom, which he worked by hand, while to-day a great factory, equipped with marvellous machines and run by steam or electricity, is necessary before the making of cotton cloth can be begun. It is true that all these things—baskets, mine-shafts, farm-buildings and machines—have been in their turn produced by land and labour; but none the less, to the man who desires to work as a berry-gatherer, miner or weaver, they present themselves as a third necessary factor, in addition to the land and to his own labour. This "plant" necessary before labour can be productively employed on the raw materials furnished by the earth is what is called "capital." It is by no means the only form of capital, and the explanation here given of its functions is very incomplete. But further discussion can be deferred to the chapter specially devoted to Capital.

The importance of tools or plant, which constitute one form of the third factor, capital.

Finally, during the last half-century another factor has been growing in importance. The man who actually runs a mine or a factory to-day does not usually possess land; he may be incapable of carrying on the various manual trades concerned in his business; often he has had to borrow large

sums in order to erect buildings and purchase machines. Neither land, labour nor capital is provided by him exclusively; yet on his energy, ability and power of organization will depend the ultimate success of the undertaking. The older economists, generalizing from the conditions common in England in the first half of the nineteenth century, confused the function of the capitalist with that of the organizer (or undertaker, or entrepreneur, as he is often named); and even to-day the same man who provides from his own resources the money necessary to purchase tools and plant, may also undertake the active management of the business. But such a combination is becoming less and less common, and it is quite impossible to understand the various methods in which the different factors of production co-operate unless a clear distinction is made between the capitalist (or man who from his savings provides the money necessary to start a business) and the organizer or undertaker (the man who brings together the various essential factors, and arranges for the marketing of the goods produced).

The fourth factor: organizing ability.

We will now examine the working of each of these factors separately, and then discuss the various ways in which they may be united.

CHAPTER XIII

LAND AND RENT

THE next subject we have to study is the set of conditions determining the payment for the land factor in production. There is nothing that so profoundly influences the character of any civilization as the methods in accordance with which land is owned, inherited, bought, sold, or hired. Before we proceed to work out the theory of rent, it is worth while briefly to draw the attention of the student to some of the different methods of holding land, in order that he may realize that the English system is, after all, only one among many, though it is in connection with it alone that the classical theory of rent has been elaborated.

Importance of methods of land tenure.

In France and some other Continental countries the land is usually owned and worked by the same man, the farms being so small that all the labour available can be supplied by the farmer's own family. This is the system of "peasant proprietorship," whose advantages and disadvantages have been the subject of eager discussion. It is evident that in this organization the same people own the land, perform the labour, and supply the stock or implements. The functions of landlord, labourer and capitalist are all concentrated in a single man and his family.

Peasant proprietorship.

In the English capitalist system, on the other hand, all three classes are differentiated. The landlord lets the farm, receiving a fixed payment for the use of the land and the

buildings; the farmer provides stock, tools, seed, and pays wages, thus sustaining the labourer during the interval after the crop is sown and before it is harvested and sent to market; the labourer contributes only his manual power and dexterity. In this system the farm is larger than under the peasant proprietor system; the equipment is more expensive; the farmer is a man of some education and power of organization.

The English large-farm system.

The metayer system stands midway between these two. It is unknown in England, but is not uncommon in Italy, and is found sometimes in the United States. The owner is not paid a fixed sum for the use of his land. He receives instead a share (two-thirds or a half) of the produce, whatever it may be, and thus divides the risks of cultivation. It may appear at first sight that this is very desirable, and that the system should be extended. It is probably well suited to a simple form of society, which is just evolving from the stage of peasant proprietorship. But it has two great disadvantages. First, unless the landlord lives on the spot, or can employ someone to check the proceedings of the farmer, he is very likely to be cheated; and, secondly, when half or two-thirds of all profits go to the landlord, the farmer is not likely to be so anxious to push forward improvements as he would be if the advantages of the improvements came, at all events for a few years, to himself alone.

The metayer system.

In some parts of India the Government is also the landlord, and the peasants, or groups of peasants, pay direct to the agents of the State sums which can be regarded either as rent or as taxes. Such a system is so unlike anything which now exists in England— though some forms of medieval feudalism may be compared to it—that great confusion will result from applying to it English conceptions of land-holding. Indeed, it is admitted now that the Indian Government has made many and serious mistakes in dealing with the land system, not from lack of

The Indian ryot system.

conscientious desire to treat the natives of India justly, but simply because English officials approached the subject with minds so full of other methods that it was impossible for them to understand clearly the problems before them. This should serve as a warning to us not to regard the economic principles and theories which are true enough when applied to a special set of conditions as being true for all time or for quite different circumstances.

Co-operative land-holding.

Lastly we may notice various forms of co-operative land-holding. Co-operative land-holding was common in the Middle Ages, and in another form seems likely to revive in the future. According to this system, land is not rented by a single individual, but by a group of individuals, who are jointly responsible for the rent, and then arrange among themselves for the cultivation. In medieval times the group of cultivators—the tenants of the manor—paid their rent in goods (in corn, meat, skins and fish) and in services. Thus, the tenants of a certain manor in Durham were obliged to erect a hunting-lodge for the owner of their land, the Bishop of Durham. Co-operative land-holding of this form has completely died out in England, but now in new ways groups of small farmers or of people living in small houses are finding it desirable to unite together to rent the land they want (and at the same time to co-operate for other purposes—*e.g.*, to buy the seeds or building materials needed at wholesale rates). County Councils are being encouraged to buy land and to let it to groups of small holders, and where this occurs we have both collective landowning (for the County Council possesses the land collectively on behalf of the people of the county) and co-operative land-holding, or renting. Should this system spread, it may very well be that our whole land system will be revolutionized. But at present by far the greater part of the land of England is held and managed under the capitalist large-farm system already described; and since this is so, and since, too, for purposes of economic discussion, this is the

Its revival in modern times.

simplest form of land-holding, it is on this system that we shall, in the first instance, base our study of rent.

The doctrine of rent was first worked out by Ricardo, a Jewish stockbroker who lived at the beginning of the nineteenth century. It has had the profoundest influence on economic theory—and, indeed, on politics and political programmes. Some modifications which seem likely to be accepted have been made in it recently. But it is proposed to state the theory first in its original form, and then to note the modifications which seem desirable.

The influence of Ricardo.

To simplify the problem, let us imagine that the demand and demand price for agricultural produce is fixed, and that a certain supply of land is competing (through its various owners and holders) to supply that demand. Now, of this land some portions are naturally more fertile than others; some portions, too, are situated near to the market, while others are farther distant. One plot, let us suppose, is very poor land, and is badly situated. The owner wonders whether or not it is worth while to cultivate it. He finds that the cost of labour (including his own labour of superintendence) and the cost of seed, implements and manure are just equal to the price he will receive for the corn raised on this plot. Probably he will decide to cultivate; but any plot inferior to this (either less fertile or more distant) will not repay the cost of cultivation, and will remain untilled. The first plot is just on the margin between the land that is worth while cultivating and the land that is not; it repays the labour and the capital (or wealth saved up to buy seeds and tools) which has been expended on it, but it does no more. This plot is called the marginal plot, and it yields no surplus over its cost of cultivation. The same plot will not always be marginal. If the price of corn fell, the returns earned by the plot would be less, but the cost of cultivating would remain the same. Therefore there would be a deficit; the plot would cease to be cultivated, and a more fertile plot would then become the marginal plot.

His theory of rent.

The marginal plot.

Similarly, if the price of corn rose, our first plot would earn a surplus, and a less fertile plot would be brought into cultivation, and would become "marginal."

The reader may perhaps ask why the farmers do not leave these unfertile plots alone, and raise all the corn from the better land. The reason is the existence of the "law of diminishing returns," which has been already discussed. After a certain point, every additional amount of corn raised can only be procured by a more than proportional expenditure of labour and of capital. Therefore it will pay to bring the less fertile plots into cultivation, rather than to cultivate further the more fertile.

The marginal plots pay no rent.

Now, it is clear that for this marginal plot no rent can be paid. The price received for the corn grown only just pays for the expenses of sowing and reaping that corn. If, then, the holder of the plot were required to pay rent, a deficit would be incurred, and the plot would be driven out of cultivation. The marginal plot earns no surplus over expenses, and therefore can pay no rent. But the more fertile plots or those situated quite near to the market, where expenses of carriage are less, do earn a surplus. Let us, then, suppose that the owner of one of these surplus earning plots wishes to retire from the hard work of cultivating it; he is willing to hire it to another man, provided something is paid him for the use of his land. What price is the tenant willing to pay? The landlord, like any other seller, wants, of course, the highest price he can get. The tenant must keep enough of the earnings of the plot to pay all necessary wages, to provide tools, seed, etc., and to pay himself those wages of superintendence which he could have earned in any other career open to him. He would like to keep more, but if he can get no other land, and if the landlord stands firm, he will pay to the landlord as rent the whole of the sum by which the earnings of the land exceed the cost of working it. Thus rent

The rent paid by plots above the margin is equal to the excess of the returns yielded by them as compared with the marginal plot.

equals all the excess of the profits of any piece of land over the necessary expenses of cultivating it, and the greater its fertility or advantage of situation as compared with the marginal plot, the larger will be the rent.

In the economic sense, then, rent is equal to the surplus of the produce of a piece of land over the produce of the marginal plot. It is simply payment for natural fertility or site value. The student should note carefully that this usage is not exactly similar to any one of the everyday meanings of the term "rent." The rent of a farm includes payments for fencing, drainage and buildings; the rent of a house is largely a payment for the capital sunk in building. On the other hand, the ground-rent of a house is fixed when the land is cut up, and does not vary, even although the advantages of the neighbourhood increase and the rent is raised. In such a case the ground-rent will be only a part of the economic rent; the remainder will go to the owner of the house, who also receives a payment for the money he had to save or borrow in order to build the house, the two factors together making up the rent in the ordinary sense of the term. These distinctions should be very carefully noticed, as on the theory of rent are based modern proposals for taxation, and loose phraseology may lead to great practical injustice.

The popular usage of the word "rent" differs from the sense of the word in economics.

We have assumed hitherto that the economic rent (representing the surplus) is actually paid over by the tenant to the landlord. But it makes no difference to the theory, and to the many deductions based on it, if the land is cultivated by its owner, who retains the surplus for his own use. Rent does not disappear under a system of peasant proprietorship; it may be more difficult to detect and to measure (especially if the peasant grows farm produce for his own use and not for the market). But it will still be the case that one plot will yield a better return for the same amount of labour than another, and that one man will have, therefore, a surplus source

Rent still exists if the land is owned by its cultivator.

of income which is not available for another. The same line of thought should make us doubtful of the wisdom of proposals to regulate rent by law, as by the establishment of "fair rent" courts. The fact that rents are high shows that people are very anxious to secure the plots of land or houses in question. If a "fair rent" were fixed, numbers of people would offer themselves as tenants at the established price, and it would be necessary to make a selection among them. The successful candidates would be placed in a position of advantage over the others, for which no equivalent payment would be exacted. They would receive a portion of the economic rent, not directly in money, but indirectly by being in possession at a low rent of the coveted site. The true economic rent would not be lowered or abolished by such a system. It would merely be transferred to the tenants, instead of the owners, of the land.

Difficulties of "fair rent" courts.

From this theory of rent there can be drawn several deductions, two of which are so important that they ought to be mentioned here. The first is that rent does not affect the price of agricultural produce. At first sight this seems a very improbable statement. The price paid for corn by the dealer to the farmer must recompense the latter for all his outlay, for payments of wages, the purchase of corn and tools, and for the payment for the use of land. How, then, can it be true that rent does not affect the price of that corn? For this reason. The population of the country needs a certain amount of farm produce, and will pay a certain price for it. At that price it will just pay to cultivate a certain piece of land—the marginal plot. On that land no rent will be paid, the expenses of cultivation just equalling the returns obtained. The price decides which is to be the marginal plot, and as the price rises or falls land will come into or go out of cultivation. Now, rent is the excess yielded by any given plot over the plot at the margin of cultivation. But the plot at the margin

Rent does not affect the price of agricultural produce.

of cultivation is determined by the price of corn, and not *vice versa*. The position of the marginal plot decides the rent paid by all plots above the margin. Therefore price determines rent, and not rent price.

The second deduction anticipates the treatment of a subject which comes in its proper place at the end of this volume. But it is so closely connected with the theory of rent that it seems well to state it shortly here. It is: a tax upon rent cannot be shifted—*i.e.*, must be paid by the receiver of the rent. Suppose a tax is laid upon the rent of agricultural land. The landlord, in annoyance at this diminution of his income, endeavours to raise the rent, and is at first successful. But the price of corn remains the same; the number of people wanting corn, and the price they are willing to pay, are not altered by the tax on land. Therefore the farmer's profits remain the same as before. Nor are his expenses altered. He must pay the same for labour and for seed and manure. Therefore, if he pays the increased rent, it must come out of his own income—his wages of superintendence. But these are no more than he could expect to earn in other occupations. If, therefore, they fall, the farmer will give up his farm as soon as he can, and become a corn-dealer or an estate agent. Other farmers will do the same; the landlords will see themselves faced with the danger of being left with unlet farms on their hands. They will lower the rent again, and continue to pay the new tax out of their own pockets. This line of reasoning assumes that farmers have been paying the full economic rent, or rack-rent, as it is sometimes called, and is perfectly true under that assumption. But the student should observe that it would not be true, had landlords, through kindliness or ignorance of the market, refrained from exacting the full economic rent. Under those circumstances landlords might raise the rent on the imposition of the new tax, and the tax would then fall on the farmer, who had previously received part of the economic rent. Nor is

A tax upon rent cannot be shifted.

the theory necessarily true of the rent of houses, for the rent of a house includes a payment for the building (which is not economic rent) as well as payment for the use of the land. Therefore this theory does not justify us in saying that local rates, which are imposed on the rent of houses, necessarily fall on the landlord. In some cases they may be paid by the tenant.

Difficulties of the classical theory of rent.

This is the theory as stated by Ricardo and the older economists. The reader will see that in one point it is difficult to make it accord with the known facts of land-holding. It assumes the existence of land which pays no rent. But in a country like England no such land can be found. How, then, can the theory be made to square with the facts? In the first place, it is urged that, while there is never now in England a tenant holding land for nothing, there can sometimes be found pieces of waste land which are thrown in with farms for no extra rent. But even this state of things is very exceptional, and an answer based on it can hardly be considered satisfactory, since the theory, as usually formulated, turns on the existence of the marginal no-rent plot. Another solution of the difficulty is sometimes attempted by pointing out that, while in Great Britain all land pays rent, this is not so in other countries. In Canada free land is still to be had; in New England there are sometimes to be found derelict farms relinquished by their owners, who have discovered that they were cultivating land below the margin of cultivation, and have turned to other callings or other districts. Obviously, however, such a state of things is possible only in a new country where the land is not yet fully taken up. We want a theory which shall be applicable to an old and fully settled country like England.

Is there any land which pays no rent?

Mr. Hobson's modifications of the theory of rent.

Mr. J. A. Hobson's recent modifications of the doctrine of rent provide such a theory, and therefore we will proceed next to state very shortly some of Mr. Hobson's views, referring readers who wish to pursue the subject further to Mr. Hobson's

elaborate treatise on the principles of economics: "The Industrial System."

Mr. Hobson insists, in the first place, that all land costs a little for its upkeep—for road-making, drainage, etc. Hence for any kind of land, however bad, there must be this small payment, "the wear and tear fund," as Mr. Hobson names it. Next he distinguishes between a scarcity rent and a differential rent. There are so many people in England wanting land for farming, building, or sporting, that there is no waste or useless land in existence in this country. Even for the remotest and barrenest hillside in Wales there will be bidders, and therefore even that hillside will have its rent, due to the scarcity of land. All land in England must bring in this scarcity rent; but in addition some land is more fertile, some better situated, and therefore, in addition to the wear and tear rent and the scarcity rent, there will exist also the differential rent, which alone was observed by Ricardo. This becomes clearer if we think, not of land in general, but of land used for special purposes. Mr. Hobson takes the case of market-gardening land. There is not enough good market-gardening ground near to towns to satisfy the crowd of would-be market-gardeners. Therefore all such land has a scarcity value, and will pay a rent, even the land which is on the margin of not being used for market-gardening. But, again, some land is more suitable for market-gardening than the rest. Men in treaty for it will be willing to pay higher rents—will, in fact, in order to secure it, pay the full surplus of its productivity over the inferior land. Therefore, in addition to the wear and tear rent and the scarcity rent paid for all land whatsoever, there emerges the differential rent paid for all land above the margin of cultivation. The clearest case of differential rent is to be found in the enormous value set on land situated in the hearts of towns and cities, where the superior trading advantages of the site force up rents to almost inconceivable figures.*

The "wear and tear" rent.

The scarcity rent.

* Readers who wish to pursue this question further should consult chapters iv. and v. of "The Industrial System."

These modifications in the theory of economic rent certainly set it in closer relation to the actual observed facts of everyday life. They have a further advantage: they bring the payment for land more into line with the payments made for the other factors of production. According to the older economists, the economic position of land differed absolutely from the economic position of the other factors. It is almost certain now that this is not the case. But in order that the student may understand fully the bearings of this remark, he must read through the next four chapters.

Value of these modifications.

CHAPTER XIV

LABOUR

It may seem that the word "labour" is so well known to all of us that there is no need to enter into any discussion of its exact meaning. As a matter of fact, however, both economists and the general public have fallen into some curious mistakes through not sufficiently considering the real significance of the word, and by confusing different senses of it. It will help to make our views clearer if we discuss two of these misunderstandings.

Ambiguity of the word "labour."

The first is the failure to distinguish between work done for payment and work done for other motives. Commonly it is the former alone with which economics is concerned, for practically all labour entering directly into the economic world—*e.g.*, making boots, giving out tickets at railway-stations, mining or electrical engineering—is paid for its services by the person or persons responsible for organizing that particular branch of industry. Indeed, the discussion of the position and support of persons doing forms of work which are not directly paid for is hardly the province of economics at all, but of the wider science of sociology*; and

Economics deal only with work done for payment.

* Sociology studies the development of society in other than its merely commercial aspects; *e.g.*, it studies the growth of the institution of property in land, of war and slavery, etc. It is a science dealing with most complex phenomena in a region where private prejudices are particularly likely to mislead the observation and cloud the judgment. It is therefore the newest of the sciences, and is still struggling for recognition.

if economists and the public always remembered clearly that these other kinds of work do exist, and are essential for the well-being of the community, we could make the distinction and pass on. Unfortunately, we are so constantly confronted with the error of identifying labour with labour done for money, that it will be worth our while to devote a few lines to pointing out the existence of much toilsome and important work which does not directly enter into the economic sphere at all. There is, to start with, all the work done by wives and mothers in housekeeping. The census describes all women not working for a livelihood as "unoccupied"; yet it is safe to say that the working man's wife, who has the sole charge of a house and the care of a family of children, expends both more mental and more muscular energy than many of the women returned as "occupied." In the next place, a great deal of the scientific and philanthropic work of the world could not pay its way; it cannot earn in the market sufficient to keep those engaged in it. Formerly work of this kind was exclusively performed by wealthy people, who drew their incomes from other sources. Now endowments for charity and for scientific research are increasing in number. It is still, however, common to find those performing such work regarded as less useful than people engaged in the manufacture of commodities which command a ready sale. But the value of a philosopher or philanthropist cannot be estimated by the coarse measure of economics. Economically the services of such a man may find no purchaser; socially he may be of the utmost value to the community. Students of economics should always bear this distinction in mind, as, owing to their preoccupation with the conceptions of the science, they are particularly liable to forget it, and to assume that labour which is not commercially valuable is not valuable at all.

But many other forms of work exist.

The other point is the fact that labour is generally identified with manual labour. This mistake is not made solely by

the manual workers; it runs right through much discussion of economic theory, and is intensified by the fact that the remuneration of labour is always termed "wages." The consequence of the use of this term is that "labour" is always tacitly supposed to be supplied only by "the wage-earning classes"—*i.e.*, the people who are paid daily or weekly, and who earn up to about £2 a week. There is an historical reason for this mistake. When the development of economic theory began, in the end of the eighteenth century, most businesses were small, and the administration and mental work were mostly performed by the employer, who also supplied the capital. The only labour he hired was that of actual manual workers. But to-day conditions have completely altered, and it is impossible to grasp the principles on which labour co operates in the productive process unless it is understood that many different grades of labour exist.

False identification of all labour with manual labour.

If we take any big business to-day (say a shipbuilding yard), we should find that the worst paid men were those doing rough, unskilled work, fetching and carrying, and acting as "helpers" to the men who have some special skill as riveters or platers. Men of the same type, with bodily strength but with little development of mental power and no special technical dexterity, will also be found waiting at dock-gates to undertake the unloading of ships, acting as helpers to masons, performing street cleaning for municipalities, etc. These are the unskilled labourers, whose only value is their bodily strength. It is true that a slight degree of skill is needed for some of the occupations named above—so slight, however, that it can be acquired with a little practice by almost anyone.

The grades of labour.

Unskilled labourers.

Next there come the men doing work which depends on the possession of special technical skill—the carpenter, the blacksmith, the riveter, fitter, weaver, cabinet-maker, etc. Many middle-class people, knowing little of the life of the working classes, assume that there is small difference

Artisans.

between these two sections. As a matter of fact, however, the distinction between an artisan at 35s. a week and a labourer at 20s. is in many ways nearly as great as that between an artisan and a doctor, and mistakes in economics are often made by lumping these two classes together.

In addition to the men working in one way or another with their hands and muscles, most businesses to-day employ numbers of clerks, commercial travellers, and salesmen. This is a class whose importance is insufficiently recognized by most thinkers. The widening of the market already described, and the consequent increased size of businesses, make it necessary that more people should be employed in distributing or selling goods, and in keeping records of the complicated transactions involved in every stage of the economic process, from the buying of the raw material to the delivery of the finished goods at the customer's door. These people are not brain-workers in the ordinary sense of the word; they require no initiative and little judgment. The main qualities demanded of them are accuracy, perseverance, and a certain limited range of intellect. They may be called "routine brain-workers."

The clerk class.

Lastly there come the class of people who must be able to exercise initiative and judgment. Fifty years ago very few of these were in receipt of wages or salaries. At that time men making use of such capacities were in control of small businesses of their own. But to-day there is an increasing demand for men of this type as managers and overseers, while at the same time the chances of success for a man who sets up for himself in business have diminished. Hence this new class of highly skilled managing experts ought certainly to be included in labour. They take no risks; they provide no capital; they furnish solely their own highly differentiated labour power. With them may be classed those who do not share in the administration of business, but provide some specially skilled manual or mental capacity which is not attainable save by a favoured few. In

The class of salaried managers.

this division come artists, inventors, and technical experts, such, for example, as chartered accountants or as skilled chemists employed by the dyeing companies.*

From the foregoing paragraphs, it will be clear that modern industry is run on the principle that each man should have one job and should stick to that. This is called "division of labour," and Adam Smith, the "father of political economy," pointed out its advantages many years ago. Since his time the specialization of labour has increased in a way which he never foresaw, and which few people not in touch with industry realize. There was a time when shoemaking was a single trade; now, especially since the invention of bootmaking machinery, it comprises a whole series of occupations. In one modern factory described by a student of the author's, there were five departments:

Division of labour.

