water proff and text cross
and fly with in the book only

UNIVERSAL
LIBRARY
OU_148370
UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 330/628E Accession No.

Author Carlile, William.

Title Economic. - - - -

This book should be returned on or before the date last marked below.

ECONOMIC METHOD

AND

ECONOMIC FALLACIES

ECONOMIC METHOD

AND

ECONOMIC FALLACIES

BY

WILLIAM WARRAND CARLILE, M.A.

AUTHOR OF

"THE EVOLUTION OF MODERN MONEY" ETC.

LONDON

EDWARD ARNOLD

41 AND 43 MADDOX STREET, BOND STREET, W.

1904

All Rights Reserved

4990
330
C28E
50
CHECKED. 1951
Checked 1969
B. L. 00032101

TO

HORACE WHITE, Esq.

IN APPRECIATION OF HIS

SERVICES TO THE CAUSE ALIKE OF

SOUND MONEY AND OF FREE TRADE

PREFACE

THE unfaltering progress of the physical sciences, always able to make sure of the ground behind them as they advance, has given rise in some quarters to the idea that a similar steady course of progress might be in store for the mental sciences proper, as well as for such *quasi*-mental sciences as economics, if they were, without more ado, to adopt with little variation the methods of physics. Such a view, it seems to me, ignores the essential character of the dividing line that separates the two branches of investigation. Its application in practice, as, for example, by the mathematical economists, has led not so much to an imitation as to a travesty of physical methods. The endeavour is made in the first part of this book to demonstrate the necessary futility of all such attempts, and, in the second part, to illustrate the unhappy results of the fallacious procedure by typical examples.

In the third part the general line of reasoning of the two former parts is brought to bear on the Fiscal Problem. Though a convinced Free Trader, I have found it necessary to throw overboard many of the arguments that have in the past done a good deal of duty on the Free Trade side. The doctrine, for instance, that the sole gain to a country from its foreign trade consists in its imports and that its exports spell nothing but loss to it is, it seems to me,

altogether false in theory. It rests on the curious conception with regard to money that it is "the most insignificant thing in the whole range of economics," and that consequently it is very nearly, if not altogether, a duty on the part of the serious economist to pass it by in absolute silence. In my previous work I endeavoured to sustain the opinion that, on the contrary, no economic theorem can be rightly understood without a true comprehension of the nature and origin of money. I have thought it worth while, accordingly, to devote a chapter of the present work to the adduction of further evidence in support of my contention as to its gradual evolution out of ornament. In that chapter I have embodied an article contributed to the *Economic Review* entitled "The Relation of Economics to Ethnology," and I have to thank the proprietors of that Journal for the permission kindly given to reproduce it.

W. W. C.

BYFLEET, SURREY,
August 15, 1904.

CONTENTS

PART I

THE LOGIC OF POLITICAL ECONOMY

CHAP.		PAGE
I.	THE APPEAL TO THE POPULAR USE OF LANGUAGE AS A TEST OF TRUTH IN THE SUBJECT SCIENCES	3
II.	JUSTIFICATION OF THE APPEAL TO POPULAR USAGE	12
III.	THE APPEAL TO POPULAR USAGE IN JURISPRUDENCE	26
IV.	LOGICAL METHODS IN PHYSICS AND IN ECONOMICS CONTRASTED	35
V.	THE APPEAL TO THE "OCCASIONAL MEANINGS" AS AN ORGANON OF SCIENTIFIC INVESTIGATION	53

PART II

TYPES OF ECONOMIC FALLACY

VI.	RICARDO'S LAW OF RENT	71
VII.	SOME OTHER ASPECTS OF THE RENT THEORY	83
VIII.	THE MATHEMATICAL ECONOMICS	97
IX.	MODERN PSYCHOLOGY AND THE MATHEMATICAL ECONOMICS	119
X.	FALLACIES BEARING ON THE MONETARY STANDARD	138

PART III

THE PROTECTIONIST FALLACY

XI.	CONSUMPTION AND PRODUCTION	169
XII.	FREE TRADE FROM THE MERCANTILIST STANDPOINT	183

CHAP. PAGE

XIII. FREE TRADE: THE TEST OF GENERAL RESULTS . . 198

XIV. FREE TRADE: THE QUESTION VIEWED DEDUCTIVELY . 212

XV. FREE TRADE: THE QUESTION VIEWED DEDUCTIVELY—*continued* 226

XVI. SOME PROTECTIONIST ARGUMENTS 252

APPENDIX

NOTE ON THE HISTORICAL DEVELOPMENT OF DOCUMENTARY MONEY 275

INDEX 281

PART I

THE LOGIC OF POLITICAL ECONOMY

CHAPTER I

THE APPEAL TO THE POPULAR USE OF LANGUAGE AS A TEST OF TRUTH IN THE SUBJECT SCIENCES

When we attempt, no matter how perfunctorily, to classify the subjects of human investigation we are at once confronted with one broad and deep dividing line between their various kinds, that, namely, which separates the sphere of Matter from the sphere of Mind. No one can mistake the fact that chemistry and mineralogy, let us say, lie in the one sphere, while psychology and ethics lie in the other. What has, however, to some extent escaped attention is the fact that there are some sciences, of which economics is the most conspicuous, in which one moiety of the questions discussed may be said, in a true and important sense, to belong to the sphere of matter and of physics, while another moiety belongs to the sphere of mind and of subjective investigation. When we are engaged in the investigation of such a question, for example, as that of the relative advantages of large and of small landed properties, or of municipal and of private enterprise, we have to follow logical methods which are, on the whole, analogous to those of physics. In such cases, at any rate, we bring all our theories ultimately to the test of comparison with outward fact. When, on the other hand, we are engaged with such problems as the Ricardian Law of Rent, the theory of value, the true import of such expressions as "Capital" or as "National Wealth," we find that the methods which

we have to employ are methods very much more closely allied to those of the mental sciences proper, in which the appeal to outward fact is inapplicable and unavailable.

The full importance of the distinction may not be, at first glance, obvious. It will best be seen if we put to ourselves the question, What are the criteria of truth in the two spheres of investigation respectively? In regard to physics, the reply is clear enough. We can inquire of Nature herself in regard to the point in dispute, and can obtain her answer by an experiment or a carefully conducted observation. Suppose the inquiry to be such an elementary one as this: "Is or is not the specific gravity of lead greater than that of water?" We can take a piece of lead, drop it into a glass of water; it sinks, and the question is answered. Suppose it to be, on the contrary, any one of the much discussed questions in regard to the relations between the conscious subject and the outward world, the case stands very differently. We might suppose, for example, such a question as this to be put: "When we open our eyes in broad daylight, is it the sun that we see, or is it merely its image on the retina?" Sir William Hamilton and Mr. Mill, much as they differed on so many other points, were agreed in thinking that it is not the sun itself that we see, but merely its image, and, consequently, that no two of us see the same sun. The vulgar, of course, think differently. Are the vulgar of the philosophers here in the right? How shall we decide such a question? Plainly we cannot inquire of Nature. An experiment or an observation is wholly inappropriate. Turn your face to the sun and open your eyes. That would be the appeal to objective fact. But what that appeal decides is not the matter that is in dispute. All are agreed as

to what substantially in such circumstances takes place. The further question, however, remains whether that which takes place is rightly described as "seeing" the sun or not.

The distinction, indeed, between the two classes of questions is, it appears to me, very closely similar to the famous distinction that has been drawn in jurisprudence since the days of the prætors, between the question of fact that is now, in England, left to the jury, and the point of law that is reserved for the Bench. Our handbooks on Logic seem to ignore altogether the point of law as a description of reasoning which requires analysis, or deserves special treatment. They take it for granted that the reasoning that is concerned, deductively or inductively, with observation and experiment is coincident with the whole sphere of reasoning generally.

What, however, are we then to make of all the elaborate and subtle thinking that is to be found in the decisions of English Lord Chancellors or in the *dicta* of Roman jurisconsults? Mill's experimental methods have certainly no application to it whatever. Is it then not reasoning at all, or must our conception of reasoning undergo an important extension in order to embrace it?

Let us look again at the nature of the questions that are proposed to us in the class of investigations which, whatever else they are, are at any rate not physical or statistical. If, for instance, Sir William Hamilton and Mr. Mill tell us that no two of us see the same sun, or if Mr. Henry George tells us that land never is and never can be capital, is there any touchstone to which we can bring such propositions to procure, once for all, either their verification or their definite and conclusive negation? There is certainly

one criterion that is frequently applied in the last resort, and often with the tacit consent apparently of all parties,—that is the appeal to the verdict of the "man in the street" with regard to the natural use of the language employed. Readers of Mr. Mill's works will be familiar with his practice of appealing to the "man with no theory to support." He resorts to it in numerous cases. He makes the assertion, for instance, that matter is that and that only which resists muscular effort, and, finding some dissent expressed, he asks, Is not this fact of resistance to muscular effort the test which men of science who have no theory—that is, no metaphysical theory—to support at once apply to decide the question whether such things as heat and flame are matter or not? No one indeed can read half a dozen pages of metaphysical controversy, or of the economical controversies that are analogous to it, without coming across instances in which the test is, in one shape or another, made use of.

Mr. George, I have already alluded to. Few writers have carried to greater length than he the practice of using words in senses which are not their real ones. Land, for example, with him is not alone land in the ordinary meaning of the word; it embraces the sea, the air, the animal world, in fact the material universe. Wages are with him not merely periodical receipts from an employer for work done; they embrace "the berries that a shipwrecked sailor picks when stranded on a desert island." Rent, of course, he holds, with Ricardo and with the classical school generally, is not alone the payment which a tenant makes to his landlord, but may be quite as accurately said to exist in cases where there are neither landlord nor tenant, but where, on the contrary, the occupiers own their properties. Mr. George, however, is not at all behind his brother-

economists in making use of the appeal to the man in the street as to the natural use of the language employed when it suits the purpose of his argument to make it. At the close of his disquisition on the meaning of capital, for example, he remarks, "If the articles of actual wealth existing at a given time in a given community were presented *in situ* to a dozen intelligent men who had never read a line of political economy, it is doubtful whether they would differ in respect to a single item as to whether it should be accounted capital or not."[1] He goes on to indicate his own opinion that the items of wealth which they would regard as items of capital are precisely those which ought to be so regarded. It is not a little curious and interesting to observe that an acquaintance with the theory of the subject dealt with is regarded both by Mr. Mill and Mr. George as being of no advantage whatever in assisting us towards the formation of a sound opinion in referenee to the right application of the salient terms made use of. I will endeavour to show the ground for this singular, but not altogether fallacious, view at a later stage of the discussion.

While, however, this appeal to the natural use of language is, as a matter of fact, made continually both in metaphysical and in economical controversy, if one were to formulate it into a general rule, and were to maintain the thesis that any proposition in those fields of inquiry, in which the language employed did not, in its meaning, conform to popular usage, must be looked on as false and misleading, one would, I think, be met by a very general chorus of dissent. Now and then, indeed, we find this dissent expressed in anticipation, in set terms and with much emphasis. In Pantaleoni's *Pure Economics*, for example, a book

[1] *Progress and Poverty*, p. 31.

which has been received with much favour by the dominant school of economists in England, we find the doctrine laid down that "we are NEVER concerned to know what are the meanings attached to a term either in vulgar *parlance* or in any other science than the one under consideration."[1] In another less well-known work of the same school, which, however, happens to be under my hand at the present moment, Macfarlane's *Value and Distribution*, I find it remarked that it may be objected to the author's line of reasoning that he employs "the terms 'rent,' 'profit,' 'interest,' and 'gain' in entirely different senses from that sanctioned by common usage."[2] He regards this practice, however, as proper and legitimate, and, *à propos* of the point, he furnishes us with the maxim that appeals to "common sense in economics are always to be received with suspicion."[3]

In regard to the *Dii Majores* of metaphysics and of economics alike it must be said that they seldom commit themselves to broad statements such as these. At the same time there is no doubt that by very clear implication they lend them their countenance. Mr. Mill, for instance, is of opinion that the qualities in the objects presented to our senses, say the brightness of the sun, or the greenness and roundness of an apple, are in every respect one and the same thing with the sensations that we experience on perceiving them. It might seem clear, at any rate, that the quality is numerically one, while the sensations that correspond to it are many. Mr. Mill argues, however, that nothing but popular language, with its unaccountable caprices, makes us think that there is any possible distinction to be drawn between the two. In accord-

[1] Eng. Trans. p. 70. The small capitals are S. Pantaleoni's.
[2] P. 314. [3] P. 61.

ance, too, with this view as to the utter capriciousness and delusiveness of popular language he gravely discusses the desirability of dispensing altogether with the use of the word "cause" in philosophical discussion, on account, as he says, of its manifold ambiguities, and Mr. Jevons goes one better; he actually makes a heroic attempt to dispense with the use of the word "value" in his disquisition on the theory of that subject.

With regard to Mr. Mill, however, I have already pointed out how different an attitude he, on other occasions, assumes towards common usage. While in the instances cited, he seems to think that the popular meanings of words are nothing to the philosopher, in other cases he is capable of growing eloquent in his indignation at those who do not hold such meanings sacred. The echoes of his famous controversy with Mr. Mansel, though it is now forty years old, have not died out yet. That philosopher, it will be remembered, had put forward the doctrine that such goodness as we attribute to God may "differ not only in degree but in kind"[1] from the goodness that we ascribe to good men. He had entered his emphatic protest, as he said, against the opinion that "God's wisdom and justice and mercy must contain nothing that is incompatible with the corresponding attributes in the human character." "Here, then," rejoined Mr. Mill, "I take my stand on the acknowledged principle of Logic and Morality that when we mean different things we have no right to call them by the same name, and to apply to them the same predicates moral and intellectual. Language has no meaning for the words Just, Merciful, Benevolent, save that in which we predicate them of our fellow-creatures, and unless

[1] See Mill's *Examination of Hamilton's Philosophy*, p. 126.

that is what we intend to express by them we have no business to employ the words." This is surely a plain case of the appeal to common usage as regards the meaning of the language philosophically employed, and few will now deny that it was fully justified and entirely legitimate. I do not know, moreover, that there is any reason that can be suggested for maintaining that a principle which must be conceded to hold good in the sphere of ethics and theology should not hold good in the less fiery sphere of economic theory.

Besides such manifest appeals as these, however, to common usage as embodied in popular language, it must be said that, if we look below the surface, we find the appeal made, less obviously perhaps, but just as really, in cases that are altogether innumerable. It is made not only when the "man in the street," or the "man with no theory to support," or the man who knows nothing of political economy or philosophy, as the case may be, is, in so many words, apostrophised, and asked to give his verdict on the point in dispute, but, no less truly, on every occasion on which an abstract formula is compared with an individual case, and, if it does not square with it, is either rejected or amended. Hume, for example, enunciates his famous formula that "the cause" and "the invariable antecedent" are one and the same thing. Reid replies: "Day is the invariable antecedent of night and night of day; but would anyone for that reason say that the one is the cause of the other." The appeal here is plainly to the popular use of the word "cause," to the manner in which anyone who neither knew nor cared anything about the matter in dispute would apply it. Mill, further, it must be said, acknowledges the validity of the appeal in this instance, and, in his definition of "cause," alters the

words "the invariable antecedent" into the words "the invariable unconditional antecedent," a very different thing indeed, into the merits and demerits of which, however, as a definition of causation it is beside my purpose, at present, to enter. What I wish to draw attention to is, of course, the nature and scope of the postulate that appears to be implied in the making of such an appeal in such a case. Those who make it obviously enough take it for granted, rightly or wrongly, that in philosophical discussion, the popular use of the words employed should stand for us in the very same position in which objective fact stands in the discussions of physics. They assume that, as in objective science we have to bring all our abstract formulas to the test of comparison with outward fact, and as we must reject or amend them if they do not square with it, so, in mental science and in economic theory, we should bring all our abstract formulas to the test of conformity with the popular meaning of language, and should similarly reject or amend them whenever such conformity is found wanting.

Without, at the present stage of the discussion, expressing a definite opinion as to the complete validity of this assumption, I may point out how wide and how far-reaching would be the change that must ensue in the current mode of viewing very many of the theories now dominant both in the sphere of metaphysics and of economics if such a principle should ever come to be, in due form, generally recognised as the indispensable maxim of our method.

CHAPTER II

JUSTIFICATION OF THE APPEAL TO POPULAR USAGE

We have been led by the reasoning of the last chapter to the conclusion (1) that the appeal to common usage as regards the language employed is continually made in the controversies of the pure subject sciences as well as in those of economic theory; and (2) that it is, in very many cases at any rate, accepted by all parties as a final and conclusive test of truth in these sciences. The further important question, however, remains, In how far can this appeal be philosophically justified? The attempt to answer this question will, we may find, involve more excursions into the domain of the mental sciences than are usual in treatises on economics; and my answer to those who may regard this as an undesirable innovation is that, in my view, the relation between economics and mental science is of a more intimate character than is generally recognised, that the nature of the questions, indeed, that have to be answered, and of the logical methods that have to be employed in both, are, to a very great extent, the same.

In approaching our problem it may be worth while, in the first instance, to ask, What other test of truth or falsehood is there in these branches of inquiry, or is there any? It will be generally conceded that if the subject sciences are to be regarded as sciences at all, there must be a test of some sort corresponding to the test of comparison with fact in physics. If there is none available, then, indeed, every conceivable

proposition that can be put forward in them would be always just about as true and just about as verifiable as its opposite. The whole tenor of philosophical controversy, however, takes it for granted that that is not the case. There must be a test of some sort, and our business is, somehow or another, to ascertain what it is.

The conception seems to pervade the introductory chapters of many philosophical and economic treatises that the want of such a test can be supplied by definitions, and by the consistent adherence to them on the part of the writer throughout his work. It is plain, however, that this, at the best, would be a test of self-consistency only, not of the substantive validity of the views advanced. It takes for granted that the definitions in themselves are neither right nor wrong but are to be looked on as mere arbitrary fixed points —meridians of Greenwich so to speak—from which to take our start. If that is all that they are it would, of course, be a waste of time and trouble to inquire into their validity in themselves. Most writers, however, who attack the problems either of philosophy or of economics do spend a large amount of time and trouble on such inquiries.

Take the word "capital," for example. It would be easy to fill a large volume with extracts from the writings of the English economists alone of the nineteenth century dealing with the question, What is its true definition? Mr. Mill, of course, contributes his quota to the discussion, and the conclusion at which he arrives may be embodied in the formula that capital is wealth which is devoted or intended to be devoted to the production of fresh wealth. Supposing that conclusion to be the right one, as, indeed, it seems to me that it is, on what grounds, we have next to ask,

are we justified in affirming that such is the case; on what grounds can the validity of the definition be sustained? We have not got it by a direct revelation from heaven, and we must surely therefore be able to state some reason for laying it down in preference to any alternative definition. Is there any other conceivable ground, I would ask, that can be suggested, except that of its conformity with the common meaning of the word "capital" in vulgar *parlance*? If there is any other I should like much to know what it is. That is, at any rate, the only ground that is in practice ever relied upon. Take, for example, to quote an illustration from Mr. George, a box of cigars in a tobacconist's shop. The cigars are clearly there part of his capital. Why? Because he evidently means, if he can, to sell them at a profit and thus increase his wealth by means of them. Anyone would therefore call them part of his capital. Take again the same box of cigars lying on his dining-room table after dinner. Are they capital now? No, because he means to smoke them himself, and not to use them in any sense in the production of fresh wealth; and, again, common usage confines the application of the word "capital" to things that are so used. An investigation of the question, therefore, whether adherence to definitions can serve as a substitute for the appeal to popular usage appears only to result in driving us back upon the appeal itself as the only possible ground of all the validity that can be ascribed to the definitions, and it is, thus, beyond question that they cannot serve as substitutes for that appeal.

Provisionally, then, I think, we may take it that the appeal to common usage is something that has to be seriously reckoned with. At the same time, it is also clear that the principle which it involves is one

which can only be laid down as subject to numerous safeguards and limitations. The mere fact that the popular meanings of words are not dead and rigid, but are, on the contrary, themselves subject to continual variation and development, introduces a difficulty at the outset. How is it possible, it may be asked, to use as a criterion that which is itself confessedly wanting in fixity? The difficulty is a real one. It may, however, be, to some extent at any rate, overcome by a clearer understanding of the grounds on which the principle rests. In the meantime, it is worth while to point out that the difficulty of reconciling this truth—supposing it to be a truth—that in subject science our language must maintain its conformity with the popular meanings of words with the other truth that a growth in scientific exactitude and fertility must be allowed for, presents a close resemblance to a difficulty which has been met with in the study of the theory of jurisprudence. Sir Henry Maine has drawn attention to it. It lies in the inevitable inconsistency that arises between the view that we take of legal decisions before they are delivered with the view that we have to take of them afterwards. "When a group of facts," he remarks, "comes before an English Court for adjudication, the whole course of discussion between the judge and advocates assumes that no question can be raised which will call for the application of any principle but old ones, or of any distinction but such as have long since been allowed . . . Yet the moment the judgment has been rendered or reported, we slide unconsciously, or unavowedly, into a new language and a new train of thought. We now admit that the new decision has modified the Law."[1] The analogy may perhaps assist us to understand how the necessity of taking the

[1] *Ancient Law*, ed. 7, p. 31.

popular use of words in the past as our standard need not necessarily be irreconcilable with the existence for us of an ideal of ever increasing fertility and precision as regards our use of these same words in the future.

Another objection to the possibility of justifying the appeal to popular usage in language as a test of the validity of economic propositions that must be reckoned with will, no doubt, be found in the assertion that popular language itself is full of caprices and ambiguities. This is an assertion that Mr. Mill, for example, is very fond of making, though it is one that is not easy to reconcile with his own appeals to popular meanings in such cases as those mentioned. It must be said, however, that when we come to the examination of these alleged caprices and ambiguities in detail we find that, very frequently at any rate, they disappear altogether as soon as the matter is gone into. No word has had more accusations of ambiguity, and consequently of unsuitability for scientific use, alleged against it than the word "value." Value in use, we are told, is one thing and value in exchange is quite another; and that is unquestionably the case if we treat the phrases as museum specimens, if we put them each in its separate case and examine them there. Diamonds, as an abstract proposition, anyone would say, have a greater value in exchange than coals, while coals have a greater value in use than diamonds, and so we are alleged to have two meanings for the word "value" that are reciprocally contradictory. But take any whole series of circumstances in which the word would be used in ordinary conversation or writing in regard to coals and diamonds respectively, and you will see that the matter stands very differently. Say that we are stranded on a desert island devoid of fuel, a ton of coals would then have a far greater value in

use than a diamond ring worth, in ordinary circumstances, a hundred pounds. No doubt it would, but so also would it have a far greater value in exchange. Who, in such circumstances, would give half a hundredweight of his coals for a bushel of such rings? Or take the converse case. Suppose we are living in Oxford Street, London, W. Here is a diamond ring worth a hundred pounds and here is a ton of coals worth a pound. The ring, of course, has a far greater value in exchange than the coals. That is true, but then it has also a far greater value in use.[1] The ton of coals will warm my house and cook my dinner for a month, say. The ring, after I have spent half an hour, perhaps, in conversation first with a jeweller and then with a coal merchant, will, like an Aladdin's lamp, put me in possession of coals enough to warm my house and cook my dinner for some years to come. Such ambiguity as there is thus, it seems, relates only to propositions about coals and diamonds in general, not to any communication that one man can find it necessary to make to another in practice, about any particular coals or any particular diamonds.

The confusion between a general term and the individuals embraced under it, to which, as we have seen, the allegation of ambiguity in the popular use of the word "value" is due, is a very common form of error in economical speculation. One would think that the difference between wheat in general, let us say, and any particular cargo of wheat was a difference that absolutely stared us in the face, and that no one could possibly pass it by unnoticed. Yet there is no fallacy more common than the fallacy of ignoring such differences.

In my previous work I had occasion to point out

[1] Cf. Jevons' doctrine of "acquired utility," *Theory of Pol. Econ.* p. 149.

how the distinction between the concrete individual and the thing in general was ignored in connection with the theory of the "appreciation of gold" framed to account for the fall in the prices of commodities during the latter years of last century. That doctrine was assumed to be axiomatic. A fall in the price of any commodity and an "appreciation of gold" in respect to it were held to be "in effect synonymous." If wheat was down in price by 5s. as compared with its quoted price at a previous date, then, it was said, gold must have appreciated by precisely 5s. with respect to it. This view, I endeavoured to point out, owed any plausibility that it possessed to the confusion that arose between wheat in general, which is a mere fiction of our thinking faculty, and individual consignments of wheat, which alone have any real existence. Try, I urged, to follow the history of any two individual consignments of wheat in any two given years, from the sowing of the seed to the delivery of the product to the consumer, and the axiomatic character of the doctrine would at once be seen to vanish. Suppose that we have two given cargoes in two given years the first of which was sold in London, say in 1900, at 30s. per quarter, the second, say, in the following year at 25s. General Walker or Sir Robert Giffen would then hold that there must necessarily have been in such a case an appreciation of gold in respect of the wheat, but where do we find it? The first cargo was produced, let us say, at a cost of 15s., add railage 5s., freight 5s., and middlemen's profits 5s. more, you have then 30s. The second cargo, say, was produced at a cost of 12s. 6d., add railage, say 2s. 6d., freight 5s., and middlemen's profits 5s., you have then for it the price of 25s. In neither special case certainly did any appreciation of gold occur. On the contrary, as each

cargo by hypothesis yielded a profit to the producer, the transporter, and the merchant respectively, there must, in each case, have been an appreciation, throughout its history, of that particular wheat as compared with the gold spent on it. If there had not, on the average, been such appreciations, even in falling markets, then the trade in wheat would have come to a standstill. The truth is that the sequence, "if wheat is down as compared with money then money must be up as compared with wheat," would only be axiomatically valid if the wheat of the second year had been the *very same* wheat that was in existence during the first; and it will be found that the idea that the commodities of one year are either the same as the commodities of the next, or else that they hand down their identity to them like the members of a perpetual corporation, is an idea that runs continually in the minds of writers dominated by the quantitative theory. We find General Walker, for instance, remarking in regard to the system of comparison by index numbers: "The aggregate price of the *same* articles in the same quantities in the same market at dates earlier or later, affords a comparison which is supposed to determine with a reasonable degree of accuracy the appreciation or depreciation of the money used in that market."[1] But if the articles are not the same, but only perhaps remote descendants of the original articles, does that then make no difference?

This same confusion between the literal identity of objects and the mere fact that they belong to the same class, and are called by the same generic name, makes itself conspicuously apparent in the doctrine of the classical school as to the relation between cost of production and market value. Mr. Mill, for instance,

[1] *International Bimetallism*, p. 257.

draws a distinction between "commodities of which the supply can be indefinitely increased" and commodities with regard to which this is not possible, and arrives at the conclusion that the value of the one class is ruled by cost of production, and of the other by demand and supply. But if we confine our attention to any given actual object—a horse, a picture, or a cargo of wheat, as the case may be—it is clearly inaccurate to say that the supply can be indefinitely increased. All that can be said is that the supply of other individuals of the same class, which therefore will serve as substitutes for it, can be thus increased.

The attribution, in short, can only be made with regard to horses, pictures, or cargoes of wheat considered generally, not with regard to individual concrete instances. Such confusion as there is thus arises out of our own inaccurate thinking, not out of any ambiguity in popular language.

The question then before us, at present, is the possibility of justifying the appeal to the popular meanings of words as a criterion of the validity of philosophical propositions; and, with a view of obtaining a solution of that problem in the least roundabout manner it will be well, at this point, to go to the very root of the matter, and to inquire how it is that we, in the first instance, learn the meanings of most of the common words that we make use of, and what, consequently, it is that we really do when we predicate any given characteristic of any given subject. The question "what is truth" we often look upon as the most elementary of all possible questions, but there is a question, I think, more elementary still, that is the question, What is predication?