1. The clicking-room, for cutting out uppers.
2. The room in which the uppers were fitted and machined together.
3 The press-room, for cutting out the material of the soles.
4. The making up and lasting department, where uppers and bottoms were put together.
5. The finishing and trimming-up room.

Then, in each department there is further division of labour. In the clicking-room, for instance, are to be found the following specialized workers, each with his own particular task: the leather stock-keeper, the designer, the pattern-maker, the pattern stock-keeper, the clicker or cutter out, the fitting cutter, the skiver, and the sorter.† As is seen in the above,

* This account of the grades of labour does not, of course, pretend to be more than suggestive, and it makes several obvious omissions—*e.g.*, semi-skilled machine-minders, who stand midway between artisans and labourers, and foremen. It is, however, sufficient for the purposes of an elementary book. A reclassification of the social grades in our complex civilization is a task awaiting the sociologist.

† For this example the writer is indebted to Mr. J. Ball, of Leicester, a student in one of the classes in economics promoted by the Workers' Educational Association.

labour, especially in the machine industries, is now so differentiated that the very names of the trades are unintelligible to the general reader.

This system has both advantages and disadvantages: the former are almost entirely economic; the latter are almost entirely personal or social. Division of labour certainly enables us to turn out goods more cheaply and quickly than we could otherwise do. But it impoverishes in some directions the life of the worker, and it presents some serious problems to society.

Advantages of division of labour.

To take the advantages first:

1. Skill through practice.

1. Constant practice of a single operation greatly increases skill. This is so obvious and so well known that there is no need to elaborate it.

2. Saving of time.

2. In going from one occupation to another there is always a little loss of time. Two men each sticking to a single process will accomplish more than twice as much as a single man giving half his time to one occupation and half to another.

3. Invention of labour-saving machinery.

3. When a process has been so subdivided and so long practised as to have become automatic, it is ripe for being taken over by machinery. It is often supposed that the invention of machinery is mainly due to the workers who have been long exercised in these almost automatic processes. This is sometimes true (as in the case of the small boy who invented the trapdoor for airways in mines); more commonly, however, the machine is produced by a man who is specially gifted with the inventor's powers. But division of labour has prepared the way by causing a level of skill in the operation which makes the execution of the different processes practically mechanical.

4. The fourth advantage of division of labour, which was not observed by Adam Smith, is that each man can be kept exclusively to the job for which he is specially fitted and trained. In the large kitchen the chef will only do the most

skilled and delicate parts of the cooking; toast-making and the washing of vegetables is left to undermaids. One cook may be kept entirely for preparing fish, and another for making pastry. Neither of these would scrub floors or wash dishes; these rough, unpleasant tasks would be done by unskilled people at a low wage. In a middle-class household, on the other hand, one cook must take entire charge of the kitchen, and do everything necessary, from sauce-making down to dish-washing. This system is really wasteful, though inevitable in the present small scale of the household. The cook's value is measured by her power to do the skilled work, and she is paid accordingly. Yet for more than half her time she is engaged on rough, unskilled tasks. A business man who set his skilled men to do unskilled work would certainly not succeed in the industrial world.

4. Exact adaptation of the man to his job.

These, then, are the advantages of the division of labour. The disadvantages are as follows:

Disadvantages of division of labour:

1. The work is often extremely monotonous. The dish-washers and floor-scrubbers in the large hotels must find their work the most absolute drudgery conceivable, and can only "live" in any human sense in their hours of leisure. The same is true of the girls in factories who spend eight or nine hours every day in feeding machines with cardboard sheets. A great deal of modern work contains in itself no interest at all, and must be performed by the worker as a mere mechanical task. Against this, however, has to be set the fact that the social life and comradeship of a large factory possesses often a great fascination for those who take part in it, and that the life need not be monotonous, although the work is so.

1. Monotony.

2. A man who has been specialized to a particular process is more helpless if methods or fashions change than a worker accustomed to turn his hand to many jobs. Ladies' dresses at the present time are not worn with the

2. Helplessness of the specialized worker when out of employment.

elaborate silk underskirts popular a few years ago The needlewomen who had specialized in the making of these underskirts have been thrown out of work, and have found it hard to adapt themselves to other industries.

The invention of new machines usually involves the displacement of workers skilled in a particular process, and such workers, accustomed as they are to one kind of work alone, are often reduced to very great straits before they can establish themselves again in the world of industry. The displacement of cabmen by the introduction of taxi-cabs is an instance which most of us have had opportunities of observing.

3. It is urged by many that the excessive specialization of to-day, together with the worker's lack of interest in the products that pass through his hands, is responsible for the low standard of design and beauty in our common articles of furniture and other goods. There seems to be no doubt that a degradation of craftsmanship has occurred. The demand for old furniture, old embroideries, old pottery, etc., the fact that chairs constructed for common kitchen use are now sought after as ornaments for drawing-rooms and libraries, is a proof that in artistic quality the products of an earlier age excelled those of the present time. It is urged that a man making a whole chair, and designing it for a special purpose, felt an interest in his work which is not possible to a man who makes exclusively the legs, while another makes only the seats, and a third turns out the rungs. It is not easy for an economist to appreciate the exact force of this view, but it seems to be agreed among most people interested in artistic craftsmanship that excessive specialization of the worker is a hindrance to the development of beauty in the article made. If this is the case, then we are, perhaps, paying a high price in other ways than by money for our cheap machine-made goods.

3. Decline of artistic taste.

There is a curious distinction commonly made in popular

speech between productive and unproductive labour. This antithesis seems to be employed in three separate ways, and is, indeed, of so vague and uncertain a character that the student should never make use of it without carefully defining and limiting his terms.

Productive and unproductive labour.

1. It appears occasionally to be used to distinguish labour which is remunerated in money from labour which is not Thus, the work of a philanthropist or an amateur artist is said to be unproductive. Yet, clearly, an Elizabeth Fry does more to help on the world than does a man who makes a big fortune by producing artificial jewellery; and if we use the term "unproductive" in this sense, no sense of moral disapprobation need or ought to attach to it

1. Productive = remunerated by money.

2. The second sense is the one used by Adam Smith. For him, the worker who earned a profit for his master was productive; the man who did not was unproductive. Thus, weavers, coal-miners, and shop-assistants, are in this sense productive workers; cooks, gardeners, and nurses in private families, are not. The distinction is almost precisely paralleled by the difference between the words "employé" and "servant," and is worth making, providing it does not lead us to despise the work of the "unproductive" labourers. For, clearly, a general servant in a poor professional man's family is a much more useful person, and does work of greater importance to the community, than an employé in a cinematograph show or a maker of white kid gloves.

2. Productive = earning a profit for an employer.

The majority of adult women would be classed as unproductive workers under one or other of these two statements of the distinction. Most women either do not work for wages at all, but serve their families as housekeepers and nurses, or else are engaged in domestic service. But a great mistake would be made if, from the fact that women workers are in these

Are women unproductive workers?

special senses "unproductive," the deduction were drawn (as it often is) that they are therefore useless. Women do their full share of the work of the world, but perform it as a general rule in spheres where the ordinary economic conceptions, which are based on profit-making industry, do not hold good.

3. The third form of the distinction regards as productive the labour that results in a material object, while the labour that merely performs a service is considered unproductive. This distinction is absolutely valueless. According to it, the doctor, the housemaid, the clerk, and the teacher, are all "unproductive"; while the fashionable milliner, the maker of artificial flowers, and the whisky-distiller, are "productive."

3. Productive = making a material object.

In truth, the use of the term "unproductive" carries with it the suggestion of an unfavourable moral judgment The reader should therefore beware of its use. It is not the business of the economist to pronounce moral judgments. It is his business to investigate and to state the facts of the commercial and industrial worlds. On the material provided by him moral judgments may—nay, must—be based, but only after the introduction of ethical principles and the recognition of ethical ends, which are foreign to economics as such. Therefore the student should avoid the use of the terms "productive" and "unproductive," as applied to labour.

There is no place in economics for moral judgments.

Having now discussed the general characteristics of "labour," and having tried to correct some popular misunderstandings, we proceed next to the question of the remuneration of labour.

CHAPTER XV

THE DETERMINATION OF WAGES AND SALARIES

In treating the very important and very difficult problem of the causes determining the rates of wages, a few words must first be said of some earlier theories: not, of course, that they can be adequately discussed, or even stated, in an elementary book like the present, but because these theories have played a great part in economic science, and have, indeed, given rise to some technical terms with which even a beginner will find it useful to be acquainted.

Earlier theories.

The first is called the "wages fund" theory. Those who support it put forward the view that a certain part of capital is set aside by employers to pay wages; this is the wages fund. It was argued that it could not be increased, and was the sole source available from which the remuneration of labour could be drawn. The deduction was then made that, if any one section of the labourers improved its position (by trade-union action or in any other way), it could only do so at the expense of other sections. It was held, however, to be an error to anticipate that trade unionism or Government action or any other external agency could improve the condition of the labouring classes as a whole. The only possible way, it was thought, of securing higher wages to the labourers was to bring about a decrease in the numbers among whom the wages fund was to be divided, and therefore the upholders of this theory strongly urged workpeople to marry late and to have small families.

The Wages Fund theory.

The reader will observe that in this line of reasoning there

is made the tacit assumption already mentioned, that "labour" is a simple factor all, so to speak, of one kind, and that there is no need to differentiate between its various sections. This is not the case; our theory must enable us to explain the low, irregular earnings of the dock labourer, the steady, moderate wages of the weaver or riveter, and also the high salaries or fees earned by a successful actor or doctor. But this the "wages fund" theory quite fails to accomplish. Moreover, it cannot be shown that wages are paid out of a special wages fund. There is just this justification for the view: When a fresh enterprise is being started (a new railway, let us suppose), the workers engaged in making it must be supported out of the savings of other people which have been contributed for the construction of the railway. In this case, and in similar ones where time is required to bring a new undertaking to the point at which it begins to earn profits, money must in the meantime be spent for wages, and those wages are paid out of capital. But if successful, the new undertaking after a few years commences to make money. That money is used to pay working expenses, including wages, and the surplus goes to the people who lent their savings to bring the railway into existence. In this case, which is far commoner than the one previously mentioned, wages are not paid out of capital, but out of the gross profits earned by the co-operation of labour and capital.

Fallacy of the view.

The partial justification for the Wages Fund theory.

Wages are usually paid out of the gross profits of an enterprise.

The second theory is associated with the name of Ricardo, though he never held it in its most extreme form. According to it, wages are determined by the bare cost of subsistence of the labourer. A workman receives only just enough to provide him with the food, shelter and clothes, necessary in order that he may do his work and rear his family. This conception of wages is closely connected with the views of Malthus in

The subsistence theory of wages.

regard to population. Malthus, who was a clergyman and a professor of political economy at the beginning of the nineteenth century, had, when a very young man, an argument with his father on what we should now call "socialism." The older Malthus believed that, if only the laws with respect to property could be improved so that to each man could be secured a sufficient livelihood, the human race would enter on an era of complete happiness and prosperity. The younger Malthus declared that under these circumstances people would marry early, large families would be born to them, the population would grow more rapidly than the means of subsistence, and in the end poverty and disease would inevitably reappear. The law of diminishing returns in agriculture was at that time forcing itself on the public attention, as the population of England was increasing very rapidly, and the absence of swift means of communication, together with laws intended to prevent foreign corn from being imported into England, made the nation almost entirely dependent on its own area for its food-supply. Malthus was therefore led to enunciate the principle that population tends to increase in a geometric ratio, while the food-supply increases in an arithmetical ratio only, and to believe that in the absence of checks imposed on marriage and on the production of large families, nothing can prevent over-population and its attendant miseries, and that the dreams of socialists, who hope to give to every man a secure livelihood, are mere chimeras. The checks contemplated by Malthus were of two kinds: the positive checks—*i.e.*, the poverty, disease, and vice, which lead to a heavy death-rate, and thus keep the population within the means of subsistence; and the preventive checks, by which Malthus meant only any influence which tends to the postponement of marriage. Now, according to this theory the movement of population automatically adjusts wages to the cost of subsistence; for if wages fell below the cost of subsistence, disease would increase, and the population would

Malthus.

The tendency of population to overtake the food-supply.

diminish. The demand for labour would still continue, and, as the supply would be lessened, wages would rise, probably for a time, above the cost of subsistence. But wages could not long remain high, since the population would be stimulated, and its increase would bring about a decline in wages. Thus, it is argued, the rate of wages, though it may vary a little, must always before long return to the cost of subsistence.

Criticism of the Malthusian theory.

The most serious objection to this theory is that it has been falsified by subsequent experience. The increase in population is not greatest where wages are highest; on the contrary, among the very poor the birth-rate is higher than among the comparatively prosperous. Again, in England during the latter part of the nineteenth century, the average rate of wages was rising and the cost of food was declining; yet since 1876 the birth-rate has fallen from 36 to 25 per thousand of the population. At the same time the student should be warned not simply to dismiss the conclusions of Malthus as of no importance. He first studied carefully the relation between the rate of increase in population and the distribution of wealth. From the facts before him he drew conclusions which were warranted, though stated in too precise and dogmatic form. In this way he was the originator of serious consideration of a subject which is, and must be, of the most vital importance to society—*i.e.*, the relation between its means of subsistence and the number of its members.

Importance of Malthus.

The student will observe that in this theory, too, labour is taken as being one homogeneous whole, and no effort is made to explain the different wages of different sections. But it has also other defects. "Cost of subsistence" is a vague term, and any attempt to define it reveals the real inadequacy of the theory. Does cost of subsistence mean the mere expenditure necessary to keep a man and his family alive? In that case, obviously, many divisions of the labouring classes receive far more than the

What is cost of subsistence?

cost of subsistence Artisans such as miners and textile workers have money for holidays, can afford to drink and smoke, can even save a little. Moreover, wages are not lower in the summer, when the cost of subsistence is less, than in the winter. Ricardo himself does not seem to have taken "cost of subsistence" in this extreme sense, but to have identified it, rather, with the usual or customary standard of living among the working classes. Others have declared that it means, not the bare cost of keeping people alive, but the cost of keeping them efficient —which is a very different thing. According to this form of the theory, wages will approximate to a sum necessary to provide a workman and an average family with adequate shelter, sufficient plain food and clothing, and a share of such conventional necessaries (*e.g.*, beer and tobacco), as the public opinion of his class demands. Unfortunately, this form of the theory does not explain the fact that in England to-day there is a considerable section of the people which does not receive an efficiency subsistence wage. Mr. Rowntree, in his book on "Poverty," has calculated that, to supply in York a man, wife, and three children, with the necessary food, clothes and shelter of the plainest kind, a weekly wage of £1 1s. 8d. is necessary. It is possible that Mr. Rowntree has placed the expenditure on food too high, as physiologists are now beginning to think that we do not need quite so much of the more expensive elements in food as Mr. Rowntree supposed. On the other hand, Mr. Rowntree's minimum makes no allowance for beer, tobacco, recreation, insurance, or saving, allows tea only once a week, and no fresh meat at all. Efficiency subsistence for an average urban working man's family cannot be secured for less than about 24s. or 25s. a week.* But there are whole

Ricardo's view.

Cost of subsistence and cost of efficiency.

* It is not possible here to go into the elaborate calculations necessary to justify this statement. But any woman who, knowing the price of food, shelter, and clothing, and the amount of each required by an average family, sits down to plan out the expenditure of 24s. a week, will probably end by wondering how it can be done at all on that sum.

sections of workers who receive less than this. Evidently, then, the efficiency subsistence wage theory is not in itself complete, though it may afford a valuable clue. Moreover, it does not explain why some workers receive more than the cost of efficiency subsistence. Such are the more highly paid trade unionists (*e.g.*, boiler-makers), superior clerks, and the possessors of some unusual talent. The salary received by Harry Lauder stands in no relation at all to his cost of efficiency subsistence.

Another theory: The wage must be such as to provide the customary standard of living.

Another variant of this theory takes into account the existence of different sections of workers, and states that each has a certain customary standard of living, which the tradition of the class and its public opinion attaches to a particular grade of labour. Thus, in times of depression of trade, a fitter or riveter is willing to do a labourer's work at the labourer's rate of 5½d. or 6d. an hour, but he will refuse to work at his own trade at less than his standard rate of 35s. a week. Women graduates who are employed in secondary schools consider that £100 a year is the very smallest salary that should be accepted by any qualified teacher, and efforts are being made to raise that minimum to £120. Merely to state, however, the existence of these grades of customary wages and salaries, based on varying standards of life, is to do no more than call attention to another element in the problem; it is not the solution of it. We want to know the reason for the existence of these differences in the standard of living attached to different kinds of work, and to know, too, why a few people receive wages or salaries large enough to raise them far above the customary standard of living of their class, as do, for instance, very successful novelists, artists, physicians, etc.

Insufficiency of this explanation.

Now let us take the conceptions, which we have already worked out, of demand price and supply price, and their interrelations, and see if they will help us to build up a more

satisfactory theory. In the modern world labour is regarded as a commodity, like any other commodity. An employer may often have to choose between buying more labour or buying new machinery. Save in a few instances, the price of labour—*i.e.*, wages or salaries—is determined by the condition of the market, as is the price of any other good offered for sale. But there are one or two special factors of the labour market to be noticed. In many of its sections the seller of the labour power is ignorant and unskilled in bargaining, while the buyer is just the reverse. Moreover, the market is badly organized; in the poorer sections, buyers and sellers of labour power have no common meeting-place, which enables each side to gauge completely the needs of the other. Unskilled labour is, indeed (or was till the coming of the labour exchanges), still hawked from door to door. The only way in which a discharged bus-washer could get work was by hanging about the gates of the yards where buses and cabs are stored, hoping he might be lucky enough to be taken on.

Labour is a commodity, and has therefore its demand price and supply price.

Characteristics of labour regarded as a saleable commodity.

The labour market tends to be localized; a man may hear of a job that would suit him in another town, but if he has been long out of work he cannot afford the railway fare necessary for him to get there in time. The operation of cheap transit is altering this state of things, and the labour exchanges will probably greatly improve the organization of the labour market and increase the area of common bargaining. But even to-day the wages of agricultural labourers in Northumberland and Durham are six or seven shillings a week higher than those paid in Oxford and Suffolk.

The labour market is localized.

Labour, again, is a perishable commodity. Corn not sold to-day can be stored for to-morrow, but a man cannot store to-day's unsold labour power; if not used regularly each day it is gone absolutely, and can never again be offered for sale.

Nay, if the man is nearing the end of his resources, he will be definitely less fit each day that he fails to obtain work. For the penalty of not obtaining work is to go without proper food and shelter. Finally, in the case of labour of the rougher type, it is always more important for the labourer to sell than for the employer to buy. If a bargain is not struck, the result for one is some measure of genuine privation, for the other a moderate degree of inconvenience.

Labour power is a perishable commodity.

Eagerness of the unskilled labourer to get work.

These facts are true of the lower and less skilled sections of the labour market; but in other divisions conditions are very different. The better-off artisans have more intelligence and knowledge, and greater skill in bargaining. They can afford travelling expenses to distant towns. They have savings which constitute a moderate reserve. In the still higher branches of labour the demand exceeds the supply. A surgeon with a reputation for unusual skill in the performance of dangerous operations will have more work offered to him than he can perform; a works manager who is known to be economical and efficient, and to get on well with his subordinates, will find employers competing for his services.

The upper sections of the labour market.

For labour as for other commodities, there are two prices, supply price and demand price, and it is the interaction of supply and demand which fixes the actual market price. The conditions of that interaction differ profoundly from grade to grade; therefore no theory of wages can be satisfactory which does not take into account those differences. The demand price of labour is commonly the profit which the employer expects to earn by the co-operation of that labourer or set of labourers. Obviously this will vary very much. To have a star actor or singer is most important to a theatre-manager, and his demand price for Miss Ellen Terry or Mme. Tetrazzini will be high. It

The importance of discriminating the grades of labour in a theory of wages.

will not matter very much whether or not an extra scene-shifter is employed; therefore the demand price for a scene-shifter will be low.

But in all probability the scene-shifter will not receive even his demand price. The employer will always give less than that if possible, and, since many scene-shifters are competing for employment, if they have no understanding with one another, the price will be driven down from demand rate to supply rate. And this will always happen when the workers are more anxious to have work than are the employers to find workers, which tends to be the case in all trades which demand no high degree of skill or natural ability, and which can be freely entered by anyone who has failed in higher trades. In these trades supply price will rule, and not demand price.

In the lower grades supply price is more important than demand price.

Now, that supply price will tend to approximate to cost of subsistence. In the very lowest and most overcrowded trades it will be bare cost of physical subsistence from day to day. But no work requiring the exercise of skill or the use of mental power could be done by a man so reckless or so overburdened by anxiety as a man must be who receives only bare subsistence wages. Therefore, in the higher grades of labour efficiency subsistence is the determining factor, and the wage of an artisan or a clerk* will provide, under careful management, for a sufficient supply of food, fairly satisfactory shelter and clothing, and leave a margin—though a small one—for saving, insurance, recreation, and cheap holidays.

Supply price approximates to the cost of subsistence, which varies for the different grades.

The efficiency wage of the higher branches of brain workers is above this level. No schoolmaster or doctor could continue

* The author is extremely doubtful whether the lower grades of clerks do receive an efficiency subsistence wage, considering that a large amount of their wages must be spent on season tickets, midday meal away from home, and more costly clothes than the artisan needs.

to do his work well if he were living the life of an artisan. Recuperation from the nervous strain of intellectual effort demands more leisure and more spacious and restful surroundings, more easily digested food, and more holidays. Men of this class must themselves bear the expense of the education of their children. Their supply price is therefore higher, though whether their higher market price is due solely to this fact or also partly to the greater demand for their services is difficult to determine. An economist with a sufficient knowledge of physiology ought to be able to work out the average efficiency price of each grade of labour, but so far little attempt has been made to translate the vague abstractions of the economists into precise statements of the amount and price of house-room, food, etc., needed for the efficient performance of each kind of work.

Efficiency subsistence of brain workers.

It should be observed that normally a wage must support not only the man, but his family. This does not mean that an employer decides that he will pay a man sufficient to enable him to marry. The employer hires labour at the lowest price at which he can get it. But, as a general rule, the majority of men over twenty-four or twenty-five are married and have families, whom they must support. An employer who offered wages only just enough to keep a single man would find that he could not hire labour at that price, and would be forced to raise his terms. There are, however, exceptions to this rule. The average woman worker supports only herself, or, at all events, is supposed to support only herself; therefore the supply price of women's labour is below that of men. While 20s. a week is a low wage for a man, it is a very good one for a woman in the industrial classes, many of whom receive as little as 10s. or 12s. a week.*

Wages are normally sufficient to support a family, not simply the individual worker.

Exceptions: The case of the woman worker.

* Many receive far less but these are cases of subsidized wages, to be dealt with later.

Marriage takes place at a comparatively late age in the professional classes and among clerks. Young clerks, then, and young professional men (doctors, schoolmasters, etc.), receive salaries insufficient for the support of a wife and family, though adequate for a single man.

The young bachelor brain worker.

In some districts of England women and children are engaged in industrial occupations as well as men. In many coal-mining and shipbuilding districts only adult men are employed; in the textile industries the whole family may work. The result is a weaver is inevitably paid on a lower scale, since his wages are not all that is available for the support of himself and his children, while the wages of a coal-miner are sufficient for the entire family.

In some cases women and children contribute to the family wage.

This introduces another question. Can wages sink below subsistence level? There seem to be at least three cases in which this may occur:

Can wages sink below subsistence level?

1. Even in skilled trades, if the demand for labour falls off permanently, owing to an alteration in fashion or a change in processes, the workers will be forced to take lower wages. This condition will last only for a time, as into such a trade there would be no new entrants, and any man trained to it who could do other work would turn to the latter. But the excessive specialization of to-day, and the workman's lack of a reserve fund on which he could live while training for other work, will prevent many from doing this, and for a few years the workers in the decaying trade will compete fiercely for what little work there is, and wages may sink to a level at which existence is a mere misery. The classic instance of this unhappy situation is the wretched condition of the hand-loom weavers during the first decades of the nineteenth century, when they tried to compete with the newly-invented machines.

The case of a dying trade.

2. Workers not entirely dependent on their own earnings

are often willing, or are forced, to take wages below subsistence level This is the case with numbers of women's industries in every grade of the industrial world. At one end women do needlework at home at rates quite inadequate to maintain them, because those who are partly supported by their husbands are sufficient in number to keep the wages for all down to the level offered by the subsidized women. At the other, committees of women's colleges and institutions have been known deliberately to look for a woman with a little income of her own, in order that they might avoid paying the efficiency salary necessary for a woman carrying out important and responsible work. Other women's trades, it is believed, are subsidized by the proceeds of immorality

Subsidized industries.

The position of women workers.

Charity, too, may act as a subsidy, and so depress wages, if unwisely given. Before 1834 it was the custom in many parishes for the Poor Law authorities to make up the deficiency in the wages of any man who did not receive what was calculated to be a living wage. The result was that wages sank still further, and widespread deterioration among the labourers set in, only to be checked by the drastic Poor Law reform of 1834, which refused relief to any able-bodied man or his family unless he would go into the workhouse. Some people believe that the feeding of school-children by the Education Committees will also lead to a fall in wages, and certainly we should watch very carefully to see whether school feeding is having this effect. At present, however, the children of men in regular employment are not fed, and no effect on wages need, therefore, be apprehended. There can be no greater misfortune for any section of the community than that its wages should be subsidized from an external source. It should be observed, however, that to provide for it enjoyments or means of mental development, which are not a part of its regular standard of living, cannot be regarded as a subsidy. Free education has

The influence of charity.

The subsidizing of wages is an evil to the class assisted.

not caused any fall in wages, for many parents were not in a position to afford any education for their children. So, too, free public concerts, parks, libraries, art galleries, and baths, would not tend to reduce wages, though free beer, free bread, or free houses, probably would do so.

3. There are some industries which require so little special skill that they are constantly being recruited from all sections of the community, and receive automatically those who have failed in other trades. Such are, for instance, the roughest kind of dock labour and general labour in the case of men, and plain needlework in the case of women. Among workers of this type cohesion or common understanding is rarely possible, while the demand for rough, unskilled labour is less than the supply. Inevitably, then, the workers in dread of actual privation compete among themselves for employment, until they are almost forced to omit all but the absolutely essential elements of subsistence from the price accepted. A man confronted with the prospect of starvation cannot afford to take long views. Hence insurance, recreation, education, drop out of the standard of life of these workers, and they secure only bare shelter, fuel and food.* The writer has been told, by people who know this class intimately, that in its lower depths even family life disappears under the pressure of poverty, and that many dock labourers inhabit lodging-houses as single men, having deserted their wives and families through the impossibility of maintaining them. Inevitably, under these circumstances, each set of workers recruited to the trade progressively deteriorates. But this deterioration does not tend (as, according to the "cost of subsistence" theory, it should do) to raise wages. For new, unspoiled workers are constantly coming into the trade. These, after a very short period of initiation, receive

"Sweated" industries.

The deterioration of sweated workers.

* Clothing is purposely omitted. These casual workers are clothed, but all investigators of their circumstances are puzzled over the problem of how their clothing is procured. Much is, doubtless, received in charity.

the preference when work is being allotted, until they in their turn become worn out. Industries of this type do not pay the cost of subsistence of their workers. But the difference must be made up somehow, and they afford plentiful material to keep up prisons, workhouses, and hospitals.

Occupations where wages are above cost of efficiency subsistence.

Let us turn now to those branches of industry where wages exceed the cost of efficiency subsistence, even when the latter is calculated in reference to the more elaborate needs engendered by more exacting work. Four cases at least can be easily distinguished:

Rent of ability.

1. There are trades and professions success in which depends on some unusual personal gift, which must, by the very nature of the case, be rare. Anyone who can write, and has had some elementary training in composition, could turn out some kind of novel; only a few people can produce novels which are clamoured for at the libraries, and whose sales run into several thousands. Most women can learn to dance after a fashion; only a few can charm or delight their spectators as does Adeline Genée or Pavlova. The power of initiative and organizing ability necessary to manage satisfactorily a mine or a big department store is very rare, and commands a high price. Now, the student will notice that this ability gets its high price because of its natural scarcity, as fertile land gets its high price because of its natural scarcity. Therefore the extra remuneration received by unusual talent or specially high character (particularly necessary in positions of trust) has been suggestively named "rent of ability," and is due to the possession of some differential element exceeding the marginal ability of the worst man employed, as high-rented land possesses a differential of fertility or favourable situation.

2. In a few cases the conditions of bargaining are such as to give an advantage to the seller of labour power rather than to the buyer of it. A mistress who keeps only one servant, and is suddenly obliged to dismiss her, wants a servant's help

much more than the servant wants a place. If no suitable maid is forthcoming, the mistress, under the unpleasant stimulus of cooking and washing up for herself, will increase the wages she is willing to pay. Since many mistresses find themselves every year in this situation, servants' wages rise steadily without any concerted action among the servants, until to day they stand much above the cost of subsistence of a single woman in the class from which domestic servants are drawn. Another instance of the same principle which is sometimes quoted is that of undertakers' fees. People cannot, on the death of a dear friend, bargain with the undertaker as to the price of burying him. Other considerations than the economic reign at such a moment, and the undertaking trade, it is stated, is in consequence unusually profitable.

Cases where the conditions of bargaining give an advantage to the seller of labour.

3. Another case where wages rise above cost of subsistence, or, in other words, approximate to demand price rather than supply price, is when there is a definite understanding among the workers not to accept work below a fixed wage. Sometimes this is accompanied by a deliberate restriction of the numbers who are allowed to enter the trade. A contrived scarcity then results, which naturally forces prices up, as does any other scarcity. But even when entrance to the trade is unrestricted, if the workers bargain as one body instead of individually, they will usually increase their wages. The employer's demand price for each individual worker is, as we have already seen, comparatively low. If one individual goes, his work can be spread among others or be done through overtime. But the employer needs the whole body of his workers nearly as much as they need employment from him. Indeed, if the employer were under contract to complete a certain job by a given time, and if the men had reserves which would protect them from actual physical suffering, the employer's demand for workers might be the keener of the two.

Contrived scarcity produced by trade unionism.

In any case, the demand price for the whole body of workers is greater than the demand price for a single worker multiplied by the number of men in question. Therefore by standing together, or by "collective bargaining," employés in a modern trade will increase their wages above the level of subsistence, and will earn a surplus comparable to the surplus earned by people of superior talent. Such action can, however, only be taken in trades where the supply of labour cannot be recruited from fresh sources at a moment's notice. It is almost impossible in those low-grade, unskilled trades described on p. 115.

Collective bargaining.

4. Another reason for scarcity of supply of labour in some occupations is the need for a long or very expensive education. Most men of fair ability, let us assume, would make average pharmaceutical chemists, but the number of men who can support their sons while they go through the training in science necessary for a pharmaceutical chemist is limited. The number of chemists will therefore be less, and their salaries higher, than would be the case if the training were open to all who could profit by it. People who are earning their living in any of these highly-trained occupations usually desire to keep the entrance to them difficult, and therefore oppose the provision of technical education at low fees and the endowment of scholarships. Adam Smith himself pointed out that one reason for the very low salaries of Scottish ministers was the existence of many bursaries founded by pious persons to make entrance to the ministry easy. Trade unions have been known to oppose on somewhat similar grounds the establishment of trade schools.

Effect of a long or expensive education.

Adam Smith gives a list of five causes of difference in wages, which it will be useful to state here and to compare with our own theory:

Adam Smith's theory of the differences in wages.

1. The agreeableness or disagreeableness of the work. Adam Smith declares that any work which is intrinsically agreeable will attract many

people to it, and therefore the wages earned will be low, while work which is shunned by all must receive large wages. This explains the curious paradox that unpleasant occupations, such as those of hangman or butcher, must be better paid than pleasanter trades. But it is not always the case that disagreeable work receives a comparatively high wage. If it is unskilled, the competition for it, however disagreeable it is, will be so severe that its repellent qualities will cease to count, and it will be paid at the same rate as any other unskilled occupation (*i.e.*, about 20s. a week). Thus dustmen, scavengers or the unskilled helpers in chemical works do not receive higher wages than unskilled workmen in similar but more agreeable trades.

Agreeableness or disagreeableness of the work.

2. Adam Smith mentions next the ease or difficulty of learning, which need not be further discussed.

The ease or difficulty of learning.

3. Constancy or inconstancy of employment. A painter who is very busy in the spring, and has comparatively little to do in the depths of the winter, must earn enough in his busy times to support him in his slack times, or to enable him to pay off his debts. Trades which show this irregularity of employment are now called "seasonal" trades, and are one of the great problems of the times. For in many of the less skilled occupations, wages are not high enough to compensate for the irregularity, and the men and women engaged in such trades often suffer very greatly or get hopelessly into debt.

Constancy or inconstancy of employment.

4. If power of taking responsibility is necessary in a given situation, its wages will be high. The reason for this is obvious. Power to take resposibility is comparatively rare, and therefore commands a high price.

5. The last cause for difference in wages brought forward by Adam Smith is the likelihood or unlikelihood of success in a given occupation. Many men are trained as barristers; only a few of them turn out to have the necessary capacities

for success. In order, therefore, to attract enough men, the few prizes must be (and are) very brilliant. The same contrast between a few men and women making large incomes and many barely receiving subsistence rates is to be seen on the stage and in journalism. Probably the true explanation of this phenomenon is that intensity of demand, coupled with rarity of the qualities which bring great success, tends to make the earnings of the few masters of their art very high, and that these prizes attract many people who mistakenly believe themselves to possess the necessary qualities. They can never rise above mediocrity, and as of this there is an oversupply, the wages of average persons in these occupations are even lower than in ordinary trades. It is not, however, simply the rarity of the essential talents which causes the high wages. Very few men can make successful experimental chemists, but the salary of even the most successful professor of chemistry bears little resemblance to the fees earned by a successful barrister or actor. The world has not yet advanced so far that it desires the services of the man of science as intensely as it longs to be amused or to be successful in its lawsuits; therefore the scientist—although a great experimentalist is quite as rare as a great lawyer—receives commonly a salary which the latter would consider quite inadequate.

Probability or improbability of success.

And now we have reached the end of this very long chapter, and may summarize our general conclusions. The earnings of labour, like the earnings of land, fall into two parts—(*a*) the cost of keeping the labour in existence, or, if it be of a higher grade, of keeping it efficient; and (*b*) the surplus earned by those sections of labourers who are for any reason in a position of advantage, and can exact their demand rather than their supply price. But whereas in the case of land the former element was so inconspicuous that it has only recently been recognized, in the case of labour the reverse is true. For a long time all labour was regarded as of one kind, earning merely its sub-

Summary and conclusions.

sistence price. Now it is understood that there are many different sections of labourers, many receiving merely efficiency subsistence, the subsidized or sweated grades actually getting less, and some, rare by reason of one or other of the causes mentioned above, receiving a surplus so similar to the surplus earned by extra fertile land that it, too, has been named rent—"rent of ability."

Wages therefore are at present almost entirely determined, as is the price of any other commodity, by supply and demand. But there are exceptions to this rule. Wages tend more than price to become customary. Half a crown a day with food is, for instance, the recognized wage for charwomen, and they charge no more even in spring-cleaning times, when the demand is great, than in the height of summer, when very few people want charwomen. If, then, the prices of common commodities, and therefore the cost of subsistence, changes, it will usually be some time before wages follow. The "nominal" wages—*i.e.*, the sum paid over in coin—remain the same, but the "real" wages—*i.e.*, the actual commodities which can be bought with that coin—have changed, and an interval, longer or shorter, will elapse before money wages readjust themselves to the prices of commodities.

The influence of custom on wages.

"Nominal" and "real" wages.

In the next place, humane motives play some part in determining wages. Private employers are sometimes known to pay their less-skilled workers more than their market price. Most, however, cannot do this, as they are hampered by the competition of others who pay only the ordinary market rates. Municipalities and public bodies very commonly now adopt a "moral minimum" for men, and more rarely for women. If it be true, as was contended earlier, that the lowest grades of unskilled labour are really not paid a subsistence wage, and, in consequence of their deplorable poverty, furnish most of the inmates of work-

The influence of humane motives.

The "minimum" wage.

houses, prisons, and hospitals, thus casting an abnormally heavy burden on the rate-payers, it is only reasonable for the rate-payers to pay their own workers at least the minimum which enables them to keep themselves and their families healthy. The same line of argument will lead us to endeavour, if it can be done, to level up the payment of the lowest grades of labour by the institution of trade boards, empowered to establish a legal minimum wage in the underpaid occupations. This experiment has just been begun in England by the Trade Boards Act, and it is too soon yet to say whether or not it will be successful. The real problem is whether evasions of the legal minimum, when desired both by the individual employer and by the individual employé — who otherwise might get no work at all — can really be detected and punished. If they can, and if all competing employers are actually compelled to base their wages on the legal minimum, it seems probable that the system may work. But it is much too soon yet to express a decided opinion on the Trade Boards Act, with its attempted supersession in a few selected trades of the competitive wage by a legal minimum wage.

Influence of political action on wages.

In a few cases, trades which receive wages well above the level of subsistence, and are strongly organized bodies, capable of exerting influence in local elections, have been suspected of using this influence to secure wages higher than the market price. The Government employés in the dockyards and arsenals, and in the Post-Office, are also accustomed to use their electoral power to improve their economic condition. Such cases are rare at present, but will almost certainly become commoner in the future. It is not, however, possible in a book of this kind to discuss fully the probable results of such action. It is merely mentioned as another exception to the law that the price of labour is determined, like the price of any other commodity, by the conditions of the market.

CHAPTER XVI

CAPITAL AND ITS REMUNERATION

WE turn next to the most difficult of the four principal factors of production—namely, capital. We have used the word several times already, and explained its meaning in a very general way in Chapter XII. Now an attempt must be made, by more careful study, to make clear to the reader what is meant by capital, the part played by it in industry, and the nature of the remuneration which it receives.

Capital presents greater difficulties than any other factor of production.

The best way to succeed in this object is to take two or three illustrations, and to show in each concrete case how capital is necessary and what its actual form is. Then we can proceed to a more general statement. Suppose a railway is to be made through a new part of England. In the end it is expected that the railway will be a very profitable business; by carrying passengers and goods it will earn receipts much larger than the expenses necessary to work it. But to make a railway takes time: the route must be surveyed and excavated; rails and rolling stock must be bought, stations and bridges built; wages and salaries must be paid while all these preparations are going forward. All the commodities and services which must be brought together in order to bring the railway into existence must be paid for before profits begin to come in from the working of the railway, and must be paid for even should the railway prove a complete failure. Therefore the men who start the new enterprise must either themselves

A concrete illustration: the making of a railway.

have money with which to buy these necessary goods and services, or they must be able to borrow it. The latter is the method always adopted with railways, and indeed with most modern undertakings, since the amount of money necessary to erect the plant of a railway is so large that a single man, or even a group of men, personally connected with the railway could hardly ever supply the whole of it. The money, then, is borrowed, and is paid into the bank to the credit of the newly-formed railway as its "capital." By drawing on this bank account the various bills incurred for rails, building materials, engines, salaries, wages, etc., are paid. In return for these payments the railway and its equipment comes into existence, and this then represents the capital, which is now, as people say, "invested" or "sunk" in the railway lines and stations. The railway gets to work, and receives money for tickets and freight charges. Of this money—the gross profits—some is used to pay the salaries and wages of the men engaged in working the railway, to buy coal, to pay rents, and to meet small repairs and renewals. But if the railway is at all successful, there will be a balance over after these payments have been made, and the balance will then be available for distribution among the lenders of the capital.

Money must be borrowed in order to start it.

This money produces the "plant" of the railway.

Next let us take the case of a man who possesses a boot-making business of an old-fashioned kind. The business, let us suppose, simply earns enough money to pay working expenses and to supply the owner with the income he needs for himself and his family. But new and expensive boot-making machines are being put on the market, which greatly cheapen the cost of production. The owner of the business knows that his customers will go elsewhere if he cannot provide himself with these new machines. But he has no savings. What is to be done? Evidently he must try to borrow, must "raise more capital," use it to buy the new machines, and then pay it back

Another example: a boot-making business.

together with the sum charged for the loan of it, out of the increased profits.

Again, let us take the case of a municipality which desires to make new waterworks for its town. The cost, we will suppose, is to be £250,000. If the inhabitants of the town were to pay that sum down in the couple of years during which the waterworks are made, it would raise the rates to a level which would greatly inconvenience the inhabitants, and that, too, at the time before they had begun to enjoy the benefit of the new water. It is much more convenient to borrow the £250,000, and then to fix the water-rate at a level which allows the debt to be paid off in thirty or forty years.

Municipal waterworks.

Now, in these three cases it will be apparent that when the railway and the waterworks are made, and the new machines installed, the community will be much better off. Its members will be able to travel more quickly, to drink better water, and to buy cheaper boots. It is also clear that none of these benefits could have been reaped had it been necessary to pay the cost of the new enterprises at once without the use of borrowed money. But the possibility of borrowing this money depends on the presence of people who have incomes larger than their immediate needs. Suppose railways had been invented in a country where all the people were so poor that each man needed the whole of his income each year, and never was able to save. Then the promoters of railways could never have succeeded in constructing them, because they would find it impossible to borrow the money necessary to buy the plant of the railways and to pay the wages of the men engaged in making them.

Importance of the power to raise capital.

It depends on the existence of people with surplus incomes.

Let us, then, try to put these facts into more general language. Most modern businesses require a large expenditure before they reach the profit-earning stage; they involve the consumption of wealth in order that its production may,

in the long-run, be increased. It is necessary that they should be able to draw on an unused power of consumption, represented by the saved money of the wealthy man.

Capital is an unused power of consumption employed to further future production.

Capital is, therefore, essentially an unused power of consumption, employed to further a future growth of productive power It passes thus through various stages. It is capital looking for investment when it is lying at the bank, before its owner has made up his mind to whom he is going to lend it. Next it passes to the bank account of the individual company or municipality to whom it actually is lent. Then it is paid away for the setting up of the plant, which, in its return, is the "capital" of the business, provided by the capital of the investors. Always, however, to repeat once more, capital is a power of consumption represented, generally, by cash or bank credit belonging to a wealthy man, which is used to increase the productive power of the community, in place of being employed to further personal enjoyment.

Taking this conception, it is easy to extend the general notion of capital to cases which are far removed from modern conditions. A savage tribe living on the brink of a great river may make a meagre livelihood by hunting, while all the time, could they but bridge the stream, ampler hunting-grounds await them on its far side. Suppose that the tribe, working hard at hunting for a week, saves a store of food sufficient to keep it during the next week (*i.e.*, accumulates an unused power of consumption), and spends that week in building the bridge (*i.e.*, devotes it to setting up a structure increasing its future power of production). The tribe will later on benefit every day by reason of the better food-supply available on the far side of the river, just as a modern community benefits when it builds a railway. Essentially the process is the same as the modern investment of capital in productive industry.

Extension of the idea of capital.

The existence of capital depends, therefore, on a power of

consumption in excess of the subsistence consumption described in the chapter on wages. Such a surplus need not always be used as capital. In many stages of civilization productive industry requires only simple tools, and affords no scope for the investment of a surplus of income over expenditure, even although this surplus is coming into existence. It is then used in other ways, sometimes in elaborate personal luxury. This was the case in the households of wealthy nobles of the fifteenth century in England, and even more markedly so in ancient Rome. In other cases it is used to further art, as in Athens of the fourth century B.C.; or to endow religion, as in early medieval Europe; or for the purposes of charity.

Capital depends on the existence of a surplus, which may, however, be used in other ways.

When the saved surplus is used as capital (*i.e.*, to increase future productive power), it may take several forms. In modern times it usually goes to buy fixed apparatus, "plant," which consists of buildings and machinery in the widest sense of the term. This is usually called "fixed" capital. If it is of such a kind that it can be used in one process of manufacture only (*e.g.*, railway lines which are of service for the "manufacture" of rapid transit, but otherwise are both useless and ugly) it is called "specialized" capital. A building, however, which might be employed, with slight alterations, as a factory, a warehouse, or a common lodging-house, would be unspecialized.

Different kinds of capital.

Fixed capital.

Specialized capital.

Capital was of value (although it was not so important) before machinery was used to the extent which we see to-day. A merchant trading with a savage country can procure there valuable goods—ivory, let us say, and rubber—in return for beads and knives. The profits are large, but he must "lie out of his money," as the phrase is, during the period while his ships sail, with their cargoes of beads and knives, to the savage country, and bring back ivory and rubber. Here, too, it is necessary for the merchant, or someone from whom he

can borrow, to possess savings, or unused power of consumption. But those savings are not transmuted into buildings or machinery; they pass into one kind of goods, which are exchanged for another kind, which are then brought home, and sold, and so swell the merchant's profit, part of which is again expended on similar goods, which then pass through the same circle of changes as before. Capital used in this way is called "circulating." The greater part of the capital of merchants,* both retail and wholesale, is "circulating."

Circulating capital.

It may take still another form. In the eighteenth century cloth-making was most easily and cheaply carried on in Yorkshire and the West of England, not, as now, in factories, but in small workshops attached usually to each workman's home. The workman could not himself journey to sell his cloth in distant London or Edinburgh. Moreover, he wanted money as soon as he had done the work, and could not wait till the sale was completed. Therefore a class of middlemen came into existence, who bought raw wool and gave it out to the manufacturers to be worked up, paying them for their labour. These middlemen, too, must obviously possess capital, but it was expended not on tools and machinery—under this system they are owned by the workman—nor yet merely on finished goods ready to be sold, but on raw materials and wages. Another form, then, of circulating capital is the payment for this raw material and labour, which, when brought together, result in the enhanced value of the finished article. Goods or raw material in the merchant's warehouse were often called his "stock," and we find economists of the eighteenth century using this term as synonymous with capital. Capital of this description is of less relative importance to-day, but still exists in those clothing trades where the material is given out to be made up at home by women, who furnish their own sewing-machines.