First, then, as to the manner in which we learn the meaning of most of our common words, one thing is

very certain, especially as regards the commonest of them, that it is not from definitions. The discovery, indeed, of definitions for a great number of such words is still among the unsolved problems of science and philosophy. Whewell remarks, with truth and point, that if anyone could define "Life" he would know more than all the biologists, and it is equally true that if anyone could define reality, identity, or causation he would know more than all the metaphysicians. Everyone, at the same time, who uses the words Life and Cause and the like with intelligence knows in a very real sense their meaning; and thus we are brought face to face with the fact, pregnant with important consequences, that we can know the meanings of many words which yet we cannot define. How then did we learn those meanings? As a rule, surely by object-lessons. We may take almost any common word we please to illustrate the manner in which meanings are usually learned. Take the word animal, for example. I suppose most of us learned its meaning, in the first instance, by having a dog or a cat pointed out to us, and by being told, "that is an animal." The dog or the cat became for us, from that moment, our type instance of animalhood. As our acquaintance with the world progressed we were continually being brought into contact with other objects which presented most of the salient characteristics of the dog and the cat, and we had little difficulty in classing them along with our type. The time, however, came eventually when, in the progress of our knowledge, we had to deal with some of those minute organisms which are self-moving but which nevertheless give out oxygen and absorb carbonic acid, and then we found that their classification was far from being a simple and obvious matter. A course like this is run

by the great majority of our words. First we have the type which gives us the meaning of the word; then we have innumerable things so like the type that we have no difficulty in classing them with it, and finally we have a borderland where probably everything is open to controversy.* Even with regard to the apparently definite terms of chemistry this principle is, more or less, applicable. It is applicable to the more general conceptions of that science at any rate. As Mr. Mill has remarked, in reference to the word "acid," "As experimental discovery has advanced, the substances classed with acids have been constantly multiplying and, by a natural consequence, the attributes connoted by the word have receded and become fewer," till at last acid has come to mean for the chemist, that which reddens vegetable blues, and little if anything more than this. "Metal," too, it has been remarked, has so extended its denotation and so weakened in its connotation that it is doubtful now whether it should not be made to include a substance so different from the typical metals as hydrogen.

Predication then, it seems, is always in a sense classification. In order that it should be possible we must obtain, to start with, our type instance, and this, it must be observed, is necessarily obtained in a manner that is perfectly arbitrary and unscientific. Science does not begin till we commence to range other individuals alongside of our type as possessing similar characteristics to it, and as thus belonging to the same genus. For everything in science, therefore, there must ultimately be a basis that is not itself scientific. When, in the progress of our knowledge, we reach the borderland between the animal and vegetable kingdoms, then indeed it requires the highest physiological competence to assign any given individual to its proper

class, but in regard to the type instances themselves, the dog or cat, say, as animals, or the cabbage or parsley as vegetables, the verdict of the man in the street is just as good as the verdict of a Darwin or a Huxley.

It may be answered; that may be true enough, but it appears to be a very barren truism, as no one in his senses would dream of calling in question the characteristics of the type instance itself, the animalhood, say, of the dog or the vegetablehood of the cabbage. That holds good in these cases no doubt, but there are other cases in which it does not hold good at all. Many of the most famous controversies, on the contrary, of abstract philosophy have been raised by those who have regarded it as legitimate to call in question the elementary characteristics of the type instance itself, and, of late years especially, not a few of the economists have shown a disposition to emulate in this respect the practice of the philosophers.

If we ask how it was that we learned the meaning of the word "real," the only possible answer is that we learned it from some common object of the outward world which was pointed out to us as real. We were told, for example, that this table at which we sit is real, or, no doubt, more probably, without being told that in so many words, we picked up the meaning of the word from others by hearing it so applied. Everything, thenceforth, came to be held by us to be more or less real in proportion as it possessed the salient characteristics of the table as seen and felt by us and by those about us. Presently, however, the philosophical sceptic comes along, and, by one line of argument or another, endeavours to convince us that the table is not real. We urge, in reply, that we can see it, we can feel it, we can measure its dimensions precisely, that it is not, again, to be classed with the

illusions of our dreams, because everyone else can see it and feel it and measure it as well—that, in short, it possesses for us all the salient characteristics of reality. He admits all that, but still he contends that it is not real. Or perhaps the argument takes another form. Kant, who took himself very much more seriously than Hume, was apparently convinced that there was such a thing as reality in its fullest and completest sense, but this was transcendental reality, the reality that pertained to the "noumenon." The ordinary object of the outward world, on the contrary, the rose which we can pluck and see and smell did not possess reality in this superlative sense; it only possessed "empirical" reality, the reality of the phenomenon. It is to be observed that in the construction of this conception of second-rate empirical reality Kant exhausts all the characteristics of the type instance of reality generally. What other sort of reality then can there be? Might not one almost as reasonably assert that there can be something more human than a man or more canine than a terrier, as that there can be something more real than the table at which we sit.

In philosophy every age appears to have its fashionable paradox. In Leibnitz's day it seemed possible to assert that if two dewdrops were precisely similar to one another they were not two but one. Hobbes could tell us and could find many to agree with him in the opinion that the disinterested heroism of a mother who sacrificed her life to save her child was no less selfish in truth than the action of a man, say, in a shipwreck, who endeavoured to save himself at the expense of all those about him. Both, so it was urged, did that which brought to themselves the greatest pleasure or caused them the least pain.

The most fashionable paradox at present bears on

the doctrine of causation, and it is worthy of remark that it is not so much the paradox of the metaphysicians proper as it is that of the men of science who dabble in metaphysics. We most of us certainly learnt the meaning of the word "cause" by finding it applied to the acts of ourselves or of others. But such acts, it is said, are not and cannot be causes at all. Mind cannot act on matter. The law of the conservation of energy, so it is contended, forbids the supposition.[1] We imagine indeed that it is we who are causing changes in our environment, but in truth, so it is said, they are all occurring quite irrespective of our thoughts or our wills; we are merely such dummies as a conjurer puts forward to delude his audience, while everything is really carried out by the action of matter on matter, and through the agency of purely physical laws.

It will thus be seen that, in the sphere of abstract philosophy, the practice of calling in question the characteristics of the type instance itself is far from being unknown, and if that practice could be held to be legitimate it would then certainly be impossible to justify the appeal to the popular meaning of words in that sphere or in any other. Let us see how the matter stands, however, when we turn our attention to a more practical branch of thought, the reasonings of the Bench and the Bar on the point of law.

[1] This, of course, is denied by such careful and accurate thinkers as Dr. Ward and Professor Stout.

CHAPTER III

THE APPEAL TO POPULAR USAGE IN JURISPRUDENCE

THE language of the law, as we all know, is not free from technicalities. "Malice" means one thing in a court of justice and another in common conversation. The same is true also, in a measure, of such words as "fraud" and "negligence." These technical meanings we have inherited from the past, and have to make the best of them. Their range is restricted, and the present tendency is not, as it is in economics, to increase their number. No writer on jurisprudence would dream of telling us that he meant to take the liberty of using his terms in any sense that he pleased, as long as he adhered to the same sense throughout, still less would any such writer dream of calling the type instance in question, of maintaining that there was some doubt whether the deliberate picking of a pocket was stealing or the deliberate administering of poison was murder. Outside the limited range of established technicalities, of words that owe their meanings to the usage of the Courts instead of to the usage of the street, the appeal is continually made to popular use, and the principle is, in set terms, laid down constantly both in the text-books and in the decisions of the judges that the appeal is both valid and final.

Lord Thring, for instance, says that technical phraseology should be avoided in drafting Acts of Parliament; "the word," he says, "best adapted to

express a thought in ordinary composition will generally be found to be the best that can be used in an Act of Parliament."[1] "In the construction of a contract," says Hardcastle,[2] "there cannot be said to be any rule of law applicable, but the governing principle is to ascertain the interests of the parties to the contract through the words they have used, which words are to be taken in the sense which the common usage of mankind has applied to them in reference to the context in which they are found."[3]

"The main rules of construction applicable to contracts," to quote again from Hardcastle, "are well laid down by Sir Howard Elphinstone (*Conveyancing*, 3rd ed. p. 29, and L.Q.R. 466) with reference to Deeds:

"*First.* 'When the words used in an instrument are in their primary meanings unambiguous, and when such meanings are not excluded by the context, and are sensible with respect to the circumstances of the parties to the instrument at the time of execution, such primary meanings must be taken to be those in which the parties used the words.' This, with the modification already indicated, is applicable to statutes.

"*Second.* 'Extrinsic evidence is admissible for the purpose of determining the primary meanings of the words employed, and for no other purpose whatever.'

"*Third.* 'When the primary meaning of a word is excluded by the context, we must affix to that word such of the meanings as it may properly bear, as will enable us to collect uniform and consistent intention from the whole instrument.'

"In these rules, by primary, sometimes called literal meanings, is intended, not necessarily the primary etymological (*i.e.* literary or dictionary meaning), but rather—

"(1) The meaning usually affixed to the words, at the time of

---

[1] Hardcastle on *Statutory Law*, ed. 3, p. 176; *Practical Legislation*, p. 31.

[2] *Statutory Law*, p. 7.

[3] Lord *v.* Commissioners of Sydney (1858), 12 Moore P.C. 497. *Op. cit.* p. 7.

execution, by persons of the class to which the parties to the instrument belonged; or,

"(2) The meaning in which the words must have been used by the parties, having regard to the circumstances at the time of execution; or,

"(3) The meaning which it can be conclusively shown that the parties were in the habit of affixing to them."

As far as these dicta go, the rules for the interpretation of contracts do not differ essentially from the rules for the interpretation of statutes. The same general principles, as we shall see, apply in both cases. What is called the "primary meaning" corresponds to what I have called the "type instance," and the illustrations taken from jurisprudence are specially instructive as showing on what principle the meaning of the type instance may be justly extended to other instances, and, in a general way, where such extensions must cease.

In order to show these principles at work we may take as one example out of thousands similar, the line of reasoning made use of in a case that came before the House of Lords in 1899—Powell *v.* The Kempton Park Racecourse Company Ltd.[1] The case itself is one of some public interest, especially to the betting and racing world, as well as to the world to whom betting and racing are anathema. The circumstances which led up to its presentation to our tribunal of ultimate appeal were the following:—In 1853 an Act was passed to put down betting houses, which had then sprung up in considerable numbers in London and elsewhere, and which were regarded by the Legislature as a common nuisance and a grave danger to public morals.

[1] *Law Reports, House of Lords*, 1899, p. 143. I am indebted to Mr. W. F. Hamilton, K.C., the eminent authority on Company Law, for pointing out to me this case as an example suitable for my purpose, as well as for many valuable suggestions in connection with the nature of legal reasoning generally.

The wording of the Act was necessarily comprehensive. It embraced under the denomination of "betting house," houses, offices, and other places in which money was taken and bets recorded. Accordingly, towards the close of last century, the idea suggested itself to some of those who regarded the presence of bookmakers on the racecourses as undesirable to make an effort to ascertain whether the Act could not be made available to get at them. In the course of one of the cases raised with that end in view Lord Coleridge made the remark that if a bookmaker stationed himself on any definite spot, say under an umbrella fixed in the ground, he would certainly be opening a betting house within the meaning of the Act. The bookmakers thenceforward took the hint and were careful not to station themselves under fixed umbrellas, but were accustomed to shout the odds and to take the money while walking up and down the enclosures by the grandstands. The further question, however, then presented itself whether these enclosures themselves could not be brought within the meaning of the words "betting houses." To decide that point the case Hawke *v.* Dunn was raised in 1896, and was decided, by Mr. Justice Hawkins, in a sense adverse to the bookmakers. Mr. Hawkins regarded Lord Coleridge's distinction as an idle one, and thought, with some apparent show of reason, that if a man must be held to open a betting house within the meaning of the Act when he shouted the odds and took the money offered him stationed under an umbrella fixed in the ground, it was absurd to hold that he did not do the same thing, to all possible intents and purposes, when he resorted, with the same object in view, to an enclosure where his customers knew precisely where to find him. The decision in Hawke *v.* Dunn threatened, of course, the extinction

of bookmakers on the racecourses, and, at the same time, it opened the further question whether the owners of racecourses were not to be held liable to the charge of establishing betting houses by placing these enclosures at the disposal of the bookmakers to do their business in, or even by merely permitting their resort to them. To get that question decided, the owners of one of the racecourses, the Kempton Park Company, arranged with one of its shareholders, a Mr. Powell, to bring the matter before the Court by a friendly suit. The suit in the end reached the House of Lords, and it was finally decided, by a considerable majority of that body, including the Lord Chancellor and Lord James of Hereford, though with the dissent of two eminent judges, Lords Hobhouse and Davey, that the Company were not liable, that the enclosures could not be regarded as betting houses, nor the Company as persons who established them.

It is, of course, wide from my present purpose to give the arguments on either side in any detail. To put the matter as briefly as possible, the Lord Chancellor held that the whole scope of the Act made it clear that the persons aimed at by it were persons who opened betting houses or other places, in order to do business there themselves, and that the Company, in allowing anyone who chose to pay their one pound entrance fee to resort to its grandstand enclosure, neither knowing nor caring whether such persons meant to back the field, like the bookmakers, or to back particular horses, like the outside public, or, for that matter, to bet at all, were certainly not doing anything of this character. The question whether they were or not depended, he said, on the interpretation that was put by the Court

on a considerable number of salient words and clauses, of which he gave a list. It was the business of the Court, he thought, to put their interpretation on each of these expressions. He himself held that their meaning was such as to make the Act inapplicable to the defendants in the present case. Lord James of Hereford, among other observations in his deliverance, remarked that the Act was certainly not intended to put down betting everywhere, its aim was definite enough; the prohibited "betting house or place" could not be interpreted, for example, as a man's private house or club. It could not, again, be interpreted as applicable to a large area, like Salisbury Plain, neither could it, in his view, apply to an enclosure resorted to on the payment of an entrance fee, no doubt by the bookmakers and their customers, but also, of course, by many other people who used the grand-stand to watch the races and frequently never thought of betting at all.

Such, then, was the reasoning in brief. Let us next see if it is possible for us to seize and bring into relief the salient characteristics which it possesses in common with most if not all other reasoning on the point of law. We have here, then, to begin with, our type instance, a betting house, say, in Oxford Street, such as existed at the time that the Act was passed. Next, one remove further away, but yet possessing much in common with the typical betting house, a bookmaker under a fixed umbrella with a clerk beside him, doing business much as he might do it in an actual betting house; again, yet another remove, but this time a very important one, an enclosure with a couple of hundred bookmakers and, perhaps, a couple of thousand people, some of whom were doing business with the bookmakers, others not. Lord James of

Hereford's line of reasoning is, from our point of view, especially interesting and suggestive. He thinks it worth while to introduce what we may call a negative type instance, a type, that is, of that to which the Act certainly does not refer, to place in antithesis to that to which it clearly does refer. The Act, as he observes, plainly does not mean by a betting house a man's private house or his club, nor could it mean by a "place" an area as large as Salisbury Plain. We have thus the two central conceptions, the positive and the negative, like two neighbouring planets with their respective spheres of attraction reacting on each other throughout the intervening space, and we have, of necessity, a region between the two where the attractive forces, so to speak, are approximately balanced, a region where one great lawyer will hold that a given fact belongs to the positive sphere, while perhaps another equally great will hold that it belongs to the negative.

As to the line of reasoning by which we establish or endeavour to establish the affinity of any given conception to the one sphere or the other, it depends plainly on the fundamental principle which lies at the root of all thinking, the perception of the essential similarities together with the discernment of the salient differences. With regard to the perception of similarities, so much is clear, that everything must proceed gradually, nothing must be done *per saltum*. Every extension that we allow ourselves to make in the meaning of terms must be an extension that, as such, is hardly if at all perceptible; and even then we have continually to bear in mind the fact that a sufficient number of these hardly perceptible extensions may land us, before we are well aware of it, within the sphere of the negative type instance, the sphere that comprises all

those things that the Act cannot refer to. In the same manner Lotze, taking an illustration from mathematics, remarks that by intensifying, no matter how gradually, one character of the ellipse, its length, and attenuating another, its breadth, we must in the end cause it to pass into the sphere of a wholly different conception, the straight line.

This glance that we have given at the logical methods that appear to be followed in jurisprudence brings into a strong light, at any rate, the contrast between the principles that apply in dealing with the type instance and those that apply in dealing with the various instances which, with continually diminishing certainty and confidence, we are able to assimilate to it, and to class with it. In jurisprudence, at any rate, as already observed, any dispute with regard to the type instance itself is plainly inconceivable. We have, then, as regards that science, the most complete justification that is possible for the appeal to common use in language in cases where the type instance, or primary meaning itself, is concerned. The man in the street, or the man who, by hypothesis, is absolutely ignorant of all that pertains to the special matter in hand, can in such cases rightly be asked to give his verdict on the point in dispute, and we can now see that this fact need not be in any way inconsistent with the other fact that untrained common sense would be incapable of arriving at a true decision in cases where the instance in debate was one that only resembled the type instance in certain particulars, while in others, of perhaps equal importance, it differed from it, and thus lay on the borderland between it and some antithetical conception.

A very considerable point, it must be said, would be gained if we had even this much generally conceded

as regards the questions of mental science and of economic theory. Such a concession would, at any rate, at once establish the *reductio ad absurdum* as a logical method, the validity of which, in these sciences, was definitely recognised. It cannot be said that it is so recognised at present. If it were, then, both in philosophy and in economics, the reign of paradox would be nearer its close than it appears to be. It would then, for example, be obviously impossible for an able and thoughtful writer to put forward seriously such a statement as this, that "the payment of wages in production, no matter how long the process, never involves any advance of capital, or even temporarily lessens capital."[1] Rather, on the contrary, any writer, on finding himself led to such a conclusion, would at once say to himself, there must be something wrong somewhere with my premises, or with my intermediate inferences, and so would at once proceed to recast, from beginning to end, the whole scheme of his theories. As regards extensions of meaning from the type to other instances, too, different principles would rule from those which rule at present. I shall have occasion to illustrate this point in the chapter on the rent theory.

[1] Henry George, *Progress and Poverty*, p. 46.

CHAPTER IV

LOGICAL METHODS IN PHYSICS AND IN ECONOMICS CONTRASTED

THE idea appears to be prevalent in many quarters that the subject sciences are to be regenerated by the adoption, in regard to them, of the methods of physical science practically unmodified. The less cautious of the psychophysicists, for example, express confidently the expectation that the day is coming when all psychological investigation will be conducted by means of experiment and observation only, when a Hume, as Professor Scripture puts it, will no longer think of retiring to the privacy of Ninewells to think out his philosophy, but will resort, instead, to a laboratory furnished with stop-watches, with appliances for flashing light on to numbered cards and for ringing electric bells at given signals; while, in another quarter of the intellectual firmament, the followers of Mr. Jevons are busying themselves with the attempt to reduce economic theory to a degree of exactitude similar to that which characterises mechanics, by the liberal use of diagrams and algebraical symbols, and the unlimited introduction of novel terminology.

Those who have entered on such undertakings have, I think, underestimated the essential character of the difference that divides the principles that apply in regard to the investigation of physical questions from those that apply in the investigation of mental ones. It may therefore be worth our while, at the present stage of the

discussion, to look into that aspect of the matter with a closer degree of attention than we have yet bestowed on it. We made the attempt, indeed, already, to inquire how the meanings of words generally are usually learned. I propose now, further, to inquire how the meanings of the words that apply to the subject-matter of the mental sciences and economics are learned, as compared with that in which we learn the meanings of the names of the objects of the outward world. Do we, it will be necessary to ask, learn the meaning of the word "hope" or the word "capital" precisely in the same manner as that in which we learn the meaning of such words as "spoons" or "shillings," or is there any essential difference between the two cases?

An obvious difference certainly leaps to light at the very outset. It lies in the fact that spoons and shillings and the like are things that you and I can hold in our hands and can pass along from one to another, and which consequently we can, at once, and without the smallest difficulty, identify as being the subject of discourse between us. With regard to that which the word "hope" expresses, we have plainly no resource analogous to this for identifying it, for making sure that when we mention it we are speaking about the same thing; and, with regard to such words as "capital," "rent," "interest," and so on, it will be possible, I think, without difficulty to show that we must, in this respect, class them with such words as "hope," and not with the objects of the outward world.

There are, however, it may be said, very many of these objects themselves that we cannot thus pass from hand to hand, what of them? If we cannot pass them from hand to hand we can, at any rate, point them out to each other, and their identification, thus, also depends, in the long-run, on the

sensations that accompany our motor activity. When you and I are speaking about a shilling, the ultimate reason why we can be perfectly certain that we are speaking about the same thing lies in the fact that while my finger is on the queen's head you cannot put yours there also without displacing mine. It is this fact which our processes of thought subsequently elaborate into the axiom that two bodies cannot occupy the same space at the same time.[1]

Vision, again, as Mr. Spencer has well said, is an extension of touch, and it thus shares with touch and the muscular sense in this salient characteristic. I can, indeed, see many objects in a general way at the same time as you see them, but I can see no object from precisely the same point of view as that from which you see it, nor in precisely the same aspect, without displacing you, and it is this fact which makes it possible for us to take the bearings of distant objects and thus to point them out to one another clearly and definitely, and beyond the possibility of mistake.

With regard to that which the word "hope" expresses, on the contrary, handling and pointing out are alike plainly out of the question, how then is the subject of discourse, in that case, identified? All that I can do in such a case is to narrate to you some series of circumstances in which "hope" uniformly arises, and to tell you that "hope" is the emotion that arises in such circumstances. I can tell you, for instance, that hope is the emotion that will spring up in the mind of a shipwrecked sailor when a sail comes in sight, and I can, of course, vary and amplify such illustrations as I please, but farther than the verbal presentation of illustrations I cannot go.

[1] See "Reality and Causation," by the present writer, *Mind*, vol. iv. No. 13, p. 86 ff.

This difference between the modes in which the subject of discourse is identified in the physical and that in which it is identified in the mental sciences, places a wide and deep gulf between the logical methods that are appropriate in each. Let us look at some of the derivative differences that flow from this primordial difference. One great difficulty which the metaphysician and psychologist have always to reckon with, the adequate definition of his terms,—a difficulty which, as we have seen, likewise perplexes the economist,—does not exist for the investigator in physics. What gold or silver or sulphur is, are questions that give no trouble whatever to the chemist or the metallurgist. He has always the resource at hand, to settle all controversies on such a point, of producing specimens of the substances in question. Thus, while in the material world each isolated thing can have a separate name assigned to it, we have really in the whole of the mental world nothing that corresponds to the definite concrete individual of physics. When we have to deal with the things or persons of the material world we can, at pleasure, lay our finger on any one of them and say "his name is John," but emotions, desires, attributes, and the like can never receive their names in this perfunctory fashion, nor in any fashion that at all resembles it. The emotion of hope, to return to our example, had been experienced by men during unnumbered ages before it had any name at all attached to it. Before it could obtain a name, indeed, it was necessary that the genius of early mankind should have come to discern a common element in the innumerable and ever-varying instances of its manifestation. Its naming implied the tardy perception of the one in the many; it registered the discovery of a natural law.

Language, of course, is not dead and rigid yet, but living and growing, and the words that are to be regarded as in a true sense accretions to it are without difficulty to be distinguished from such words as belong to nomenclature only, such as the names given to every fresh child that is born into the world, or to every fresh fossil that is added to the collections in our museums. The words of natural language spring into existence ordinarily no one knows how. They come first very often in the shape of slang, and only after many years of dubious existence in that character do they at length establish themselves as classical. They owe their survival to their fitness, to the fact that they also are in some sense perceptions of the one in the many, and that they, in their way, register discoveries of natural laws. Some trait such as *naïveté*, it may be, which, in as far as it differs from our nearest equivalent, simplicity, has eluded our blunter perceptions, is seized by the finer sense of our neighbours across the Channel. We acclimatise the word and it survives. The cause of its survival lies in the fact that it has embodied for us the discovery of a fresh characteristic.

We may take it then that the names of mental things are always generic, never individual, and we have next to look into the question whether, in this respect, the names of economic things conform to the mental or to the physical type. The question resolves itself into this, when we are discussing the nature of any of the things of economics, such as wealth or capital, interest, rent or profit, can we or can we not identify the subject of discourse between us, without more ado, by pointing it out, as we can in the case of a shilling or a spoon, of lead or of copper? That question has already been answered in anticipation in

the discussions of an earlier chapter. It is certain that we cannot. In regard to capital, for example, we found that it was impossible for us to say whether any item of wealth was capital or not without first ascertaining what the owner of it meant to do with it. Mere pointing out in such a case went for nothing. As in the case of hope, we could only identify it as the subject of discourse between us by narrating a series of circumstances in which the given item of wealth would become capital. The same, of course, applies to such conceptions as "wages," "rent," "interest," and "profit." Standing alone, they are nothing. We know them only in their relations. With regard to "capital," for example, I may say, suppose that a man starts farming or trading with £5000, then that £5000 or the things that, for business purposes, he buys with it constitute his capital; suppose again that he pays his men for the work that they have done at the end of the week, the money he hands them is wages; suppose that the land not being his own, he has to pay his landlord an annual sum for the use of it, that sum is rent; and thus, I think, we must hold, though in opposition to the dominant opinion, that the existence of rent proper always necessarily postulates a landlord, as the existence of wages postulates an employer. We can distinguish gold, silver, and copper by their intrinsic qualities, but there is nothing in the intrinsic qualities of capital, rent, or wages which would enable us to differentiate them. Take them out of their environment, or, as regards discourse, out of their context, and they become altogether meaningless. The same sovereign, taken by itself, may, of course, be either capital, profit, wages, interest, rent, or a dozen other things of the same character.

The famous division of the agents of production therefore into Land, Capital, and Labour is, it appears, a cross division. Its branches are not mutually exclusive. One might as well divide the money of a country into gold, silver, wages, profits, interest, and coppers. The division is based on the ever-present tendency to treat the things of economics as if they were identical in character with the things of physics, to treat capital, which is a psychological phenomenon, and cognisable only in its relations, as if it were the same sort of thing as land, cognisable *per se* and by its outward qualities. This confusion of thought is brought into relief when the question of the mutual exclusiveness of land and capital is brought under consideration. To those who hold that land may quite well be capital, or, in other words, that a man's capital may, to a large extent, consist of his land, it is thought to be a sufficient answer to cite the common dictum with regard to capital, that it is the result of abstinence, and to remark that land, at any rate, is not the result of abstinence. But are horses or cattle, in this sense, the result of abstinence, or are they too to be excluded from the legitimate content of capital? We have been accustomed to think that physiologically they are the result of occurrences which antedated their births by periods varying from nine to twelve months. That which is the result of my abstinence, in such a case, is the fact that, as I mean to use them in the production of fresh wealth, they are part of my capital; and the same, of course, word for word, holds good with regard to my land.

The things of physics, we see thus, take their names from their outward qualities, their colour, texture, atomic weight, and so on. The things of economics, on the other hand, take their names from our more or less

transient mental attitudes with regard to them. If the attitude changes, their nature, from the economists' point of view, changes also. Gold is gold with its lustre, ductility, and defined specific gravity unaltered, no matter what men do with it or think of it. It was gold thousands of years before we appeared in the world, and it will be gold thousands of years after we are gone. Capital, on the contrary, has no existence as capital apart from our ever-varying aims and intentions. A doctor's carriage, as Professor Marshall remarks, is capital in the forenoon when he is using it to visit his patients, but not capital in the afternoon when he is using it to drive in the Park with his family. Any description of wealth may thus, it seems, be capital when its owner is in a sanguine humour, and not capital again when he is despondent; capital after dinner, though it was not capital before; capital after half an hour's conversation with a commission agent, and not capital again after another half-hour's reflection.

With regard to a great many material objects we can, no doubt, judge to some extent, from their outward aspect, or from the place in which we find them, for what purpose it is that their owners mean to use them; and we can thus, perhaps, in a rough approximate fashion, form an estimate of the amount of capital in the country, and set it down in statistical tables. At the same time, it shrinks at rumours of war; it moves in one trade or country in sympathy with its movements in another, and altogether it behaves itself as stocks and stones are not in the habit of doing. Its existence is a mental rather than a material one.