Raw materials and wages as circulating capital.

The merchant's "stock."

* As opposed to manufacturers.

Circulating capital is "fluid"; it moves easily into any channel which offers exceptional profit. If a merchant finds that a large return is to be earned by adding a new good to his stock, he can and will use the circulating capital, which comes back from his ordinary trade, for investment in that article. So, too, capital lying in the bank waiting for investment is "fluid." It can flow into railways, mines, rubber plantations, bicycle works or department stores, as the owner pleases. But once capital has passed into a fixed and specialized form, it cannot be got back. Our boot-manufacturer, after buying his new machines, might find that he could have done better had he given up boot-making altogether and gone in for manufacturing leather chair-covers. But the discovery would be too late. His capital would be "sunk" and "fixed" in boot-making machinery, and he must make the best of it.*

Fluid capital.

Most capital is "trade" capital, or capital used to improve the processes of manufacture. Some capital, however, is not owned by private persons, but by all of us collectively, and furthers rather our general social life than the process of production in any special branch. Roads are an example of such capital; also gas and water-works owned municipally, public libraries, public telephones, parks, baths, art galleries, and public educational institutions.

Trade capital.

* The reader may perhaps be a little impatient at these rather obvious and (he may think) platitudinous distinctions. But, as a matter of fact, the full comprehension and *application* of them will help him to see clearly through many current controversies. For example, it is often stated that legislation penalizing capital will cause it to emigrate, and will leave the British workman without work. The supporters of the legislation so attacked meet this argument by declaring that capital really consists of buildings, mines, railways, etc., and sneer at their opponents for supposing that these can emigrate. A reader, mindful of the distinction between "fluid" and "sunk" capital, will easily see how much truth there is in both views. If capital were really put at a disadvantage in England, fixed capital would have no alternative save to accept the new position and make the best of it. But fluid capital could go abroad if its owner chose; and there might therefore be a deficiency of circulating capital and new enterprises might be starved.

Capital of this kind we may call "social capital." It is of two kinds—that sunk in enterprises for the use of which a charge is made to the public (reproductive enterprises), and that sunk in enterprises for which no direct charge is made, but the cost of which is met by the ordinary rates or taxes. Municipal tramways are an example of the former, roads and parks of the latter. In both cases the lender of the capital is paid for the use of it by the public authority, exactly as a company pays its investors for the money lent to it. But in one case the public authority receives money from the public for the use of the trams; in the other case the advantage of the investment is represented by the increase of health and pleasure throughout the community, which cannot be estimated for each person individually, and must therefore be paid for by the rates. It is common for ignorant people to distinguish between the "capital" of a company and the "debt" of a municipality, counting the one as wealth and the other as liability. But the reader who has carefully followed the descriptions and arguments of this chapter will have no difficulty in seeing that under modern conditions capital is always both. There rests on the business which has borrowed money a liability to pay it back or to pay for its use. Yet when the money is invested, it adds to the production goods or wealth of the business, and therefore of the country as a whole. Money invested, then, is always in one sense "capital," and in another "debt."

Social capital.

Social capital is sometimes confused with debt.

Invested money is always both capital and debt.

In fact, "capital" is one of those words of which we spoke in the introduction to this book, which are used in one sense in popular conversation, and in other senses, slightly different, by the economists. Moreover, "capital" is to many people, ignorant both of business and of economics, so mysterious a thing that they erect it into an unreal, semi-metaphysical conception, and then

The ambiguity of the word "capital."

proceed to use it in arguments without ever referring back to the actual facts of the case. For example, fierce controversies have turned round the question, "Is credit capital?" The answer is both "yes" and "no." Obviously, a business man whose credit is good, and who can borrow easily, finds the productive power of his business greatly increased thereby. To such a man credit is capital; he can use the confidence reposed in him by his colleagues in commerce to further the development of his business. But from the standpoint of the nation credit is not capital. It does not add to savings or unused power of consumption. It only determines the channels into which those savings are to be directed.

Remembering, then, that capital is a power of consumption directed to further future production, we have to ask next: How are the people who hand over this power of consumption to those who are starting a new business remunerated for giving up the enjoyment which they might have had from spending their money at once?

The remuneration of capital.

The older economists stated that into the payment made for the use of capital there entered three elements: (1) Wages of superintendence; (2) insurance or compensation for risk; and (3) compensation for abstinence. A consideration of each of these separately will help to clear the ground in this most difficult region of economics:

The view of the classical economists: Three elements are present in the payment for capital.

1. It was natural enough, when the theory of economics was first worked out, that wages of superintendence should be included in the payment for the use of capital. At that time—the end of the eighteenth century—a man usually put his savings into his own business, and what remained after he had paid expenses, the chief of which were rent and wages, he called his "profits," and kept for his own use. Profits, then, clearly included the payment for the man's own time and skill. But

Wages of superintendence are not properly part of the payment or capital

to-day probably the majority of businesses are companies which are under the general control of a board of directors, but whose detailed management is entrusted to a paid secretary or general manager. The payments made to these are made for services, and not for the use of capital. Even in businesses where the head is a private person furnishing all or the greater part of the capital, it is not uncommon now for the salary of the head to be charged against the takings in exactly the same way as the salaries and wages of subordinates. Therefore modern theorists refuse to include wages of superintendence in payment for the use of capital, but give separate consideration to this factor—managing ability—and its remuneration.

2. The rate of capital invested in various businesses differs very markedly. A man who lends money to an established business which he is confident will repay the loan receives usually only 4 or 5 per cent. per annum for the use of the money. A money-lender making a loan to a bankrupt spendthrift, who may perhaps never pay up at all, will demand three or four or five times as much. In fact, he must ask from his unsatisfactory clients such a rate of interest that those who do pay make up for those who go bankrupt. In this way the money-lender secures a fair return all round upon his capital. Investments abroad are less certain than investments in England, or at all events less well known, which, from the investor's point of view, is the same thing. Therefore foreign undertakings must hold out a prospect of higher remuneration for capital than is usually earned at home. Thus, the amount of risk plays a very great part in determining the payment for the use of capital. A risky enterprise which can never under any circumstances earn more than 5 per cent. will not attract any investors at all, and must be dropped.

Insurance against risk.

3. But even for the use of capital lent on absolute security a payment must be made. And it is this payment which so

bewilders the beginner, and which was, as a matter of fact, actually forbidden by the Medieval Church as usury. If a man gives me the use of £100 for a year, why, at the end of the year, should he expect to receive, not merely the original £100, but £4 or £5 in addition? The answer to this question is twofold. In the first place, as we have already seen, it is an essential factor in human nature to prefer the present to the future. "A bird in the hand is worth two in the bush." £100 now is worth as much as £104 a year hence. If the lender gives away the power to use his money now, it can only be—motives of charity apart—because he expects to receive in the future a recompense for that abstinence. Therefore payment for the use of money whose return is certain—"interest" properly so called—is the reward of waiting for the use of the money. It should be noticed that abstinence is not employed here in any specially moral sense. The abstaining person may be, and often is, a man so wealthy that the income from his investments is sufficient to provide him with comforts, and, indeed, with luxuries, without any expenditure of his capital. Still, he does "abstain from" spending money which he could spend if he chose, although he does not necessarily practise abstinence in the ethical sense. On the other hand, a good deal of capital represents genuine abstinence; it has come into existence because comparatively poor men have, by rigid self-denial in things which they urgently desired, accumulated savings. The funds of the insurance companies, for example, have grown through real abstinence of this description, and many a man who is far from well off has a little nest-egg invested in a favourite enterprise, and intended to provide extra resources for his old age. But to the man who borrows the money £100 is merely £100. It pays no more wages and buys no more machinery if it be the result of savings painfully accumulated bit by bit by patient self-denial than if it represents part of the spare income of a

Compensation for abstinence.

Abstinence is not necessarily used in a moral sense.

multi-millionaire, which he could hardly spend on himself if he tried to do so.

And this brings us to the second reason for the payment of interest. The man who borrows capital expects to be better off because he has the use of it; he expects to start a new business or extend an old one, and believes that the increase of profits will warrant the new expenditure. Clearly, then, if he has not the necessary money in his own hands, he will be glad to pay someone else for the use of it, and will actually be better off if allowed to do so. Failure to perceive this fact was at the back of the laws against usury, and as soon as investment for profit became a prominent factor in mercantile life, the usury laws were first modified and then abolished. They could only operate, in the case of ordinary investments,* to send up the rate of interest, as, in addition to all other risks, they involved the capitalist in the risk of being detected in disobedience to the law, and for this additional insecurity the borrower must of course indemnify him.

Capital increases productivity.

Therefore we shall agree with the older economists that into the payment for the use of capital there enter these two elements: compensation for risk and compensation for abstinence. But do these two alone explain the different rates of interest earned by different kinds of capital? Do they explain the high returns on capital invested in early days in London water companies or in railways, or to-day in the cotton-thread industry? It is coming to be recognized by economists that still another element in the remuneration of capital must be admitted, and our next task must be to explain the nature of this element. Before we proceed to it,

Are insurance against risk and compensation for abstinence alone sufficient to account for the payment made to capital?

* It should be observed, however, that so long as borrowing is not for investment, but to tide over a sudden misfortune, laws against excessive rates of interest are essential. Under such circumstances—say when a peasant-proprietor's crop fails—the demand for a loan is very urgent.

however, it will be convenient to explain more in detail the varying conditions on which capital enters into the industrial process.

It may come in either, as do labour and land, on a payment fixed beforehand, or it may come in on the understanding that it is to receive the surplus, if any, after all the other factors have been paid off, in which case it also takes the risk of receiving no return at all. The first occurs when a single individual or a company borrows on good security. Money can then be secured at about 4 per cent. A company borrowing on these terms usually issues debenture stock secured on the property of the company (*i.e.*, if the company fails to pay, holders of the stock are entitled to seize the property), and this stock bears a fixed rate of interest, no matter whether the company is prospering or not. Governments and municipalities which require capital usually obtain it nearly on the same terms. The loan is secured on the rates or the taxes, as the case may be, and bears a fixed rate of interest, usually 3 or 4 per cent. On the other hand, the ordinary capital of a company is subscribed on the understanding that if there is no surplus over working expenses no payments will be made to the investors, but that if a surplus does come into existence the whole of it will be divided out among the shareholders. Hence the word "dividend." Between these two extreme forms—where the rate of payment of capital is absolutely fixed beforehand, and where it is determined solely by the takings of the company—there are various kinds of preference shares,

Capital co-operates in production either (*a*) at a fixed rate, or (*b*) on condition of receiving the surplus after the other factors have been paid off.

Dividends.

The borrower will pay 40 or 50 per cent. for the accommodation, and unscrupulous lenders can take advantage of this necessity. Both here and in India the British Government has found it necessary to impose limits on the rates of interest charged by money-lenders, while not interfering in any way with the return to capital invested in productive enterprises.

with amount of dividend limited, but only to be paid when the profits allow. The commonest of these pay 6 per cent, and this dividend is to have *preference* over any claim of the ordinary shareholders for remuneration. Hence the name.

It is clear, then, that the rate of payment for the use of capital varies very considerably in different cases. Just as the older economists ignored the differences between various grades of labour, so they ignored the differences between varying kinds of capital.* And just as we found that the conceptions of demand price and supply price helped us to frame a more satisfactory theory of wages, so it is possible to use the same ideas to enable us to understand more completely the varying terms on which capital enters into combination with the other factors of production. When the security is good and the rate of interest is to be fixed beforehand, the price will depend entirely on the demand for and supply of capital. In an old-established country like our own, many people have savings which they are anxious to invest safely, while the demand for capital is less acute here than in newer and less-developed countries. We have made our roads, our waterworks, our railways, and our factories. The rate of interest, then, in England is very low, and that it should be so is a sign of our prosperity. In a new country the conditions are reversed: there are few savings; there are many enterprises needing capital, and likely to earn large returns. In these countries the rate of interest will be high (10 or 12 per cent.). Wherever an element of risk enters, the rate of interest naturally rises, and this no doubt partly accounts for the high rate in new countries, where there is less security.

Supply price and demand price of various grades of capital.

In the case of "dividends" an additional element appears. Some of the prosperous drapery stores in London are

* *Cf.* Walker: "In theory . . . all portions of capital bear equal interest" ("Brief Political Economy," p. 193).

paying dividends on ordinary shares of as much as 10 or 12 per cent. It cannot be contended that this high rate is due either to scarcity of capital or to the presence of any special risk. It arises from the fact that some big drapery shops are enjoying at the present moment a special and unexpected success, and are in consequence earning a surplus over the amount which it costs to run them. Nor can the high rates mentioned on p. 134 be accounted for entirely by the extra riskiness of the undertakings. The surplus passes to the owners of the business, who in these instances are the shareholders of the company. Theoretically this high rate of dividends should attract fresh capital into the business, increase production, decrease prices, and so diminish profits. Practically, however, it takes so much time, trouble, and risk, to establish one of these big businesses—and only big businesses can trade cheaply enough to make the high rate of profits—that the existing firms may have for a term of years a partial monopoly, and so earn a dividend much above the necessary remuneration of capital. Therefore, in many cases, capital, like land and like labour, earns a surplus, which Professor Marshall has named a "quasi-rent."

High dividends or profits contain a "surplus" element, due to the extra productivity of special businesses.

"Quasi-rent."

In practice it is often very hard to discover who is actually the possessor of this surplus earned by capital. Its presence is indicated by an exceptionally high dividend. Shares paying high dividends appreciate. An investor does not regard the face value of the shares he is buying, but the rate of interest he will actually receive. Thus, a man with £200 to invest will offer it for shares of the face value of £100 in a railway which is paying 12 per cent. per annum. He will then actually receive 6 per cent. on his investment. Frequently, therefore the men who now hold the appreciated shares are not in possession of this quasi-rent of capital. It has passed into the hands of the original holder, who sold his shares at a

The elusiveness of the "quasi-rent."

premium, and then put the proceeds into Consols returning barely 3 per cent. on the money invested. There are various other ways, too complicated for description here (*e.g.*, the issuing of bonus shares, or allotting blocks of shares to promoters without an equivalent in cash), which render it hard to trace the quasi-rent of capital.* It is, however, certain that in particular cases, where the entrance of fresh capital is difficult, the capital originally invested does earn a surplus above the necessary reward for abstinence and compensation for risk.

Summary.

To sum up, then, our conclusions with regard to the remuneration of capital. It depends on the demand for and supply of loanable money. It depends on the amount of risk run by the lender or investor. Finally, in some cases, where a specially profitable business has been tapped, capital may earn a surplus over and above its necessary cost. Payment for management or superintendence, though often in small businesses confused under the word "profits" with the remuneration of capital, is really quite distinct, and falls to be considered in the next chapter.

* The reader who desires further information should read Hartley Withers's "Stocks and Shares."

CHAPTER XVII

ORGANIZING ABILITY: ITS FUNCTIONS AND ITS REWARD

We come at last to the fourth main factor in the economic process—the man, or group of men, whose function it is to bring together the land, the various grades of labour, the machinery and the raw material, and to place the manufactured product on the market. This special function was for long unrecognized, since the employer commonly provided also some particular kind of labour (small employers, for example, keep their own books), and all or part of the capital. It is now agreed, however, that the task of assembling and organizing all the factors of production is different from the work done by any other factor, and requires separate treatment.

The fourth factor: organizing ability.

This work of organization rests on capacities which are rare, yet which, since they depend on general ability, nervous energy, and power of judgment, particularly in the selection of subordinates, rather than on any specialized gift or skill, are unrecognized by the mass of people, who regard the position and remuneration of a great "captain of industry" as merely an undeserved gift of fortune. The organizer of a modern business needs in the first place enterprise and knowledge of market conditions. In present-day industry the problem is increasingly, not how to secure the best results on the manufacturing side, but how to place the products on the market. Hence the chief must either himself be conversant with modes of advertising, packing, selling, etc., or he must be able to find subordinates who are.

Capacities necessary for the organizer.

Next he must have sufficient knowledge and general intelligence to be able to keep abreast of the technical improvements made from time to time in his trade. He must know how to select and manage his workmen. He must understand finance, and be able to keep his book-keepers, cashiers and clerks at work to the best advantage And, last of all, he must be able to organize all these various sides of his business so that each department dovetails into the other with the least possible friction and waste of time. The ordinary name given to the head of a business—the "employer"—lays stress on only one of these multifarious activities. But the others which have been named are at least equally important. It is to be regretted that the English language cannot furnish a word similar to the French "entrepreneur," which implies more fully the other functions performed by the man of organizing ability. Some economists have translated it by "undertaker," but, as this is liable to be misunderstood, perhaps it will be better to use simply the word "organizer."

Position of organizing ability in industry.

This organizing ability enters into industry in various ways. In the single-employer business, it is concentrated in the hands of one man, who may or may not delegate some of his less responsible tasks to subordinates. In a company, a board of directors acting as a committee have supreme charge, but often the detailed administration is entrusted to a manager, secretary, or managing director. In municipal enterprise a committee similarly directs the policy of the undertaking, while a salaried manager is in charge of the actual working. In national enterprise—*e.g.*, our own Post-Office, or railways in countries where these are nationalized—the nominal head is a Minister of the Crown, but again salaried officials undertake most of the work and much of the responsibility. Thus managing ability, like capital, enters industry on varying conditions, which naturally determine to some extent the character of the remuneration received.

In the ordinary firm whose head is one man or two or

three partners, the remuneration of organizing ability is determined by the profits earned. Now, no man will be tempted to take up the responsibilities and risks of an independent organizer if he can obtain a salaried position which yields him an equal income. Therefore a man entering business on his own account must anticipate the possibility of making profits (over and above a reasonable rate of interest on any money which he puts into the business) equal to the salary which he could earn in a dependent position without responsibility. Mistakes will often be made, since risks must be taken. But normally profits will not be less than the level indicated. How much higher they may go depends partly on the man and partly on the special line of business. Occasionally, if the cost of production is rapidly diminishing owing to improved communications or improved machinery, large profits may be earned for some years before fresh organizing power enters that special trade. It is clear, too, that in some businesses personal capacity and enterprise have an extraordinary effect in cheapening production, and such capacity naturally earns a specially high rate of profits, comparable to the surplus earned by land of unusual fertility, or special ability of unusual value (rent of ability).

The remuneration of the organizer: (*a*) By profits.

But organizing ability does not always take risks and receive profits. In fact, it is becoming more and more common for capital as subscribed by the shareholders of companies to do so, in which case the management is undertaken by persons in receipt of fixed salaries. The same thing happens in collective enterprises, where policy is determined by a statesman or a committee, but detailed administration is handed over to a permanent official. The salary of such officials is usually settled, like the remuneration of any other kind of labour, with reference to its supply price on the one hand, and its scarcity on the other. The efficiency supply price of labour of the type we are discussing must be high. The nervous

(*b*) By a fixed salary.

energy worn out by the responsibility, versatility, concentration and judgment involved can only be replaced by a life relatively luxurious, with ample opportunities for relaxation and recreation. Therefore, as public bodies and private companies alike realize, there is no more foolish economy than parsimony in relation to the salaries of responsible officials. It can hardly be urged, however, that the very large salaries paid, for instance, to the general managers of railways are entirely determined by the efficiency subsistence of those officers. The high price of such ability is determined rather by its scarcity.

The work of the "company promoter."

The work of the ordinary employer as initiator of enterprise—which can only rarely be undertaken by the salaried official, who generally secures his position after the new business is launched—is now supplemented by the work of that much misunderstood but most important personage the "company promoter." A certain number of businesses come into existence now through the formation of a company, whose shareholders furnish the necessary capital. But a company cannot be formed unless some preliminary arrangements are made. Patents or land, for example, must often be secured. Someone must draw up a scheme showing the costs and profits of the proposed new enterprise, in order that investors may be attracted into taking shares. Someone must arrange for advertisements and other ways of drawing the attention of the public to the new opportunity for investment. All these necessary functions are undertaken by the company promoter, usually with the help of a preliminary committee which he forms, and which is often called a "syndicate." Even more commonly perhaps the "company promoter" arranges for the conversion of private enterprises into companies, thus securing to the public new opportunities for investment and to the businesses the capital needed for their expansion. After the company has been registered,* and when the shares

* A proceeding which gives it many privileges not possessed by an unregistered group engaged in a common enterprise (*cf.* p. 146).

nave been taken up, a board of directors is elected by the shareholders. Very commonly the set of men who comprised the original syndicate are chosen without question to be directors also. The company promoter sometimes joins the board, and is allotted in return for his services a block of shares, which he is not required to pay for in cash. In other cases he is paid a sum down for the work he has done in organizing the company, and then severs his connection with it. In either case, when the work of initiating or extending an enterprise has been completed by the promoter, the work of carrying it on devolves on the board of directors and its salaried manager or managers. It is clear that the company promoter has many opportunities for fraud, and no doubt some black-sheep are to be found in this occupation, as in many others. It is certain, however, that the general public does not at all realize the difficulty, the responsibility and the risk involved in this work of initiating new enterprises or enlarging existing ones, nor does it understand how supremely important it is to the community that new ways of manufacturing and selling goods should be safely launched, and that the saving public should have new avenues of investment for its capital.

His remuneration.

CHAPTER XVIII

VARIOUS FORMS OF COMBINATION OF THE FACTORS OF PRODUCTION

WE have now studied in some detail the various factors of production. Each, we have observed, has, as it were, a subsistence price, or supply price, or cost price. A certain minimum sum must be paid to secure the co-operation of land, of labour, of capital and of organizing ability. Each, however, may under favourable circumstances secure much more than this minumum cost or supply price, which equals the lowest sum which the owner of any factor will accept rather than allow it to remain permanently unemployed. The rent of land consists so largely of this extra remuneration which land can command by reason of its scarcity and its differential fertility, that most economists have altogether overlooked the other elements in the payment made for land. This surplus is present to some extent in the wages of the better-paid artisans, and to a larger extent in the salaries and fees of the professional and artistic classes. Organizing ability and capital engaged in particularly profitable businesses also receive more than their cost price.

Restatement of conclusions.

Each factor (*a*) has a cost price, and (*b*) may receive a surplus.

That they are able to do so is consequent upon the fact that normally a business earns more than is put into it. Often enough the reverse is the case; owing to miscalculation of the demand or mismanagement of the process of production, a loss is incurred, which is borne usually by the owners of the capital or of the organizing ability. Still, these are exceptions. Most

Businesses earn more than their cost.

businesses earn a surplus, some of them a large surplus, over the cost price of their factors of production.

Where exactly the surplus passes depends on the terms on which the factors are combined; this chapter therefore is to be devoted to a necessarily short and summary statement of the different forms of organization adopted in the business world.* At least seven main forms can be distinguished, besides others of less importance:

The direction of the surplus depends on the form of business organization adopted.

1. First of all there is the single-employer business. Here the labour and the land enter on previously arranged terms, and take no risk. If the owner of the business works with borrowed capital, it is in the same position. If, however, the owner furnishes the capital, it shares in the chance of loss, and the owner expects a proportionately increased return, if he is successful. In this form of business the surplus goes to the owner or employer, and it alone should properly be considered "profits," as a fair return for the owner's capital and labour should be included in the costs of the business.

1. The single-employer business.

2. Very slightly different from the single-employer business is the partnership. Here two or more men join together to organize some process of production. One may supply the ability and experience, and another the capital. The conditions of their co-operation will vary from case to case. But all the partners share in the risk, and should a loss occur, and one of them default, the other or others must make the whole of the loss good.

2. The partnership.

3. Both of these forms are now being superseded by that

* From this point onwards it will be assumed that the reader has become more at home with the terms of economics and the forms of economic thought, and the very full and detailed examples and explanations given up to this chapter will now be abandoned in favour of a shorter and more technical treatment.

invention of the nineteenth century, the "limited liability company." As businesses became larger, it was more and more difficult for a single man to find all the necessary capital. Even a group of men who could act as partners could not provide the vast sums necessary to start a modern shipbuilding yard or mining business. It was necessary to associate the savings of large numbers of small investors. But these could not undertake the unlimited risk which partnership involves.* Moreover, an investor desires to be able easily to sell his share of the business, in case he needs the money for other purposes. It was to meet these two requirements, together with others, that in 1855 the formation of trading associations with limited liability was, after a long struggle, made legal. And since then company law has grown and expanded, until it now forms one of the most important divisions of our system of commercial law. The two features of modern companies which for our present purpose are most noteworthy are the issue of shares, nominally worth £1, or £10, or £100, or in some few cases other sums, which are transferable to other persons, and which are therefore freely bought and sold. Their value, of course, varies as the security of the company and the rate of dividend which it pays alters. Some rise above their original value, and are then said to have appreciated or to be above par, while others sink below it.

3. The limited liability company.

The issue of shares.

The second feature is, that a man who takes shares in a company (or lends capital to it) becomes liable for its debts only to the extent of his shares. His "liability" is "limited," which is the reason for the special name given to this form of organization. Companies with limited liability are always required to use the word "limited" after their name, in order to prevent the possibility of their creditors being misled.

The limitation of liability by the amount of the shares.

* Reference may here be made to the case of Sir Walter Scott. He entered without sufficient care into partnership with a publishing firm.

In this organization, land, labour and organizing ability enter on prearranged terms and take no risks. Organizing ability, indeed, in this form is only a higher kind of labour. If any of the capital is borrowed on mortgage of the property of the company or as debenture shares, this portion receives merely the cost price of capital, and takes little or no share of the risk. In such a company the surplus passes to the ordinary shareholders, who, it should be observed, will bear the major part of the loss, if loss occurs. But a company with a very prosperous business dependent on a particular kind of labour or a particular situation in a town may sometimes find that, on the expiry of a contract or the falling in of a lease, a body of artisans or a landlord may successfully assert their claims to a share of the surplus, thus diminishing the dividends of the shareholders.

The surplus, if any, goes to the shareholders as dividends.

In all these forms alike there is a very frequent opposition between the demands of labour and the claims of capital. The modern labourer is curiously divorced—far more so than in any previous age—from the risks and responsibilities of business, and also, normally, from any considerable share in the profits of a specially successful business. He is engaged to do a certain job at a certain wage; he does it more or less well, and there his interest and responsibility end. To remedy this separation between labourer and employer or capitalist, philanthropists and social reformers have advocated various forms of co-operation, to which we pass next.

Opposition of labour and capital.

4. Co-operative Workshops: In these labour and capital are both provided by the men, and a committee selected by them undertakes the control of the business, often with the assistance of paid managers.

4. Co-operative production.

The firm got into difficulties, and Sir Walter Scott found himself legally liable for large sums of money. It is to this defect of business organization of the first half of the nineteenth century that the world owes many of his finest novels.

It seems to be established that genuine co-operative production results in a better feeling in the workshop, and in a better understanding by the men of the responsibilities and risks of management. Unfortunately, this form of organization—ethically and socially desirable though it may be—labours under great economic disadvantages, and is not, as a matter of fact, making great progress. A body of workmen can rarely command sufficient capital or credit to enable them to provide themselves with the best machinery. Indeed, many co-operative productive societies are only partially co-operative; a part of the capital must usually be drawn from outside sources. And trades where expensive machinery or other large capital outlay is necessary (*e.g.*, shipbuilding) afford no scope at all for co-operation. The co-operators find it hard to accumulate sufficient reserves to bear up against a period of bad trade. Again, a body of workmen tends to underrate the need for skill in management, and in the placing of the goods upon the market. Discipline is hard to maintain when the manager is the servant of those whom he has to control. Idle or aged workmen who have shares in the business cannot be dismissed. Finally, if a co-operative productive enterprise is successful, the original shareholding workmen often retire, and wage-earners without shares are engaged in their places. The business has then practically become an ordinary limited liability company, with the interests of abour and capital divorced as before. Thus, co-operative production, though constantly attempted, constantly fails or changes its form. In some trades—*e.g.*, boot-making and printing—a certain number of co-operative undertakings struggle on; but many even of these hold their own merely because the co-operative distributive societies, to be described immediately, assure to them a certain market. In the purely competitive world they would go under.

Its weaknesses.

Dangers of success.

5. Profit-sharing Schemes: Many attempts have been made to introduce into businesses, the basis of which is, and must

remain, capitalistic rather than co-operative, the principle of profit-sharing between employers and employed. Mr. George Cadbury employs part of the profits of his undertaking in providing baths, gymnasia, and recreation-grounds, for his workers. Other employers give bonuses on wages, or make it possible for their work-people to take shares on specially easy terms. Few of the profit-sharing schemes, however, really succeed in the aim of the co-operators—*e.g.*, in associating the workmen with the management of the business. The trade unions* are usually hostile to them. There is no doubt that some employers have used these schemes as a means of breaking the strength of the unions. Even when there is no such intention, the fact that some workmen in a particular occupation are better off than others, and are especially attached to a particular business, tends, the trade union leaders believe, to destroy the solidarity of the whole body of workmen in the trade, and thus to undermine subtly the strength of the organization. Therefore, in strongly organized trades, profit-sharing schemes have to meet the hostility of the most thoughtful workmen, while in weak and badly-paid trades only exceptionally philanthropic employers, whose substantial profits are not menaced by the competition of less kindly rivals, will take the trouble to put such plans in force. In fact, it is coming now to be generally admitted that the strife between labour and capital will not be brought to an end either by co-operative production or by profit-sharing.

5. Profit-sharing.

6. The reader is probably impatiently asking himself why, if co-operation is a failure, we hear so much in some quarters of its success; and how it is that the Co-operative Congress and the social influence of co-operators increase in importance from year to year. The answer is that there is another form of co-operation, distributive co-operation, which is conducted on principles unique in business organization, and which has had a most remarkable

6. Co-operative distribution.

* See Chapter XIX.

success. In this form the management is undertaken, and the profits appropriated, neither by labour nor by capital, but by the consumers. In co-operative distribution all the factors, land, labour, capital and organizing ability enter at a fixed rate, and the surplus is divided among the buyers in proportion to the amount of their purchases. Obviously, such an organization is suited mainly for retail trade; it can only come into existence where a compact, homogeneous body of consumers exists, disciplined to act together, and inspired by a certain *esprit de corps*. Therefore the great successes of co-operation have been won in the selling of commodities to the urban artisan class, especially to those who have been trained in social cohesion by work in great factories, mines, or shipyards. It is feeble among the labouring class, and almost non-existent in agricultural districts. It has entered upon the manufacture as well as the sale of goods on a large scale. But the form of organization is quite different from that of the productive societies. The workmen are engaged and paid as are any other workmen. They furnish no capital, take no risks, have no responsibility. Capital and land receive a fixed price, and the surplus goes to the various retail societies in proportion to their purchases. These co-operative societies, indeed, have so little changed the conditions of the labour employed by them that charges of "sweating" have not infrequently been brought against them. It will be observed that the economic disadvantages of productive co-operation are not present in distributive co-operation. Capital is not needed to the same extent in retail trade as in manufacture, and the co-operative societies did not embark on manufacture until the older ones had been established for over twenty years, had accumulated reserves, and had strengthened their credit. A committee of consumers will be quick to detect inefficiency or weakness in a manager. As the workmen are subject to dismissal like workmen in capitalistic enterprises, discipline is easily maintained. The co-opera-

Its field of action.

The distinction between the two forms of co-operation.

tive "stores," moreover, have a constant and loyal body of supporters. Therefore they need not and do not spend the sums on advertising which are necessary in ordinary retail trade. It is not astonishing, then, that co-operative distribution has been a magnificent success, so much so that there are whole districts in the mining and cotton-manufacturing areas where no other shops than the "stores" can flourish.

7. The final form of organization which we shall discuss is that called "municipal trading." Many towns now provide themselves with water, gas, tramways and electric light. In order to do this, capital is raised at a low rate of interest (usually 3½ per cent. or 4 per cent) on the security of the rates or the town property.* The management is in the hands of a committee of councillors, who employ salaried officials to take charge of the detailed work of administration. Here, too, all the factors of production enter at a fixed price, and most of them very nearly at cost price. Hence, by municipal trading of this type large profits are often earned. The surplus is disposed of in various ways, sometimes by better wages and better conditions for the workpeople, sometimes by relief to the general rates of the town, sometimes by so cheapening and improving the supply of the commodity in question that the pecuniary surplus is wiped out. In that case we may say that the surplus passes to the consumers, who receive a better service for the same money. There are, of course, dangers and difficulties in the development of municipal trading. If the councillors are either corrupt or inexperienced in business, mistakes may be made which private companies would avoid. The financial position of municipal trading enterprises is not always, as should be the case, investigated and reported on at regular intervals by competent accountants.

7. Municipal trading.

The disposition of the surplus.

Dangers of municipal trading.

* The capital invested in the Glasgow Municipal Tramways is not secured on the rates, but on the "Common Good," or collective property of the town.

Workmen who are also electors may use their political power to secure for themselves conditions of labour which the state of the enterprise does not warrant. The area of a town may not be, and often is not, the best area for the development of a supply of water, gas or tramways. When, however, the area is large enough, when the level of probity and business ability in the council is high, when the financial arrangements are in the hands of experts, and when the workmen submit their claims for better treatment openly to the tribunal of public opinion, then municipal trading is usually a success; and while it pays to all the factors of production a proper price for their services, it accumulates the surplus for the benefit of the community as a whole. It should be observed, too, as a most important factor in the situation, that municipal enterprises are usually monopolies within the municipal area. We can buy sugar or boots from a number of competing shops. But we must take our water or our gas from the one company or the one municipal department. The issue between municipal trading and private enterprise is not that between competition and monopoly, as is often mistakenly stated. It is the question between a private and a public monopoly, which is much more complex and more difficult to decide.

Municipal enterprises are normally monopolies.

Finally it should be observed that the debt of a municipal enterprise is the same thing as the capital of a company, and if wisely used is really an addition to the wealth of the country, and an admirable opportunity for the small investor who demands security before high returns. In both cases alike it is an unused power of consumption borrowed from those who possess it to further future powers of production. A great difference is that a private company normally does not pay back the capital invested in it, while a municipality does repay its debt. The company again hands over its surplus to its investors as dividends, while a municipality pays to those who have invested money in its enterprises a definite, agreed

The "debt" of a municipality is equivalent to the "capital" of a company.

rate of interest, and keeps the surplus for the benefit of its citizens. The risk, also, is differently distributed. In the company it falls on the investors, in the municipality on the rate-payers. In the case of a monopoly, however, the risk is much less than when a competitive business is in question.*

There are other forms of organization of production which the reader would be well advised to study. We may instance co-operation in agriculture, which is really co-operative marketing (the process of production on the agriculturalist's small holding being strictly individual); co-partnership tenancy, where the supply of capital, distribution of risk and of surplus, is curiously complicated; and, finally, what is sometimes rather mockingly named "five per cent. philanthropy." It is not possible, however, in the present book to find room for any further discussion of these comparatively rare and unimportant forms of organization.

Other less important forms of organization.

In studying all these different methods of organization, the reader should note in each case which factor receives merely its cost price, and which is able to divert to itself some share of the surplus. This may be done either by exacting, as the condition of co-operation, a scarcity price, or by agreeing to share the risk and take whatever profits may accrue. Land, for example, rarely shares in the risk, but is commonly able to divert to itself a considerable amount of the surplus in the form of rent. If capital takes no risk, it receives merely supply price—*e.g.*, 3 or 4 per cent. Frequently, however, it bears the

Suggestions for study.

* There are other forms of municipal trading to which all of the foregoing would not apply. These are the provision of commodities or services necessary for health, which are not usually monopolies—*e.g.*, baths and washhouses, working men's houses, slaughter-houses, etc. In many cases these have involved a pecuniary loss, which is defended on the ground that the health of the community gains by a public supply of the necessaries of cleanliness and by the demolition of unhealthy slums.

whole of the risk and takes the major part of the surplus. Unskilled labourers receive no more than a meagre subsistence wage. Organized bodies of artisans are often able to divert to themselves a small share of the surplus, while the position held by organizing ability is subject to more variations than is any other factor.

CHAPTER XIX

TRADE UNIONISM

In the middle of the nineteenth century there used to be many discussions of the question whether trade unionism was or was not a good thing for the country, and whether it should or should not be abolished. On the first point controversy rages, perhaps, as strongly as ever, but the second point has been settled by the tacit admission that in many industries trade unionism is inevitable. Where work is carried on by armies of regimented workers in enormous factories or shipyards, consultations among the workers as to the condition of their work are bound to occur; a common understanding will arise, and sooner or later an attempt will be made by a deputation to the employer, or by a "strike" (or concerted refusal to continue work), to attain the rate of wages or length of working day regarded as right by the public opinion of the workmen. Trade unionism is not entirely the product of the machine industry; it existed in a restricted and undeveloped form in tailoring and weaving while these industries were still carried on by hand. But its tremendous development during the nineteenth century has been largely due to the aggregation in a single building of hundreds of men all engaged in the same work, and receiving for it the same rate of wages. Since the use of machinery is increasing, the power of trade unionism will probably grow at the same time, and it is therefore the more incumbent upon the student of economics to understand the constitutions and policies of these great aggregations of workmen united in defence of what they regard as the interests of their occupations,

The inevitable growth of trade unionism in modern industry.

"Constitutions" and "policies" are deliberately spoken of in the plural, for trade unionism is a most complex thing, takes many different forms, and follows its fundamental aim in many different ways. Many trade unions originate with a spasmodic revolt in a particular workshop. Such revolts are occurring at present in women's industries, and several have lately been made public by the newspapers. They almost always demonstrate that the workers are ill-prepared for the strain which a strike involves, and commonly, whether successful or unsuccessful, they leave behind them a permanent organization, supported by weekly contributions from its members, who sometimes receive in return, in addition to strike and out-of-work pay, insurance benefits in case of sickness. The organization confined to a special workshop is, however, a very transitory stage; it increases soon to include all the workmen of a particular kind in a town or district. Amalgamations and federations extend its power over a whole country. The Amalgamated Society of Engineers (commonly known as the A.S.E.) is an instance of a great modern trade union, having branches in London, on Tyneside, on the Clyde and at Belfast. Probably, as production becomes more and more international, the twentieth century will see the development of international associations of trade unions. But although there is an incipient international organization among seamen, and although the textile operatives hold an international congress, trade unions still limit themselves generally to workpeople in a particular nation. Growth within the area of the nation takes place, also, in another way. Unions begin with men of a particular occupation or grade. But the interests of different grades in a special industry are closely interdependent. Moreover, all are stronger if they act together. Therefore there is a tendency for modern organizations to unite men of various occupations. An example of this is the "all grades"

A common origin of trade unions.

The geographical extension of the trade union.

The industrial extension of the trade union.

movement among railway men, by which it is attempted to secure a common policy for firemen, guards, porters, etc., who belong to very different levels in the industrial world.

This growth of trade unions can only come about by means of a development of their constitutions. They begin usually as small groups, employing voluntary officials, and determining their line of policy by resolutions taken in mass meetings of all the members. They end as elaborate associations, employing in their own service many paid officials, and governed by elected committees; while lines of policy are decided at congresses attended by delegates, each of whom may represent several thousand operatives.* Often at the same time the employers form associations, and delegate negotiations with their men to a paid secretary, and in this case we have what is called "collective bargaining" developed to its fullest extent.

The development of trade union constitutions.

Collective bargaining is the root principle of trade unionism. Its adoption means that the employer, instead of treating with each man separately, discusses with a committee or official, representing the whole body of workers, the rate of pay, the hours of work, and other conditions affecting labour, and thus effects a bargain. The rates so agreed to must be paid to all men of the particular grade employed. In some cases the single employer is replaced by an employer's committee or an employer's secretary. There have been many long and bitter fights about that recognition of the union which is involved in treating with its representatives; but it is coming now to be seen that in bargaining for the sale of their labour the actual labourers must be deficient, since they, amateurs in buying and selling, are treating with an expert. Moreover, the

Collective bargaining.

* For an elaborate critical account of trade union organization, the reader should refer to the first volume of "Industrial Democracy," by Sidney and Beatrice Webb.

character of the men's representatives has changed. In the early days they were often mere demagogues. With the growth of unionism, a steadier, better-educated type of man has passed into the service of the larger organizations, and when employers find the trade union secretary a competent, reasonable man, many of the old difficulties disappear.

Still, there is almost always a hard struggle before the principle of collective bargaining is accepted. When the employer or his foreman bargains separately with each man, the price of labour tends to sink to supply price, as the workman needs his wages more than the employer needs the man's services. If a bargain is not struck, the man must face at all events a measure of privation, while the employer has only the inconvenience of arranging for overtime or for speeding up the existing workers. The employer is always suffering from the pressure of competition transmitted to him from the consumer (who is always trying to buy cheaper goods) through the retail dealer and the wholesaler, who are also endeavouring to outdo their competitors by offering cheaper goods. The employer tries in turn to shift this pressure on to the workman; and since the latter individually is in a peculiarly weak economic position, the force of unrestricted competition will usually tend to reduce wages to subsistence level. If, however, all the workmen stand together, the position is different. The employer's demand price for the marginal worker may be very small, but the employer's demand price for the whole body of his workers will be comparatively high, and will be much more than the demand price for the marginal man multiplied by the number of workers employed. The effect, then, of collective action on the part of the men is to raise the price of their labour from the supply price of the marginal worker to the demand price for the whole body, and to establish a common standard of wages, hours and conditions, which must be granted by all firms employing union labour. This is the most important line of trade union policy,

The effects of collective bargaining.

and may be described as the enforcement of a standard rule by collective bargaining. Many apparent anomalies of trade union action can be explained by this determination to adhere to a common rule. Take, for instance, the question of piece-work. Two of the largest and most important sections of the trade union world—the miners and the cotton operatives—work always for piece-work rates. Other trade unions insist on time rates. The reason, as explained by Mr. and Mrs. Webb, is that coal-hewing and cotton weaving or spinning can easily be measured in accordance with a predetermined scale. But in engineering one job differs so much from another that any attempt at piece-work rates would result in individual bargaining between worker and foreman, and the consequent collapse of the common rule. The engineering trades therefore make it one of the principles of their policy that time rates shall always be paid.

The common rule.

Some of the more old fashioned trade unions pursue another policy. They endeavour to restrict the number of men available for a given class of work, and to increase the amount of work to be done—to create, in fact, an artificial scarcity. Thus, they oppose the use of machinery; they limit the number of apprentices or learners who may be taken on. They are said in some cases to have an understanding that the men are not to perform in a day more than a certain amount of work—the "ca' canny" policy. This procedure Mr. and Mrs. Webb oppose to the method of the common rule, and name the "method of restriction."

The policy of restriction.

Unions are showing an increased tendency to use their influence to secure laws establishing a common rule in industry, Thus, recently a law was passed at the instigation of the miners' unions to secure an eight-hours day in mines. This tendency to increased political action on the part of trade unions raises many difficult questions, but these are too complex to be considered in the present book.

The demand for legal enactments.

So much, then, for the constitutions and methods of trade unions. It should just be noticed, before we pass to consider the various views of their effect on the development of trade, that trade unions perform other than these industrial functions. The larger and wealthier unions act also as insurance societies, paying to their members sickness, and more rarely superannuation benefits. They have also a social and educative side, the branch meetings giving to the working man those opportunities for social intercourse afforded to the wealthier man by his club.

The actuarial and social functions of trade unions.

Three main views of their influence on production and on the position of the worker may be named. The first is associated with the "wages fund" theory. According to this theory, it will be remembered,* a certain amount of capital was set aside to pay wages. Obviously, then, if one set of workmen increased their share, it could only be at the cost of other sections, since trade unionism could not, it was held, increase the wages fund. Moreover, it was also believed that increased wages meant always increased cost of production, and in consequence decreased profits. Therefore capital would not be attracted into trades dominated by trade unionism, they would decline, and thus would result a decreased demand for workers; therefore the position of vantage gained by the trade unionists over their fellow-workers could not in the long-run be maintained.

The influence of trade unionism on industry according to the "wages fund" theory.

We have already seen that the "wages fund" theory has broken down. Wages are normally paid out of the earnings of the enterprise, and not out of capital; therefore one section of the working class can improve its position without injuring workers in other trades. Neither is it true that higher wages necessarily mean a higher cost of production. There is a certain superficiality, too, about this view, in that it does not distinguish between different kinds of trade union action. But the

Criticism of this view.

* See p. 102.

suggestion contained in it, that unwise trade union demands may trench dangerously on the legitimate profits of capital, is at least theoretically possible, and if it should occur the expansion of the particular industry would certainly be checked.

Mr. and Mrs. Webb have worked out with great detail an elaborate theory of trade union action, which can only be briefly summarized here. It depends essentially on the distinction made above between the trade unions which strive for the recognition of a common rule, and those which depend on restrictive action. Mr. and Mrs. Webb have no difficulty in proving that the latter are harmful to the development of production, and therefore in the long-run to their own interests. They compel adherence to antiquated tools and methods; they arbitrarily limit the employers' choice of workmen. In some cases they deliberately try to force the workman to do less work than he is naturally capable of. Trade unions which adopt these policies hamper the course of industry, and can only be regarded as antisocial organizations. The unions, on the other hand, which leave the employer free to select and combine the factors of production as he pleases, and merely insist on standard wages and a standard working day, exercise a stimulating and not a depressing influence on industry. We have already sketched the force of competition perpetually playing on the employer, and compelling him to seek always cheaper and cheaper methods of production. Now, production may be cheapened in two ways—either by decreasing the price paid for the factors of production, including labour, or by constantly improving the selection and combination of these factors. The first is the most obvious and easiest. Should one or two of the competing group of employers adopt it, the others, even against their will, will be compelled also to reduce wages or to increase

The effects of trade union action according to Mr. and Mrs. Webb.

The harmfulness of the restrictive policy.