The truth is that, by a curious necessity of our thinking processes, we seem to be impelled to express psychological phenomena, changes of sentiment and

intention, especially when they affect a whole community at once, in language that is, strictly speaking, appropriate only to the things of physics. The phenomena, for all that, remain still essentially psychological. We read in our morning paper, perhaps, that money in London to-day is "much more plentiful than it was yesterday." At the same time we know perfectly well that there is now no more coin or bullion either in the Bank of England or in the pockets of the mercantile community than there was then. What is really meant is plainly this, and nothing but this, that people generally are more ready to lend their money to-day than they were yesterday. The fact is thus a psychological one, though it is expressed in physical language. Mr. Mill, on this point, very truly remarks, "The distinction thus between capital and not capital does not lie in the kind of commodities, but in the mind of the capitalist."[1]

With regard to the conception of wealth itself, the mental aspect is no less clear and no less significant than it is in the case of capital. Whether anything is wealth or not does not indeed depend on the ever-varying intentions of its owner, and wealth has thus more of definite objective existence than capital has. It depends, however, on the wants of its owner and of the men and women about him. Nothing is wealth except during the period in which people want it. The first shot fired in a revolution that aimed with any serious prospect of success at its redistribution would destroy the want as regards almost all that portion of it that did not consist in the mere means of supplying bodily needs, and the want being destroyed, the wealth itself would be found to have vanished. Yet the things that had constituted it, that had figured in

[1] *Principles of Political Economy*, People's Ed. p. 35.

statistics that computed its amount, would be there still with all their physical characteristics unchanged. Or, to put the subject in another light, the wealth that a gold mine represents may be half a million sterling, yet there may have been only a few thousands taken out of the ground. The mine represents half a million sterling solely because people anticipate that half a million or more is to be obtained from the working of it. The wealth that it represents thus depends upon the anticipation of the future, and that which can only be said to exist when we take future contingencies into account is plainly something altogether different from the physical things that can be passed from hand to hand in the present.

Into that "credit" that forms so large a constituent of modern wealth there are two very different elements that enter. The simplest form of credit, that, say, accorded by the retail shopkeeper to his customers, is based mainly, no doubt, on the knowledge or belief on his part that the person trusted is in actual possession of money sufficient to pay the debt, and that he is honest enough to intend paying it when due. This description of credit, indeed, is frequently taken as conterminous with credit generally. The great credit of commerce, however, is of a very different character. In respect of it, it is ordinarily known perfectly well by the lender that the funds out of which he is to be repaid do not, as a matter of fact, exist when the loan is made. It is, in such cases, the future wealth that has yet to be brought into existence that he looks to as his security. Such credit is based on that description of wealth that represents the present value of future profits, and a view of the vastness of its sphere of operations brings home to us forcibly the conception of wealth generally as of something that is not material,

tangible, and inert, but, on the contrary, as something that is mobile, living, and organic, something that is always coming into being and always again in flux, something that it would be as idle to dream of dividing up as it would be to dream of dividing up the vital forces that keep the human organism in motion. Such projects therefore, it seems to me, as communism and as socialism in its extremer forms can have no future before them. At the very utmost they can merely touch the outer fringe of our political and commercial life.

The difference between the things of physics and the things of mental science and economics appears then to be both real and profound, and we may glance now at some of its practical consequences. The fact that, in the latter sphere, all the words that we meet with are generic names, that, as we have seen, the isolated concrete individual of physics has there absolutely no existence, raises, to say the least, a very strong presumption against the legitimacy, as regards the things of mind, of technical terminology. A vast array of new terms has, indeed, of late years invaded economic literature. We are met at every turn by the "final degree of utility" or the "marginal surplus," by "discommodities" and "disutilities," or by some new phase of "economic rent." "Consumer's rent," indeed, has come to mean something so different from rent in its popular sense, that it is used as applicable to the advantage that a man obtains when he gets a thing for sixpence, for which he would give a shilling rather than be left without it; and this already vast array of technicalities is continually in process of having additions made to it, so that, not infrequently, the study of the subject is really being carried on in a new language, for which special glossaries will soon be

necessary. Palgrave's *Dictionary of Political Economy* bristles with the new phraseology on every second page. The practical advantages of the innovation are not obvious, and, philosophically, I think the whole system rests on a false basis, on a confusion between the principles that are applicable in physics and those that apply in subject science.

The truth of this conclusion will be further borne in upon us if we attend to the distinction between the forms of causation that are possible in the two spheres respectively. In the latter there can be no such thing as the causation that Mr. Mill calls "heteropathic," the characteristic causation of chemistry as distinguished from that which rules in mechanics. Its possibility depends upon the possibility of identifying our subject by handling it, or by pointing it out. We hold in our hands, perhaps, a jar containing oxygen and hydrogen; we introduce the electric spark, and, in a moment, the gases are transformed into water. How do we know that it is they that are transformed? How do we know that the water of the present moment and the gases of five minutes ago are, in any way, connected with each other? Simply because we have held them both continuously in one jar, because they have never ceased to occupy the same space. That is the ground of their identification, and that only. We have, of course, nothing like it in the sphere of mind. Suppose the mercanarian theorist tells me that some moral sentiment, say the hatred of Achilles for the man with one thing on his lips and another in his heart, is a transmuted form of self-interest, of the fear of punishment, or the hope of reward. I can only reply, "You may as well tell me that it is a transmuted form of the sense of humour or of the circulation of the blood"; unless I can see and understand the connection

between self-interest and the hatred of lying, I can have no possible ground for affirming it. In the sphere of mind all causation must be intelligible, in Leibnitz's sense; it must conform to the type of mechanical and not to that of chemical causation. We must always be able to see the whole cause in the completed effect, as, in the parallelogram of forces, we can see the presence of the sides in the line of the resultant. If we cannot see the cause in the effect then we can have no ground for predicating causation at all. A change has occurred, we may say, but there is nothing that for us can connect that change with previously existing conditions.

Owing to this possibility of identifying the subject of discourse by pointing it out, and to the consequent possibility of heteropathic causation in the material world, not only are new names for new individuals and for freshly discovered species possible and usual, but technical uses of common words become apparently unavoidable, and can, at any rate, be introduced without leading to fatal confusion of thought. The physicist, for example, can assert that there is more heat in a quart of water at 60° Fahr. than there is in a pint at the same temperature. What he means is that there is more of the measurable energy into which heat can be transmuted in the one than in the other, and the assertion is perhaps a useful and necessary one for his purpose. Such assertions, however, have no legitimate parallels in psychology or economics.[1]

This view that all the causation in the sphere of economics must be intelligible has received a certain degree of recognition, in connection with the monetary

[1] As Professor Bradley says of psychology, "In this sphere what seems is."

controversy on the part of the sound money men, at any rate. During the sittings of the Gold and Silver Commission of 1888 the question came to be raised how the alleged "appreciation of gold" had affected prices, if it had affected them at all. Professor Marshall gave his authority for the opinion that it could not affect them in any other manner except through its operation on the discount markets, and it is certain that we cannot see and understand its effect as operating in any other manner than this. If it does affect them otherwise, this alleged effect must be, as Sir David Barbour in a parallel case expressed it, "a supernatural one."[1] The bimetallists, however, contended, as did the monometallists of Sir Robert Giffen's school, that the mere concurrent existence of the two facts of a falling off in the gold production and of a fall in the price of a large number of commodities, was itself sufficient proof of their causal connection. The sound money party answered: No, that is not enough. You must show us also, as Lord Addington put it, in a paper which he laid before the Commission, "the *modus operandi*. You must set forth the process of reasoning, the motive which impels a seller to accept, except upon the issue of the struggle between supply and demand, a lower price for his goods, in the face of an abundance of capital and of a low rate of interest."

This view is, of course, that which the whole line of reasoning in the preceding chapters would go to justify. The sound money doctrine has been, indeed, from the first identified with the laying of stress on the psychological factors in the questions in controversy,

[1] The remark is all the more significant as coming from a theoretical bimetallist, though one who dropped bimetallism when it came to questions of practice.

while, on the other hand, the bimetallists and their allies have concentrated their attention on the mere quantitative variations in the supply of the precious metals. As bimetallism, I suppose, may now be looked upon as a lost cause, the principle of attending to the psychological factors in such phenomena must be regarded as having emerged from the contest with increased prestige.

Closely allied to the invasion of economic literature by technical terminology is its invasion by mathematical formulas and diagrams. I shall have occasion, later on, to refer more in detail to the Jevonian theory of value, with its mathematical superstructure; it is germane to our present purpose, however, here to glance generally at the ideal of mathematical treatment, and at the question of its appropriateness in the mental and economic sphere. When we pass into the region where life begins, the difference between it and the world of inertia becomes at once profound and all-pervading. It is not always recognised, I think, how different a thing natural law is, as applicable in the two spheres respectively.[1] When oxygen and hydrogen combine, we can be quite sure that the result will not be merely something very like water, which, however, varies slightly from it in some of its properties, but that it will be water with a perfect resemblance, in all respects, to the water that we have known in the past. In the inorganic world, thus, the experience of the past, when only sufficiently complete, is a perfectly adequate guide to the prediction of the future. When Life enters on the scene, all is altered. If we put two seeds of the same plant into the ground and subject them, in as far as we can, to

[1] See "Causation: Its Alleged Universality," by the present writer, *Mind*, January 1896.

be unerringly inferred."[1] The fallacy lies in the use of the words "given the *character* and *disposition* of the individual." These words "character" and "disposition" are words that, under the guise of referring to something that exists in the present, really postulate knowledge of the future. The complete knowledge of what a man's character is is nothing else but the knowledge of what he would do in any given circumstances. If this is so, however, Mill's reasoning merely amounts to this, that if we knew what a man would do in any given circumstances we could predict what he would do in any given circumstances. The real point at issue is, of course, whether such knowledge as we could get of a man's character from experience of the past would enable us to predict with certainty what his character would always be in the future. It is evident, at once, that it would not. Many a man, indeed, who thinks that he knows his own character thoroughly may find himself amazed at the manner in which he sees himself acting in unexpected circumstances. The error lies in taking natural law in the organic sphere as if it were something that, like natural law in the inorganic sphere, excluded variation, and in thus bringing the phenomena of life under the category of mechanics, where they clearly have no appropriate place. Mechanical determinations with their mathematical formulæ end where biology begins.

[1] *Logic*, p. 106, People's Ed.

CHAPTER V

THE APPEAL TO THE "OCCASIONAL MEANINGS" AS AN ORGANON OF SCIENTIFIC INVESTIGATION

In my last chapter I endeavoured to set out and to illustrate several of the derivative differences between the things of physics and the things of economics which all flow from the one primary difference that lies in the fact that the first class of things can be handled and pointed out while the latter class of things can not. I have, however, left over the most important of all the derivative differences, from our present point of view, to be dealt with here in a separate chapter. It is the different character which predication assumes with regard to the one and to the other respectively. When we have to make an assertion with reference to the things of physics we can, very frequently, at any rate, make it curtly and definitely, and without any inevitable intrusion into our thoughts of the conception of degree. We can say briefly, for example, that this is a glass of water, without there arising any necessity for the reflection, either implicit or outspoken, that the water is water typically and *par excellence*, or, on the other hand, that it approximates very closely to the nature of water, but can hardly be said to be clearly and unmistakably describable as such. With regard to the things of metaphysics, of economics, and, I may add, of jurisprudence, on the other hand, it has not, I think, been sufficiently recognised that we can never thus leave the conception of degree out of account.

The tendency to treat them as physical things makes us think otherwise. We attribute to the conceptions of them definite boundaries, where definite boundaries are, in the nature of things, inapplicable. With reference to all of them, the distinction between the truly typical and the less typical instances of their occurrence is a distinction that must never be lost sight of, and we must further take into account the fact that, around these more or less typical instances, again, there always lies a debatable margin, a fringe of instances which are continually tending, in Lotze's phrase, to "pass into the sphere of other conceptions."

It may be well to introduce, at this point, one or two instances illustrative of our position taken from the things of metaphysics. The last thing probably which we should expect to have to look upon as a thing of degree is the ego, the conscious self; yet in a sense it is so. My acts in raising my food to my lips and in swallowing it are, no doubt, typically and unmistakably mine; the series of movements and chemical processes by which I assimilate it and which we call digestion, can they be described as my acts or not? There is, at any rate, room for controversy. When we reach the circulation of the blood, again, we are past the borderland on the other side. No one would say that that is my act. The question then is, where to draw the line between the "ego" and the "non-ego," and, as a matter of fact, that very question forms the subject of an interesting discussion in *Mind* by one of our most eminent philosophers, Mr. Bradley.

Is the principle absent or in abeyance in connection with such conceptions as those of existence and reality? Far from it. They too are things of degree. This pen which I now hold and which can be passed from

hand to hand, that, indeed, is unmistakably real; it is from such things as it that we first learned the meaning of the word "reality," which we gradually extended to other things in proportion as we found them to resemble it in its salient characteristics; but the things of our last night's dreams, did they, in any sense, exist? It will perhaps be answered, "They existed, after a fashion, as illusions." Let that pass then; what of the external objects, if we may call them so, that have never been and never will be presented to the perceptive powers of any being, the things that have never produced and never will produce in any being the sensations of colour, sound, smell, resistance to effort, of all, in short, that builds up for us the idea of the outward world; have they existed or do they exist? If they, as a matter of fact, possess none of the characteristics that we know as the characteristics of existence, can we rightly apply the category to them? On the other hand, can we deny reality and existence to the world before consciousness, without which certainly nothing else could have existed? I can conceive no way out of the difficulty except the way that Aristotle adopts, that of dividing existence into two kinds, existence *ἐνέργειᾳ* and existence *δυνάμει*.[1] Both the nature of things and the nature of predication, when fully understood, appear to preclude us from ever getting any nearer to definite accuracy of statement than this.

When we turn to the things of economics we find that the same principle holds good. We must there have a standard to predicate by, and predication there also evidently means nothing else but the ascription, with more or less of emphasis and of certainty, of the characteristics of this standard to other things. Money

[1] *Metaphysics*, 8. 6, 9.

is an interesting case in point, the more so that one of the most truly eminent of our economists, General Walker, has already arrived at the conclusion towards which we are working, the conclusion that, as he expresses it, "the question, money or not money, is in respect of anything that can be taken largely a question of degree."[1] In other parts of his works he expresses the same opinion in varied language. It was evidently a view that had strongly impressed him, and it is in accord, it must be said, with his more general doctrine on the subject, that anything may become money, once the degree of its "acceptability" becomes sufficiently definite. General Walker, indeed, would go the length of contending that the gold which lies in the vaults of the Bank of England, "neither paying debts nor making purchases, is not money." Few would probably agree with him there. Still it must be said that money in circulation is money in its most truly typical form. Coin which has lain dormant in bank reserves for years is, perhaps, a shade less clearly and unmistakably money. Bullion in the bank, again, is certainly on the borderland between money and not money, while bullion on shipboard, with regard to which it is as yet uncertain whether it will be coined or made into jewellery, is clearly enough beyond the border on the not-money side. Or, again, we may follow another line of gradual variation from the type. The sovereign which I carry in one part of my purse to spend on my requirements or my amusements is typical money, and, therefore, we can hardly deny the same character to the notes which I carry in another part of my purse for the same purpose. When I come to the cheques that I draw or the bank deposits against which I draw them, room

[1] Walker, *Money*, p. 407.

for endless controversy arises. All that can be said is that, from some points of view, and for some purposes, they share the characteristics of money, and, from other points of view and for other purposes, they do not. Rigid and exact definition, in such a case, appears to be altogether out of the question.

Take any other of the conceptions of economics that we please, and we find that it runs a similar course. Take wealth, for example. Anything which has a value measurable in money, it might seem, at first sight, would serve as a fair definition of wealth. But it needs only a moment's reflection to suggest cases that are open to controversy. I hold a mortgage for £1000 over my neighbour's land. Is that wealth? It certainly is wealth to me, but is it wealth from the national point of view? Clearly it is not. We can see thus that wealth, like value in use and value in exchange, has no fixed unambiguous meaning when taken out of its context, though its meaning may be distinct enough within it. Or, to follow another line of variation, if that which can be measured by money is wealth, then is the opinion of a consulting physician, for which I am ready to pay two guineas, wealth to that amount? Or, again, is the skill which gives the opinion its value to be reckoned under the category of wealth or not? We have, I think, no resource, when such questions are raised, but to fall back on Aristotle's distinction, and to hold that such things are wealth *δυνάμει* but are not wealth *ἐνέργειᾳ*. They possess many of the characteristics of the type instances of wealth, but they do not possess all of them, at any rate in their clearest and most unmistakable forms; and, for that reason, they inevitably occupy a borderland where everything is necessarily in controversy.

Does all this, then, I may be asked, point to the

conclusion that, in the economic sphere, everything is indefinite and uncertain? Far from it. In discussions on the point of law we have seen that it is inevitable that a debatable region between two legal conceptions should very frequently be reached, a region where the clearest heads on the Bench will take different views of the matter at issue. For all that we know that there is a vast area in jurisprudence where no uncertainty exists, and, more than that, that the area of uncertainty is continually being narrowed; and the same, at any rate as a possibility, applies to the sphere of economics.

If it is once admitted that our standards of predication themselves, our type instances, are never to be called in question, that alone, as I have endeavoured to show, would at once banish from the science much of wild assertion and untenable theory; and our next business would then be to endeavour to ascertain by what principles we should be guided in the assimilation of other instances to our type instance. We may take the conception of "rent," for example, and inquire in what order the various possible significations of that word should be ranked. The obvious order would be something like the following. First, say, a sum of money actually paid annually for the use and occupation of land. Second, a sum similarly paid for the use of land and buildings, farm improvements, etc. It is questionable, indeed, whether any difference as regards priority between these two cases should be recognised. Third, perhaps, simply the annual value of such land or of the land and buildings together, the sum, for example, which a man who owned them might, by a legal fiction, be supposed to pay for them to himself. This meaning, No. 3, is clearly a meaning that lies on the borderland of the concep-

tion, a meaning which, from the point of view of common sense, we should hesitate to bring within it at all. The opposite, however, is the view of the classical school. Even so accurate a writer as Cairnes tells us that the annual value of land, even when no rent is paid, is rent in its most typical and most scientific sense,[1] while the money paid in respect of buildings and improvements is not to be regarded as being strictly speaking rent at all. I shall have occasion to dwell more fully on the misconceptions to which this inversion of common-sense methods, in this particular case, gives rise in my chapters on the Ricardian theory.

In glancing over the list of fallacies given in our handbooks on Logic, and reading their descriptions, it is a common remark to make, that these are certainly not the fallacies by which anyone, at any rate any fairly sane and clear-headed reasoner, is ever really deceived. We would in truth be in as little danger of being misled by any of them as of having our pockets picked by a thief who pasted a label round his hat announcing the nature of his profession. The reason, I think, is that they all presume the stability of the subject of discourse, and endeavour to find the cause of error in something connected with the relations between it and its various predicates; while, on the contrary, the true source of erroneous thinking is generally to be found in the fact that the meaning of the subject of discourse itself has unconsciously shifted, that, while we think that we are speaking of the same thing as that of which we were speaking a moment previously, we have come, without knowing it, to speak of something different, something which is only more or less like it, and to draw conclusions

[1] *Logical Method in Political Economy*, pp. 139 ff.

in regard to the second conception from premises which were only true of the first. Human wit is not subtle enough to avoid such pitfalls. The writer who starts with a resolution to use certain of his terms in a sense different from their ordinary one, but to adhere consistently to the new sense throughout his work, never, by any chance, does so through half a dozen pages. Mr. Mallock gives us an interesting example of these transitions of meaning in the subject of discourse in connection with the use of the word "labour." "We constantly find," he says, "that when men have declared all wealth to be due to labour, more or less consciously including ability in the term, they go on to speak of labour and the labouring classes, more or less consciously excluding it."[1] We are always liable to pass thus from one shade of meaning in the words that we use to another, from the wider to the narrower, and, again, from the narrower to the wider, from the *dictum simpliciter* to the *dictum secundum quid*, and, again, from the *dictum secundum quid* to the *dictum simpliciter*, without ever once realising that we have done so. Our only hope of successfully avoiding such causes of error will be found to lie in taking care that we never lose sight of the original typical popular meanings of our words, and in shunning, as we would shun the serpent's tooth, strained and unnatural applications, and everything especially that has a taint of technicality about it.

I am now approaching the close of my first Part, that devoted to setting forth the principles of logical method that seem to me appropriate in economics. In my second, I propose to examine some of the current

[1] *Labour and the Popular Welfare*, p. 146. Curiously enough, Mr. Mallock himself, a few pages further on, falls into a similar error, in making "ability" include something so different from ability in its ordinary sense as capital.

doctrines and lines of reasoning which contain, to my thinking, so much that is unsound as to be little better than fallacies from beginning to end, and to illustrate by means of these the views on method laid down in the first Part. I have endeavoured to show that the test of truth which is applicable in physics,—the appeal to outward fact,—is, in the sphere of economic theory, altogether unavailable, and further, that the conception that definitions can take its place, as in themselves a criterion of validity, is a delusive one. It appears, at the same time, however, to be possible to find in the methodical application of the appeal to common usage in language, to those meanings of words which have been called their "occasional meanings," an organon of investigation that may go far in enabling us to avoid error, and may also prove fertile in the suggestion of fresh truths.

The distinction that has been drawn between the "usual" and the "occasional" meanings may be said now to have become classical. The phraseology is taken from Paul's *History and Principles of Language.*[1]

"Paul," says Professor Stout, "uses the terms 'usual' and 'occasional' signification to mark the distinction between the meaning of a word each time that it is employed and that which by usage attaches to it considered in itself. This nomenclature is convenient, and I shall make use of it. It must be noticed, however, that the normal signification is, in a certain sense, a fiction. It is, perhaps, not necessary that there should be an identical element of meaning pervading all the applications of a word. Moreover, this common element, in so far as it does exist, cannot be called a *meaning* of the word in the same sense as the occasional significations."[2]

The same writer in his *Manual of Psychology*[3] remarks:

"The special meaning assumed by a word in a special context or special circumstances may be called its *occasional meaning.* It is

[1] Eng. Trans. pp. 73 ff. [2] See *Mind*, April 1891, p. 1895. [3] P. 479.

only at a late stage of mental development that an express attempt is made to distinguish an identical and persistent element of meaning pervading the varying occasional significations of a word. When the attempt is made it constitutes an epoch in the history of thought. It is the beginning of definition and of the scientific concept. The fame of Socrates rests largely on his having been the first to insist on a systematic inquiry of this nature."

The so-called "usual" or general meaning, it seems to me, would be better described as the meaning for purposes of definition, and we can, perhaps, see better now what is the true nature of the relation between the definition and the term defined. It is the same, at bottom, as the relation, in scientific thinking, between a series of isolated facts and the natural law which explains them. The "occasional meanings" of such words as "capital" or "wealth" or "value," for example, might be compared to the observed positions of the planet Mars, their definition to Kepler's law of elliptical movement which accounted for them. The discovery of such a law always begins with a guess, with a hypothesis, and if this guess does not square with the facts, it has, of course, to be abandoned; and the same precisely is true of our attempts at definition. Experimental formulas must be tested, one after another, till one is found that succeeds in fixing and expressing the one common element in the innumerable and ever-varying uses of our words. If this, however, is recognised as being the true view of the case, then the appeal to common usage can surely, at length, be understood and fully justified. We can see that the "occasional" meanings are, in truth, the solid basis of fact with which all our theories must correspond.

These occasional meanings, it must be observed, are themselves the products of evolution, and, as I

have said elsewhere,[1] "The task of ascertaining the natural laws that furnish the rationale of them and explain the connection between them must be the task of some science. Let anyone set himself to endeavour to find a hypothesis that will give the rationale of the distinction between wit and humour, and he will find himself engaged on one of the problems of empirical psychology. Let him endeavour to explain and account for the various meanings of 'reality,' 'identity,' or 'causation,' and he will be, at once, deep in the problems of metaphysics." It might be added, of course, let him probe and search the occasional meanings of "wealth," "capital," "value," and the like, and the outcome will be a treatise on economic theory. "It seems, then, that the real task of the subject sciences is to explain and account for the meanings of such words, and that the meanings themselves are our data, which it is altogether illegitimate for us to twist or turn in any way."

If, then, the objection should be raised that too much stress is surely being laid on words, the plain answer is that there is all the difference in the world between the words of mere nomenclature and those of natural language. The first, no doubt, are arbitrary and unimportant; the second embody the stored-up experience of the race, and may well prove themselves reservoirs of implicit knowledge which it may amply repay us to attempt to unfold.

The first practical maxim of our method, then, would be to hold fast always by the primitive meanings of our type instances, and not to emulate in economics the practice of too many of the metaphysicians. It may be observed, further, that when we fail to follow this course, the genius of language has

[1] *Mind*, April 1896, p. 243.

a remarkable power of speedily avenging itself. The real and essential matter in predication, as we have seen, consists in the attribution of the character of the type to other individuals. When an attribute, therefore, is insisted on that is not in accord with the popular meaning of words, then the meaning itself is liable to depreciate, just as a coinage depreciates when it no longer retains the due weight and purity of its metal. When Mr. Mansel, for example, attributes a sort of goodness to God which would be called baseness and cruelty in men, then the thought of such goodness no longer arouses in us any sentiment of reverence or affection, but, on the contrary, a sentiment of aversion; or, again, when socialists or land nationalisers describe those who live on their means as public robbers and social parasites, no one is really hurt or offended. The words robbers and parasites, by the very fact of their application in such a case, find their meaning evaporate. We more or less consciously reflect that, after all, such robbers and such parasites as these are only that which innumerable good citizens are, as well as that which all, without exception, desire to become.

Our next maxim would be to rank the meanings that approximate to the typical meaning in the natural order that common sense and common usage dictate. We have had occasion to notice an instance in which the palpably wrong order has been followed in the case of the conception of "rent," and we will find many others similar in the course of our further investigations. Our third maxim is to be always alive to the fact that, no matter how careful we may be, or may, at any rate, think that we are, in admitting extensions of the meanings of our words, we are always in danger of admitting some extension that lands us in the sphere of another and, perhaps, anti-

thetical conception. We extend the meaning of the term "betting house," for example, just a little too far, and we find that we have included under it things to which the laws against betting houses could not be reasonably interpreted as applicable. This is the subtlest of all the difficulties that beset our thinking. It embraces most of the fallacies that really deceive us. *Post hoc ergo propter hoc* is, of course, the source of innumerable popular superstitions, but even the tyro in science should know how to eliminate it. The lessons, at any rate, in regard to the precautions required to ensure its elimination have been very fully developed by innumerable writers on the theory of reasoning, while the liability to unconscious transitions in the signification of the subject of discourse is a fallacy that, in an especial degree, besets these scientific theorists themselves.

The problem with which we started, namely, what is the criterion of truth in those spheres of thought in which the appeal to outward fact is inapplicable, does not appear to have been very often, in the history of philosophy, explicitly set out as a problem with which it was necessary for the investigator to grapple. It was, however, set before himself explicitly enough by the great seventeenth-century philosopher whose fame appears, especially of late years, not unlikely, in the end, to eclipse that of all his successors. It cannot but be, therefore, of the highest interest to learn what his solution of the problem was. The ultimate criterion of truth in Descartes' view was simply the absolute clearness of the thought expressed. Granted the truth of one salient doctrine such as the famous *cogito, ergo sum*, an innumerable host of other doctrines, he thought, could be safely deduced from it. No one, indeed, he held, could accept with full comprehension,

one of his opinions on God, on the soul, or on the constitution of the universe without being necessarily led to accept all the rest; but, as to the salient fundamental doctrine itself, by what means could its validity be ultimately established? By nothing else than this, that it was "the evident conception of a healthy mind, so clear and distinct that no doubt is left." We are not, of course, concerned here with the system that Descartes erected on this basis, but, as to the criterion itself, it evidently comes very near to being the same thing as the appeal to the natural unstrained meaning of the words that we employ.