The stimulating effect of the common rule.

the working day. That this is the case could be proved over and over again from Parliamentary investigations into the condition of labour. Over and over again do the more humane and conscientious employers lament the low wages which competition compels them to pay, and declare that they would be only too glad to increase them, if only they and all their competitors could be put on the same level. Now, it is the object of trade union action to establish that definite minimum level of wages When it is established, then there comes into play more strongly the other type of competition, which forces an employer to show his superiority over his competitors, not by cutting down wages, but by perpetually improving the technical equipment and discipline of his business. Trade unions of this type show usually little hostility to machinery ; nay, a union has been known to insist that the owner of an antiquated factory shall modernize it in order that he may reduce his cost of production, and so be able to pay the standard rate of wages. Nor do they cling to out-of-date apprenticeship customs. Many of these unions accept piecework rates, and do not try in any way to enforce the "ca' canny" policy (*i.e.*, limit the amount of work their members are permitted to do in a day) They merely insist that the piece-work rates shall be clearly and definitely established, and that the worker shall be provided with some means of checking the computation of the amount of work done by him. Unions of this type, in fact, cut off competition precisely where it is most harmful (*i.e.*, in the tendency to sweat the worker), and stimulate it where it is most useful (*i.e.*, in the development of improved technical processes and better organization). For, in the stress of competition, only those employers can increase their business who are capable of making advances in technique and organization, once the other inferior form of competition disappears

The effects of competition in reducing wages.

If a standard wage is fixed, competition is forced into other and less harmful channels, and the character of trade union action is different.

Mr. and Mrs. Webb's case is certainly borne out by the fact that trade unions insisting on a stringent common rule are powerful in our most progressive industries—in engineering, textiles and mining. It is also now commonly admitted that trade unions have been successful in raising wages and improving conditions of employment. Mr. and Mrs. Webb attribute this power mainly to the decreased cost of production due to the increased efficiency of standardized labour This view, however, is disputed by Mr. Hobson, who asserts that the economy of high wages—though he does not deny that, in many cases, high wages do improve efficiency—is insufficient to account for the whole of the increase in remuneration extorted by trade union action. His view has really been anticipated by our treatment of wages. He believes that both labour and capital have a minimum cost, which cannot be lowered without impairing efficiency. Businesses, however, as we have seen, commonly earn more than the minimum cost of the co operating factors. The essential task of trade unions is to prevent the whole of this surplus from passing to land and capital, and by concerted action to secure a portion of it for labour, or, rather, for skilled labour. Organization is, and almost certainly must continue to be, weak in trades which are constantly recruited from outside, and whose members are so poor that they have no margin available for trade union dues. Therefore very little, comparatively, has been achieved by trade union action amongst the labouring, as distinguished from the artisan, class.

Criticism of Mr. and Mrs. Webb's theory.

Mr. Hobson's view: Trade union action enables the working class to obtain a share of the surplus over the costs of production.

This view of Mr. Hobson's does not contradict, but rather supplements, that of Mr. and Mrs. Webb, and the two together represent the latest speculations of economists on the subject of trade unionism. The word "speculations" is used advisedly, for it cannot yet be said that there is complete agreement among economists and business men even as to the facts of

trade union action, much less in reference to the interpretation to be put by theory on those facts.

Before we leave the subject, a few remarks should be made first on the subject of "strikes," and secondly on factory legislation.

"Strikes."

Strikes, like trade unions, pass through several phases of development, from the mere spasmodic revolt in a single workshop to the carefully organized, simultaneous stoppage of work throughout a whole national industry. In the earlier stages they are more frequent; indeed, a carefully organized trade union prides itself on preventing strikes. It is a general rule that any case of complaint is to be reported to the secretary of the district, but that work is to be continued while negotiations for the removal of the grievance are going forward. On the other hand, the infrequent strikes of the more fully developed organizations are national disasters, costing directly and indirectly more than a small war. In our developed social system, so great is the harm that may be caused by a strike or a lock-out in one of the larger industries, that every effort is always made by the intending combatants, the public, and the Government, to prevent the actual outbreak. Conferences are held, and officials of the Board of Trade offer their services as arbitrators. Many strikes are averted by these means, but enough still actually occur to make us realize how desirable it is to find some other means of adjusting the inevitable differences between two parties whose interests are opposed at so many points as are those of employers and employed. Probably this end will be achieved partly by a greater development of the machinery of conciliation boards and arbitration courts, but as much good would result merely from a better appreciation by both parties to the controversy of the difficulties of the other side. This end can only be attained by increased sympathy between different classes, and by a growth of knowledge, especially knowledge of economics.

We have discussed the establishment of a common rule in

industry by trade unions. In some cases, however, the same end is attained by Government action. The State, acting through laws which are enforced by inspectors, insists, for instance, on a minimum of ventilation in mines, forbids children below a certain age to work in factories, forbids the employment of women at night in buildings where machinery is used, regulates the hours of work of women and of miners, and, in certain sweated industries, prescribes a minimum wage. These laws can all be defended on the same grounds as the standardizing regulations of trade unions; they prevent competition from passing into the unwholesome channels of child labour, overwork and underpayment. Many of the factory laws are now admitted on all sides to work very successfully, though all were fiercely attacked on their first introduction, on the ground that they interfered with the independence of the worker and diminished the employer's profit. The independence of the worker hardly exists in regimented factory industry, and is increased and not diminished by securing to him a minimum of sanitary conditions and of leisure. Moreover, when all competing employers are subject to the same regulations, profits soon readjust themselves to the altered conditions. The Factory Acts have also been condemned for their differential treatment of women. In many industries, however, men's and women's labour is not competitive, but interdependent, and the diminution of hours really, though not nominally, affects men as well as women, and so benefits the whole class of workers. In these industries women have suffered no hardship from the legal restrictions laid on their work. Possibly in other industries the case may be different; but few people will now be found to deny that, carried out with care and on proper information, the regulation of industry by the State, so as to secure a minimum of healthful conditions and of leisure for each worker, is a policy which will be, and ought to be, more

The establishment of a common rule by Government action or factory legislation.

The differential treatment of women by the Factory Acts.

and more adopted. Fewer would advocate the regulation of wages by the Factory Acts; such regulation would be much more difficult to enforce, and its effects are more doubtful. The experiment is now being tried in England under the Trades Board Act, and judgment is best suspended until that law has been in operation for a few years and its effects can be judged.

CHAPTER XX

SOME THEORIES OF THE CAUSES OF UNEMPLOYMENT

ONE of the most curious and baffling features of modern industry is the alternating occurrence of periods of good and periods of bad trade. These have been observed since the end of the eighteenth century, and probably existed in a less marked fashion even earlier. From the middle of the nineteenth century exact statistics have been available, giving the amount of exports and imports, the percentage of unemployed in certain trades, the number of companies registered during the year, the amount of railway receipts, etc. If these figures be studied carefully, still more if they be set out in graphic form on a chart, where curving lines show the increase or decrease in each set of statistical figures, it will be found that the variations occur more or less regularly, and, what is even more remarkable, that the different curves rise and fall together.

Cycles of good and bad trade.

Their measurement by statistics.

During each successive period the country experiences a gradual increase in the number of men employed, in its exports and imports, and, indeed, in all commercial and industrial activities. Manufacturers are working at top speed; businesses are reporting an increase in demand and in the accumulation of profits. Then either suddenly or slowly there comes a check. Demand falls off; some businesses which have borrowed heavily, that they may take part in the boom, find that they cannot meet their liabilities. Lenders become more cautious, and credit is more difficult to get. Formerly a series of bankruptcies and a financial crisis often marked the end of the period of expansion. Unemployment increases; demand for goods falls

Description of a cyclical period.

off more and more. Stocks of unsold goods accumulate in the warehouses, and the nation proceeds on the downward slope of the cyclical fluctuation. For instance, 1872 saw the culmination of one of the greatest periods of prosperity Britain has ever known. Then trade declined gradually until the year 1879, when a period of improvement set in which continued till 1883. Next there followed a very marked depression, recovery from which began in 1886, and 1889 was another year of booming trade.*

An example.

These fluctuations are characteristic of all modern industrial countries, and occur approximately at the same time in all. America's boom may come a year before our own, or Germany may lag a little behind; but the fluctuations of trade are, to quote Beveridge,† "broadly contemporaneous" in all countries. They are most marked in the United States, where the range of fluctuation is about 20 per cent., while in Britain it is only 12 per cent.

The cyclical variations occur approximately at the same time in all industrial countries.

* Compare the following table:

TABLE SHOWING PERCENTAGE OF UNEMPLOYED IN CERTAIN TRADE UNIONS MAKING RETURNS TO THE BOARD OF TRADE AND IMPORTS AND SPECIAL EXPORTS PER HEAD OF POPULATION.

Year.	Unemployed Percentage.	Imports and Special Exports per Head.
		£ s. d.
1879	10·70	16 3 6
1880	5·25	18 6 7
1881	3·55	18 1 4
1882	2·35	18 11 9
1883	2·60	18 16 2
1884	7·15	17 8 10
1885	8·55	16 4 4
1886	9·55	15 9 10
1887	7·15	15 19 2
1888	4·15	16 17 5
1889	2·05	18 4 0

The second column is taken from the chapter on cyclical fluctuations in "Unemployment," by W. H. Beveridge (pp. 42, 43), to which the reader can refer for a fuller account of the whole phenomenon of trade fluctuation.

† "Unemployment," p. 54; see also table on p. 55.

The causes of this very remarkable phenomenon are still a matter of dispute, though the last few years have certainly seen an advance to a solution of the problem. Many people vaguely think that the occurrence of unemployment in this country is due to our system of Free Trade, but that view is effectively disproved by the fact that countries which tax imports suffer at least as much from cyclical fluctuations as we do. Others have tried to trace them to unwise banking. It was believed that the excessive issue of notes inflated prices, and so created the appearance of an increased demand, which over-stimulated production. The Bank Charter Act of 1844 was passed in this belief, and with the object of restraining the issue of notes. It has probably been a beneficial measure, but it has not put a stop to alternating periods of inflation and depression of trade. Moreover, countries with quite varying systems of banking and currency, with a gold standard, with a silver standard, with gold and silver exchanging at a fixed ratio, with convertible and with inconvertible paper money, all suffer alike from crises and depressions of trade.

The causes of the variations in trade.

Rejected causes:

Free Trade.

Reckless banking.

We must look, therefore, for some cause affecting all countries at the same time. One of the most famous theories is that worked out by the late Professor Jevons, which attributes variations in trade to the spots in the sun. This is not, as it might seem at first sight, a revival of astrology. There is an intelligible relation between the two sets of events, in that the variations in the sunspots are connected with the magnetic storms which occur in the sun, and these are believed to affect our weather. The weather in turn influences the crops, and so determines the prosperity or the reverse of the agriculture of a nation, and therefore of its whole industrial life. In support of this theory, Professor Jevons thought that he could show that there was a parallel periodic variation in

Professor Jevons's sunspot theory.

both sunspots and periods of depression. The former complete a cycle of variation in eleven years, and Professor Jevons believed that the same statement could be made of the cyclical trade fluctuations. Unfortunately, since his time the period from one trade depression to the next has by no means remained constant at eleven years. The depressions are now less marked than they used to be, and recur more quickly, the last (1909) coming within five years of the preceding one. Again, the connection between the sunspots and the weather has not been proved, and it is unfortunate for the theory that depressions are more marked in industrial than in purely agricultural countries. On the whole, therefore, this brilliant and ingenious hypothesis is not now regarded as tenable, although Professor Jevons's son has recently revived it in a modified form. Yet it is at least possible that in some cases a period of depression is caused by a general deficiency in the crops. An article in a recent number of the *Sociological Review** shows, by means of elaborate statistics and diagrams, how vast is the importance to India of a satisfactory harvest.

Objections to the theory.

There is a group of related theories which regard depression of trade as due to a misdirection of productive power, which results in an accumulation of unsaleable stock, and consequent stagnation and unemployment. This of course frequently occurs, and is, indeed, as Mr Beveridge points out, a necessary concomitant of industrial competition. Let us suppose that the market for boots will absorb at a remunerative price 100,000 pairs of boots, and that ten manufacturers are competing for a share in the market. Each one of them knows vaguely that overproduction is possible, and that if 150,000 pairs of boots are offered for sale, the price will fall below cost of production, and business must either cease or continue at a loss. But

Theories which regard depression of trade as due to a misdirection of production.

* "Natural Vicissitudes and the Social Organism," *Sociological Review*, October, 1909.

no one of them is willing to take simply his share and make 10,000 pairs only. The increased profits of larger production are so great in the machine industry that each man will try to serve a larger section of the market, and will make 12,000, 13,000, or 14,000 pairs. Inevitably, when these are all offered for sale, prices will decline, trade will be slack, and unsaleable stocks will accumulate—in short, the market will be glutted. Now, this state of things is certainly frequent, and is made more so by machine industry, where the law of increasing returns operates strongly. Thus we can explain why fluctuations of trade are worst in advanced industrial countries. What this form of the theory fails to explain is the fact that all trades vary simultaneously. It is true that a depression in one trade by causing unemployment brings about a falling off in demand for the products of another. Unemployed bootmakers use less cotton cloth, and buy no new furniture Thus, depression will propagate itself from one trade to another. But trades vary nearly simultaneously, and according to this explanation we should expect to find them successively affected by a falling off in demand for their products.

The tendency of competition to outrun its market.

Defect of the first form of this theory.

Another step is taken by thinkers, who point out that many inflations and depressions of trade can be connected with a sudden unusual investment of capital in enterprises of a costly and permanent nature, especially those connected with the development of transit. Thus the construction of canals in England was accompanied first by a period of unusually good trade, which culminated in 1793 in a sudden crisis and collapse. The same thing was observed in 1844 at the time of the construction of railways. Apparently, what happens under these circumstances is that capital pouring into the new enterprises creates a great demand for labour and for commodities. Then when the canals or railways are approach-

The effect of investment of capital in permanent works.

ing completion, the demand falls off; simultaneously the people who have pinched themselves in order to find money for investment also contract their demand for goods. At the same time money available for loans has been tied up, and credit is hard to get It is some time before the newly invested capital begins to bring in returns, and increase the spending power of the investors. Therefore the period just after capital has been invested in some large new enterprise, or set of enterprises, is very frequently associated with slackness of trade and unemployment. The borrowing of money to carry on a war has a very similar effect, and the end of the South African War, for instance, brought with it a period of bad trade.

Yet this theory—though it undoubtedly contains much truth—fails, as does the previous one, to make it clear why all trades are affected simultaneously. The only one of the "misdirection of production" theories which offers an explanation of this is Mr. J. A. Hobson's. His view, however, is still under discussion, and cannot be set forth authoritatively in an elementary textbook as an accepted part of economic theory. Nor does space permit us to discuss it fully. Therefore only a short statement of it will be given, and the student who desires to know more of it must turn to Mr. Hobson's own writings.*

Neither theory explains why all trades are affected at the same time.

Mr. J. A. Hobson's theory.

We may begin with that essential point of Mr. Hobson's doctrine, the distinction between "costs" and "surplus." The factors of production commonly earn more than they cost; but the surplus is not equally distributed among them. It passes either to those factors which are scarce—*e.g.*, land—or to the factors which bear the risk of loss—*e.g.*, capital. Organized labour may by concerted action win a small share in this surplus; some forms of special talent receive it as "rent of ability"; but normally it passes either to land or

The distinction between "costs" and "surplus."

* Particularly the "Industrial System."

(and this increasingly) to capital. This surplus over "cost of production" is not entirely spent on their personal needs by those who receive it. A good deal of it is saved and invested. Indeed, the surplus of productive power over needs of consumption is the very source whence capital originates, and whence fresh supplies must perpetually be drawn. It passes, as we saw in Chapter XVI., into various kinds of machinery—into railways, ships, cotton factories, mines, etc.; it becomes, in fact, "production goods." Therefore, of the increase of the surplus over costs, which for a time* grows with the improvement of machinery, a large portion is turned into fresh forms of machinery again. But all these new "production goods" can only be kept busy and at work if at the same time the consumptive power, the "effective demand," of the community keeps pace with them—that is, if, as productive power increases, the wages of the artisan and labouring classes, which form the great bulk of the population, increase also; or if some other means, either increased luxurious expenditure of a wealthy class, or increased communal expenditure for public purposes, is found whereby consumption can keep level with production. Otherwise, the new machines produce too much for the existing demand, outrun their market, and give rise to a period of glut. Thus Mr. Hobson suggests that the root cause of these curious fluctuations of trade is a mal-distribution of wealth, which leads to over-saving, over-investment, and consequent excessive development of production as compared with consumptive power, the latter being measured not by the actual needs of the community, but by the standard of effective demand secured to them by the existing range of wages.

The latter passes to certain factors of production only.

It is saved and invested in "production goods."

If these are to be kept busy, a larger demand is necessary.

In the absence of the demand over-production occurs, and a glut follows.

* *I.e.*, until prices sink to the new cost of production.

This interesting theory cannot be discussed here, but it may be noticed that it alone explains why fluctuations are most violent in the machine-using countries; moreover, it is quite consistent with the two previous theories, both of which obviously have a certain measure of truth. Again, it explains why all trades are affected at the same time. The gradually accumulating surplus does not seek investment in one trade only, but goes wherever there seems to be a promise of profits. Hence all trades suffer glutting at approximately the same time.

Remarks on Mr. Hobson's theory.

The theory has been attacked mainly on two grounds: In the first place, economists have long insisted that "over-production" is only a figment of the popular mind. In a sense they are right. We are, as a community, still so poor that it is difficult to conceive a state of things in which more boots, clothes and furniture would be produced than are actually needed. But "over-production" in relation to a given level of income is a very different thing, and does actually exist. Cotton factories and boot factories do, every few years, produce more goods than, with our present incomes, we can afford to buy at prices that will pay the manufacturer. In the second place, many people regard the theory with suspicion, because they think it discourages "saving," and they hope, therefore, that it will not be widely accepted. But obviously this is not a criticism of its truth, and should not be taken into account. Even if it discourages saving, but is true, it ought to be accepted. After all, however, to suggest that "over-saving" may sometimes be hurtful is not to advocate that we should all promptly become spendthrifts.

Objections to the theory.

The alleged impossibility of over-production.

The dread of the possible discouragement of saving.

On the whole, therefore, and with some hesitation, we may regard the periodic variations in trade as due to the combined influence of surplus capital seeking investment and of com-

petitive machine production for a market imperfectly known, which does not expand as rapidly as does productive power. Probably, too, deficiencies in the crops, wars, and the temporary tying up of capital in such enterprises as railways, exercise also a certain influence.

Conclusions.

Periodic fluctuations of trade are not the only causes giving rise to unemployment. Personal inefficiency plays its part; so, too, does the introduction of new machinery and new processes which render obsolete a particular kind of skilled labour. The recent supersession of horse-cabs by motor-cabs is an illustration of this.

Other causes of unemployment.

The seasonal variations of certain trades is another cause. Dressmakers are usually slack in August; the building trades suffer from a heavy rate of unemployment during the winter

Seasonal variation of trades.

Still another type of unemployment is to be found in the casual unskilled trades which are constantly recruited from those unsuccessful in other industries. Here the supply of labour almost always exceeds the demand. As men are taken on and dismissed from day to day, and almost from hour to hour, the amount of work available is spread out over many individuals, few of whom ever do a full week's work. Hence there exists, not so much periods of employment followed by periods of unemployment, as a perpetual condition of "under-employment."

Under-employment.

In conclusion it should be noticed that many of the various kinds of unemployment are not due to the workman's own fault. He cannot control the seasons, or the development of new processes in his industry, still less is he responsible for those gigantic expansions and contractions of our industrial system which are named "cyclical fluctuations."

CHAPTER XXI

THE TENDENCY TO MONOPOLY IN MODERN INDUSTRY

In old days the State used sometimes to give to a particular man, or group of men, the right exclusively to trade in or manufacture a particular commodity. Naturally such monopolists usually raised prices, and in the seventeenth and eighteenth centuries all monopolies became unpopular, and most of them were abolished. It was believed then that if the State only refrained from meddling in industry, perfect freedom of production and of exchange would ensue, with the best results both to the consumer and to the most efficient producers.

The establishment of monopolies by the State and their abolition.

This belief seemed for many years to be justified, but during the last quarter of the nineteenth century a new kind of monopoly has been emerging, one which does not depend on State encouragement, but makes its way in the face of State hostility. In the United States the making of sugar was almost entirely in the hands of a single company; mineral oil is in the same position. So, too, is sewing-cotton in this country. In fact, we are observing here the phenomenon known as the rise of "trusts," and have now to inquire very shortly what are the causes of it. They fall mainly into two groups: First, there is the exclusive possession of some power or privilege which is either essential to, or greatly facilitates, production. Such, for

The reappearance of monopoly under modern conditions.

"Trusts," and their causes.

instance, is the possession of a valuable patent, or access on specially favourable terms to the means of communication. Many American trusts have flourished on special contracts with the railways for the carrying of their goods on cheaper terms than their competitors were able to secure. All our municipal monopolies, as described in Chapter XVIII., come into existence because they must use the roads, and therefore in the interests of public amenity only one set of persons can be allowed to supply gas or electricity in a particular area.

The possession of some special privilege.

Still more important, however, is the cheapening power of machinery, which forces men to cut-throat competition as described in the previous chapter. Many firms competing without a common understanding in a market whose demand is limited, inevitably force down prices. The usual remedy is the ruin of the weaker producers, and, after a period of slackness, a consequent rise of prices. But if the machinery used is very expensive, bankruptcy would cause a tremendous loss, and the motive to avoid it in any possible way will be very strong. Now, it is precisely where machinery is expensive that the glutting of the market, due to an excessive output, is likely to occur, since expensive machinery greatly increases the rate of production. Moreover, the number of competitors will be relatively small, and an agreement to keep up prices will be less difficult to arrange. Therefore in machine trades where a small number of very big businesses make use of expensive plant, agreements to regulate prices supersede unregulated competition, and the first step to the formation of a "trust" has been taken. Such a selling agreement is, however, very difficult to keep in existence. Members who have adhered to it cut prices in secret, or give discounts or rebates. Often it breaks down; sometimes it develops into a selling association. This form of organization is commonest

The reaction against the decline of prices, which occurs in a market glutted by machine production.

Stages of the growth of combinations.

The selling agreement.

in Germany (where it is called a "cartell"), though a few instances have also been found in this country. When it is adopted, the selling of the goods produced by the combination is undertaken by a central committee or association which fixes prices, and, as a consequence, also the amounts to be produced by each firm which co-operates in the attempt to regulate prices. Thus the individual firms are left undisturbed in the management of the productive processes, but the selling is taken out of their hands. In England and in America the selling association usually, in its turn, gives rise before long to discontent. Jealousy springs up between the various separate firms with reference to the share of each in the total amount which is to be placed on the market. Sometimes the organization breaks up; frequently in America it gives rise to the "trust" properly so-called, where both the making of the commodity and the marketing of it is under one management. This development results from the formation of a new company which takes over the plant of all the existing firms, while shares in it are exchanged for the shares in the earlier companies. Such a unified organization has many advantages; it can cheapen production by cutting down competitive advertisement, and by doing away with unnecessary duplication of clerks, commercial travellers, and managers; it can concentrate production in the most efficient works, while "shutting down" those which are not needed. The "cost of production" of a well-managed trust should be below that of competing individual firms. On the other hand, the absence of competition sometimes results in slack administration. The strong position of the trust may be undermined by he establishment of rivals. Usually under such circumstances the trust will try to "freeze out" the new competitors by temporarily lowering prices below cost of production until the reserves and credit of the independents are exhausted. This is a dangerous game, and may

The selling association, or "cartell."

The fully-developed "trust."