The attempt to set up mere lucidity of expression as a test of truth must seem, of course, to partake of the nature of paradox, as it is beyond question that quite conceivably any absurdity might be lucidly expressed. That is true, but then, in investigations of the sort that we are considering, an absurdity seldom or never is lucidly expressed. If it were expressed in clear and natural language it would at once be recognised as an absurdity and rejected. It is only under the shelter of technicalities that it can expect to be able to survive in the literature of the subject or in the teaching of the universities. Clearness, thus, by a process of exclusion, may, in the end, become a guarantee of truth. If, of course, on any point all the possible alternatives are clearly expressed, and the false ones consequently rejected, then the true one will alone be left standing. There are, at the same time, as we know, many writers whose works are characterised throughout by difficulty and obscurity of expression, yet who may have something important to say. They use a language of their own, and it may or may not be worth while to translate them into the vernacular. But take a writer like Mr. Mill who, as a rule, infinitely

to his credit, uses modes of expression which are as clear as he is capable of making them, when we find him involved in obscurities and impossible to follow, we may take the fact as an unfailing sign that the doctrine to which he is attempting to give expression is tainted with fallacy. Few if any of the most enthusiastic students of his works have ever succeeded in following all his reasoning on International Values throughout the 18th chapter of the third book of his *Principles of Political Economy*, and the reason is that he is endeavouring there to present to us a state of things such as never existed, and, as far as we can judge, never could exist in the world, a capitalistic system in which the conceptions of buying and selling, of wealth and of value, were fully developed without there being, at the same time, any one substance which, rather than another, could rightly be regarded as embodying the monetary standard.

PART II

TYPES OF ECONOMIC FALLACY

CHAPTER VI

RICARDO'S LAW OF RENT

IT would be impossible to understand how the celebrated theory of rent ever came to be propounded without taking into account the historical circumstances of its origin. In the first place, the economists of the nineteenth century inherited from the physiocrats and from Adam Smith the doctrine of the superior productiveness of agriculture to every other description of industry. Owing to this supposed superiority it was held that agriculture yielded a "surplus" which other descriptions did not yield, and that the surplus went to the landlord eventually in the shape of rent. Ricardo, then, had before him as the starting-point of his speculations, the problem to be solved: How was the agricultural surplus to be accounted for; and the remarkable thing is that, while the original doctrine is long ago defunct, the explanation to which it gave rise is as much alive as ever.

The exposition of the theory, as we now have it, was begun by the issue of a pamphlet by a Scotchman, Dr. Anderson, about the year 1775. Attacks on the land-owning class, on the ground that the high rents that they demanded kept up the price of grain, had become common in the literature of the period. By way of reply to these attacks, Dr. Anderson rejoined, "Suppose the gentlemen of Clyddesdale lowered their rents, even to the length of demanding nothing for their fields, would the price of grain fall in consequence

of this? By no means." The demand for grain, he goes on to say, and, of course, with justice, remaining the same as it was before, its price would remain the same, the only difference would be that "the farmers would be enriched at the expense of the proprietors."[1] If the lowering of rents, however, would not tend to bring about the lowering of the price of grain, the conclusion seemed, at first sight, at any rate, an obvious one, that rent "did not enter into the cost of production of grain." This conclusion, about forty years later, accordingly, was taken up by Ricardo and was made by him the fundamental principle of his economic system. Its enunciation, indeed, together with the elaboration of the deductions drawn from it, has procured for him a reputation such as is seldom earned by discoveries of the first order in physics. If the rent of land did not enter into the cost of the production of grain, then, it was contended, there must be something in the essential nature of the rent of land which placed it in a different category altogether from that in which periodical payments for houses, ships, and other such things were embraced. This peculiarity, it was argued further, extended beyond actual rents, beyond cases of payments made, as a matter of fact, by tenants to their landlords for the use of the natural powers of the soil; it was applicable also to the sums which landlords who farmed their own land would have had to pay for the use of it, if someone else had been their landlord. These imaginary payments, indeed, were "economic rent" in the strictest sense of the term, and it now became possible for the scientific economist to look with a certain measure of contempt on the outsiders who found a difficulty in drawing a line of demarcation between the

[1] Cf. Ricardo, *Principles of Political Economy and Taxation*, p. 62.

rents, real or imaginary, payable for the land alone and the vulgar rent payable for the farm as a whole, including the house, buildings, fences, and so on.

If, again, rent did not enter into cost of production, the corollary, of course, followed that the price of grain was ruled exclusively by the cost of production of that portion of the total output which was produced on the land that paid no rent, on the worst land perhaps, or if not the worst, at any rate, the land that, owing to distance from markets or some other cause, was farmed under the most unfavourable circumstances. Such land came in time to be described as the "marginal" land or the land "on the margin of production."

Presently yet another step was taken. The question very soon suggested itself, Did not some analogous principle rule in regard to other industries besides agriculture? The case of patents presented an obvious parallel. Finally, as far back as M'Culloch's time, the conclusion was arrived at that the principle must be extended to all "the extra gains which any producer or dealer obtained through superior talents for business or superior business arrangements." They were all, it was said, "gains of a similar kind to economic rent." All advantages, in fact, in Mill's view, "which one competitor had over another, whether natural or acquired, whether personal or the result of social arrangements, brought the commodity, so far, into the third class, and assimilated the possessor of the advantage to a receiver of rent." The profits, thus, of a man in business who made only 5 per cent. on his capital were held to be something of a different nature altogether from the profits of his more successful neighbour, who made 10 or 20 per cent., and should have a different name given to them. The

former alone were "profits" scientifically speaking, while the latter were not profits at all, but "rent." So things went on till, at length, the theory, having joined hands with Jevons' theory of value, to which I shall have occasion to refer shortly, has become the fountainhead of an endless stream of technical terminology, which, however, has, up to the present, failed to justify its existence by catching on in any degree in general literature.

What truth is there, however, let us ask, in the premise on which this whole structure of technicalities is based, the doctrine that rent does not enter into the cost of production? It is perfectly true, of course, as Anderson contended, that "if the gentlemen of Clyddesdale had lowered their rents even to the length of demanding nothing for their fields," grain would not have fallen in consequence; or, as Cairnes puts it, "that if the property of landlords were confiscated, the price of corn would not be affected"; but then precisely the same thing applies in the case of wages. If all the employees in the textile trade of Oldham, or of England, were to make a present of their wages to their masters, would the price of shirtings come down? Certainly not. Why should it? The demand would remain the same, and the price would be altogether unaffected. A precisely similar line of argument might be followed with regard to interest and profits, and we might thus appear to be driven to the conclusion that no possible reduction in the cost of production could affect the market value of anything.

Where then does the trick come in? I think, in the fictitious meaning given to the word "rent." We have the case brought before us of the lowering of rents by a section of the landlord class in the country, or,

for that matter, by the whole of it,—it makes no difference,—and this, we are led to believe, is the same thing as the lowering of "rent," that is to say, of "economic rent." But economic rent is synonymous with what in popular language we should call the annual value of the land, and if we adhere to popular language it becomes obvious, at a glance, that there is all the difference in the world between the lowering of their rents by the gentlemen of Clyddesdale or any other gentlemen, and the lowering of annual value, or, we may say, of value simply. Whatever such gentlemen might do with regard to the rents due to them for their land, the value of the land would not, of course, be by that in the smallest degree affected. The cause of the illusion lies in nothing else but in the unconscious transition from the one meaning of the word "rent" to the other, from the popular to the "scientific" and then back again from the "scientific" to the popular.

As to the substantive question, whether or not rent enters into the cost of production, the truth is that there does not here emerge any difference whatever between the principles that apply to cost of production generally and those that apply to the special case of the rent of agricultural land. The process of reasoning in Ricardo's mind and in the minds of those who have followed him in his exposition of the theory was apparently this: Reductions in cost of production necessarily tend to lower the cost of the article produced. Reductions in rents, however, have no such necessary tendency. Reductions in rents, therefore, are clearly not the same thing as reductions in cost of production. When, however, we set out the reasoning thus, it becomes evident that we have to pause on the very threshold of the statement. The

major premise of the syllogism is a proposition that can by no means be allowed to pass unchallenged. Before we give our assent to the assertion that reductions in the cost of production necessarily tend to reduce the price of the article produced, we must be sure that we clearly understand what is meant by the phrase "a reduction in the cost of production."

Suppose that I am a manufacturer of bicarbonate of soda and am turning out three thousand tons per annum at a cost to myself in labour, coal, haulage, and so on of £6 per ton, and that, in these circumstances, I discover a new process by which this cost is brought down to £3 per ton, would this constitute a reduction in cost of production within the meaning of the theory? It is certainly, from my point of view, such a reduction, but is it one that will necessarily bring down the price of the commodity turned out? That depends altogether on the decision I arrive at in regard to future working. I may decide to be content with pocketing an extra £9000 per annum, and may so determine not to alter my output. If I do that the price of soda, as long, at any rate, as I adhere to my decision, will not be affected in any way by my discovery. The supply and demand will remain the same, and so will the market value. The truth appears to be thus that it is only reductions in cost of production that are open to all the world that are necessarily and immediately connected with the reduction of prices. The essential thing is that they should be open to all who mean to enter the industry, to the new man, to *future* producers. If we assume that such a newly discovered process as that supposed for making bicarbonate of soda at half its present cost were to cease to be protected either by being a patent or a trade secret, then, indeed, it is certain that no

long time would elapse before the product would be universally turned out at half its present cost, and that round this newly established cost, as normal price, the market price would come to oscillate. This being so, moreover, the future reduction of price would be at once anticipated, even as regards stocks at present in existence. The market price would fall, at once, and, no doubt, about in proportion to the anticipated reduction of cost.

If, however, it is only reductions of cost of production that are open to all new producers that necessarily tend to bring down prices, then there is no occasion for surprise at the fact that a reduction of rents such as that contemplated by the theory, which, by hypothesis, *does not affect any but existing producers*, should not have any tendency to bring them down. The principles that underlie rent, thus, it seems, do not differ in the smallest degree from those that underlie other cases of value, either annual or general.

The idea, indeed, that values can be lowered by an arbitrary reduction of the price demanded for any commodity or service is a very common one. I have heard of a famous painter, who, on conscientious grounds, refused to fix a value of more than £1000 for one of his pictures that it was well known would fetch £2000 in the market. In his view £1000 was the value of the picture, and he, at any rate, would not ask more for it. The result was, of course, that he made a present of £1000 to the dealer who was fortunate enough to do business with him. The same fallacy has come into operation frequently, one might indeed say continually, in connection with the land sales of Colonial Governments. Land, perhaps, in a new block opened up has been selling freely at from £2 to £5 per acre by auction. The cry, however,

comes to be raised that land should be made cheap to the poor and struggling settler, and that, in order to ensure this cheapness, it should not be put up to auction, but should have a price of £1 per acre, it may be, affixed to it, and should then be disposed of by ballot. On this principle hundreds of thousands of acres have been disposed of, as a matter of fact, in New Zealand, but has the land ever been cheapened? I think not. All that has happened has been that the Colonial Government has, without rhyme or reason, made presents of large sums of public money to fortunate individuals. I have myself seen more than two hundred applications put in for a single section, and, as every one of the applicants knew that if he drew the lucky number, that would mean two or three hundred pounds in his pocket at once, the only wonder is that there were not more. The fallacy, then, that a transfer of value is the same thing as a reduction of it is one that has not been confined to the theoretical economists.

If, then, the question is put, would alterations in "rent" in the sense of the annual value of land be calculated to alter the price of grain, the answer is clear, "undoubtedly they would." Such alterations, of course, could not spring from the fact of the handing over of their rents by one class in the community to another; they could only arise from some cause affecting the supply of or the demand for land. Suppose that, when wheat was at £4 per quarter, the sea had thrown up a fresh continent alongside of England, and that, thus, new land in unlimited quantities had become obtainable by all who chose to occupy it, for nothing or next to nothing, who can doubt that the price of grain would at once have fallen to a fraction of the figure then ruling, or that such a

fall in such circumstances would have had to be ascribed to the lowering of "rent"? All this, indeed, is just what, as a matter of fact, has happened in our own generation. The sea certainly has not thrown up a new continent beside us, but the progress of discovery in the means of facilitating transport has brought the continent of America closer to us than the continent of Europe was in Ricardo's day, and the result, we know, is that wheat has fallen to an average of about 25s. per quarter, and rents on the wheat lands of some of our counties are down by about 60 per cent. If we look to English rents exclusively, the fall appears as the effect, not as the cause of the lowering of grain, but if we look to the general situation all over the world, the reverse is the case. The conclusion, then, undoubtedly presents itself as unavoidable that the lowering of the value of land stands as cause to the lowering of the price of grain as effect; and, thus, there appears to be no truth whatever in the paradox that economic rent does not enter into the cost of production. The practical man, of course, knows that every shilling that he spends in rent, like every shilling that he spends in wages, has to be recouped out of the sale of his crop; and it is not surprising, in such circumstances, that he should, as General Walker admits, be likely to find the paradox a startling one. Like the other paradoxes referred to in an earlier chapter, it is only startling because it is an absurdity.

We are now in a better position to discuss how much or how little truth there is in Ricardo's next corollary, that the price of grain is ruled by the cost of production on the worst land in use, the doctrine which has given birth to all the lore about "marginal production," "marginal surpluses," and so on. The phenomena that were before Ricardo's mind were, of

course, the phenomena of his own generation. These were rising prices of grain, under the influence of increasing population and growing wealth, and, as their consequence, rising rents for land. Ricardo contended that the rising rents were not the cause of the rising prices of grain, and, of course, he was right there. They were not their cause but their effect. But if that was so, then surely the relation between the marginal cost of production and prices was not one of causality either. Take a concrete example. Here is land A, on the margin of production, and here is land B, paying a rent, say, of £1 per acre. Wheat goes up, let us suppose, by 20s. a quarter, and the rise is a permanent one. Presently land A ceases to be marginal land; it begins to pay rent, and some other land takes its place as marginal. At the same time, the rent of land B rises perhaps to £2 per acre. We have then here a series of circumstances in which, on the one hand, marginal cost of production has increased owing to the necessity for the use of poorer land, and, on the other hand, rent has come into existence where it did not exist before, and has increased where it did exist. But as these two facts, the use of poorer land and the increase of rent, are the offspring of a third fact, the rise in the price of grain, what can be more certain than this, that the relation between them is not that of cause and effect? They are collaterals, not ancestor and descendant. One might as well assert that the fall in the barometer is the cause of the rain or the wind that accompanies it, as that the resort to poorer marginal land is the cause of the emergence or increase of rent. Both M'Culloch and Mill, accordingly, as well as most of the economists that have dealt with the subject subsequently, recognise explicitly in various passages of their works, that the relation between the

two facts is not that of cause and effect. At the same time they all, without fail, return to the treatment of it as if it were so. We find them asserting continually that it is the cost of production of grain on the marginal land that "fixes" or "regulates" its price generally, and "fixes" and "regulates" are, of course, words that import causality.

Indeed, the theory loses all its significance if we take away the conception of causality. Take it away and we are left with the bare proposition that the "rent," that is the annual value of any piece of land, is coincident with the difference between the figure at which it stands at any given moment, say £1 per acre, and the annual value of land for which no rent at all can be obtained, that is to say, zero. That, no doubt, is true. The value, annual or otherwise, of anything is, of course, the same thing as the difference between zero and the figure at which it stands, but at what a preposterous, roundabout statement of a simple fact have we arrived in making it. Who would dream of making such a statement about anything else but land? Take an example and try it. The natives in New Zealand used, ordinarily, to have large numbers of unbroken colts running loose in the neighbourhood of their settlements. They were in the habit of running in a hundred or two of them, now and then, into the saleyards, selling as many of them as they could for anything that they would fetch, and turning the rest out again; and we might, perhaps, assert, without saying anything absolutely untrue, that the half-crown, it might be, given for the worst of those sold represented the difference between its value and that of the marginal horse turned out. Presently, again, suppose that a road is opened and a European settlement is established in the neighbourhood, and a

demand for horses, in consequence, springs up. Then, if a mob were yarded again it would be found probably that the marginal horses had acquired some value, while, at the same time, the value of those that had been sold before had risen; but who would think of maintaining that the one fact was the cause of the other, that the resort to the use of worse horses had increased the price of all the other horses in the district?—yet that contention would afford the closest possible parallel to the statement that the resort to worse land had raised the rent of other land.

CHAPTER VII

SOME OTHER ASPECTS OF THE RENT THEORY

CAREY'S objection to the rent theory, to the effect that Ricardo's "conjectural history" was at fault, that the natural progress of cultivation, as tested by American experience, at any rate, had not been, as a rule, from more to less fertile land, but very frequently just the reverse, has been treated by most of the English economists as a mere cavil. When we come, however, to the consideration of its bearing on the question of causality as applicable to the relation between the "marginal" cost of production and the market prices of corn, it will be seen, I think, to be both salient and important. The truth is that nothing but the peculiar circumstances of English agriculture in Ricardo's time could have made the attribution of causality in such a case for a moment plausible. There may have been, then, at any rate an appearance of simultaneity between the two facts of a resort to poorer land and a rise in the market price of corn. It seemed thus possible, then, to say, with some degree of plausibility, that the cost of production on the newly enclosed worst land regulated the price of corn generally. This simultaneity, however, could only coexist with rising markets. It vanished altogether during the latter half of the nineteenth century. It has been evident enough for some forty years past, at any rate, that it is not the rising but the falling cost of production of corn that has been ruling prices. When therefore

General Walker, a supporter of the rent theory, tells us that the price of wheat generally is "set by its cost of production in Dakota," the statement is no doubt one that will command our assent; but when he goes on to say that the land of Dakota is that where wheat is raised at the greatest disadvantage, the question must surely suggest itself: If that was so, how then did the price of wheat ever come down as the result of the production of the Far West? If, on the newly opened land there, the farmers had been raising wheat at as great a cost of production as the farmers on the lands of Essex, or at a greater, then they certainly could not have sold their product at lower prices. To find the true marginal land we have to look for it now in the old world, not in the new; and it seems, in these circumstances, a patent absurdity to assert that the struggling producers who are left in the lurch by their more successful rivals elsewhere are those that "regulate" market prices. The pioneer, indeed, is seldom or never on the margin of production. In the nature of things he hardly can be so. He has to be compensated for the rough and lonely life that he will lead, and for the imminent risk of losing his already accumulated capital whilst working under conditions that are new to him, by profits that are higher than the usual ones, and compensated he is, as a rule, beyond question. The farmers of Dakota and Canada are paying off their mortgages and extending their operations as rapidly as their capital will permit. The marginal producer is now to be found in Essex or, perhaps, in Massachusetts.

It is open to doubt, indeed, whether cultivation ever extended itself quite in the manner that Ricardo supposed. He seemed to think of individual farmers as pushing on, or being pushed on simply from one

class of land to another, but in any of the important extensions of cultivation that we know of in the history of the world the corporate action of communities is what has to be taken into account. Roman or Anglo-Saxon, or Russian government is extended to some new area of the world's surface. Roads or, in modern days, railways are constructed, and thus vast new tracts of fertile land are made at once open to occupation, prices of produce come down, and much of the old land long in use becomes "marginal."

It is remarkable that Adam Smith's sound sense kept him clear of the rent theory altogether; and, on this particular point, his views are diametrically opposed to those of his successors. The question at issue, if one may put it thus, between him and his successors is this, Is it the lowest and most profitable or the highest and least profitable cost of production that rules prices? Adam Smith says the lowest. "The most fertile coal mine," he remarks, "regulates the price of coals at all the other mines in the neighbourhood. Both the proprietor and the undertaker of the work find, the one that he can get a greater rent, the other that he can get a greater profit by somewhat underselling all their neighbours. Their neighbours are soon obliged to sell at the same price."[1]

This is common sense, and is of course the view of the business world. Ricardo and his followers would, however, say just the reverse. It is the cost of production at the least fertile mine, they would tell us, that regulates prices; and this view of his is, to the present moment, for the most part, the view of the universities. The rent theory, indeed, is one of the most conspicuous of those theories which fix a gulf

[1] *Wealth of Nations*, Book I. Chap. xi. Part II.

between the economics of the universities on the one hand and those of the newspapers, of the Stock Exchange, and of Parliament on the other.

Of course, it may be said, some sort of a meaning not altogether false can, by straining, to some extent, the natural meaning of words, be attached to the doctrine that it is the highest cost of production that regulates prices. Such cost of production is, at any rate, on the average, coincident with them; and if we could anyhow locate it or identify it, it might serve as a barometer of them. There is a very grave objection, however, even to the theory as thus modified, and that is that we cannot anyhow either locate or identify this production that we call "marginal." If it is a barometer it is one that it is wholly impossible for us to read. In speaking of it, indeed, we are using words very nearly if not altogether without a meaning. We can talk, it is true, of certain hypothetical land as being on the margin of cultivation, or as returning the ordinary profits of capital only, but no rent, in the economic sense, and of other hypothetical land as returning something in addition as payment for the use of the natural powers of the soil, but if we are asked to illustrate our distinction by some individual instance, we are altogether at a loss. It cannot be done. Some of the most eminent economists, indeed, such as M. Leroy Beaulieu, contend that there is no such thing as economic rent at all, no such thing as rent that is not payment for capital expended on the land. Whether there is or not, this much is certain, and it is important to note it, that no one can illustrate it by a single concrete example. Our classes of marginal and non-marginal land, marginal and non-marginal doses of capital and so on, are barren categories.

They are like cases in a museum with elaborate description of the specimens supposed to be exhibited, but no actual specimens to show as answering to the description.

The economics of the universities are, indeed, too full of these idle shadows. Common language, of course, will have none of them. The meaning of words generally, as I have endeavoured to point out in my first Part, can be fixed in but two ways, that of words applicable to the things of the outward world, by pointing out the things themselves, that of words applicable to thoughts, wants, emotions, and the things of economics, by narrating circumstances in which such thoughts, wants, emotions, and so on emerge. There is no third alternative possible. Conceptions that are not capable of being illustrated by a single concrete instance are conceptions that it must be for ever in vain for us to concern ourselves about. We might as well discuss the politics of the Dog Star as endeavour to investigate their nature or the consequence of their supposed characteristics. In a practical science like jurisprudence it is abundantly obvious that the existence of such conceptions is wholly inconceivable. Let us try to imagine a conception in law of "agency," "negligence," or "malice" which we could not illustrate by any single instance. We see at once that the mere mention of such a thing brings us to the margin between sense and nonsense. The current economics, however, abounds in these *idola*. Adam Smith, indeed, himself cannot be altogether exempted from the charge of manufacturing them. He has a good deal to say about a labour standard of value, for example, but it is manifest that it would be impossible for him or anyone else to adduce any instance in which the value of anything was or could be measured by

anything so devoid of homogeneity as labour in general, including, at the same time, the labour, say, of navvies, of stockbrokers, and of consulting physicians. The manufacture, however, has gone on and flourished mightily since Adam Smith's day. There will be occasion to draw attention to many of its products as we progress.

It is to be observed that in the very putting of the question whether prices are ruled by the highest or the lowest cost of production, we have to be on our guard against a fallacious conception introduced into the matter by the rent theory itself. It is taken for granted that the lowest cost of production is that which takes place on the most fertile land, the land which would pay the highest rent if let to a tenant, and that the highest cost of production takes place on the least fertile and worst situated land in use, that which would pay no rent at all. This, however, of course, is only true if we omit rent itself as an item in cost of production. The business way of looking at the matter is altogether different. From the business point of view land is the instrument, wheat the ultimate product. One may be able to produce in the end most cheaply by paying a high price for a first-class instrument, or one may come out best by getting an inferior instrument at an exceptionally low price. No general rule can be laid down. All that can be said is that there are forces at work which make varying costs of production, whether of raw produce or of manufactures, tend to a level, while, no doubt, there are other forces again which tend always to produce fresh disparities between them. Among the forces which tend towards the levelling of the various costs one of the most important is the desire of those who have accumulated an amount of wealth

that they regard as adequate, and who, perhaps, find their life-work drawing towards its close, to convert the results of their labour and their speculations into a secure provision for themselves and their families. If they are in business, they, perhaps, form the concern into a Limited Company, and take debentures or preferred stock for their share of the capital. If they have put their money into land, they may sell it and take a mortgage to secure its payment, or they may let it and live on the rent. There is no essential difference between these various cases. The debentures, the preferred stock, the interest on the mortgage and the rent, are all in reality merely various forms of periodical payment for the use of accumulated capital; and they are all, in every respect, subject to the same general economic laws.

We are thus led to the conclusion that the rent of land is simply one case of value, and that the causes that give rise to it are in no respect essentially different from those that give rise to value in any other instance. We have an interesting confirmation of this view in the turn taken by the later developments of the rent theory itself. Ricardo's first disciple, James Mill, as we know, found it necessary to vary the original theory as to the connection between rent and the resort to poorer land, by the introduction of an additional doctrine in regard to the successive "doses of capital" as applied to the same land. The essential matter in his view was that, under the influence of the demand due to increasing population, not only would the poorer land have to be made use of, and a rise in cost of production thus be brought about, but that a similar rise in cost of production would take place, even where fresh land was not resorted to, owing to the progressive diminution in the returns

from each fresh "dose of capital" expended on the same land. The law of Diminishing Returns, for which much importance has been claimed, was thus announced and elaborated. It is spoken of, indeed, very frequently up to the present day, as one of the great laws of economics. Let us see what it really amounts to. Conceive for a moment that it were not true, and that its opposite was so, that land would yield the same return instead of a diminishing return to every fresh dose of capital. Suppose, then, that we had an acre of the most fertile and best situated land in the country, and that on this, by the expenditure of 10s. in labour we could raise 20 bushels of wheat, by the expenditure of another 10s. another 20 bushels, and so on indefinitely without limit. If we could do that it is plain that there would be no object in resorting to any land but this one acre in order to feed the whole community. The whole sustenance of the country would be raised from it. But why stop at an acre or at an initial dose of capital of 10s.? A square yard and successive doses of capital of some fractional part of a farthing each would serve the purpose as well. In fact, the whole world could be fed from the *minimum visibile*, and at so small a cost as to be equivalent to nothing at all. The law of Diminishing Returns thus appears to consist merely in the setting up of this portentous absurdity, and in then knocking it down again.

M'Culloch, it must be said, was quite alive to the fact that the above was the true import of the "doses of capital" theory. "If the nature of the land," he remarks, "had been such that it had always yielded the same or a greater proportional return to every fresh outlay of capital and labour upon it, the entire supply of food required by the most populous nation might,

it is obvious, have been raised from one acre as easily as from millions. In such a state of things, prices could never have risen, and rent would have been wholly unknown."[1] All this brings out very clearly the identity of rent, even as seen through the medium of Ricardian theory itself, with other cases of value. What M'Culloch's supposition amounts to is a supposition of land as being in every respect like the air that we breathe. Then, of course, it could command no rent; neither, however, would it possess any exchange value whatever. The causes which confer on it exchange value are precisely those which make it command an annual rent.

There is plainly all the difference in the world between the proposition that the returns to labour and capital from the working of any individual block of land will diminish if we go on long enough, and the proposition that the returns from the working of land generally in the world will so diminish. The first is the most palpable of truisms; the second is not true at all in the present circumstances of our planet, nor does it appear likely to become true within any period at a measurable distance ahead of us. The two propositions are, however, habitually confused together, and treated as one and the same by the Mills and Ricardo and their followers, under the general heading of the law of Diminishing Returns.

Another phase in the development of the theory which points to the conclusion that the laws of rent are the laws of value simply and no others, lies in the subsequent generalising of the principles laid down by Ricardo, as applicable to the rent of land exclusively. The generalising appears to have begun with M'Culloch. "If the instrument," he says, "by which any cheaper

[1] Note to *Adam Smith*, Note 111.

method of production is effected can be appropriated by one individual to the exclusion of others, the excess of profits which it yields over those yielded by the use of inferior instruments will belong to the proprietor of the instrument, and will form *Rent*."[1] Mill, further, includes under the superiority of the instrument, superiority in business talents, superior organisation, and larger capital. As business talents, organisation, and capital vary continually from one case to another, to describe as variations of rent the disparity in gains due to them is clearly to use the word rent simply to designate what other people designate by the word profits; and if, in spite of this development, we adhere to the language of the rent theory, then the science of economics will become thenceforward for us a science whose main object must be to instruct us how to translate everyday language into the contorted technicalities of a school. It is certainly interesting to watch the historical evolution of the doctrine. It takes its start, as remarked above, from the fancy of the physiocrats that agriculture is more productive than trade and manufactures, and that there is, therefore, an "agricultural surplus" to be accounted for. Then the superior productiveness of agriculture is dropped, but the conception of the rent of land as something essentially different from every other source of gain, nevertheless remains. Finally, it is found that the dividing lines between rent and profits have to be obliterated, and we might then expect that the whole theory would be dropped. But, instead of this, we are now told that all that we used to call profits should be called "rent." When we have got this length it is plain that all that is left is the mere shell of the old theory, but this shell, it must be said, appears to possess just

[1] *Loc. cit.*

about as much vitality as if it still had a live fish inside it.

The evolution, it seems to me, affords a parallel to that of a theory famous in another field of thought, the idealism of Hume. As announced by Hume, the purport of that theory was that we had no ground for believing that the things of the outward world were more real than the things of memory or fancy. They were all "ideas." The only difference between them was a difference in vividness. This last proposition, it was soon found, would not do, and had to be dropped; and the progress of the doctrine then for a hundred years consisted in the continuous attribution of more and always yet more of the characteristics of what are popularly known as outward objects to the Humist "ideas," till, at last, in Mr. Mill's exposition of the doctrine, we hear of "possibilities of sensation" like fire which, in our absence, melt other "possibilities of sensation" like wax. When things have got this length it becomes clear that the "idea" or the "possibility of sensation" has gathered to itself all the attributes of the erewhile outward object, and has, indeed, become a mere synonym for it. In these circumstances, it would surely be best to own, at once, that the game is up, and to drop the contorted phraseology. Similarly, with regard to the rent theory, when the word "rent," in its technical sense, is found to have gathered to itself all the attributes of profit and of gain, and to be merely another expression for the same ideas that they express already, there would then seem to be very little use in any longer retaining the husk of empty expression which formerly clothed the original but now discarded doctrine.

So far, I have only referred to the academic aspect

of these fallacies, to the unnecessary complexity that they have introduced into the study of questions that are not too simple in themselves. When, however, a fallacy is allowed to live in the regions of abstract theory, it is always liable some day to become the property of the man in the street; and then it is not unlikely to make itself conspicuous in the world by results that are practically mischievous. The incubation goes on in the schools, but the hatched-out monster often disturbs the course of commerce or threatens the peace of society. Locke, for example, laid down the doctrine that labour was the sole cause of value. Adam Smith, with something less than his usual insight, took it up and popularised it. It thus established itself as an integral part of economic science, and, as such, was taught in the universities for a generation or two. Finally, Marx came on the scene and drew the inevitable inference that if labour is the sole cause of value it must be the sole true source of all our wealth, and that therefore the share of wealth that the capitalist obtains from industry is so much robbed from the labourer. The result we see in the Socialistic upheaval on the Continent. Again, the monetary theorists of the Seventies taught the doctrine of the double standard, and it, in its turn, obtained and held for a good many years the position of orthodox dogma. At length Mr. Bryan came on the scene, and, finding it ready to his hand, brought the United States to the verge of revolution by means of it.

The rent theory has notoriously run a similar course. Ricardo was, no doubt, himself a cool-headed man of business without revolutionary ideals, yet the land nationalisation doctrine is to be found already almost full fledged in his writings. Bastiat couples his name with that of Prudhomme, as a hardly less

mischievous incendiary, and that indeed is not much to be wondered at when we find that the outcome of his theory is such a proposition as this, that "a tax on rent would affect rent only; it would fall wholly on the landlord, and could not be shifted to any class of commerce."[1] If a land tax would operate as Ricardo here anticipated and no otherwise, nothing is more certain than that it would, by this time, be in force in every democratic country. But is there a word of truth in the fancy that such a tax would not fall on the consumer? What is it that has brought down so conspicuously the price of corn during the last thirty or forty years? Mainly, no doubt, the work of the pioneer farmer in the Western States of America. But, suppose, for a moment, that the United States Government had been, from the first, eagerly on the lookout for any rise in the value of all land which, if let to tenants, would have enabled them to pay some rent over and above interest on the capital actually expended in improvements, would the work of pioneering not have been checked? These distinctions of the economists between rent and not rent, between increments earned and unearned, etc., have, of course, no existence for the practical man. A youth about to make a start in life looks around him to see in what quarter of the world and in what occupation the chances of success are most promising. He has before him, perhaps, the example of a neighbour who went pioneering some ten or twenty years earlier, and who is now a millionaire or near it, simply because the land that he took up has become the site of an important town. He will go pioneering too. So new lands are opened up, and so the price of grain comes down. These unearned increments are the prizes of

[1] *Op. cit.* p. 232.

the adventurous agriculturist, and are the most effective of all incitements to adventure in such a line. The Ricardian theory is based throughout on the conception of the landlord class as a class separated from the rest of the community by impassable barriers, a conception, indeed, which is only of late years ceasing to have some measure of truth in it as regards Great Britain. If the landlords could never sell their land, or if the traditionary custom was such that they never thought of selling it, then it would, perhaps, not be far from the truth to say that a tax on their rents would fall on them only; but when the laws and customs of a country are such that land is a commodity that is continually in the market, when the man with five talents who says to himself, "My object in life is to make these five talents into ten," can further ask himself, "Shall I buy a ship with the money and load it with produce to sell abroad, or shall I build a mill to grind other people's corn, or finally shall I buy a farm to grow wheat?" all such uses being on the whole one about as likely as another to serve his purpose in the long-run, then, in these circumstances, land takes its place as capital, and is subject to all the economic laws that affect every kind of investment of capital and to no others but them.

CHAPTER VIII

THE MATHEMATICAL ECONOMICS

THE rent theory, as I have said, has become one of the sources of the new phraseology which has rendered the study of economics, as currently carried on in the universities, unnecessarily abstruse and difficult. A still more prolific source of the same sort of phraseology is to be found in Jevons' theory of value, with its elaborate apparatus of symbols and diagrams. The two theories have now, indeed, become amalgamated, though their amalgamation appears to be something of an afterthought, their connection being, in truth, rather fortuitous than organic.

Jevons starts with the assertion that economics must be a mathematical science if it is to be a science at all.[1] The rejoinder surely must, at once, occur to anyone that if biology, as applied to the lower world, is not mathematical, if, for example, Darwin could make no use of mathematical formulæ and symbols in the whole course of his investigations, how can it be a necessary or even a possible presumption that economics, which, as the science of human wants, seems at any rate to lie some removes further away from the inorganic world than biology does, should be so. To this rejoinder Jevons would answer again, "It must be so because it deals with quantities," and his answer certainly has some relation to one aspect of the truth. It contains, at any rate, a *scintilla juris*. It is a

[1] *Theory of Political Economy*, p. 3.

matter indeed of no small interest to observe,—in whatever light we look at the fact,—that, in following the ranks of the sciences upwards from those that deal with inert matter till we reach those that deal with the human soul, after having left behind us, as it seemed for good, on coming to the sphere of biology, the conceptions of precisely measurable quantities, we should find ourselves in the midst of those conceptions again, after we have entered the sphere where we are conversant with the advanced psychology of the most civilised races. That we do find ourselves in the midst of these conceptions in that sphere is beyond question. The account-books of every trader are sufficient evidence of the fact. Wherein, then, does the peculiarity of Jevons' claim for the mathematical treatment of economical questions lie, as distinguished from the mere unquestioned truth that the statistics of prices and the accounts of traders are all, in a sense, mathematical? Evidently the two are not the same thing. No one, whatever his opinion may be of the value of "pure economics," doubts that price statistics are the legitimate subjects of mathematical treatment. The distinction lies briefly in this, that what the world in general looks upon as mathematical in economics are the prices of the past; what Jevons and his school claim to treat mathematically are the prices of the future. In other words, in the popular conception it is economic history alone that either is or can be conversant with exact quantities, while the view of the pure economists means, if it means anything, that the data exist in the subject-matter of economic science which ought to render possible mathematically exact prediction also. That, it is obvious, on the most cursory reflection, is the necessary import of the claim for economics, that it should rank among the exact sciences. The word

"science" is itself one of those words which import a future reference while apparently referring to the present only. As Mill very truly says, what we regard as the scientific explanation of a fact after its occurrence is the very same thing as that which we call its scientific prediction before it. The moon was under eclipse last week. We explain the fact by the known relative positions of the sun, of the earth and of its satellite, as deduced by combined observation and calculation. If these observations and calculations have taken place this week, that is, after the event, we call them the explanation of the eclipse; if they took place last week, that is to say, before it, we would call them its prediction. In regard to the phenomena of prices, however, scientific prediction is, plainly, in the popular view, never even remotely possible. An Oxford or Cambridge professor engaged in instructing his pupils how to predict to-morrow's price for anything with mathematical certainty and mathematical exactitude would, in the eyes of the man in the street, appear to be in his appropriate place in a comic opera. Obviously if anyone had, in truth, discovered the secret of such prediction he would in a few months be the wealthiest of multi-millionaires. We can see thus how profound a fallacy may be contained in the dictum that economics must be mathematical because it deals with quantities. There appears to be all the difference in the world between exactitude in economic history and exactitude, even as a possibility, in economic science, from the one to the other of which Jevons and his followers pass by so easy a transition.

There are, then, two things which it concerns us always carefully to distinguish. The first is that which takes place in the mind of the community before prices are fixed; the second is that which takes place

afterwards. There is a very prevalent and, apparently, a very subtle fallacy—it has, at any rate, deceived some highly competent thinkers—which consists in comparing the point of view which is appropriate to the former with that which is applicable only to the latter. I had occasion to refer to it in my former work.[1] Mill tells us that the price of commodities may be determined either by the potential or by the actual supply of them. You ask, what is the actual supply of any given commodity at any given time, and you find that it is and can be nothing else but the amount which was actually sold at that time. Any portion of the commodity that was not sold could be nothing else but part of the potential supply. The actual supply is therefore clearly something that we can know nothing about till the transaction is over; and, therefore, to say that it is it which determines prices is plainly an absurdity. We can speak about it quite clearly and definitely in the past tense, but Mill falls into an obvious error in assuming that we can speak of it in the future tense as well, as of something known and definite. The mathematical economics, we will find, is permeated, from beginning to end, by a similar false assumption. Jevons admits[2] that he hesitates to say that man will ever have the means of measuring feelings directly. We can, however, he holds, measure them indirectly by their effects. But "Where," he remarks, the reader will ask, "are your numerical data for estimating pleasures and pains in political economy? I answer that my numerical data are more abundant and precise than those possessed by any other science, but that we have not yet known how to employ them." . . . . "*It is from the quantitative effects of the*

[1] *Evolution of Modern Money*, p. 294.
[2] *Theory of Political Economy*, 2nd ed. p. 11.

feelings that we must estimate their comparative amounts. We can no more know and measure gravity in its own nature than we can measure a feeling; but, just as we measure gravity by its effects in the motion of a pendulum, so we may estimate the equality or inequality of feelings by the decisions of the human mind. The will is our pendulum, and its oscillations are minutely registered in the price lists of the markets. I know not when we shall have a perfect system of statistics, but the want of it is the only insuperable obstacle in the way of making economics an exact science."

In a former chapter, in alluding to the mathematical ideal, I have endeavoured to draw attention to the necessity of keeping always before our minds the distinction between the principles that are applicable in the organic and those that are applicable in the inorganic world. In the latter, a law of nature means one thing; in the former, it means quite another. In the inorganic world it means a quantitatively definable and precisely measurable occurrence; in the organic world it can mean nothing but a limited area within which innumerable variations may take place. As regards the force of gravitation, our experience of it is such that we know that its operation to-day will be exactly the same as was its operation yesterday. As regards the feelings of the human soul, our experience of them is such that we are led to the directly opposite conclusion. We know, indeed, that the effect of a given description and degree of pain and pleasure on the action of one man, at one time, will probably be more or less similar to its effect on the actions of another man, or of the same man at another time, but we can be quite sure also that it will never be precisely and measurably the same. All the conclusions, therefore, that can be drawn from statistics in regard to the

future, how exact or how complete soever they may be, must differ in their essential nature from the sort of conclusions that are possible in the physical sciences.

If we wish to feel fully satisfied as to the essential character of this difference, we may look at the subject again in this light. Take some simple astronomical line of reasoning, such as that above referred to—the prediction of an eclipse,—we find that we are following out, all through, in anticipation, the history of the same concrete individual things, without any reference whatever to anything else but them. Because the earth and the sun are moving at such and such rates and in such and such directions, therefore we conclude that at a given future hour and minute the earth will find itself between the sun and the moon, and will cast her shadow on the latter. Take any argument that we please from statistics, the case is altogether different. Say that we argue that because the visible supply of wheat is the same now as it was at this time last year, therefore the price will probably be about the same, we find that we are not now following out in anticipation the history of any one concrete thing or things, as in the former case, without reference to anything else, but that, on the contrary, we are saying to ourselves that if the wheat of last year acted in a certain manner on human desires and volitions, then there is some reason to anticipate that the wheat of this year will act on them in an approximately similar manner now. The former reasoning is deduction in its strictest sense. The latter is merely inference by analogy, and it seems thus evident that deduction, strictly speaking, is impossible as regards any of our predictions based upon statistical reasoning. In practice, therefore, Jevons' theory appears to be altogether out of relation to the science of statistics. The wheat or sugar specialists, so far as

I have heard, have never so much as dreamt of making any use of his formulæ and diagrams. They could obviously make no use of them, because what his theory assumes to treat as quantitative and measurable are not the same things as those with which they are concerned. What he attempts to treat as measurable are the forces that act on prices before the event, just as we can treat the force of gravitation that will make a stone which we are holding in the hand fall to the ground as measurable, even before we have let it go. What the statisticians of prices, on the contrary, treat as quantitative and measurable are exclusively the completed effects of last year's or last week's supply of any given commodity on last year's or last week's prices, while, from those effects as data, they make such rough guesses as they can at the probable effects of the present visible supply of the same commodities on the prices of the immediate future.

That the theory must always remain out of relation both to statistics and to everything else that is in any sense practical will, I think, become clear if we look carefully at some of its fundamental postulates in detail. Jevons accepts from Dr. Bain as axiomatic the doctrine that we may safely affirm "that the greatest of two pleasures, or what appears such, sways the resulting action"; for, as Bain says, "*it is this resulting action that alone determines which is the greater.*"[1] If we admit the validity of this axiom we should, of course, have to assert that when Arnold Winkelreid gathered the Austrian spears into his bosom, that action of his gave him greater pleasure than any alternative action would have given him. My reader may perhaps think that that opinion is sustainable. If he does, I do not wish to dispute the

[1] *The Emotions and the Will*, 1st ed. p. 447. The italics are mine.

point with him at the present stage of the discussion, but merely to draw his attention to its full import. It is important to note that the argument as to the pleasure that such an action must be held to have given, in such circumstances, is entirely *ex post facto*. No one certainly could have anticipated that it would have given Winkelreid any pleasure at all. It is solely and exclusively because he acted in such a manner that we say that it gave him pleasure to do so. Keeping this clearly in mind, let us glance at Jevons' reasoning a page or two further on. He thinks, with Mill, that the science of economics is "a case of the Physical or Concrete Deductive Method."[1] Both he and Mill "consider that we may start from some obvious psychological law, as, for instance, from the law that a greater gain is preferred to a smaller one, and we may then reason downwards and predict the phenomena that will be produced in society by such a law." Keeping in mind, however, Bain's axiom previously quoted, we ask, What is a "greater gain"? "How are we to know it when we meet with it?" The answer is: It is the gain which, as we find, *after the event*, is preferred to all other gains. This, in the view of the theory, is the one and only possible criterion of its greatness or smallness. However unlikely it might seem beforehand that it would be preferred to other gains, if we find, after the event, that it has been preferred to them, then we must call it the greater gain. If that is so, however, then the proposition that a greater gain is preferred to a smaller one resolves itself into this and nothing more than this, that the gain which is preferred to another is that which is preferred to another; and from such a proposition as that it must be conceded that no further

[1] *Op. cit.* p. 18.

important deductions can be drawn. That is the vice, indeed, of these *ex post facto* axioms, that they resolve themselves on examination into the barrenest truisms. They are precisely on a par with the often quoted dictum of Molière's physician—that opium sends the patient to sleep because it has a soporific action. Jevons' theory of value furnishes us with examples of them in very considerable abundance, and we are now in a better position to estimate them at their true value. When we are told, for instance, that, among the ultimate laws of economics is to be found the law that "every person will choose the greater apparent good," we know that we have only to ask, What is the greater apparent good? to find that its definition is simply that it is the good which everyone will choose. A little further on,[1] again, another statement of Dr. Bain's axiom is quoted. "No amount of complication," says that writer, "is ever able to disguise the general fact that our voluntary activity is governed by only two great classes of stimulants; either a pleasure or a pain, present or remote, must lurk in every situation that drives us into action."[2] "The question," says Jevons, "certainly appears to turn upon the language used. Call any motive which attracts us to a certain course of conduct pleasure, and call any action which deters us from that conduct, pain; and it becomes impossible to deny that all actions are governed by pleasure and pain."[3] Very likely it does, but on that principle anything may be anything else, no matter how different from it it is in the popular conception. On that principle we might say, Call racehorses donkeys and it becomes impossible to deny that donkeys invariably win the Derby.

[1] *Op. cit.* p. 28. [2] *The Emotions and the Will*, 1st ed. p. 460.
[3] *Op. cit.* p. 28.

We hear a great deal from the mathematical economists of the "final," or, as Jevons' followers now prefer to call it, the "marginal degree of utility." This conception of the "final degree of utility," indeed, is the keynote of the whole theory. Let us see what it really is, and inquire whether or not the fundamental propositions bearing on it are vitiated by the *ex post facto* fallacy. Jevons, after remarking[1] "that he would not think of claiming for the mind any accurate power of measuring and adding and subtracting feelings, so as to get an exact balance," goes on to say, "But the reader who carefully criticises the following theory will find that it seldom involves the comparison of quantities of feeling differing much in amount. The theory turns upon those critical points when pleasures are nearly if not quite equal. I never attempt to estimate the whole pleasure gained by purchasing a commodity, the theory merely expresses that, when a man has purchased enough, he would derive equal pleasure from the possession of a small quantity more as he would from the money price of it." No attempt, it is thus conceded, would ever be successful which aimed at estimating quantitatively the "total utility" of any commodity. It is only its "final degree of utility" that can be thus estimated. But why, we may ask, should it be any easier to estimate quantitatively any one degree of the utility of a commodity, that is to say, any one degree of the pleasure that its possession affords us, than it is to estimate quantitatively any other degree? To answer that question, we must cast a glance at the theory as a whole. It runs, it will be remembered, somewhat as follows. After a man has begun to find that he has got as much as he wants of anything, say of bread, a

[1] *Op. cit.* p. 14.

time will come when he will prefer exchanging it for something else, say beer, to eating any more of it himself. At the same time, he will not be able to exchange it unless he finds some one else who owns beer, and with whom the time has also come when he (the second man) also prefers exchanging some of his beer for some of number one's bread to drinking any more of the beer himself. When the exchange has actually been made, therefore, it might always be said with certainty that the degree of utility of the half pound of bread, let us say, that number one had handed to number two was, for him, exactly equal to the degree of utility of the pint of beer which he had received in return; or, if you suppose money to have been one of the commodities exchanged, that the degree of utility of the half pound of bread was exactly equal to the penny, say, that was paid for it. In other words, the final degree of utility of anything is nothing else but this, the value set upon anything by its owner at the moment when it is exchanged. It seems clear, therefore, that it may always be translated into ordinary English by the plain words "value" or "price." Observe, too, that we have already in the conception of price and value all that we can possibly have in the conception of the final degree of utility. We know and can know nothing quantitatively, it has been conceded, about the final or any other degree of utility *à priori*. We can never say with even any *primâ facie* appearance of plausibility, that the final degree of utility of any commodity is so much, and that, therefore, its price will necessarily be so much also. We can only say that the price paid for it was so much, say a shilling, and that therefore its final degree of utility must also have been the exact equivalent of a shilling. We can

thus only speak rationally of final degrees of utility in the "must have been" and "would have been" moods and tenses; never in tenses that express simply the present or the future. Jevons himself, we find, arrives at the conclusion[1] "that the final degrees of utility of any pair of commodities are inversely as the ratio of exchange of the commodities." As the phrase "ratio of exchange" is his expression for what other people call the "value," this is the same thing as saying that the final degree of utility and the exchange value are always equal,—in other words, that they are one and the same thing. Elsewhere,[2] indeed, he makes this very statement quite explicitly. "While Adam Smith's often quoted value in use," he says, "is the total utility of a commodity to us, the value in exchange is defined by the terminal utility."

Bearing this in mind, we may take a specimen of his reasoning in regard to the relation between final degrees of utility and prices, and see what it really amounts to. We have one that will serve our purpose on page 146[3] under the cross heading "Equivalence of Commodities." It runs as follows:—"The wholesale price of mutton, on an average, exceeds that of beef in the ratio of 9 to 8, and we must therefore conclude that people generally esteem mutton more than beef in this proportion, otherwise they would not buy the dearer meat." Observe that here the relative price of beef and mutton are the data, and the sole data, on which the conclusion as to the relative proportionate esteem entertained by the public for beef and mutton is based. Jevons goes on, however, "It follows that if the final degrees of utility of these meats are in this ratio, or that if ϕx be the degree

[1] *Op. cit.* p. 151. [2] *Op. cit.* p. 176. [3] *Op. cit.*

of utility of mutton and ψy that of beef, we have

$$8\ \phi x = 9\ \psi y.$$

This equation would not hold true in certain circumstances. . . . But this is certain, that, *so long as the equation of utilities holds true*,[1] the ratio of exchange between mutton and beef will not diverge from that of 8 to 9." Observe, again: After having argued from the fact that the prices of beef and mutton were as 8 to 9, that their utilities must be as 8 to 9, he now goes on to treat these utilities as if they were something that were separately and independently known, and from which it was possible to draw inferences as to the course of prices. If you ask him, however, how is it that he knows that, "so long as the equation of utilities holds true, the ratio of exchange between mutton and beef will not diverge from that of 8 to 9," the only answer that can possibly be given is this, that if these ratios of exchange were found to diverge, then we should be forced to hold that the equation of utilities had not held true. Could all the tomes of the schoolmen furnish us with any more barren jugglery with words?

We can see thus how it is possible to put together an elaborate train of reasoning bristling with ys and xs, with ϕs and ψs, the net result of which is practically nothing at all. On pages 127 and 128[2] we have another example of such a train of reasoning, and what is the end of the whole matter? "The general result," say Jevons, "would be that the smaller holder must more or less conform to the prices of the larger holder." We most of us surely knew that already without an algebraical demonstration. If it is worth while, however, to present a trite commonplace like this in the new phraseology, there is no difficulty in

[1] The italics are mine. [2] *Op. cit.*

doing it, once we know the way. We have merely to substitute the phrase "final degree of utility" and other cognate terms for the common words "price" and "value" and "cost," and the thing is done. We find a good many examples of these curious "translations" in the work of Jevons' eminent Italian disciple, Professor Pantaleoni. Here are one or two selected at random: It is a very obvious truth, one would think, that "each party to a sale or exchange must deem the article he obtains to be more useful to him than the article that he parts with." This is expressed in the new phraseology by saying, "Suppose two persons, each possessing a determinate quantity of different commodities, it is necessary that there should be a difference in the comparative degrees of final utility in the commodities in question" before an exchange can be effected. Professor Pantaleoni in this case gives us the old and the new language side by side, and tells us, in so many words, that they both mean the same thing. Where, then, can the advantage come in of using the latter? If pure economics has nothing more in it than this, it seems about as useful a study as learning to spell words backwards, or to write from right to left after the Semitic fashion. The new language, however, it must be said, further, seems to be not only useless but mischievous. We say in English that the value of a thing rises when the demand for it increases. The pure economist says that its value rises when the final degree of its utility grows greater. The English expression points to the true cause of the rise in value,—a change in the mental attitude of the public in regard to the thing. The new phraseology seems to point to some change in the nature of the thing itself which, as a matter of fact, has not taken place.

Here again is another specimen of plain English and pure economics placed side by side.[1] The plain English is this: "If the demand increases, *cæteris paribus* prices rise." The translation into pure economics runs as follows:—"If the scale of degrees of utility of successive increments of a commodity changes so that the utility of each increment of commodity for the consumers increases, or, in other words, that the difference in the comparative degree of utility for them of the commodity and of the price is increased, they must and will pay a larger price than before for equal quantities."

There is, of course, nothing whatever in this half-dozen lines of "translation" that was not contained already in the half line of the original. By the process of translation, however, so very familiar a doctrine as this can be made to shine forth as the discovery of a new and important economic law; and so with others of the like sort in unlimited numbers. The fact, for example, that things that serve the same purpose compete with each other, as, for instance, that railways compete with canals and horse traffic, when duly translated, appears as "the law of Economic Equivalents." With regard to the alleged fact that everything that can be called wealth has both a value in use and a value in exchange, and that sometimes the value in use will be found to be the greater of the two, and at others the value in exchange, we are gravely told that "Menger recognises in this phenomenon a law of the displacement of the barycentrum of value or of the final degree of utility."

What the pure economists forget is that there is always or almost always a great variety of ways in which any conceivable judgment can be expressed. We might, for example, of course, either say that the

[1] *Pure Economics*, English Translation, p. 165.

Athenians detested tyrants, or that, in Athens tyrants were regarded as detestable; or, again, that the sentiment of detestation entertained towards tyrants in Athens was an established historical fact. The ordinary literary instinct will not fail, as a rule, to choose the best of these ways in any given circumstances; but the other more roundabout and more contorted method is, at the same time, always open, and we must be on our guard against the assumption that the adoption of the contorted mode of expression is in any way equivalent to the presentation of anything that is either new or interesting. It seems to have been rather too hastily assumed, for example, that, because it may be possible to attach some sort of meaning to the words "negative value," "disutility," and "discommodity," that it is worth while attempting to do so. Jevons remarks that only a few economists have noticed the fact that there may be such a thing as negative value.[1] "Yet," he goes on to remark, "there cannot be the least doubt that people often labour, or pay money to other labourers, in order to get rid of things, and they would not do this unless such things were hurtful, that is, had the opposite quality to utility—disutility." Water, when it gets into a mine, and when its presence there involves loss and expense, is cited as an example, as one of the things that possess this negative value, this "disutility." Sewage, ashes, swill, and the like are other examples. Rain, as it continues to fall, passes, it is said, through the various stages of utility, of indifference, and of disutility. "The same water which in moderate quantity would have been of the greatest possible benefit has only to be *supplied*[2] in greater and greater quantities to become injurious." He quaintly tells us

[1] *Op. cit.* p. 137.