Its advantages.

Its disadvantages.

result in the ruin of the trust and the reappearance of competition. In fact, the movement towards combination in modern industry does not proceed without checks, and is by no means so frequently successful as the alarmist journalists would have us believe. At the same time the tendency exists and will probably increase, as the use of expensive machinery and the spirit of reckless competition grows.

Since trusts have appeared in their most developed form in the United States, and since the United States have also a very strongly protective fiscal system, some people have rushed to the conclusion that a "high tariff is the mother of trusts." But many countries have had protective tariffs and yet have not developed trusts, and in Free Trade England we are by no means free from the menace of monopoly. The truth seems to be that, if other conditions are suitable, a tariff facilitates the formation of trusts by contracting the area of competition, and so diminishing the number of competitors between whom an alliance has to be arranged. Thus the tariff, it has been said, is "rather the foster-mother than the mother of trusts."

Effects of trusts on prices.

What is the effect of trusts on prices? A trust is a more or less complete monopoly, and will not sell at the cost of production. At the same time it will not pay it to raise prices indefinitely; the price adopted will be at the level of greatest net profit, as already described in Chapter XI. Usually this means an increase of prices to the consumer; and in other ways trusts are despotic. They have the superior position in the bargain, and the customer will not find his views studied as by individual competing firms. In many cases, too, they tend to be tyrannous in their treatment of labour.

In short, the appearance in industry of these new monopolies is certainly an unlooked-for and in some ways a disconcerting phenomenon, and one to which the attention of statesmen in all advanced industrial countries must in future be increasingly directed. It should not, however, be overlooked that they

have certain advantages. They cheapen production; unfortunately, the advantage of the greater cheapness goes to swell profits and only rarely passes to the public. But their great claim to consideration is that they steady the course of production. A combination can gauge the needs of the market more easily; the absence of competition—usually only relative—enables it to produce and market just the required amount. Hence trust organization avoids the alternate periods of feverish production and of stagnation, which are characteristic of competitive machine industry.

The growth of trusts will tend to diminish cyclical fluctuations of trade.

There are many forms of combination—pools, conferences, etc.—which this brief sketch has been obliged to omit.* But one other kind of monopoly must be explained. This is what is called a "corner." It occurs usually in the wholesale market in some seasonal produce—say wheat—the supply of which cannot be increased for some months. If, then, a single man or group of men acting together can manage to buy or otherwise get control over all the existing supplies, they are in a position to charge a monopoly price and to clear large profits. The "corner" differs from the trust in being temporary, as it can last only till the fresh supplies come in. There are certain arguments to be urged in favour of trusts. But "corners" are entirely anti-social monopolies, and in the Middle Ages the attempt to form them was—under the name of "engrossing"—regarded as an offence deserving of the most severe punishment.†

"Corners."

* For further information, see Macrosty, "Trusts and the State," and "The Trust Movement in Great Britain."

† The novelist Frank Norris, in his books "The Octopus" and "The Pit," describes the formation of trusts and "corners." His description is lurid and sensational, but the books give an interesting, if rather overdrawn, account of American methods of engineering monopolies.

CHAPTER XXII

FOREIGN TRADE

PARTICULAR attention has always been given both by economists and popular writers to foreign trade, and it has been supposed that, in the establishment of prices, and in its influence on social conditions, foreign trade obeys special laws other than those holding good for internal or domestic trade. This is partly due to the fact that statistics of the goods entering or leaving a country can easily be obtained while the volume of internal trade is very difficult to measure.

Supposed special importance of foreign trade.

It is, however, being more and more recognized that foreign trade differs in degree only, and not in kind, from domestic trade, and that it is only another case of the territorial division of labour on a wider scale. It is better for England that fruit is grown in Evesham and cloth woven in Lancashire for the whole country rather than that each village should supply its own needs of corn and vegetables, and should spin and weave all the clothes needed by its inhabitants. So it is better, on the whole, that one country should devote itself mainly to corn-growing, another to the production of wool and meat, and another to manufactures. That each area should specialize in the production of that which it can make cheapest, and then exchange it for the cheapest production of other areas can be shown to be desirable in exactly the same

Foreign trade arises from territorial division of labour.

way as the division of labour between individuals is desirable.

If the student will read again the chapter on Bills of Exchange he will see how in practice this system of international barter is worked. The Argentine Republic, to take an instance, sends us corn and meat, and receives from us in return machinery and textiles. Imports pay for exports, and exports for imports, and if the one increases, the other must follow its lead. From many people this fact is masked by the habit of thinking in money, instead of getting back to the actual transactions. Thus, when they hear that last month £45,000,000 of imports entered the United Kingdom, they assume that these imports encroached on our own manufactures, and robbed our own workmen of employment, whereas the truth is that increasing imports must be, and always are, exchanged for increasing exports. Gold very seldom passes in foreign trade; the great mass of incoming and outgoing commodities pay for each other through the curious mechanism of bills of exchange.

The system of international barter.

Great Britain, however, always imports more than she exports, and the surplus of imports over exports tends to increase. But this fact does not at all invalidate the truth of the view stated above, for Great Britain performs for the world many international services, which are of great importance, and have to be paid for, but are of an immaterial nature, and cannot be entered exactly in any statistical returns. London, for instance, is the banking centre of the world; most of the great insurance societies have their headquarters in England. But banking and insurance services, though really immaterial exports, cannot be counted and added to the list. Again, the shipping trade of the world is in our hands, and freightage charges must be met out of the commodities which foreigners send us. Also, we have supplied the necessary capital for the development of indus-

The excess of imports in Great Britain.

It is paid for by our "invisible exports."

tries abroad, and now receive the resulting dividends. These enter the country in the shape of imports to which no exports correspond. When all these facts are taken into account, it will be seen that, although the money values of exports and imports are never identical, yet the discrepancy can be accounted for, and it still remains true that imports pay for exports, and that international trade is merely a particular case of that regional specialization which—like individual specialization—results from extending markets.

The determination of prices in international exchanges.

It used to be believed that, whereas in domestic trade prices were determined by the cost of production solely, in international trade they depended exclusively on the intensity of demand. This was partly true, and was due to the fact that labour and capital are slower to move from one nation to another than from one area or trade to another in the same nation. Thus, the price of Indian shawls in England was determined by the demand of wealthy women for luxurious articles of attire; it had no reference to the cost of making them in India, since even if large profits were earned by the importing merchants, English capitalists would be slow to invest in the shawl-making industry. The Indian labourers would be paid much less than English workers, but, nevertheless, would not be tempted by the higher wages to emigrate from their native country.

International trade differs in degree, and not in kind, from domestic trade.

Many curious paradoxes resulted from the international mobility of commodities, combined with the immobility of labour and capital, which can be studied in Bastable's "Theory of International Trade." Less stress, however, is now laid on the theory, since it is recognized that labour and capital are not perfectly mobile, even in the area of a single country, and that an intense demand may raise prices of internally produced goods at least temporarily above the cost of production.

Also, the improved means of communication are making it

easier for labour and capital to migrate. Capital now goes freely wherever the best returns are offered; and although the international mobility of labour is at present less developed, yet it is no longer so circumscribed by national frontiers as it was before the days of cheap steerage passages to Australia, America, and South Africa.

CHAPTER XXIII

FREE TRADE AND PROTECTION

WE now come to a very difficult and very controversial question — viz., whether commodities imported from foreign countries should be allowed freely to enter our markets, or whether a special tax should be levied on them in order to protect the home-producer. It is a subject difficult to treat, partly because it is obscured by the mists of political prejudice, partly because it is much more complex than is usually admitted, and, finally, because economic considerations cannot here be supreme. Social and political factors must also be taken into account.

Difficulties of the subject.

The reader who has studied the chapter on Bills of Exchange and the preceding chapter will have no difficulty in understanding that normally, and taking economic considerations alone into account, a country tends to lose by a protective system. The placing of taxes on imports raises the price to the consumer, and prevents the growth of exports. Hence labour and capital in both the two countries concerned are forced into less profitable channels than they would otherwise find, and the resulting production of wealth must be less than if territorial specialization were left to develop in its natural way. It seems, no doubt, very hard to the British farmer that we should import so much corn and meat from the Argentine Republic. But in consequence food is cheaper, and our manufacturing trade is

As a general rule, the system of Free Trade is economically most profitable.

developed in order to produce exports which may pay for the imports. Now, Britain has a great natural and inherited advantage in manufactures; so has the Argentine Republic in agriculture. It is better therefore for both countries, and for the whole world, that each should specialize in making the class of commodities which it can produce most cheaply. A protective tariff intended to prevent this free exchange of goods will injure, not only the country of export, but also the country which imposes the tariff.

This is the general principle, and few economists will be found to dispute its general validity. But it has, on purely economic grounds, a number of exceptions, while if military and political exigencies are taken into account, the arguments for the universal desirability of Free Trade are much weakened.

Exceptions to the principle of Free Trade.

Take first three exceptions which can be justified on purely economic grounds. There is, to begin with, the "infant industry" argument. A country may have a natural advantage for the production of some commodity—say iron. But for a time the new trade must be costly and risky. No one will embark capital in it if his only market is one where he will be obliged to compete with the established industries of other countries, producing on a large scale and with assured methods, and therefore able to sell cheaply. Yet, if the new industry were once established, it would be an advantage, not only to those engaged in it, but to the country as a whole. Accordingly we find most new countries protecting their manufacturing industries. Moreover, our own textile and iron industries were protected during their period of growth partly by a tariff, but also by the fact that just at the most critical twenty years England enjoyed internal peace, while the other European countries were convulsed by wars. The great drawback to the protection of infant industries is that it is in practice very difficult to withdraw the support when the industry is full grown. Vested interests have developed; markets and prices have

The "infant industry" argument.

accommodated themselves to the tariff. This is the situation at present in the United States, where "Tariff Reform,"* or reduction of the tariff, is demanded by an increasing number of the best-informed people, but is opposed by the vested interests in the protected industries.

The second case where protection is theoretically justifiable is where it is needed to prevent "dumping."† A monopoly in a protected country can, and does, sell in an unprotected country at prime cost only. Behind the walls of the tariff a high price can be charged to the home-producer, and the surplus products sold at a low price in a Free Trade country. This is an advantage to the consumers in the latter; but it is not likely to continue permanently. If it did, the foreign monopoly would get possession of the market, and would forthwith raise prices. If it lasts, as is usually the case, for a time only, it causes a dislocation of prices, the disadvantages of which are almost certainly not counterbalanced by the gain to the consumer. Authorities differ as to the extent to which "dumping" actually occurs. Theoretically it is quite possible, and, in the view of many, could justifiably be met by an import tax.

Free Trade countries are specially liable to "dumping."

Finally, it is, perhaps, not sufficiently realized by many theoretic writers how enormously important to-day is entrance to the largest possible market. People often argue that Protection harms the protected country even more than the country which practises free exchange. Probably in many cases this is true. But the protected country commands its own market, and has access also to the markets of Free Trade countries. The manufacturers of the latter can sell only within the restricted limits of their own countries, and are shut out from the protected areas. Hence they are at a very

The importance of entrance to the largest possible market.

* In England, of course, the phrase "Tariff Reform" is used in exactly the contrary sense.

† *Cf.* p. 68.

serious disadvantage, as access to a large market means usually power of increased production, and in industries conforming, as do many of the large industries of to-day, to the law of increasing returns, power of increased production brings with it increased cheapness, lowered prices and increased sales. Therefore many manufacturers who are convinced that Free Trade is, on the whole, desirable, yet believe that Britain would benefit economically through the establishment of a retaliatory tariff to serve as a weapon to force our entry into markets from which we are now shut out.

So much for the three main cases where arguments for Protection can be reasonably urged on purely economic grounds.

The military arguments for Protection.

But arguments based on military or social needs are also not without weight. In the seventeenth century the English Government deliberately pursued a policy calculated to furnish the country with the supplies of corn, and ships necessary for success in war The Navigation Acts, for instance, imposed a special tax on all goods brought to England in foreign ships. Probably this raised freight charges, but it provided us with the ships and sailors with which the great naval wars of the eighteenth century were fought. From a temporary economic standpoint this policy would be condemned. But most people who have studied the question agree that it was successful in its special aim—the creation of an English fleet.

Again, on social grounds, it may be doubted whether excessive specialization is any more advantageous for a country than it is for a man. Canada and Australia object to devoting their energies to farming only, and are developing their manufactures. The great ambition of the classical economists was that England should be the "workshop of the world." But do we really wish this? Is an exclusively industrial development desirable? We might be economically less wealthy if once more we tried deliberately to encourage our agriculture, but we should certainly be better off in subtle

The social arguments against excessive specialization.

ways not measurable by money profits. In short, this difficult question is really one which a wise statesman will not decide on economic grounds alone, though the purely economic grounds which lead us to pronounce, save in a few special cases, in favour of Free Trade, must always be given serious consideration.

SECTION III

CONSUMPTION

CHAPTER XXIV

THE STANDARD OF LIVING IN DIFFERENT CLASSES OF THE COMMUNITY.

THIS division of economic theory has been very incompletely worked out. Indeed, it would not be too much to say that although economists often place in their text-books a section headed "Consumption," the pages comprised within it are filled by vague generalities which do not even command general acceptance, since each economist develops them differently. It may be interesting to note shortly the reasons for this deficiency. Firstly, economists have been mostly men, and so more interested in the production and profit-making side of economics than in the spending or consuming side, the direction of which is very largely left to women. Secondly, the study could not be undertaken without a considerable knowledge of hygiene, since consumption can hardly be dealt with until a scientific method of measurement of food, housing and recreation had been established. Even yet this is hardly achieved, as physiologists are still, for example, disputing about the amount and kind of food needed for healthy existence, and have hardly begun to discuss the amount and kind of recreation required as a relaxation after various forms of work.

Neglect of theories of consumption by economists.

Economists have, however, made one distinction which we may follow, that, namely, between productive and unproductive consumption. The former is that necessary to fit a man to continue his work, the latter is surplus consumption indulged in for pleasure or to stimulate needs and powers which have little or no economic value. This chapter and the next will be devoted to these two kinds of consumption respectively.

Productive and unproductive consumption.

The first thing to observe is that this productive consumption (which is the commodities and services obtained by wisely spending the efficiency wage already discussed) varies from section to section of society, and depends mainly on the kind of work done. The man performing the simplest kind of manual labour requires merely a rough lodging, and coarse clothes and food for himself and his children. It has been estimated that to supply these for an urban labourer, with a family of three children, costs in England at the present time rather more than 20s per week.* If to this estimate we are to add recreation and insurance against sickness and unemployment, the wage must be raised probably to about 24s. Unfortunately, it is certain that many men receive less even than 20s. a week. Either they actually live on less, in which case the physiological requirements of life are not met, and sickness and degeneracy ensue, or they become partly dependent on charity, when moral degeneracy is likely to follow. In this class it may be said that roughly 25 per cent. of the income is spent on rent, 66 per cent. on food, the 9 per cent. remaining being a rather insufficient provision for dress, saving, insurance and recreation, while the amount spent on food per head—about 3s. a week—is less than a third of the ordinary comfortable, middle-class standard.

Productive consumption is different in different classes.

The productive consumption of the labourer.

* See Rowntree, "Poverty," chap. iv.

The productive consumption of the artisan.

No one has yet worked out the necessary efficiency expenditure for the artisan class. But it is almost certain that a man doing skilled work, involving some measure of constant attention which puts a strain on the nervous system, needs greater space and quiet, and therefore must have a better house; he probably requires more digestible food, and certainly needs more recreation. In actual fact the ordinary wage of this class is about 35s., and the weekly expenditure would be arranged somewhat as shown in the appended table:

	s.	d.		s.	d.
Rent	5	0	to	7	6*
Food	19	0			
Fuel and light	2	0			
Household sundries	1	3			
Sick-club	1	6			
Clothes	3	0			
Husband's pocket-money	2	0†			
Margin	1	3			
	35	0			

For 5s. a week a satisfactory cottage can be rented in many districts in England, though in large towns more must be paid. The sum set down for food should enable a good housekeeper to feed her family plainly but sufficiently, as it allows nearly 4s. per head in an average family of two adults and three children. The allowances for the other items are enough, though no more than enough, and there is a little margin to permit of saving and expenditure on holidays, books, occasional visits to places of amusement and other methods of relaxation which are probably essential for complete health in the case of fatigued machine-workers. If, however, the rent is more than 5s., or if the family contains more than three children, this margin will quickly be swallowed up. A very large proportion of the people of England—possibly about a half—live on a scale approximating to this

* More in London.

† This will be spent on tobacco, beer, tram-fares, trade union dues, newspapers, etc.

There has been yet no thorough attempt to estimate efficiency expenditure in the case of the middle class, who are usually, when dependent on their own exertions, responsible or original brain-workers. But many women-workers of the middle class have learnt by practical experience that efficiency cannot be maintained on a tea and bread-and-butter diet and in a cramped bed-sitting-room. Many professional men, struggling to live and to educate their children at an income below £300 a year, are forced to realize unhappily that the necessary efficiency for the work of their class cannot be handed on to their children, and can barely be continued for themselves. The problem is complicated by the existence of an elaborate traditional, or conventional expenditure* in the middle classes, to which the demands of efficiency are frequently sacrificed when the income is not large enough for both. But it is certain that, apart from conventional standards, the brain-worker needs more quiet and more harmonious surroundings than the manual labourer; probably more warmth; certainly less bulky and more digestible food. He must have relatively expensive holidays. He must bear usually the entire cost of supporting and educating his family sometimes to the age of twenty-five or over, while the expense of education is now taken almost entirely off the shoulders of the artisan and labouring classes. The work of carefully correlating these needs with the prices charged for supplying them has not yet been carried out, and therefore it is hazardous to state what the average efficiency expenditure of a brain-worker is; but the author believes that in a large town £200 a year for an unmarried person, £300 for a young married couple, and £500 where a moderate family has to be provided for, will be found to be approximately correct. In this class the proportion of the income spent on rent

The productive expenditure of the middle class.

The needs of the brain-worker.

The distribution of a middle-class income.

* See p. 196.

and food is much less than in the preceding classes, but the actual amounts are of course higher. Ten shillings a head a week is a usual allowance for food, and provides not merely a sufficiency of plain food, but plenty of dainties, provided these are bought in season when they are cheap. About a third of the income is spent on food (including the food of servants), or less when the family is small. It used to be believed that one-tenth was the right proportion to spend on rents and rates, but this amount is now usually exceeded. But it still remains true that after food and shelter have been provided more than half the income is available for purposes which the labourer must meet out of 9 per cent. of his much smaller earnings.

It is obvious that these remarks on productive expenditure are very incomplete, and even the statements made cannot be proved here. The writer has, however, in her possession a collection of budgets which fully bear out these statements. In the meantime, this chapter may show how a fuller study of productive consumption might be carried out by careful collection of the facts of expenditure on the one hand, and by correlating these with the hygienic needs of the individual and his family, in reference to their actual or prospective occupations on the other.

CHAPTER XXV

UNPRODUCTIVE CONSUMPTION—FASHION

THE possibility of unproductive expenditure depends obviously on the existence of a surplus over and above the necessary costs of production. This, as we have seen, emerges normally in modern industry, and will, probably, as the use of machinery increases, develop more and more. Commonly it is used by the individual to raise his standard of living above the efficiency standard; he dwells in a finer house, enjoys daintier food, wears better clothes, has longer and more expensive holidays, engages servants to wait on him and his family. Up to a certain point, this is wholly desirable. The enjoyment and charm of life depends largely on comfortable and harmonious surroundings, and a woman who so manages a household that ease and beauty reign within it is in her way the creation of a work of art, and gives rise to a higher and more beautifully developed form of life, alike in the family whom she serves and in all those who, whether as guests or dependents, come under the influence of her finely-ordered household.

Unproductive expenditure depends on the existence of the economic surplus.

The use of the surplus by the individual to raise his standard of comfort.

Unfortunately, however, there are forces at work leading often to a less desirable expenditure of the surplus. There is a limit to the amount of luxury which is good for the human animal. Personal and moral efficiency may be impaired as completely by an excessive expenditure on food or fine clothes as

Excessive expenditure on personal luxury.

by an insufficiency. People or nations who, long accustomed to a frugal and struggling existence, come suddenly into the possession of an economic surplus frequently deteriorate. The Romans are one example of this. If one can accept some popular accounts, the same process seems to be at work to a marked degree among the *nouveaux riches* of the most developed industrial countries.

But a misapplication of the surplus springs also, and perhaps more commonly, from subtle social causes, rather than from an excessive gratification of the physical desires. Social prestige depends very largely on the reputed possession of wealth. Most human beings have a strong desire for social prestige, and therefore endeavour to appear possessed of wealth. This involves a public practice of conspicuously expensive habits. These are adopted by the wealthier sections of any class or community, and are then copied by the less wealthy members in order that they may not lose in that reputability which depends on the supposed possession of wealth. Thus, a standard of traditional or conventional expenditure is set up which must be adhered to by all who desire social position. Extravagant dinners and luxurious dresses are often adopted even by people who would personally prefer simpler habits, but who are as it were hypnotized by the custom of the class to which they belong. Expenditure of this sort, which is often physically harmful and brings no real enjoyment, is foolish enough when it can really be afforded without trenching on the efficiency subsistence. It is tragic when it is taken from a living already barely sufficient, as when an impoverished gentleman saves on his daughter's education in order to continue to keep his carriage, or when a poor working girl starves herself of necessary food in order that she may be fashionably dressed.

It springs partly from the desire for social prestige.

Preference of conventional needs to the maintenance of efficiency subsistence.

The perpetually changing styles of dress afford one of the

clearest instances of the way in which unreasonable conspicuous expenditure is fostered by the present habits of society. The best sign of the possession of wealth is the power of supporting a number of dependents who perform no useful work. Many domestic servants (*e.g.*, footmen) are employed mainly as a sign of their master's wealth. The women, moreover, of a rich man's family must also do nothing useful, must practise what Professor Veblen * has named "conspicuous leisure," and in order to make it clear that they are doing so they must wear clothes which are obviously both new, expensive, and calculated to hinder the wearer in any physical exertion. Hence in all ages women of the upper classes have worn elaborate costumes.

Fashion.

The practice of "conspicuous leisure."

But in our own day two new factors have entered into the situation which greatly intensify the evils of fashion. The first is the growing sentiment of democracy, which leads to the use of fashionable and (what is commonly the same thing) obviously useless costumes by the women of the whole nation. The poorer sections cannot afford the genuinely luxurious attire (which, after all, has often some artistic beauty to set against its extravagance); they therefore wear flimsy and inartistic imitations. This tendency is met and fostered by the constant need of the machine industry to find a market. If fashions in clothes change twice as quickly as formerly, this doubles the demand. Hence, through fashion articles and advertisements, the dealers in dress see to it that styles do change quickly, and change, too, in such a way that existing dresses cannot be adapted so as to be in the fashion. Women anxious to be up to date are compelled to spend on dress far more money than is really desirable. And, un-

The evils of fashionable dress are increased by (1) the disappearance of class distinctions, and (2) the need of the machine industry to find a market.