[2] The italics are mine.

indeed that those acquainted with the floods and droughts of Australia "know that this is no fancy sketch," as if that was the matter about which there was any sort of doubt. The mischief that water can do to property has certainly been an established fact in the world for some considerable time, and has, indeed, been much commented on ever since the days of Noah. The only question is whether any new light can be thrown on anything by endeavouring to regard flood waters as, on that account, endowed with the quality of "disutility" or "negative value," of something that we try, more or less successfully, to conceive of as the antithesis of ordinary positive value. The conception is, indeed, I think, based upon a confusion between the language and the points of view that are applicable only to the physical aspects of the facts in question and those that are applicable to their economic aspect. The use of the word "supplied" puts us on the track of the fallacy. There is, of course, no similarity whatever between an over-supply of a commodity which perhaps ruins a man who has already a large stock of it on hand, and an over-supply of rain which destroys his crops, except that both are disagreeable. The first sort of supply is something that people retain in their own hands, but offer on the markets at a price which is too low to meet with our approval. The second is something that actually invades our land and, perhaps, our houses, and stays there whether we like it or not. It is no better than a joke to use the word "supply" in the two cases as if it had anything like the same meaning in each.[1] Although, then, the water that gets

[1] The above was written before the Fiscal controversy had made the word "dumping" celebrated. The fallacy in that conception is obviously the same as that criticised in the present case. "Dumping" was called "inundating" in Bastiat's day.

into a mine had not, before Jevons' time, been spoken of as being endowed with "negative value," all the economic aspects of such a fact had, of course, been discussed times without number under the heads of the cost of the labour needed to get it out, or of the deduction from the positive value of the mine which it would entail. The only question, therefore, which it remains for anyone to consider is the question whether the economic aspect of such facts can be discussed in a more enlightening manner by the use of the new or by that of the old language. Our general principles would lead us to the conclusion that the old is better, as it is always behind the shield of novel terminology that every sort of pretentious platitude and idle fallacy takes refuge.

If, again, it must be conceded that it is undesirable to discuss the economic consequences of the flooding of a mine under the heading of "negative value" attributed to the water, when the same fact can be discussed, as other people discuss it, under the heading of cost, as relating to the labour of getting the water out, because the matter is made not more but less lucid by the use of the new terms, it is *à fortiori* undesirable to substitute for the word "water" the letter a or the letter x, and to substitute for such words as "negative" and "positive" the signs minus and plus, and then to proceed to fill page after page with heart-breaking algebra.

Even this, however, is not quite all that has to be said against the new system. A true understanding of the nature of value would, I feel assured, lead us to the conclusion that it can never be anything but positive, and that the contrary suggestion is not only confusing and altogether useless, but is, in addition to this, philosophically untenable. The question of

the validity of the opinion that value can be negative is bound up with the question of the validity or otherwise of another of the doctrines propounded by Jevons, the doctrine that value is rightly described as a ratio, rather than as a power or a quality, together with the proposal to dispense altogether, in philosophical discussion, with the use of the word "value," and to use as a substitute for it, the phrase "the ratio of exchange."

Let us try, by means of one or two experimental examples, whether such a substitution is at all possible. Suppose that the value of an ounce of silver is one thirty-fifth part of the value of an ounce of gold, then, that fact might, no doubt, in a fashion be expressed by saying that the ratio of exchange between gold and silver was as one to thirty-five; but the phrase becomes altogether meaningless when we attempt to apply it to any commodities that are outside the limited range of homogeneous substances. Suppose that two houses were worth £1000 taken together, there would certainly be neither meaning nor truth in saying that their ratio of exchange was as two to a thousand. One of them, of course, might be worth the whole thousand pounds, and the other worth next to nothing. It is indeed a strange feature to be found characterising a theory that has gained such extensive acceptance in the universities, at any rate, that it should make the amazing assumption that all the things that possess exchange value must be homogeneous substances, and that they must, thus, be capable of having additions made to them of infinitesimal increments. The Roman law drew a useful distinction between the *res fungibiles*, the things that could be sold by weight and measure, such as corn and wine, and the *res non-fungibiles*, such as houses

and furniture, that could not be so dealt with. The *res fungibiles* form of course but a very small fraction of the wealth of any given country at any given moment, yet it must be said that many economists beside the mathematical theorists treat them as if they were coincident with wealth generally. It is common enough even among writers of a practical turn to find them speaking of falls and rises in "prices" as if there were no prices but the prices of the things whose market value can be averaged and expressed in index numbers. It is to the *res fungibiles* alone that Jevons' conception of value as a ratio can have any sort of application.

If it were valid generally, such things as houses and ships and land and furniture could have no value at all, or, at any rate, could have none that could be made the subject of economical discussion.

Jevons, we find, was driven to the adoption of his conception of value as a ratio by the fact that he found, or thought that he found, Mill's definition of it untenable.[1] If, however, Jevons' own definition of it plainly will not work it may be worth while to look again at Mill's, and to inquire whether the grounds on which it was rejected were really, after all, so strong as they seemed to be. Mill's definition runs as follows: "The value of a thing means the quantity of some other thing, or of things in general, which it exchanges for." With reference to it Jevons says: "Now, if there is any fact certain about exchange value it is, that it means not an object at all but a circumstance of an object. Value implies, in fact, a relation, but if so, it cannot possibly be *some other thing*." It must be admitted that the conception of the value of one thing as being another thing is one

[1] *Op. cit.* p. 83.

that may seem at first sight surprising, but, if the appeal to common use has any validity, it is difficult to escape from the conclusion that it is a perfectly legitimate one. Whenever we affirm that the value of a horse, for example, is £50 sterling, we certainly affirm that the value of one thing is another thing. Nor are analogies for such a mode of expression wanting in the language that is used to express other qualities and characteristics. The conception of value is closely allied to that of strength or power,[1] and, of course, we constantly describe the strength of a beam or the lifting power of a natural force applied through machinery in terms of the weight of other things that the one will sustain or the other will raise. There is, no doubt, an important and interesting difference between the two cases. The power of a machine is defined in terms of the weight of anything whatever that it will raise; the value of a horse, on the contrary, is defined in terms of the quantity of one particular substance, the standard commodity, which it can command. This difference has an essential connection with the view as to the origin of the idea of value which I have endeavoured to establish elsewhere, and to which I shall shortly have occasion to return. It is also in conformity with the conclusion, for which there is, otherwise, abundance of ethnological evidence, that the conception of value in the economic sense did not exist in the world before the emergence of the monetary standard. This, however, is not of prime importance for our present purpose, which is simply to establish the proposition that value can never be anything but positive. If we hold with Mill that value means either the quantity of one thing or of things in general that it will purchase, then it is

[1] Compare the use of the Greek *δύναμαι*.

evident that negative value is an expression that can have no meaning whatever. The worst that can then be said of anything in respect of its value is that it is valueless, that it will purchase nothing at all. It is obvious that we cannot speak of negative strength, and it does not seem much more rational to speak of negative value.

The more, indeed, that one studies the methods of the mathematical economists the more clearly do they appear to be mere travesties of the methods of physics. Take, for example, their use of the word "multiply." The final degree of utility of certain food, for example,[1] is supposed to be capable of being "multiplied" by the probability that it will be urgently needed some days hence, and that too in circumstances in which both the utility and the probability are absolutely unknown and unknowable. More extraordinary still than this, perhaps, is the use that we find made of the word on page 50[2] and largely on the pages that follow. A quantity of a commodity is there supposed to be capable of being "multiplied" by the intensity of the desire for it, and a series of rectangles are drawn representing the products of such multiplication. Whatever is possible, it is surely not possible to multiply a physical substance by a mental emotion. Yet the use of the word in this case is not accidental or isolated, but is an organic feature of the theory. If you multiply one quantity by another you would certainly in some degree increase, or, at any rate, alter its amount, but if a pound of rump-steak was to be multiplied by the desire for it, its amount, I imagine, would remain quite unaffected by that process.

[1] *Op. cit.* p. 79. [2] *Op. cit.*

CHAPTER IX

MODERN PSYCHOLOGY AND THE MATHEMATICAL ECONOMICS

THE mathematical theory claims to be essentially a psychological one. One of the first inquiries, therefore, that suggests itself in reference to it will bear naturally on the nature of the psychology that it embodies. In how far, we may ask, is it in accord with the psychological views that are, nowadays, accepted as authoritative, in as far as any can be said to be so?

A great change has unquestionably come over the psychology that held the field some forty years ago when we compare it with that which holds it now, between the psychology of Dr. Bain and the psychology of Dr. Ward and Professor Stout. It may be briefly described as a change, as regards alike the treatment of intellect, feelings, and will from the dominant conception of atomism to the dominant conception of continuity. The change is undoubtedly, in a large measure, due to the fact that the earlier psychologists were the heirs alone of the doctrines of Locke and of Hume, while the later ones have had to reckon with the results of German thought. Any of us who have reached or passed middle life can remember how the elementary processes of the intellect were treated in our day. A passage, perhaps, from Cowper's "Task" was given us, and we were told to analyse it and to point out by what laws of association, primary and secondary,

the transitions in the poet's thought from the sofa to the reflection that "the nurse sleeps sweetly hired to watch the sick," was arrived at; then, again, how the transition from the sofa to the gout came about, from the gout to the poet's own immunity from it, and from that to his winter's walks, and to the "dear companion" of those walks, and so on. Each presentation was looked upon as being something that, in accordance with fixed laws, brought on the scene the presentation that followed it. This mode of looking at the subject, it is needless to say, presented one aspect of the truth, and a very interesting one. It seemed, indeed, fairly adequate when applied to the explanation of the transitions from subject to subject in reverie and in casual conversation. Where it failed altogether was when the attempt was made, as it was, for example, by Dr. Thomas Brown, to explain, by means of it, connected trains of reasoning, the reasonings, say, of a man who was considering how to invest his money to the best advantage in Stock Exchange securities, or how to checkmate his opponent in a game of chess. The Scottish and English psychologists concentrated their attention upon the various ideas taken separately, and seemed to regard them as so many disparate existences acting and re-acting on each other. What they left almost or altogether out of sight was the activity of the human mind, as a whole, re-acting upon these presentations of sense and memory. This aspect of the matter, on the contrary, was what German thought brought into prominence. In the Kantian view thought might be described, in Lotze's words, as "standing fronting the impressions as they arrived with a bundle of logical forms in its hand, uncertain which form could be fitted to which impression."[1] This

[1] *Logic*, p. 24.

view, open as, no doubt, it was, in many respects, to criticism, at any rate brought into relief the conception of our own mental activity.

When we read the works of the older English psychologists we seem to feel that the sort of mind whose operations they had in view was that of a child or of an intelligent animal, of a Mrs. Quickly or a Mrs. Nickleby, while the sort of mind that Kant was thinking of was that of a man of science or a man of business. Similarly, when we turn to the phenomena of feeling and of will, to motives and resolutions, we find the same difference between the conceptions of the older school and those of the newer. Neither ideas nor motives are now regarded, to use Dr. Ward's words, as separated "as one island is separated from another by the intervening sea."[1] The modern English psychologists owe, I think, much to Herbart, who, again, of course, wrote under Kantian influence. It is to Herbart's theory of apperception that is largely due the distinct recognition of the fact, as stated in the words of Professor Stout, that "advance would be impossible unless the results of prior process persisted as the basis and starting-point of subsequent process." This view may be thus illustrated. "Suppose," says Dr. Ward, "that in the course of a few minutes we take half a dozen glances at a strange and curious flower. We have not as many complex presentations which we might symbolise as F1, F2, F3. But rather, at first, only the general outline is noted, next the disposition of petals, stamens, etc., then the attachment of the anthers, form of ovary, and so on. . . . It is because the earlier apprehensions persist that the later are an advance upon them and an addition to them." Thus the modern view aims at substituting everywhere

[1] *Encyc. Brit.*, 9th ed. vol. xx. p. 45.

the conception of the steady pursuit of ends, as the characteristic of the mental operations of civilised man for the older conception of the isolated action of separate ideas and separate motives.

"The mental life of the animal," says Professor Stout, "seems in the main to be composed of a series of detached and independent impulses. But in human beings the sequence of special conations is more or less unified in a comprehensive scheme. There is a thread of continuity running through their whole mental life. . . . The ends of conscious life are connected in a system, so that the satisfaction of special interests is also the satisfaction of more general interests, and the attainment of this or that result forms a step towards the attainment of others in progressive order."[1]

This, however, is a conception of which the psychology that forms the basis of Jevons' theory of value takes little or no account. He wrote, indeed, in days which were antecedent to the period when German thought began to leave its impress on English psychology. Jeremy Bentham and Dr. Bain are the only psychologists whom he cites, and it is their view on the relations between feeling and volition, between motives and actions, that thus forms the basis of the mathematical economics. He quotes from Bentham, for example, the pronouncement, as being too grand and too full of truth to be omitted, that "Nature has placed mankind under the government of two sovereign masters—*pain* and *pleasure*. It is for them alone to point out what we ought to do as well as to determine what we shall do. . . . They govern us in all we do, in all we say, in all we think."[2] We know that this theory, in spite of its apparent cynicism, was capable of becoming, in Mr. Mill's hands, the foundation of a very lofty code of morals, of one which was, indeed, if

[1] *Loc. cit.* p. 47.

[2] Introd. to *Principles of Morals and Legislation*, ed. 1823, vol. i. p. 1.

anything too lofty, or, at any rate, too cosmopolitan for the use of ordinary men; and so it seems not impossible that, with a certain amount of "explanation" of its salient terms, it could be made to fit more or less satisfactorily into the modern conception of continuity in mental operations as opposed to the older atomism. Such explanation as that, however, it is hardly necessary to say, Jevons and his school do not attempt to make. On the contrary, instead of saying with Bentham, that Nature has placed mankind under the governance of two masters, pain and pleasure, their postulate throughout is that she has placed us under the alternating rule of myriads of successive masters, of each separate pleasure and each separate pain as it emerges. Exchanges when they come about are, in the view of the theory, always due to one description of cause, to the diminishing utility of the commodities that we possess as compared with those that other people possess. To revert to our former illustration: I am supposed, to begin with, to have so much bread, and you to have so much beer. After each of us has satisfied the first cravings of hunger or of thirst the urgent need of any more of his own commodity will, for each, begin to diminish, till at length the time comes when each will want a portion of his neighbour's commodity more than any more of his own. Then and then only will an exchange be effected. This cause of exchanges is put forward as the universal and indeed the only possible cause; it is illustrated by innumerable diagrams and is treated as applicable to all the complex conditions of modern industry and commerce. The labourer, for example, is supposed, on any given day, to give precisely that amount of labour which, as pain, balances the reward in pleasure or in immunity from some other sort of pain which he, that day,

receives. The theory ignores the fact that, under modern conditions, the labour of any given day is, for most of us, only part of the scheme of a lifetime, and is determined not by the motives that have emerged during that day, but, perhaps, by some resolution arrived at or some engagement entered into many years before.

A recent French socialist writer, M. Cornelissen, lays his finger accurately on this weak point in the mathematical theory. "From beginning to end," he says, "all this exposition of exchange transactions between men recalls precapitalistic conditions of production, when men produced mainly for their own use alone, bringing to market nothing but the surplus left over after their own wants had been supplied. . . . Such a condition of things contrasts essentially with the fundamental principles of modern social life. The wage-earning operative of our days, engaged in his trade as an upholsterer or a lapidary, or, perhaps, in working a steam hammer, cannot conceivably be regarded as being induced to exchange the commodities that he produces by the fact that he finds himself possessed of more than he needs, and thus comes to attach to them a diminishing degree of utility. The theory, too, which obviously has no sort of possible application to the immediate producers of our social order, to the modern wage-earning labourers, is equally false in its application to the modern capitalistic *entrepreneurs*. The idea that the shareholder in a railway company or the proprietors, say, of a diamond cutting establishment, of a weaving factory, or of an iron foundry, are people who find that they are producing more of those commodities than are needed to supply their own special requirements, and that thus the utility of such commodities to themselves is to such

an extent diminished that they are led to bring them to market, is assuredly an idea remarkable for its *naïveté*."

The theory shares, as it seems to me, the fallacy of the theory of the classical economists, of Ricardo, of the two Mills, and of M'Culloch, for example, of attempting to account for all the phenomena of modern commerce and industry while leaving the existence of money out of account. So far from this being rationally possible, the truth is, on the contrary, that it appears to have been the entrance on the scene of the standard commodity, the attainment by one substance, by a process of natural evolution, of such a degree of general acceptability that it became, of its own accord, money, that has divided economical life into two departments—production and consumption. It might possibly have been true, in some circumstances, of early man, that he exchanged his products as impelled by their diminishing degrees of utility in some such fashion as Jevons conceives. It is certainly not true of any of the men engaged in modern industry. The sole thought of the individual as producer is nowadays to acquire as much purchasing power as possible, and, alike in his labour in the production of commodities and in his endeavours to market them to the best advantage, no consideration whatever connected with their direct utility to himself ever enters his mind. All that he speculates about is, as M. Cornelissen remarks, their probable utility to other people. Böhm Bawerk, indeed, though an exponent of a variation of Jevons' theory, concedes thus much. He observes that, for the modern producer the marginal utility of his own products is usually at zero, but he does not see that such a concession cuts away entirely the foundation from under the whole superstructure of mathematical economics, and leaves it standing in mid-air.

Let us look at the subject through the medium of an illustration. We have learned of late years how to store electrical energy to some extent and to use it for many purposes, as we chance to require it. Let us make the hypothesis of an immense extension of this possibility of the storage and application of it. Let us imagine, if we can, such an extension of its application that if a man were once in possession of enough of it he would be altogether independent of the services of his neighbours. Suppose that the energy, almost or altogether unattended, could be made to grow our crops, to grind our wheat, to bake our bread, to spin and weave our clothing, to convey us at pleasure from place to place, and to defend us from our enemies, we may well conceive that, in such circumstances, men would come to devote their attention to nothing else but the accumulation of such energy. If they had previously been in the state of barter, they would then give up endeavouring directly to acquire the possession of any particular means of sustenance or enjoyment, and would think of nothing but the acquirement of the energy, knowing that once they had the energy, the means of sustenance and enjoyment could be had as a matter of course. Putting "money" for "electrical energy" that is practically what has happened. Money does not, indeed, make us independent of the services of our neighbours, but it gives us the command over them. We, no longer, under modern conditions, work, to any great extent, for the direct acquirement of any individual thing, rather it falls in with the scheme of most of our lives to give steadily from day to day the whole of our labour and thought to the acquirement of this stored energy, which, when once obtained, places everything else at our disposal. We may, I think, regard this conclusion as established without, at the present stage

of our inquiry, going into a fuller discussion of the question of what this money in reality and at bottom consists of, and whether its relation to the standard commodity is that of literal and complete identity or not; and it will be our next business to consider what bearing the conclusion has on the views of the mathematical theorists. It surely puts a different complexion altogether on the phenomena of exchanges and on the causes that, in individual cases, bring them about, and one that is more in accord both with the psychology of the modern school and with the facts of the world in the view of untrained or unsophisticated common sense.

To state the case in the broadest manner possible, the mathematical theory unquestionably postulates as the necessary antecedent of all exchanges without exception some change of appetite or of desire as regards the commodities exchanged; but we can now see that such a postulate does not hold good in reference to the exchanges that take place in the sphere of production at any rate, embracing under production, of course, trade, transport, and dealing generally. Suppose, as I endeavoured to argue elsewhere,[1] that a man is in the cattle saleyards, and that he buys a hundred cows for ten pounds apiece, knowing perhaps that he can sell them for eleven, that purchase surely will not do anything to satiate his need for cows, or, in the language of the school, to diminish their utility for him, or, indeed, in any way to alter his mental attitude towards cows as something considered in themselves. If he sees a second lot of cows going for ten pounds, which he feels sure he can sell again for twelve, he will

[1] See paper by the present writer read before the British Association on September 13, 1901, and published in the *Economic Review* of January 1902.

be even more eager to obtain them than he was to obtain the first lot. The degrees of the utility of cows plainly do not vary for him in proportion to their supply. Indeed, the utility of cows to him has nothing to do with the matter. Cows are a mere intermediary. The real aim of his purchases is to increase his ownership of money. It is because his desire for money is unsated that he is in the yards at all; and as long as he continues there, or continues to be engaged in business of any sort, we are justified in taking it for granted that his desire for money has not even begun to be sated. The absence of satiety as regards it is the very postulate of all business activity.

The Austrian or Jevonian theory is based on the supposition that in all exchanges it is variations in the degree of desire for something of some sort that causes these exchanges to be made. The truth is, on the contrary, that, in all the sales and purchases of business and production, desire must be looked upon as a constant quantity. Men go to their places of business every day with the one fixed intention of making as much money as they can while there. What varies is news as to the state of the markets, or opinion as to the wisest course to pursue in order to buy cheap or sell dear. The varying element is, at any rate, something that belongs to the sphere of the intellect, not of the will and the emotions, to the cognitive, not to the conative side of our nature.

If this objection to the mathematical theory is admitted to hold good,—and I can see no possible way of escape from the conclusion that it does hold good,—it is evidently an objection of so radical a character as to admit of no compromise. If Jevons is so profoundly in error about the cause of exchanges in the whole sphere of commerce and production, it might

seem hardly necessary to examine in detail his subsidiary conclusions or those of his school. They illustrate, however, some of the general aspects of the theory of value, and on that ground are worthy of attention. Let us glance at his doctrine of the aims and aspirations of the *Homo Economicus*. The subject-matter of "Pure Economics," as defined by a distinguished member of the school, whose work I have already had occasion to allude to,[1] consists of "the laws of wealth systematically deduced from the hypothesis that men are actuated exclusively by the desire to realise the fullest possible satisfaction of their wants with the least possible individual sacrifice." Every man, or every hedonically constituted man at any rate, it is said, regards labour as "pain," and, in so far as a man is perfectly hedonic,—in other words, I suppose perfectly rational,—he is always to be regarded as aiming at obtaining the maximum of gratification with the least possible expenditure of labour. "Only those actions are economic," we are told, "which are due to the desire to rid oneself of pain, or to lessen or avoid pain. . . . The *homo economicus* is supposed, therefore, to be constantly occupied with the commensuration of sensations of pleasure and pain, present and prospective. . . . He must distribute the painful efforts requisite to the production of commodities, and the enjoyment he can derive from the latter, in such a way as to achieve on the whole the maximum of pleasure and the minimum of pain. . . . A hedonic or egoistic calculus is thus effected," and, in accordance with this calculus, the course of life of the *homo economicus* is alleged to be regulated. This is, in substance, Jevons' view,[2] and, I imagine, the statement of it would be accepted with little modification by any

[1] S. Pantaleoni.

[2] *Theory of Political Economy*, p. 40.

of the pure economists as a fair enough summation of the basis of their faith.

If this is all true, however, of the *homo economicus*, the question arises, Where are we to look for him? We might find something like him, here and there, in a morbid valetudinarian, but to represent him as corresponding to the type of the busy Englishman or American of to-day, who "sees all sights from pole to pole," who works as hard at his amusements as at his business, and who finds, as Mr. Bagehot remarks, in his business the most absorbing of all his amusements, is surely a patent absurdity. To get rid of a false view, however, as Newman wisely observed, it is seldom enough to point out its falsity; we need also generally to point out what is the true view that was like enough to the false one to be mistaken for it. If we conceive of economic life as having come, under the operation of the monetary standard, to divide itself into two departments, production and consumption, the one devoted to the obtaining of money and the other devoted to the expending of it, we can then, I think, see what is the true conception for which this false one has been mistaken. We can then, for the first time, understand what is the essential nature of economic cost and sacrifice. Let us suppose that men when engaged in production, either in labour or in business, are engaged in the endeavour to acquire and to store up as much energy, as much purchasing power, in short as much money as possible,—as undoubtedly they are,—while, in consumption, they are engaged in the allocation of this energy, and we can, at once, get rid of the palpably false assumption of the universal irksomeness of labour. The true conception of cost will then be seen to relate mainly to the distribution of our time. Compensation for such pain as there

may be in prolonged effort enters, no doubt, as an element into the reward of labour, but only as an occasional and subsidiary one, not as one that is universal and necessary. There are large spheres of work where it does not enter at all. We have all heard of the great lawyer who, when asked why he did not retire, replied that he would do so at once if he knew of any pursuit that was half as amusing as making £20,000 a year. The artist absorbed in his work is plainly happier there than he would be anywhere else. We do not need, however, to look only at exceptional cases like these to find illustrations of our truth. Who could imagine that the Northumbrian dalesman or the French peasant would be happier with his hands folded than he is when tending his sheep or pruning his vines? We may have a world some day, indeed, in which pain as an accompaniment of labour will be a rare exception, and yet in which production will be as vigorous as it is now, and in which the economic impulse will not be essentially different. There will be cost and sacrifice, of course, with their attendant rewards, then as there is now, simply because, then as now, a man can only do one thing at a time. If by digging in a garden a man could earn 5s. a day, then his opportunity of earning that amount, and not physical pain of any sort, is the essential matter in the sacrifice which he makes when he takes, let us say, to soldiering. We find thus that we can very well do without both of these doubtful postulates of invincible laziness in human nature and of inevitable misery in the world that we inhabit.

Again, we can now see in its true light the allegation frequently made against economics generally, that it unjustly represents mankind as animated universally by motives that are purely selfish. If,

indeed, the *homo economicus* were the sort of creature that such writers as Jevons and Pantaleoni describe him as being, he would certainly be the most contemptible as well as the most uninteresting of all existing animals. When we know, however, that he is merely an abstraction intended to represent for us the phase of sentiment in the ordinary man that is dominant in his business hours, and not the totality of any man's character, the case stands in another light altogether. It is surely an undeniable fact that men go to their offices or workshops with the intention of making as much money as they can while there, and economics may certainly therefore, without casting any slur on the character of the human race, regard their activity in this one of its aspects.

I have observed above that the mathematical theory makes the inadmissible assumption that every exchange of products must be immediately preceded by some change of appetite or desire, as regards the commodities exchanged. Closely associated with this false postulate is another equally false, to the effect that there is necessarily the closest possible proportion between the intensity of feeling and desire and the degree of market value. The diminishing intensity of desire for a commodity is supposed to be capable of being represented by a row of ordinates of gradually diminishing height, and, by the manipulation of the curves of these ordinates, it is supposed to be possible to throw some light upon the mental processes by which exchange value is determined. Precisely as the intensity of the desire grows less, owing to the increase of supply, the value of the commodity is said to lessen also and to increase always precisely as desire increases; so that when we have various

persons and various commodities, with continually fluctuating supplies of each commodity brought on the scene, we are alleged to have before us the whole inner mechanism which causes exchanges to come about, and which determines prices. Exchange value, in short, is supposed to be "tied to desire," as it were, "with a string" and "jerked about"[1] with all its fluctuations.

This assumed universal and necessary intimacy of connection between intensity of desire and degree of exchange value appears, at any rate, to stand in obvious contradiction to many of the patent facts of the world. What values have shown themselves more stable, ever since history began, than those of the precious metals, yet it is surely more than open to question whether an exact proportion could ever have been predicated as existing between the desires which underlay values in such a case, and which were undoubtedly, in the first instance, mere fancies for the decoration of the person, and the values themselves, which, as civilisation advanced, became every day better founded and less liable to variations. That there is a relation between desire and value is, of course, beyond question, but that it is not the sort of relation that Jevons' theory assumes is equally certain. Innumerable examples must present themselves to anyone who gives a moment's thought to the subject, of the extraordinary absence of proportion that we continually observe between what might be called natural desirability and market value. What natural desirability is there, we may ask, in the Mauritius stamps which, owing to a mistake in the printing, now sell for £1400 apiece? It is, therefore, worthy of note that modern psychology asserts a similar

[1] See below, p. 134.

absence of exact proportion and of quasi-mechanical connection between inward feeling and outward action, all along the line, when we have to deal with the mental processes of rational and civilised men.

Let us see what Professor Stout has to say on this point. "Voluntary action," he observes, "is to be sharply discriminated from impulsive action[1] and deliberation from conflict of impulsive tendencies. The difference is, that in impulse action follows the isolated conative tendency, whereas in voluntary decision special conations and their ends are first considered in their relation to the total system of tendencies included in the conception of the Self. When thus disconnected impulses simultaneously prompt to incompatible courses of action, if the conception of Self does not come into play, one interferes with the other in a quasi-mechanical way. There is merely a trial of brute strength between them. Instances are sometimes found in young children and animals. The characteristic expression of this mental state is a sort of oscillation between two modes of action, each of which is begun in turn and then gives place to the other." It will, I think, become clear as we proceed that it is only to this quasi-mechanical oscillation that any mathematical theory is even conceivably applicable. "Deliberation,"[2] he continues, "in no way resembles this alternate jerking in opposite directions, as if pulled by a string, and the decision which follows it is not a mere triumph in strength of one isolated impulse over another. Voluntary action does not follow either of the conflicting tendencies, as such; it follows our preference of one to the other. . . . With the full emergence of the decision the conflict of motives, as such, ceases. This termination of the struggle does

[1] *Manual of Psychology*, pp. 601 ff. [2] *Ibid.*, p. 602.

not merely mean that one impulse or group of impulses has turned out to be stronger than its opponents. It might conceivably manifest its superior strength without a cessation of the conflict. When two unequal and opposite forces are applied to a particle, the particle will move in the direction of the stronger force; but the action of the weaker force still continues to manifest itself in a diminution of velocity. The triumph of the voluntary impulse is not of this kind. In a perfect volition, opposing impulses are not merely held in check. They are driven out of the field. If they continue to exist they do so as external obstacles to a volition already formed." He goes on to allude to the common case in which a man's desires as regards two alternative courses of action may be approximately balanced, yet in which the decision when once taken renders inevitable for the rest of a man's life, a course of action that differs *toto cœlo* from that to which the alternative and perhaps, at the time, almost equally eligible decision would have led. Cæsar may be in doubt whether to cross the Rubicon or not, but, once crossed, the world's history is changed.

We must then, it is clear, sharply discriminate between the formed intention and the motives that lead to its formation, and this the mathematical theory altogether fails to do. A young lawyer enters Parliament. His leanings to Liberalism as opposed to Conservatism, or to Conservatism as opposed to Liberalism, may have been so slight that he himself is not fully aware which line of politics he prefers. He must make his choice, however, one way or the other. He does so, and very often becomes thenceforward the steadiest of party men. Or take the commoner case of any young man who has to decide what trade or profession he will follow. The question for him is,

perhaps, will he become a stock-jobber at home and buy and sell securities, or a sheep farmer in Australia and raise wool and mutton for the world's markets. Both courses have their attractions, but only one can be adopted. Jevons and his school would tell us that if we find him ten years afterwards selling "Jungles" and buying "Kaffirs," this fact is due solely to the circumstance that one or other of these curious commodities has reached for him its final degree of utility. The real reason is rather to be found in the fact that, ten years before, he had arrived at a decision which has made it his business ever since to secure such monetary profits as he can either by the sale or purchase of things of the kind, and that, in his view, a profit is likely to be secured by his present transaction.

This discrimination between our fixed intentions and the fluctuating sentiments that lead to their formation is of great importance, as it seems to me, in connection with the theory of the monetary standard. Not Jevons and his school alone, but a great majority of the theoretical economists of all schools, assert that the value of nothing can be stable over any lengthened period, and are emphatic in asserting that the standard substance itself can be no exception to the rule. At the same time, every practical man engaged in commerce assumes the stability of the value of gold as the governing principle of all his transactions. Is it not possible that the contrariety between the theoretical view and the business conception is due to the fact that, in the former, there is a confusion between motives and intentions? Desires, we know, are continually fluctuating, and the desire for money is certainly no exception, hence it is assumed that the *value* of money must continually fluctuate also. If we look to intention, however, rather than desire as the

immediate antecedent of value, the case appears in a different light. It is quite true, no doubt, that a man with £5000 a year is likely, though not by any means certain, to be less put about by the loss of £100 out of his savings than the same man when he had only £500 a year; and this is taken to be the same thing as saying that the value of money grows less for us in proportion as its quantity grows greater; but when we come to inquire further, whether this admittedly probable difference in sentiment will result in any difference in action, it does not seem clear that it will. Indeed, as regards the salient matter in hand, it seems certain that it will not. The man who has made a large amount of money will, in all probability, conduct his business on the same general principles as those on which he conducted it when he was a much poorer man. His aim will, in both cases, be precisely the same, to so manage his investments and his sales as to leave himself with the largest possible balance at the end of the year. The eagerness to obtain such a balance will vary perhaps with the amount of wealth, but not the fixed intention, the clear purpose to obtain it. It is plainly purpose and intention alone that have to be looked to as directly determining all our lines of outward action, and, of course, exchanges, together with the prices that result in connection with them, fall under the head of lines of outward action. Suppose then that it has to be conceded that the desire for money is inevitably always fluctuating, it yet does not follow that its value participates in these fluctuations, so long as the intention to obtain all that we can of it remains unchanged.

CHAPTER X

FALLACIES BEARING ON THE MONETARY STANDARD

At the close of my last chapter I was engaged in the attempt to demonstrate that, as the value of the monetary substance was dependent on the fixed intention of all who were engaged in commerce or in production to obtain as much of it as they could while thus engaged, and not on the ever-varying breezes of desire, there was no reason to expect that it would fluctuate with the fluctuations of the latter. It is not indeed going too far to say that the stability of the value of the monetary substance is the unspoken postulate of every proposition in economics, and the view above set forth of its relation to human volitions enables us, perhaps, for the first time, to understand how that stability is possible. This view is that which is alone consonant with all the everyday language and all the working assumptions of the practical world. Consider, for a moment, what the ordinary commercial conception of the liquidity, or, as the Americans express it, the "quickness" of assets imports. The banker has in his mind a sort of hierarchy of things saleable possessing the character of liquidity in varying degrees. Land, especially residential land, would come somewhere near the bottom of the scale, rent-yielding business premises a good deal higher up, gilt-edged securities very much higher, the best bills of exchange higher still, and at the apex of the pyramid we would find gold itself. No assets can conceivably be more

liquid than gold. What then does "liquidity" as applied to assets mean? It can mean nothing else but the possession of a value that is not liable to fluctuate, and certainly the whole business world always takes it for granted that gold possesses such a value in the maximum degree possible or even conceivable.

Compare with this conception again the view that is still current among the theoretical economists. Not only is gold held by them not to be absolutely stable in value, but, further, it is a necessary implication of their theory that its value cannot really even approximate more to stability than the value of any other commodity. So far from there being a hierarchy of things saleable possessing varying degrees of liquidity, it is taken to be axiomatic that any one commodity necessarily stands, in respect to variations of value, in precisely the same position as every other commodity. Varying degrees of approximation to stability in value are, by clear implication, at any rate, ruled out of court as wholly impossible, as mere illusions of the judgment. If potatoes or corn or silver are said popularly to have fallen 10 per cent. in value, then, the theoretical economists contend, it would be equally correct to express the fact by saying that gold had risen 10 per cent. Everything in the world, their theory holds, is equally stable in value and equally unstable. Wheat and iron warrants fluctuate just as much and no more than gilt-edged securities or than gold itself.

The theory bases itself on the assumption that all trade is, in its nature, absolutely identical with barter, and pushes the assumption the length of maintaining that there is really no difference, at bottom, between the monetary commodity and every other commodity, that the very conception of value is a misleading one,

and that there exist nothing but varying ratios of exchange, as Jevons would have us express it, between one commodity and another.

It is evident that the acceptance of such a theory would force upon us a distortion of popular language which, if there is anything in the reasonings of the first Part of this work, is wholly inadmissible. It fits therefore into the general scheme of our line of reasoning to endeavour to show what grounds there are for an alternative view which involves no assumptions but such as square perfectly with common usage.

I have, however, given elsewhere,[1] with tolerable fulness, my reasons for maintaining that the stability of the value of the standard substance is no illusion. I will therefore confine myself here to a very brief restatement of the main line of argument on that subject, and will then add some facts and illustrations bearing on it which have come under my notice since my book on the *Evolution of Modern Money* was published.

First, it is perhaps worth while to show that the stability of the value of the standard substance is really postulated in expositions of the monetary question by writers who would by no means admit the postulate if stated in express terms. Take General Walker, for instance. In the most lucid and interesting of his books on the monetary problem, *Money in its Relations to Trade and Industry*, he furnishes us with an explanation of the manner in which the standard substance comes to measure values which has become classical.

"Given the fact," he observes, "of a general desire for one article of uniform quality which is susceptible of easy and exact division, we have all the requirements of a common denominator in exchange satisfied. The effort of every dealer to obtain as much as possible of this one article for each and every part of his stock,

[1] *The Evolution of Modern Money*, Part II.

the wish of every producer to bring to market the product involving the least labour which will purchase a given quantity of this article; these must result in ranging all commodities according to the cost of replacing them upon a scale of prices the degrees of which shall be expressed in terms of this one article—money."

He goes on to show more in detail how the scale of prices comes to be constructed, or rather to construct itself.

"At first," he says, "we will suppose wheat, corn, and oats to exchange for equal amounts of gold; but the farmers soon find that they can raise oats more easily than corn, corn more easily than wheat, and consequently many farmers bring oats, and much of it. Few farmers bring corn, and little of it; no farmers at all bring wheat. Why should they? Hence, as the existing stock of wheat begins to disappear, more and more gold is offered for wheat, until the point is reached when the farmer gets as much gold for a day's work in raising wheat as in raising oats."

The keynote of this theory of price determination —in itself a most enlightening one—is to be found in the words, "Given a *general desire* for one article of uniform quality which is susceptible of easy and exact division," etc. Suppose no general desire for any such article had existed, it is not easy to see how money could have come into existence, or how prices could have come to be determined at all. The words "general desire" are indefinite; but when we see the desire at work in determining prices, we see that they imply a great deal; they imply an insatiable desire. Suppose the desire to cease while the price-determining process was still going on, that process would plainly at once cease also. In order that it may go on uninterruptedly in the world, as it undoubtedly does, there must exist the readiness to accept the standard substance in absolutely unlimited quantities, in whatever quantities it is offered. If, however, it is because there is an insatiable desire for gold that gold can measure values,

and if there could be no insatiable desire for wheat or oats or corn, as there certainly could not, it is quite certain that wheat or oats or corn could never measure values. It is a very remarkable fact, no doubt, that there should be an insatiable desire in the world for gold, a substance that has little utility, that is beautiful, no doubt, but yet not more beautiful than many other substances for which there is no desire whatever; but there the fact is, and it is the business of the economist not to ignore it, but to make an attempt at its explanation.

Elsewhere, again, General Walker tells us, with truth, that any commodity may become money as soon as it acquires the requisite degree of "acceptability," which must, of course, mean a higher degree of acceptability than any other commodity that happened to be at the same time available for use as money. What then is this "acceptability"? Anything that has any sort of value will of course be acceptable as a free gift. That, however, cannot be what is intended. What is meant is acceptability in exchange, acceptability as a payment for other commodities, acceptability too no matter in what quantities the commodity is offered. We find then that the degree of acceptability can mean nothing else but the degree of stability in value.

Fresh light is thrown on this aspect of the subject if we look at the current view of the origin of money. Adam Smith's statement of it, which is substantially the same as Aristotle's, runs as follows:—The division of labour having been established, the power of exchanging commodities must frequently have been embarrassed by the difficulty which a would-be exchanger would often feel in finding anyone who happened to possess a superfluity of the commodity

that he wanted, and who at the same time would take what he had to dispose of. "To avoid the inconveniency of such situations the prudent man would naturally endeavour to have by him a certain quantity of some one commodity or other, *such as he imagined few people would be likely to refuse in exchange for the produce of their industry.*"[1] On this surely the criticism must at once suggest itself that if the prudent man could find such a commodity then money was already virtually established, that the greatest and most difficult step towards its establishment had, at any rate, already been taken. The very thing we want to know is, How did first one commodity, then another, and finally gold and silver, attain such a degree of universal acceptability as ensured their being refused by no one in exchange for his products?

Our task, thus, it appears, is to trace the genesis of "acceptability," and, at the outset, we are forced to demur to the conclusion, usually taken by the economists as axiomatic, that increase of supply necessarily tends, in all possible circumstances, to depress values. In Jevons' theory this is treated as a law of nature to which no exception is even conceivable. It is certain, however, that exceptions to the validity of such a law are, at any rate, theoretically possible in cases in which increase of supply is, for any reason, indissolubly linked to increase of demand. It is possible, moreover, to point to cases in the real world in which this linking obviously takes place, as regards various commodities, at any rate during considerable periods of time. In considering the effects of supply generally, Jevons confines himself to regarding its effects on the isolated individual. The case stands in a different light when we think

[1] The italics are mine.

of the articles supplied as being supplied to rival and competing groups. When a trader landed in New Zealand in the early part of last century with a cargo of muskets, the sale of them to one tribe made them an absolute necessity of life to all the other tribes in the neighbourhood. Every increase of supply in such a case thus inevitably tended to be followed by an increase of demand. The same principle holds good in the modern world as regards arms of offence and defence. The possession of armoured ships and quick-firing guns by one nation makes their acquisition by all rival nations indispensable. The supply of them to any one nation cannot be increased without a corresponding increase in the demand all round.

Rivalry and competition, however, as this world is constituted, are not confined to conditions of actual combat. The peaceful life of men and nations is full of them. Men win their wives and women their husbands very frequently, under primitive conditions, by outshining other men and other women in the adornment of their persons, and their environment. Among civilised people the display of wealth takes a more subtle form, but is not essentially different. With every race in every stage of civilisation, as soon as the needs of the body are satisfied and the means of defence against enemies is provided, the next thing that men think of is the attainment of distinction, of something that will mark them out from the crowd and attain for them the envy and admiration of their neighbours. Ornament therefore in its widest sense, including every material possession that secures consequence and consideration in the eyes of our fellows, shares in this general economic characteristic, that the fact of its acquisition by one individual rouses the desire for it on the part of others, and, consequently,

that every increase in its supply is capable of being linked with a corresponding increase in demand.

We have, then, the fact open to the observation of everyone that the value of gold is taken by the practical world to be stable, that is to say, in other words, that every increase in its supply is linked with a corresponding increase in the demand for it. We have again the deductive principle that such a condition is theoretically possible for a commodity which enables men and women to outshine each other; and as a connecting link between the modern fact and the deductive principle we have the historical fact that, while almost everything that we can mention, from cattle and slaves to pots and kettles, have, at various stages of development, been used by different races, more or less in the capacity of money, in all the advanced races and in many of the primitive ones as well, some commodity possessing the character of ornament has eventually ousted all other commodities from that position.

Mommsen, with great insight, remarks, with regard to the Mediterranean peoples of antiquity that, while the West chose the useful metals as money, the East chose the metals of ornament, and that history has shown that it was the East which was the best inspired. Nor has the operation of the principle been confined to the metals alone. We have still some remains of shell money in the world among primitive races, chiefly now in Africa, but few are aware that these are but the last relics of a monetary commodity which, as regards the generality of its use, might almost compare with the precious metals themselves. We find traces of shell money in ancient Nineveh. Marco Polo found it in use in China in his day, and in the most ancient Chinese literature the very words for wealth and

for shell-fish are the same. Both primitive shell money and modern gold money thus trace their origin to commodities that were first used as ornament. They present, too, other interesting parallels. One shell being much like another, a string of shells could possess, like a row of coins, the important characteristic of homogeneity. This homogeneity tended to render them suitable for the earliest forms of payment, and the suitability for purposes of payment again appears to have reacted on their appreciation as ornaments and tended to enhance it and render it stable.

In England the economists have had the field practically all to themselves in discussing the origin of money. The same, however, cannot be said with regard to Germany. We have become accustomed to those comparisons between the method of the German and of the English intellect—which, indeed, were more common twenty years ago than they are now—in which the Englishman is represented as approaching the solution of the problems with which he has to deal by the voluminous collection of facts, while the German forthwith retires to his study and proceeds to evolve the whole matter out of his "inner consciousness." In the sphere of economics the case is conspicuously reversed. In regard to the beginnings of barter, trade, and money, it is the writers of our classical school who have been extemporising history with remarkable freedom, while it is notoriously the Germans who have been insisting on the rigid application to such questions of Baconian principles.

Professor Bucher of Leipzig, for example, in his suggestive work, *Die Entstehung der Volkswirtschaft*,[1] points out that—

[1] Translated into English by S. Morley Wickett, Ph.D. of the University of Toronto, under the title of *Industrial Evolution* (London, 1901).

"The condition of society on which Adam Smith and Ricardo founded the earlier theory is that of a commercial organisation based upon the division of labour. . . . That there may once have existed a condition of society in which exchange was unknown does not occur to them. . . . They deduce the most involved processes of exchange directly from the primitive states. Adam Smith supposes that a man is born with a natural instinct for trade, and considers the division of labour itself as but a result of it. Ricardo in several places treats the hunter and fisher of primitive times as if they were two capitalistic *entrepreneurs*. He represents them as paying wages and making profits; he discusses the rise and fall of the cost and the price of their products."[1]

As opposed to this view, the truth is, as Professor Bucher maintains, that—

"Exchange was originally entirely unknown; that primitive men, far from possessing a natural instinct for trading, showed, on the contrary, an aversion to it. Exchange (*tauschen*) and deceive (*täuschen*) are in the older tongue one and the same word. . . . Far down into the Middle Ages exchange is protected by publicity, completion before witnesses, and the use of symbolic forms."[2]

Turn, however, to any one of the modern treatises on political economy current among us, say Mill or Walker, or the text-book by Professor Gide of Montpellier, which has become deservedly popular in some of our universities, and we find that the conception of the origin of money and trade which is set forth is not essentially different from that of Adam Smith or Ricardo. Gide and Walker, no less than Mill, start with the idea that the developed conception of value can exist in the world quite apart from the existence of any standard of value; that therefore the idea of exchange value is something altogether independent of price, and consequently of money; and that it is the reasonable and philosophical

[1] Eng. Trans. p. 88. [2] *Loc. cit.* p. 90.

method in economics for the writer to devote the earlier chapters of his work to the phenomena of wealth without introducing the conception of money at all, and then to bring in that conception afterwards as a comparatively speaking subsidiary and unimportant adjunct. How wide from the truth this method of dealing with such problems is, I think, will appear in a strong light after attention has been drawn to some of the recent results of ethnological investigation in regard to money, which are the work mainly of German inquirers.

Dr. Heinrich Schurtz, the curator of the museum of the city of Bremen, and the author of works on the *Native Industries of Africa*[1] and on the *Philosophy of Costume*,[2] which have established his reputation as an anthropologist of the first rank, devotes a small volume[3]—one of something less than two hundred pages—to a presentation of a general survey of all that is known up to the present with regard to the money of primitive peoples. The facts are gathered mainly from the works of travellers, German, English, and French, in Africa, Oceania, Central Asia, and other parts of the world, reference occasionally being made to classical and mediæval conditions. They embody the results of vast research in a compendious form. Extent of reading, however, on such a subject, where the facts are present in such masses, would be of little avail if it were not accompanied by philosophic insight capable of discerning underlying principles, and of using them as the connecting threads to give every fact its place and its significance. Such insight, however, Dr. Schurtz in a remarkable degree possesses,

[1] *Africanische Gewerbe.*
[2] *Philosophie der Tracht.*
[3] *Grundriss einer Entstehungsgeschichte des Geldes.*

and it is his possession of it that gives his volume its unique value.

He takes as his starting-point the condition of tribal communism, which, if it was not originally the universal condition of mankind, appears at any rate to have been a condition through which all the historical nations have passed.[1] He has occasion, in the first instance, to deal with the question how, in such circumstances, private property within the tribe came to develop itself. He thinks that investigators into the origin of property have, for the most part, been led astray by the theoretical assumption that it must have been things of practical utility which the individual would naturally attempt at first to withdraw from the *régime* of communism. Directly the reverse is the case. Food, for example, is the very last thing that in a primitive society becomes the unquestioned subject of private ownership. He quotes many facts illustrative of this position. In Tonga, for instance, according to Mariner's testimony,[2] it was open to any one who pleased to go into any house that he chose at meal-times, to sit down and eat his fill, no questions being asked; and nothing so much aroused the indignant astonishment of some Tongans who found their way to Sydney as the discovery that there no one requested them to share with them their midday meal. Similar conditions ruled among the Mongolians,[3] and were very general in South Africa.[4] We have survivals of them in the custom of inviting, at any rate as a matter of form, the onlookers to partake at meal-

[1] Cf. Letourneau, *Property, its Origin and Development, passim;* Bucher's *Industrial Evolution,* chs. i. ii.

[2] *Nachrichten uber die Tonga-Inseln,* pp. 75, 236, 252.

[3] Pallas, *Historische Nachrichten uber die Mongolische Volkerschaften* i. p. 105.

[4] Lichtenstein, *Reisen im Sudlichen Africa,* i. p. 450.

times, which yet rules in the East, and even in Spain.

If food, however, was the last thing to be withdrawn from the *régime* of communism, what was the first? Dr. Schurtz's reply is: "The first thing which man becomes conscious of as his own is his body, and from this it results that that which is destined to alter and to beautify the body is first felt to be private property. . . . Ornament thus becomes the earliest individual possession."[1]

It will thus be seen how central a position the phenomena of ornament occupy in Dr. Schurtz's system.[2] Ornaments, too, — among which we may include ornamented weapons,—as he remarks, readily become amulets with magical protective powers against evil influences; or it may be that they owe their sacredness and their value to their association with the heroic deeds in war or in the chase of the owner himself or of his ancestors, and this, again, contributes to intensify the sentiment of exclusive association with his person.

If, then, at this stage we have arrived at the emergence of the first germs of private property, we are still evidently a long way off from the conception of money. The essential characteristic of money is its exchangeability, while such property as this cannot be the subject of exchange at all. Its exchange would be regarded as impious and unheard of. The weapon, on the manufacture and decoration of which its owner has spent perhaps some years of his life, comes to be thought of as a veritable part of his own being, and

[1] Schurtz, *Grundriss, etc.*, pp. 10, 11.

[2] I may ask the reader to compare what follows with the conclusions independently arrived at in the chapters on "Ornament and Money"—chs. ii. and iii. of Part II.—in my book, *The Evolution of Modern Money* (London, 1901).

Professor Bucher is, no doubt, right in saying that if he parted with it he would often feel that he was subjecting himself to the power of evil spirits.[1] It is ordinarily not transferred even at death, but is buried with the owner.

Dr. Schurtz next endeavours to trace the steps by which such property acquires mobility, and his account of them has certainly little in common with the rough-and-ready theory of the economists that the early community fixed by agreement on some substance which they should use as their medium of circulation. Though, he remarks, the general sentiment of the community leaves the individual in undisturbed possession of such property as ornaments, it is by no means to be looked upon as something that has no connection with them. On the contrary, the ornaments acquire their value for the man himself mainly because they arouse the envy of his companions and the admiration of the women. Private property owes its existence thus to the sentiment of the community.[2] Moreover, once any description of ornament has established itself as the subject of universal admiration, it inevitably becomes an object of universal desire, and thus it may be that the first stimulus is given to monetary payment in some form. We should be greatly mistaken, however, if we were to jump to the conclusion that the first form in which payment emerges is in that of internal trade. Even in the modern world there are many other uses to which money is put besides its use in the purchase of commodities. Indemnity is, perhaps, secured by a money payment for the man who has inflicted some injury on another, who thus escapes from the vengeance

[1] See Bucher, *Entstehung der Volkswirtschaft*, p. 17.
[2] Schurtz, *Grundriss*, pp. 12, 13 ff.

that would otherwise be exacted; or presents are made to the powerful, by which their favour and assistance are obtained; and out of these beginnings there arises at length a system of fines and taxes, which play a part of the first importance even up to the present moment in connection with the development of monetary systems.[1]

Such uses are, in Dr. Schurtz's view, the first uses of money,[2] and it will be seen how completely it reverses the view of the economists that division of labour first arose, and that money was next invented to facilitate the exchange of products. At the stage of human evolution which we are now considering, there is as yet practically no division of labour, and there are practically no commodities to be bought and sold. All the necessities of life are produced by the joint labour of the family or tribe, and are shared freely among all. The uses of the incipient money are many and various indeed, but they are all of a social character. There is certainly one thing of prime importance to human happiness, which, in many, and probably in most, primitive communities, has to be purchased, namely, a wife; and thus the marriageable daughters, the *παρθένοι ἀλφεσίβοιαι* of Homer, are among the first subjects of exchange, the first bringers in of wealth.

With the transfer of ornaments as indemnities for injuries, developing later into regulated fines, with gifts to the powerful developing into taxes, and, again,

[1] Cf. *The Evolution of Modern Money*, pp. 125 ff. and 192 ff.

[2] That is, of "Binnengeld." Dr. Schurtz, however, regards "Binnengeld" as the main root of money generally (*Grundriss*, pp. 27, 62, 167). In the Homeric period, which, as regards commerce, was apparently pre-monetary, gold and brass were used as ransoms. Cf. the supplications for mercy of Dolon and Lycaon addressed to Ulysses and Achilles respectively.

with the purchase of wives, we see already a long vista of uses for the incipient money. Others of a similar character gradually emerge. In some Polynesian islands, for instance, a mother may purchase the lives of some of her too numerous offspring, which otherwise, by the custom of the tribe, would be destroyed.[1]

"Under the new influence the relative powers within the tribe begin to alter. Alongside of the chiefs henceforth other orders commence to force themselves into evidence, orders whose services must be purchased by money payments; first and foremost the order of priests and magicians who heal sickness, bring rain, and foretell the future. . . . Money it is, indeed, that more than anything else breaks up the old communism. Everyone finds that there are innumerable payments in money that are not to be avoided, and it is quite certain that the individual will, in many cases, be unable to produce the money directly; the instances will thus, of necessity, be always becoming more and more numerous in which he will be obliged to withdraw his labour and its results, in as far as he can, from the *régime* of communism, and to ask payment for every service which he renders to his fellows."[2]

A good many of Dr. Schurtz's illustrations are taken from the account given by the German traveller, Kubary, of the institutions of the wonderful race who inhabit the Caroline Islands. In their out-of-the-way corner of the world they appear to have been on the fair way to develop a civilisation of the highest promise, including a well-regulated popular government, with the self-respect and the respect for one's neighbour that such a government brings with it. The promise, unhappily, has been blighted by contact with the white man. Their monetary system seems to have served social purposes almost exclusively.

"For the main purpose," says Kubary, "for which money is needed among us, that is to say for the support of life, the islanders

[1] Schurtz, *Grundriss*, p. 18.

[2] *Loc. cit.* p. 18.

need none of it, for all here are themselves the producers of all that they require. Labour is as yet but little differentiated, and the expenses of luxury in the higher sense are unknown. Yet, for all that, money plays a part of the first importance in the life of the inhabitants. The human being, regarded as an animal, has here all that he needs for the support of life. Does he desire to marry a wife, however, to establish a family, to live as the citizen of a State, then he must have money. The existence of a commune[1] as a political State is dependent on the existence of the money which the heads of the families possess. The relations of exogenetic marriage which prevail uniformly can only be maintained by the continuous exchange either of goods or money. Thus in truth the child of nature, at first sight so free from care, has in reality much more care than the industrious working man among ourselves, who, once he has fulfilled his duties to the State, is his own master, and has only to concern himself about his own family."[2]

Such money as this, Dr. Schurtz thinks, might rightly be called social money,[3] as distinguished from commercial money, as the exigencies of trade have little, if, indeed, they have anything whatever to do with it.

In what I have written thus far I have endeavoured to present the reader with Dr. Schurtz's conclusions almost in his own words. In what follows, while making use largely of his facts, I have not followed quite so closely the deductions which he draws from them. In a discussion such as the present, it is inevitable that the word "money" should be applied in cases where yet some of the salient characteristics of our modern money are wanting. Indeed, to some of the things mentioned as money the conception of treasure would perhaps be more applicable, as they

[1] "Gemeinde." To understand what a "gemeinde" is one must read Kubary's account.

[2] From Kubary's *Ethnographische Beitrage zur Kentniss des Karolinen-Archipels.* Cf. Schurtz, *Grundriss*, p. 19.

[3] *Grundriss*, p. 170.

can hardly be said, properly speaking, either to have circulated or to have measured values. Let us suppose, however, that among the ornaments or treasures that took the fancy of the primitive tribe were some which possessed the quality of being repetitions of themselves — shells, let us say, one of which was very much like another — then the important monetary characteristic of homogeneity can begin to come into play. The shells can be counted or measured in vessels of a given size, or ranged on strings of a given length; and payments of all sorts, fines, indemnities, and at length purchases, can begin to be duly apportioned by the quantity of the shells delivered. The standard of value and the idea of price can begin to emerge.