* The views expressed in this chapter with regard to the practice of luxurious expenditure are taken mainly from Professor Veblen's most suggestive and amusing book, "The Theory of the Leisure Classes."

fortunately, we are all so hypnotized by the universal conformity to these fantastic changes that it is almost impossible to set up a more hygienic and more artistic standard of dress which shall be reasonably durable, comfortable, pretty and inexpensive. Signs are, however, not wanting that larger and larger numbers of women are insisting on dressing to satisfy their own tastes, and not to obey the demands of fashion as interpreted by ladies' papers, which are subsidized by the advertisements of drapers, milliners, and jewellers.

Is there a revolt against fashion?

We can only touch very briefly on other forms of expenditure of the surplus, the economic significance of which has, in fact, not yet been worked out. The development of art is one of the most desirable methods of using it, and it was to this purpose that the ancient Athenians and the Italian cities of the Middle Ages devoted their surplus, which was derived from their advantageous position in the commerce of the world. The Middle Ages spent also much money on the endowment of religion and the practice of charity. In our own day millionaires give money for similar purposes, and also for the endowment of scientific instruction and research, which cannot be—at least directly—commercially profitable; in fact, the development of the higher artistic, intellectual and social powers of humanity depends almost entirely on the existence and wise use of an economic surplus. This consideration indicates the great need that more attention should be paid to this question of the consumption of wealth, which has been almost entirely neglected in favour of the study of production and exchange.

Other methods of expending the surplus.

CHAPTER XXVI

THE CONSUMPTION OF THE INEFFECTIVES—POOR LAW AND CHARITY

WE turn now to the next division of the study of consumption—namely, the provision necessarily made in civilized society for those who are unable temporarily or permanently to contribute anything, whether directly or vicariously, to the process of production, and who must therefore be maintained by the labour of others.

The case of those who cannot take part in the industrial process.

First we may note the special case of married women and children. Public opinion demands—and in view of the growing speed and complexity of modern industry, rightly demands—that children shall be left at leisure for growth and education, and shall not be introduced too early into the economic process. This is, of course, a comparatively recent development. Children, before machinery came into use, helped their parents on the farm or in the domestic workshop, and were not, in consequence, economically a mere source of expense as they are now. Thus, modern industrial society is really trying a great experiment in its increasing insistence that children shall not work. It is undoubtedly justified by the fact that the newer methods of production, with their employment of machinery, their fixed hours, their stringent discipline, and their demands for attention to monotonous and uninteresting processes, are unsuited for undeveloped minds and bodies. Yet the burden of supporting their children to the age of maturity falls

Children.

very heavily on poorer parents, and it is possible that if this question is not honestly faced the community may find itself involved in unlooked-for difficulties by our legislation for the protection of children.

Turning to married women, we may observe that, with the exception of the very wealthiest, they are not really dependents; they only appear to be so, because the work which they do within the home has no exchange value and earns no commercial profits. It has, however, the very highest use-value, and the actual toil undergone by married women of the working and of the lower professional classes within their own homes probably exceeds in amount the labour by which the husband earns the money with which he supports his wife, and this quite apart from the woman's special maternal function.

Married women.

Normally, however, married women and children are supplied with their maintenance by the husband and father, and only enter the class of those who require other help in the event of the death of the bread-winner. Other common causes of destitution or inability to provide oneself with the means of livelihood are disease, defectiveness of mind or body, old age, and unemployment, either involuntary or voluntary.

Causes of destitution.

Various methods of providing for these misfortunes have been evolved. We may note the following:

Methods of dealing with them.

(*a*) By the relatives of the sufferer. This is possible and desirable among classes which enjoy a moderate amount of comfort and possess a margin of income over expenditure. It is difficult among the poor, especially if the right treatment of the misfortune involves, as it does in the case of many diseases, considerable expense. It is almost impossible among the poorest labourers, who are living near the margin of subsistence.

The assistance of the family.

(*b*) A method which was commoner in the Middle Ages than at present was that provision should be made by each occupation for its own ineffectives. Thus, the medieval gilds supported their own aged members. At the present time some of the middle-class occupations, such as the commercial travellers, keep up orphanages for the children of deceased members. This, again, is obviously impossible for members of the poorest paid occupations.

Provision by the occupation or trade.

(*c*) The method of mutual insurance is increasingly practised among the artisan class, either through subscription to a privately-managed insurance company or by membership in a friendly society or trade union, and many thousands of families have been tided over periods of misfortune by insurance, and enabled to maintain their self-respect and regain their productive efficiency. But this method, again, is not possible for the very poorest, who can only provide for the possibility of misfortune by trenching on funds already insufficient for lodging and food. Moreover, the very poorest suffer from irregularity of employment and of earnings, which adds greatly to the difficulties of insurance, and are also often in such a bad physical condition that they will not be accepted for insurance by a company or friendly society.

Mutual insurance.

(*d*) Therefore many must inevitably fall back on charity, and wonderful have been the organization and achievements of private charity in nineteenth-century England. It has raised and equipped hundreds of hospitals and provided orphanages and almshouses for thousands of poor children and aged persons. But the advantages of private charity are obvious to all. The economist can do more service by pointing out its difficulties. Private unorganized charity is likely to do more harm than good, save in cases where the recipient's circumstances are well known to the donor, and where a relation of genuine personal

Charity.

sympathy exists between them. To give casually to beggars in the streets, or to provide free shelters or meals where all may come, only increases the numbers of those asking for such relief. The conditions of the poorest paid independent labour are so hard that the relatively free and sometimes profitable life of a street cadger, or begging-letter writer, will appear to many to be preferable. Therefore casual charity commonly creates as much suffering as it cures. Organized charity, which gives only to carefully investigated cases, and then makes the relief adequate, or passes on cases of special need to particular institutions, is much more useful, and (what is as important) can do little harm. Many people have hoped that it might come to meet all the needs of the community in relation to the provision for its ineffectives, and it has certainly the great advantage that it lays the burden of that support on the shoulders of those who, by their own admission, are most capable of bearing it. But private charity, however carefully organized, presents the following defects: it cannot deal with cases of sudden and unexpected destitution; it cannot extend to all districts equally, and will tend naturally to be more abundant in those areas where wealthy people live, and where there is often least need. This fact is particularly marked in the case of hospitals. It cannot deal with that great problem of modern society—unemployment. And, lastly, its activities must depend on its privately subscribed resources, and not on the needs with which it deals.

The disadvantages of casual charity.

Organized charity.

Inevitable defects of private charity.

(*e*) Therefore all modern States find themselves compelled, in the long-run, to adopt a system of public relief, supported by contributions compulsorily exacted from their citizens. This raises very great problems which society has not yet solved. The experience of the early nineteenth century in England, when assistance was given freely almost to all who asked for it, and often in aid of their

Poor relief.

earnings, showed that such indiscriminate poor-relief merely lowered wages, and caused the working classes more harm than good. In opposition to this system, we established, in 1834, by the New Poor Law, another method of relief, which gave help only to those who were absolutely destitute, in a strictly-managed workhouse, under disagreeable and deterrent conditions. Thus, people had no incentive to become eligible for poor-relief, and would do their best to preserve their independence by performing the hardest-paid and most laborious work outside it rather than enter its almost prison-like atmosphere.

Relief in aid of wages.

Deterrent poor-relief.

The establishment of this principle of deterrent poor-relief severed the vicious relation between wages and relief; but it is admitted now that it has not finally solved the problem. It is, in the first place, only really applicable to those who could earn their living if they tried hard enough. It ought not to be used in the case of children, the sick or the feeble-minded, and public opinion, understanding more and more that much unemployment is due to causes over which the unemployed have no control, is objecting to its use even for respectable adult men. Finally, it hardens and degenerates a man, instead of improving him.

Its difficulties.

A subdivision of public assistance is that given by relief works, where men who cannot find work elsewhere are provided with employment by local authorities. These, however, are rarely successful. They cannot be remunerative, or they would have been undertaken by private employers. If the work is needed, to give it to the unemployed means withholding it from the men who would normally have been engaged, and who, being more skilled, would have done it cheaper. To put clerks or painters to make a path through a park, and thus to throw navvies in their turn out of employment, is the very height of folly. If the work is not needed, it is really only charity in a disguised

Relief works.

form, and is felt by the men to be such. Moreover, on relief works the enforcement of discipline and the decision of the rate of pay are both extremely difficult. In short, relief works, though forced on many municipal authorities by public clamour, are almost universally condemned (save as palliative measures) by economists, even by those who are not adherents of the individualist school (*e.g.*, Mr. and Mrs. Sidney Webb).

We must, in fact, close this chapter by the admission that society has not yet worked out a satisfactory method of provision for its ineffectives. We do not yet know how we can be sure that throughout the country undeserved misfortune and poverty are satisfactorily helped, while laziness and thriftlessness are discouraged. This is one of the great problems confronting the twentieth century. Those who wish to study it further should turn to the evidence taken before the Poor Law Commission which investigated the matter from 1905 till 1909, and to the two reports of the Majority and Minority of the Commission.

The failure of society to solve this problem.

CHAPTER XXVII

THE PROVISION FOR COMMUNAL CONSUMPTION—THEORIES OF TAXATION

THE consumption of wealth is carried on usually on an individual or family basis. But there are not a few commodities and services which the State or county or town can provide for us more easily and cheaply than we can provide them for ourselves. Defence against foreign enemies and against violence or fraud at home is one of the clearest instances; the provision of law courts and judges for the settlement of disputes is another; and hospitals for infectious diseases, schools, labour exchanges, art galleries and libraries may also be named as among the institutions now kept up by public funds, whose advantages are used or "consumed" by the citizens of the country in most cases without any further payment. Now, when it hires buildings or engages officials, the Government must pay its way like any group of private persons. Therefore it requires money to carry on all these varied activities, and one of the greatest problems of economics is, "How can the necessary money for the expenses of the State be obtained most easily and most fairly?"

Money is required for the activities of the State.

In former years the State derived much of its revenue from lands and other property held by the King. Our early medieval monarchs were expected to live and keep up their armies and Courts from the produce of the royal estates. Some foreign countries raise funds now from the forests and mines held by the State. Occasionally governing bodies receive revenue through the possession

State property.

of trading enterprises, such as railways, the post-office service, and, in the case of local authorities, tramways, gas works, etc.

Its decreasing importance.

But the possession of landed property by the State is much less common than it was in earlier periods, and its extension is advocated only by a small number of thinkers. The possession of remunerative enterprises (especially monopolies), by national and local governments, is possibly increasing, but, as the produce of these enterprises is commonly supplied to the public nearly at cost price, they do not yield any considerable amount of revenue for public purposes.

The State derives a certain amount of money from fees charged for services supplied by its officers—*e.g.*, in the law-courts and by various public departments. The fines payable for offences against the law also pass to it; but although these should be mentioned, and although the former may not improbably amount to larger sums in the future, they are at present of very minor importance.

Fees and fines.

Therefore the State is driven back to the plan of exacting contributions for its expenses from the citizens. In very early times these contributions were regarded in the light of gifts to the monarch, and were often termed "aids." Later they were taken by force from the members of the different classes of the community, and are then rightly called taxes and rates. They may be levied in various ways. "Direct" taxes are paid over directly to the officials of the Government. They may be taxes on income or taxes on property, like the sums payable in England on the passage of property at death. They include also the licences charged by the Government for various privileges, such as that of keeping a public-house or employing a man-servant. "Indirect" taxes are paid on commodities, and the duty is levied usually at the spot where the good is manufactured (Excise), or at the port

Contributions from the citizens; at first voluntary, afterwards compulsory.

Taxes, direct and indirect.

where it enters the country (Customs). The tax is commonly added to the price charged to the final purchaser or consumer, and is often paid by him as a part of the price of the goods, so that he may not fully realize that he is being taxed. Commodities which are so taxed in England at present are tea, wine, scent, lace, and tobacco.

All actual systems of taxation have grown up piecemeal, partly in response to practical needs and practical experience, and partly under the guidance of the principles elaborated at various times by economists. Most systems are extremely complex, and, indeed, the study of taxation constitutes in itself a separate and very difficult branch of economics. In this book we can do no more than refer very briefly to the aims which at different stages of economic theory have been held to be important for the guidance of statesmen in their task of framing the methods of taxation.

The complexity of systems of taxation.

The aims of taxation.

1. The simplest view (which, however, has been urged only by a few extremists) is that as all share alike in the advantages provided by the State, all should pay alike. There have been a few attempts in the history of the world to impose an equal or approximately equal tax on all citizens. Such a tax is called a "poll-tax." It is, in fact, most unfair, since it demands an equal payment from very unequal resources. Poll-taxes are always unpopular, and have sometimes been resisted by armed rebellion.

Equal payment from all.

2. The next view is that a wise system of taxation should take from each citizen not an equal sum—but an equal proportion of his income. Thus, Adam Smith, in the first of his four "Canons of Taxation," says: "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

Payment in proportion to income.

protection of the State." This method is very much fairer than the preceding. Yet even it is not perfectly just. A wealthy man with an income of £5,000 a year would merely lose some of his luxuries were he called on to pay an income-tax of one-tenth, or 2s. in the pound. A similar tax on a professional man with £500 a year would involve the giving up of comforts that may even be necessary to his efficiency, while a tax of one-tenth on incomes near the subsistence-level would mean the enforcement of actual privation.

Equality of sacrifice.

3. Thus economists began to insist that statesmen should aim at levying on each man a tax involving not an equal proportion of his income, but an equal sacrifice. This is much harder to measure, and can rarely be actually attained, but it represents at least a juster ideal. It was in pursuance of this aim that in the nineteenth century the income-tax was levied only on incomes above £160, and that very substantial deductions were permitted below the level of £700 a year. This plan of exacting a fixed tax, but diminishing it on incomes below a certain level, is called regressive taxation, while the contrary plan of increasing the proportion payable as the income grows larger is called progressive taxation. Our income-tax has recently become "progressive" at the higher level, as incomes over £3,000, and again over £5,000, pay increased proportions or super-taxes. It is with the same object that indirect taxes are now levied only on luxuries, such as wine, tobacco, motor-cars, etc. Only people who can afford it will buy these commodities, and therefore the tax (if paid by the consumer) will fall on people with small incomes less heavily than on those with larger incomes, while, if the necessities of life were taxed, the contrary would be the case. But the last statement makes an assumption which is by no means always true in practice. It assumes that an indirect tax is paid by the consumer. Now, if the Chancellor of the Exchequer could always be sure that a direct tax is really paid by the person on whom it is levied, or an

The shifting of taxation.

indirect tax by the final consumer, his task would be comparatively easy. But he can have no such certainty. If a direct tax falls on incomes near the level of subsistence, wages will in the long-run be increased, and the tax will then in reality be paid by the employer. Who actually pays an indirect tax is a problem only to be solved by a special consideration of the facts of each case. Generally speaking, if the demand for the article is keen, and competition in its production is so developed that a surplus profit or quasi-rent does not exist at any stage, then the consumer must pay the tax. If, however, such a surplus does exist, the owners of that surplus may find it best to pay the tax, and to keep the price to the consumer unchanged. In some cases they will even find it impossible to raise prices without causing such a diminution of demand as would lower their profits or quasi-rent. Therefore, a tax falling on an economic surplus will tend to "stick," and not to be shifted to the consumer.

Does the producer or the consumer pay an indirect tax?

Again, even where no marked economic surplus exists, if the demand for the taxed article is very elastic, the tax may fall on the producer. A rise in the price causes a great falling off in demand. Hence the producers are faced by a dilemma; either they must pay the tax themselves, or many of them will be forced out of the trade, since the lowered demand will leave many unemployed. A tax of this description, even if it falls on luxuries, will tend to be very oppressive, since it will not really be felt so much by the consumer as by the producer. And the producer of luxuries is often quite as badly off as the producer of necessaries. Apparently the tax on motor-spirit acted on the drivers of taxi-cabs somewhat in this fashion. Taxi-cabs are certainly luxuries, and seem at first sight a fair subject for taxation. But increased fares would greatly decrease their use; therefore the fares had to remain the same, and the new tax was paid by the producers. Now, there is no evidence to show that the

The conditions under which a tax is paid by the producer.

owners and drivers of taxi-cabs were in any way better able to bear taxation than, for instance, the producers of clothes or furniture. Taxes on luxuries, then, cannot be defended if it can be shown, as in many cases it can, that the tax falls rather on the producers than on the consumers of the luxury in question.

4. The discussion in the last few paragraphs may probably have suggested to some readers another theory of taxation which, both theoretically and practically, is gaining ground markedly at the present time. It is that taxation should be abolished or lowered on incomes which represent merely efficiency, subsistence, or cost, and should be placed on the surplus or economic rent which accumulates at various points in the industrial process, and is not earned by the individual efforts of those who receive it. It is this view which is behind the demand for the taxation of land values, and which led to the special tax on the increased value of land which formed a part of the famous Budget of 1909.

The view that taxation should be borne by the economic surplus.

It has undoubtedly some justification. Economic rent passes generally—though not invariably—to people who are able to afford an extra tax, and, in accordance with Ricardo's theory, a tax or rent cannot be shifted. There are, however, several complexities which are obviously not sufficiently appreciated by the cruder upholders of the theory. As already pointed out, the popular use of the word "rent" is by no means parallel to its use in economics, and mistakes may easily be made through assuming that whatever is called rent in every-day speech is "rent" in Ricardo's sense, and obeys the principle stated above. Again, this economic surplus is probably quite as marked in the case of the return to capital as on the return to land. Yet so far the taxation of the unearned increment has been applied to the case of land only, with the result that the man who has invested money in shares which have appreciated is placed at a great and undeserved

Its difficulties.

advantage in comparison with the man who has bought land. Finally, a reference to Chapter XVIII. will show that whereas the economic surplus or unearned increment is theoretically a sufficiently clear conception, it is not easy in actual life to determine its precise amount. Thus Mr. Hobson, for example, holds that any attempt to tax the unearned increment as such will result in many difficulties and acts of injustice. He therefore recommends in its place the progressive taxation of large incomes.

This short sketch will be enough to show that the problem of finding a theoretically just and fair system of taxation has not yet been solved. In addition, many maxims of practical convenience have to be taken into account. It is indeed on the score of practical convenience that indirect taxes can be defended. The income-tax paper or demand note for rates puts the Government's determination to take a share of our money in its barest and most forbidding form, and, in addition, direct taxation makes an inconveniently large demand at infrequent intervals. In indirect taxation the situation is put less bluntly. We forget when buying a pound of tea that 2d. of the price is taxation, and as the tea is quite worth 1s. 6d. a pound to us, we pay it cheerfully. Again, indirect taxation means the paying of small sums at convenient intervals. Lastly, it is practically impossible to tax the working classes directly. Yet they ought to make some money contribution, even if it be a small one, to the revenues of the country. Therefore many hold that it is a wise measure of statesmanship to retain in our fiscal system indirect taxes even on commodities such as tea and coffee, which to-day can hardly be described as luxuries, though they were luxuries when the tax was first imposed.

The importance of practical convenience in adjusting taxation.

This justifies the continued use of indirect taxation.

CHAPTER XXVIII

THE PLACE OF ECONOMICS IN A DEVELOPED SOCIOLOGY

ECONOMICS was for long regarded as a science complete in itself, and devoted to the explanation of laws whose action was as clear and certain as the principles laid down by chemistry and physics. Some economists, for instance, used to write as though the principle that wages tend to the level of subsistence was as unvarying in its working as the law of gravitation. But it is now becoming clear that economics deals with facts which may vary from one form of civilization to another, and that it forms only one part of a much larger science—the science, namely, which describes how the social life of man is organized under varying conditions, and how it grows from one grade of human development to another. This science, which so far exists only in embryo, has been named sociology.

The classical conception of economics.

The modern view of economics as dealing with a changing system of facts.

The classical economists knew little history, and either were quite ignorant of other forms of social life than those which surrounded them or else despised them as mere remnants of the dark ages.* Hence they tended to assume that those industrial methods with which they were acquainted were permanent elements of human nature, and to found on them a science which they regarded as having validity in every time and at every place. The school of historical economists which followed them had no difficulty in showing that this was not so—that the institutions, for example, of

* A good instance of this is Adam Smith's attitude to craft gilds.

medieval England were, in many respects, so unlike those of modern industrial England that principles which were quite true of the latter did not hold at all in respect to the former. For a time the study of economic theory was regarded by some as almost superfluous, and but few advances were made in it. Now, however, the opinion seems again to be gaining ground that the study of theoretical economics cannot safely be neglected, but is, on the contrary, of the greatest value to those who wish to understand the complexities of modern civilization. At the same time it is realized that modern developments (*e.g.*, of widely-extended markets, within which there is nearly complete mobility of goods, of labour, and of capital) depend on certain definite conditions, which are not always present. It is possible that we may be preparing the way for a wider science of economics, which, taking into account the conditions of communication and the institutions and customs having reference to money and to property at each stage of civilization, will be able to explain not merely what occurs under modern conditions of free competition, but the laws which determine the production and distribution of wealth in savage, barbarian, classical, medieval, and modern society alike. It has to be admitted that, up to the present, even the groundwork of such a science is barely laid. Therefore it must always be remembered that economic science, as at present developed, has only a limited sphere, and Englishmen specially, in carrying out their Imperial mission, should be extremely cautious in imposing their own economic customs and laws on other peoples at different stages of development from themselves.

The historical economists.

A possible future science of economics which shall include both the theoretical and the historical standpoint.

There are other reasons why economics must be regarded as a science that can only find its proper place within the framework provided by a wider synthesis. It discusses the exchange and production of wealth, and looks upon man as a creature that exists to carry out that exchange and produc-

tion. Now, this book will have failed in its object if the student has not realized how immensely important economic conditions are and must be. But they are not supreme or all-powerful. Man must accumulate some degree of wealth in order to live, and therefore his life will be profoundly affected by the conditions, both natural and artificial, determining that accumulation. But he does not live in order to accumulate, and any true theory of life must acknowledge the importance of activities which, from the standpoint of economics, are "unproductive," and which the economist tends sometimes to regard in consequence with a certain degree of disfavour. Economics deals with the basis of life—with those material foundations which must exist before any building of civilization can be reared upon them. But the man who believes that economic needs and relations alone produce changes in the laws of property and the relations of classes is as foolish as the man who regards the foundations of a beautiful building as the cause of the chambers erected above those foundations. Thus, economics explains only a few factors in the social relations of men; other sciences—social psychology, the study of institutions, of education, of religions, of literature and art—must come and lend their help before even a possible explanation of the life of modern men can be obtained. Therefore the function of economics is a limited one; perhaps its real value can only be understood when the importance of other studies is realized. Yet, since the satisfaction of material wants is absolutely essential for men before they can develop, either individually or as nations, in the relations of life other than economic, so the place of economics in that developed sociology, or science of human society, which is slowly coming into existence, is quite certain and secure. And more true honour is done to the science if its teachers admit that it has, and must have,

Human society is based on economic relations, but not entirely determined by them.

Economics must be brought into relation with other sciences in order to attain a complete synthesis.

It has a definite function, but a limited one.

only a limited, and in some ways a subordinate, field, than if it is claimed, as it has been claimed, that economics is a complete science in itself, occupying a clearly-defined territory, and, as it were, sole ruler within that territory.

BOOKS RECOMMENDED FOR FURTHER READING

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