We have next to look at the reactive effect of this incipient purchasing power on the subjective appreciation of the ornaments themselves. In such cases, as Professor Marshall well remarks, the sequence is not that of a simple chain of causation. The relation is rather, on the contrary, that between a number of balls lying in a basin.[1] Cause and effect continually act and react on each other. Given the fact, in the first instance, that the colour and form of the shells have conferred on them, for the primitive tribe, some fascination as ornaments,—and given, again, the fact that their homogeneity has made them more suitable than they would be otherwise for use in the making of payments,—then this suitability will be found in its turn again to immensely enhance as well as to render stable their fascination as ornaments. Even with ornaments in the modern world, the more we search into the grounds of the subjective value we attach to them, the more we find it interpenetrated

[1] *Principles of Political Economy*, p. 401.

with associations of their pecuniary efficacy.[1] "Cheap and nasty" has become a proverb with us. No doubt we endeavour to avoid the gross and open proportionment of our admiration of clothes and furniture to the money they have cost, but as an underlying element in what we think of as beauty exchange value is there, always working powerfully in the background. To the most refined connoisseur the glory would soon depart from his curios if he found that no one would give him anything more for them than could be obtained for so many pebbles picked up at random off the beach. When European coins begin to supplant native money as media of exchange, they are also invariably used by the natives as ornaments.[2] With most varieties of ornament among primitive as among modern peoples, fashion continually fluctuates. What to-day is a treasure is to-morrow like a child's toy, thrown into the corner. When, however, some description of ornament, owing to its combination of beauty and homogeneity, has begun to serve as a medium of payment, then the tendency is for fashion to remain constant, and for the subjective appreciation continually to gain both in strength and in stability.

So far we have confined our attention to what passes within the tribe with regard to the development of money. Let us now look outside it. While communism and undifferentiated labour continue to prevail within, the first division of employments and the first beginnings of trade appear to be intertribal. A good deal of interesting evidence on this point is given in the second chapter of Professor Bucher's

[1] For some very suggestive observations on this point, see the chapter headed "Pecuniary Canons of Taste" in the *Theory of the Leisure Class*, by Professor Thorstein Veblen, of Chicago University.

[2] Cf. Schurtz, *Grundriss*, p. 119; Ridgeway, *Origin of Metallic Currency*, p. 15.

Entstehung der Volkswirtschaft, dealing with the "Economic Life of Primitive People."[1] The division of labour is largely determined by the natural resources of the localities occupied by the various tribes. One tribe lives on the seacoast, and naturally become fishermen; another live inland, in a forest, where the timber from which canoes are made is to be found, and become boat-builders. He quotes from Mr. Im Thurm's work, *Among the Indians of Guiana*,[2] an account of the active intertribal trade that had sprung up in the northern part of South America.

"Each tribe," as Mr. Im Thurm says, "has some manufacture that is peculiar to itself; and its members constantly visit the other tribes, often hostile, for the purpose of exchanging the products of their own labour for such as are produced only by the other tribes."[3]

The first form which this intertribal trade invariably assumes is that of reciprocal present-making.[4] Next, perhaps, the usage springs up for the maker of the present to intimate what present he would like to have made to him in return, and to express his satisfaction or otherwise with what he gets. Thus purchase and sale in a fashion establish themselves. This sort of exchange, however, is in its nature something widely different from barter as conceived by such writers as Mill or Jevons. They read into it our modern conceptions of price fluctuations, proportionment of price to cost of production, and so on. In the real primitive barter the relations of commodities to each other are to a surprising degree more simple than those which their theory would involve. What ordinarily seems to spring up in the

[1] Eng. Trans. pp. 41 ff.
[2] London, 1883.
[3] *Loc. cit.* p. 270.
[4] Schurtz, *Grundriss*, p. 65.

first instance is a system of "fixed exchanges."[1] Dr. Schurtz furnishes us with a large number of examples of it. It presents many curious and interesting features.

"When one tribe establishes trade relations with another," he says, "and exchanges, say, earthen pots for arrows, the idea soon becomes a fixed one that always and everywhere arrows should buy pots and pots arrows, and that for the purchase of either everything else is quite inappropriate."[2]

The traveller Nachtigal found that in some parts of Central Africa a sheet of paper would buy a hen, and a hen a sheet of paper, and that only.[3] Another traveller found that in Bonny a red shirt would buy a grey parrot, but that neither was available for any other sort of exchange. Elsewhere in Africa, slaves could only be bought with guns, ivory only with guns and powder;[4] cattle could not be bought with tobacco,[5] no matter what quantity was offered, though tobacco was in use continually for other purchases. Similarly on the Gold Coast gold-dust could only be bought with clothing stuffs, salt or amber, and not at all with glassware or tobacco.[6] A number of curious tables of exchange equivalents are given by Dr. Schurtz. Here, for instance, is one from Coote's account of the Island of Isabel, taken from his book on *The Western Pacific* (p. 146):—

10 cocoa-nuts equals one string of white shell money, or one piece of tobacco.

[1] "Bestimmte uberlieferung." Cf. Schurtz, *Grundriss*, p. 79.

[2] *Loc. cit.* p. 82.

[3] *Mitteilungen der Geographische Gesellschaften in Hamburg*, 1876–1877, p. 325.

[4] Koler, *Notizen uber Bonny*, p. 150.

[5] Monteiro, *Angola and the River Congo*, i. p. 160.

[6] Lichtenstein, *Reisen im Sudlichen Africa*, ii. p. 503.

10 strings of white shell money equals one string of red shell money, or one dog's tooth.
10 strings of red shell money equals one "Isa," or fifty dolphins' teeth.
10 "Isa" equals one well-grown woman.
1 marble ring (*bakiha*) equals one head (among the head hunters), or one very good pig, or one young man of middle height.

It is, perhaps, a step in advance in the direction of value-measurement when we find the natives in the lake regions of Central Africa, as Burton informs us, exchanging one bushel of sea salt for one bushel of grain or one bushel of cowry shells. When the salt production had been unsuccessful, the scarcity certainly took some effect on the exchanges; the grain and the cowries were simply doubled.[1] What, then, can be more clear than the fact that the conception of value in our sense, for want of a standard, had not yet been born? Nachtigal gives us a glimpse of it just coming into play in the equatorial regions of Africa. In the districts through which he had passed, he had found it necessary to go to market provided with a great variety of wares, and to endeavour to get what he needed by a very complicated series of barter transactions. On reaching the Soudan he says:

"It is no doubt tedious enough to have to change a dollar into somewhere about 5000 cowry shells, and to have to count them out one by one; still you have at any rate the advantage of being able to buy anything you want for the dollar and its fractions, instead of having to bring to market cotton pieces, beads, paper, and sandal-wood without being certain whether you can buy what you need with any of them, or by what sort of intermediary exchanges you may be able to do it."[2]

[1] Goldberry, *Reise durch das Westliche Africa*, i. p. 256.
[2] Burton, *The Lake Regions of Central Africa*, ii. pp. 402, 416.

For a great part of the world, therefore, homogeneous ornament—whether in the shape of cowry shells, or at a later evolutionary epoch in the shape of the precious metals—has brought the conceptions of price and of exchange value to the birth, and has thus first rendered possible the vast array of words, ideas, and ratiocinations which form the material on which the modern theoretical economist has to work.

In tracing the connection between ornament and money we cannot leave out of account the great rôle that has been played in the world in connection with the development of monetary systems by religion. The religious use is plainly a variety of the ornamental use. The great mistake made by the utilitarian economists lies in their assumption of the predominating rationality of the human beings which are the subject of their investigations. It is to this false assumption that the reputation of their science as the dismal science is mainly due. The true science of man, in any of his varied aspects, is never dull and uninteresting. On the contrary, it is always full of unexpected turns and curious surprises. The fact that the frivolous fancy for ornament should have laid the foundation on which the genius of the race has reared, in the long-run, the great structures of money, commerce and credit, has many parallels. As Emerson remarked, the magnet was used as a toy long before it was used in navigation. Professor Bucher has shown that what we call work in the human race all began with play, mostly to a rhythmic accompaniment.[1] For untold generations the *genus homo* no more worked for their sustenance than did their Simian neighbours. They picked up what they found to hand,

[1] *Die Entstehung der Volkswirtschaft*, p. 32. Cf. also *Arbeit und Rhythmus*, Leipzig, 1899, by the same author.

and when they could find nothing they went hungry. When at length they did begin to work, their first labour was not devoted to the procurement or preservation of food, but to the tatooing of their bodies or the decoration of their weapons. An immense stride, as we know, was made by early man in the path of progress when the ox and the sheep were domesticated; but nothing is more certain than that neither of them was domesticated in the first instance for the sake of their uses as providers of food or clothing. In innumerable instances in primitive societies, such animals are tamed, and yet no use whatever is made of them. Even the pig in Oceania was tamed apparently, at first, solely for the pleasure of his company. The little pigs are often still petted and fondled by the whole family, and not infrequently suckled by the women.[1] It was only as an afterthought, as a step in the direction of civilisation, or perhaps of cannibalism, that his flesh came to be used as food in the first instance at festivals, and, in the long-run, generally.

In tracing the history of money, even at a later period, we should be greatly in error if we were to confine our attention to its employment in the purchase of utilities. It must surely come upon us as a surprise to find that the greatest of all agents in connection with its development for innumerable generations was religion.

Dr. Curtius has shown in a very striking article, which has been translated by Dr. Head in the *Numismatic Chronicle*,[2] how intimately the spread of commerce along the coasts of the Ægean was associated with the worship of Aphrodite Urania. Whenever a Sidonian factory was established, the centre about which it grew was the shrine of that goddess. "The

[1] *Op. cit.* p. 62.

[2] N. S. x. p. 91.

gods," as he says, "were the first capitalists of Greece"; and certainly if we wish to understand the beginnings of the growth of accumulations of capital in the world,—a fact fraught with such immense significance for its subsequent progress,—it is rather to religion than to industry of any sort that we have, in the first instance, to turn our attention. The sacred character that attached to money throughout the classical period, and in Spain[1] and the East, at any rate far down into the Middle Ages, is a fact very familiar to the numismatists. The heads on the Greek coins up to the time of Alexander are, without exception, the heads of deities, and the symbols on the reverse are, for the most part, symbols connected with their worship. Alexander's head had to be, in the first instance, "in a manner smuggled in, a profile being given of the divine ancestor of the race which bore a resemblance to the reigning descendant."[2] The majority of the coins that bear his image, however, were struck after his death and his deification. The Ptolemies and the Roman Emperors were, of course, as we know, at once gods, the object of religious worship, and civil rulers. Indeed, legitimate sovereignty and deification seemed closely associated in the human mind at that period of the world's history.

If we look for the source of this intimate association between religion and money, we shall find it, I think, in the connection between money and ornament. No doubt ornaments were themselves originally very frequently regarded as something sacred, as possessing the character of amulets. To early man everything was living and full of mystical powers and occult faculties. At a later period an outgrowth of the same

[1] M. de Vienne, *Rev. Num.*, 3rd Series, tom. xl. p. 373.
[2] *Num. Chron.*, N. S. x.

sentiment that has led, and that still leads men and women to devote so much of their energies to the adornment of their own persons, led them to devote similar energies to the adornment of their divinities; and I think it is very interesting to observe how closely parallel were the ultimate developments of religious to those of personal adornment. It is a familiar observation to those who have paid any attention to the customs of the Hindoo, or, generally speaking, of the Oriental peasantry, that their capital is often, to a large extent, carried in the rings and bracelets and necklaces of their women. At a certain stage of culture it could be carried in no other way. If it were there, present in ready money, it would infallibly be at once expended.[1] In ordinary times the use of the ornaments is to confer social prestige. If the crops fail, however, then they are a resource in utmost need. At first, no doubt, it is their primary purpose that is alone considered. At a later stage, however, their secondary purpose also begins to enter into the thoughts of their wearers. The women of the tribes on the borders of Thibet are always ready to use portions of their silver ornaments in making their purchases. At the same time, whenever they get any money the first thing they do is to buy more ornaments with it. The ornaments are their medium of exchange and their store of value. In the early Teutonic period similarly, before money proper, at any rate among the races that were far removed from the confines of the Roman Empire, could be said to have come into existence, there was undoubtedly a circulation of ornaments that closely foreshadowed the circulation of money. A

[1] Cf. Evidence of Mr. Romesh Dutt before Sir Henry Fowler's Committee on Indian Currency, Question 10857; also *Lake of Palms*, by the same, pp. 3 and 28.

title of honour for a king was a "Ring-breaker," meaning a free-handed distributor of treasure, inasmuch as he was supposed to be always willing to break off portions of the golden armlets that were so much worn, and so highly valued by our ancestors, and to present them to the members of his *comitatus* and to the bards who sang his praise. As, then, the ornaments of the individual became his private capital, so the ornaments of the divinity became the national treasure, and came further, in course of time, to be consciously recognised as such. We see the transition of use fairly accomplishing itself in the great period of Athenian history. At the outbreak of the Peloponnesian War, when the Spartans were on the frontiers of Attica, Pericles had occasion to endeavour to reassure his countrymen with regard to the extent of their resources. After giving an estimate of the amount of the tribute due from the allies and of the coined silver stored in the citadel, he remarked that besides this they had gold and silver uncoined both in public and in private repositories; they had many valuable vases destined for religious uses and for use in the public solemnities.

"He mentioned further," says Thucydides (ii. 13), "the great wealth that was stored up in the various temples, which they had a right to use; and if this should be denied to them he said they might have recourse to the golden ornaments of the goddess herself. He declared that her image had about it to the weight of forty talents of gold without alloy (that is, to the value of about £100,000),[1] all which might be taken off the statue. He maintained that for the preservation of their country it might be lawfully employed, but added that it ought afterwards to be amply replaced."

Hecatæus, the historian, it may be remembered, as Herodotus tells us (v. 36), gave advice precisely similar

[1] Boeckh, *Public Economy of Athens*, p. 447.

to the Milesians with regard to the treasures in the temple of Apollo at Branchidæ when the siege of their city by Harpagus was threatened. His advice was not followed. Miletus was taken and the treasure fell into the hands of the Persians. In the very nature of the case, thus, it is apparent that there must of necessity in such cases have arisen an identity of interests between the State and the divinity, and, consequently, it could not be regarded as impiety to use, in the last resort, treasures which were necessary for the protection of the deity herself, no less than that of the city over which she presided. In Athens thus we find that the custody of the treasure of Athene was taken out of the hands of the priesthood, probably as early as the time of Pisistratus,[1] and that, by the close of the fifth century before Christ, all the sacred treasures were vested in the board of ten annually chosen by lot to safeguard the public wealth generally.[2]

This connection between religious worship and the accumulation of capital is very far from finding its first

[1] *Num. Chron.*, N. S. x. p. 108.

[2] To readers of Greek history other cases of the coining down, actual or suggested, of the golden or silver statues or ornaments of the gods will occur besides those alluded to. In the late Hellenistic period, 123 B.C., we are told that Alexander Zebina, who had usurped the throne of Antioch and was besieged there, came into the temple of Jupiter and, seeing there the god holding out on his extended hand a statue of Victory, said, with discreditable profanity, "I accept the victory you offer me," and thereupon took down the image and had it coined into money. The story is no fable, at any rate as regards the general facts it embodies. Quite recently M. Babelon has lit upon some gold coins of Zebina of the very year in question, and the significant thing is that this gold is the only gold coined in Antioch, at any rate for a hundred years before and a hundred years after the brief reign of the usurper. ("Discours de M. E. Babelon, sur l'utilite scientifique des collections des monnaies anciennes." *Rev. Num.*, 4th Series, vol. i. p. 216.) On this occasion the interests of the Crown and those of the divinity were not looked upon as being sufficiently identified, and Zebina was driven out of the city by the populace.

manifestation in the field of Greek history. Dr. Curtius' remark that the gods were the first capitalists of antiquity finds abundant illustrations in the records of the Babylonian tablets. A credit system presenting in many of its features an approach to our modern system seems to have built itself up in Babylon on the basis largely of the sacred treasures. We are told, for example, of a woman in the reign of Samsu Iluna, about 2000 B.C., who was a devotee of the Sun-god, and who entered into partnership with two men in order to trade with a *maneh* of silver which had been borrowed from the treasury of the god.[1] The treasure of the god was apparently thus the bank of Babylon.[2]

The origin and development of the monetary system is, as yet, a field, to a great extent, unworked and is one which promises rich rewards to future investigators. I have, perhaps, given at any rate enough facts bearing on the subject to serve as an antidote to the conception that gold and silver were selected as money at the dawn of history by a fancied convention on grounds of arbitrary caprice, and that therefore the very existence of money may be treated by the economist as something that is altogether negligible.

[1] Sayce, *The Babylonians and Assyrians, Life and Customs*, p. 108.

[2] The temple of Jehovah at Jerusalem, it will be remembered, was used as a place of deposit for their treasures by the Jews all over the world (2 Maccabees iii. 2). Its sacred character made it, at any rate, comparatively secure. From that use of temples to their use as banks the transition is an easy one.

PART III

THE PROTECTIONIST FALLACY

CHAPTER XI

CONSUMPTION AND PRODUCTION

THE description of fallacies that I have dealt with in the preceding chapters have varied greatly in detail, but still there has been a kinship among them. They have all been characteristically the fallacies of the schools and the doctrinaires. They have all alike shared the false method of relying on meanings for economic language which are out of conformity with common use. There is another large class of fallacies which also possess a kinship with each other but which stand at the opposite end of the scale from those above mentioned. *Post hoc ergo propter hoc* is, for example, one of these. It embraces the psychological cause of most popular superstitions. The logicians in every age have busied themselves very much more with the latter class than the former. Among the numbers of the latter we may place the typical Protectionist fallacy, which consists now, as it did in Bastiat's day, in laying undue stress on conspicuous facts that are under our observation at any given moment, and in not laying enough on their necessary but unseen results, which require perhaps wide statistical information, or complicated trains of reasoning, or both, to satisfy our minds as to their necessity. We shall have abundance of opportunities of observing the misleading operation of this fallacy as we proceed, while, at the same time, in some of the arguments now and then brought forward by the Free Traders we may have occasion here and

there to notice the outcrop again of the doctrinaire fallacy.

Adam Smith and his nineteenth-century successors, in their vigorous advocacy of Free Trade, seized and brought into the utmost possible relief the important truth that, in international commerce, as well as in the wholesale internal trade of every European country, goods, as a rule, pay for goods without the intervention of metallic money at all, and that thus the greater commerce is in truth in some sense nothing else but a system of organised barter. While this is a truth that must never be lost sight of, it is, at the same time, only half the truth. From the point of view of one who takes a general survey of the whole situation, certainly the great fact that presents itself is the exchange of commodities between nation and nation and between man and man; and money might thus, on such a survey, appear in the light of a more or less unimportant intermediary. It remains true for all that, that to the minds of all who are actively engaged in the processes of exchange, money never does and never can appear as an intermediary at all. On the contrary, the acquisition of the greatest possible amount of money in the shortest possible time is practically, with all of them, the vital stimulus of their business activity. By neglecting to give sufficient emphasis to this latter half of the truth, or by ignoring or denying it altogether, some of our greatest economists have fallen into lines of reasoning that have put them out of touch with the thought of the business world.

If, in our surveys of other social phenomena, we were to insist always on looking at final results and at them only, we should frequently find ourselves misled. The final result, and no doubt the main purpose of marriage, is the reproduction of the species. It would

be a grave error for all that for a sociologist to make, to conclude on that ground, that modern romantic love as well as every other form of the sexual impulse might be held as utterly insignificant, or might be ignored altogether in a reasoned account of human society. It is an error closely similar to this that Mr. Mill makes when he tells us that money is the most insignificant thing in the whole sphere of economics, and when he affects to treat of one large section of economic phenomena without, as he puts it, introducing the conception of money at all.[1]

As a corollary to this view of the insignificance of money there has arisen a method of stating the Free Trade case which, I think, is in no small measure answerable for the present Protectionist reaction. As money has to be left out of account it is found necessary to represent the ordinary man as having a measureless desire for commodities in general, a desire which, we are told, overwhelms or, at any rate, ought to overwhelm every other consideration. Mere abundance of commodities is held up by Bastiat, for example, as if it were something that is in itself supremely to be wished for.

As commodities include everything saleable, from bread to bad whisky, from boots to jewellery, it is not always easy to become genuinely enthusiastic either for a general increase in their quantity or for a lowering of their value. As regards all of them that partake of the nature of ornament,—and it needs little reflection to discern how vast a field that category covers,—the

[1] The same attempt is made in a book of which the last edition has been published during the present century—Professor Bastable's *Theory of International Trade*. Professor Marshall, on the other hand, expresses the saner opinion that money is the pivot of everything in economics.

cheapening and the abundance really defeat to a great extent their very *raison d'être*. Make anything that partakes of the nature of ornament cheap enough and you will find that it will be discarded by those who now make use of it. The main use of ornament, at bottom, is, for the most part, to enable people inoffensively to advertise their wealth, and when it no longer serves that purpose it can serve no purpose whatever.

A common form in which the fallacy, or, as we may call it, the misleading half-truth, emerges, is in the exclusive stress laid on the interests of the consumers as contrasted with those of the producers. Consumption, it is urged, is the end, production merely the means, and the second must therefore be always subordinated to the first. Frequently the appeal is made to natural rights, and we are told that it is, in the very nature of things, iniquitous on the part of the State to take away anything from one member of the community in order to bestow it on others. Such a criticism, however, would condemn a great part of our modern social legislation. If it held good necessarily and always we could rightly have no Poor Law, no State assistance even to education. Once, however, that we concede that the question is one of degree, it must further be admitted that the Protectionists can often show very strong *primâ facie* reasons why, in certain cases, something should be taken from the consumer and should be given to the producer. We may suppose that the product proposed to be protected is some finished article of luxury or ornament in the manufacture of which a large amount of labour is employed, and the profitable production of which in this country is threatened by foreign competition. On the one side, in such a case, we have, as regards the consumer, a privation which is of a trifling, perhaps of

an entirely nominal character, while, on the other, we have the possible loss of their livelihood, with all the distress and bitterness that that entails, to some hundreds, it may be to some thousands of our fellow-citizens. The ordinary consumer fortunately is not selfish enough to desire so slight an advantage to himself at the cost of such cruel hardship to his neighbour, and the direct appeal to his interests as consumer thus frequently falls on inattentive ears.

It is best indeed frankly to make the concession that a very strong *primâ facie* case can often be made out against free imports, as it can, of course, also against the introduction of machinery, and to reflect that it is only by a survey of industrial conditions as a whole that the first conclusions at which we may be inclined to leap in favour of Protection can be subsequently modified.

There is, however, it must be said, one class of consumers to whose interests, as ends in themselves, an appeal can always be amply justified, that is the poor consumers of the means of nourishment, clothing, and shelter. It is hard to conceive of any circumstances in which it would be justifiable for the State to make their weekly budgets appreciably heavier for the benefit of a section of their neighbours. But why confuse their case with that of the consumer in general? We are all far too fond of these broad generalisations. We seem to delight to speak of prices in general, of commodities in general, and of consumption in general, in instances where the true merits of the case can only be appreciated when we have asked ourselves, What prices? what commodities? what sort of consumption? When, for example, we are told that the United States and our Colonies have adopted Protection and are asked why we should not adopt it also, we do not

always recognise how very different from each other may be, in reality, two policies that are thus called by the same name. In America and in the Colonies the mass of the population only know of Protection as something that touches them at no vital point and hardly at any sensitive point. It necessarily leaves their food and their housing altogether unaffected, and, for the most part, hardly affects even the cheap clothing of the poor. There is thus no parallel between it and such a policy as that which has lately been suggested for our acceptance here.

It must further be said, however, that this direct appeal even to the poor consumers of food appears to be less effective than one might on *à priori* grounds have anticipated. It was, no doubt, something to conjure with in the Corn Law days when a great part of the population of Great Britain was on the verge of famine. The case is different now. The great majority of our artisans have really no physical suffering for themselves to dread even from a considerable rise in the price of corn. In this paradoxical world, the average artisan probably feels the increase of a few shillings or even of a few pounds in his annual expenditure less than the average middle-class man, as he is less concerned about keeping up appearances. On the whole, he appears to be not a little flattered and gratified when he is asked if he will not submit to a moderate privation in order to promote some great imperial end. There is, however, of course, one great class who will suffer and will suffer severely by even a moderate rise in food, that is the wives and children of the poorest class of labourers; but they are the most inarticulate class in the whole community, and they consequently count for little in the calculations of politicians. The best hope of the very poor, indeed,

lies, after all, in the appeal to the producer, in the consideration that must surely carry some weight with any statesman who looks beyond the immediate present, as to the danger to the future production of the country that would lie in impairing the physique of the coming generation of workers.

It is to be observed, again, that when we follow up the direct appeal to the consumer by the true and important argument that every shilling saved in the household expenditure of the masses will go to swell the fund available for the purchase of houses, of clothing, of furniture, of enjoyments and superfluities of all sorts, and will thus tend to make the industries that produce all these things prosperous, and to increase employment in them, we plainly enough leave behind the appeal to the consuming interest and resort instead to the appeal to the producer. The benefit or injury that a given money value can confer becomes, when it is spread over innumerable consumers, by that very fact, so attenuated in each individual case, that it is liable, in the popular view, to be held to have disappeared altogether. It only becomes conspicuous again when, by the processes of exchange, it is afresh concentrated on a small number of persons in production. The exploitation of the consumer has, for this reason, become the favourite field for the operations of the vendors of economic nostrums of all sorts. The policies of Free Trade and of Sound Money, thus, together with the antithetic systems in each case, at this point present a close and interesting parallel. We have more than a hundred millions of sovereigns in circulation. Suppose that, as they came in to the Bank of England, the Government were to subtract a grain from each, and then to send them out again into circulation, it would gain nearly a million sterling, and who, it might be asked, would be any

the worse off for that? If anyone wished to use his gold "in the arts" the loss to him would be so slight as to be almost imperceptible. Might it not therefore be treated as equivalent to no loss at all, and might not the Government take its moderate toll without any fear of injurious consequences to anyone? Such reasoning as this did, of course, up till quite recent years, prevail with most Governments in inducing them to take such tolls. Why is it then that depreciations of the currency are not defended in any quarter now? Simply, I think, because experience has taught the world that the sovereigns, in the normal processes of trade, will become aggregated again in great masses, and will then be used for large wholesale payments, in which case even a very slight reduction in the weight of each must become a conspicuous fact involving perhaps very heavy loss to the individual holder.

Quite similarly, though, perhaps, not quite so obviously, the small injury inflicted on individual consumers by a trifling rise in their weekly expenditure becomes concentrated in the processes of production,—which, in its widest sense, is another word for wholesale trade,—and, thus, may become again a noticeable fact in the world that may have to be seriously reckoned with. As regards the depreciation of the sovereigns, it is such experience as that above described that gives point to the arguments based on general principles which urge that a slight reduction can never be treated as a non-existent reduction. If it could, then, of course, two or more successive slight reductions could each in turn be similarly treated, till we would, in the end, be driven to conclude that even large reductions might be looked upon as negligible; and the same arguments are certainly no less applicable to apparently trifling burdens imposed on the consumers of commodities.

To return for a moment to the general question of Production and Consumption; is it, one may ask, after all so very clear as it may appear at first glance that consumption must always be regarded as the end of mankind's industrial activity and production merely as a means towards the attainment of that end? If we look at the consumption of the very wealthy in ancient or modern times, the parks and palaces seldom even seen by their owners from one year's end to another, the claret at £1 per bottle hardly distinguishable from the claret at 10s. per dozen, the dog for which Alcibiades gave the then fabulous sum of seventy minas, the mules of Poppæa shod with gold and her carriages covered with chased silver, it becomes surely impossible to regard the facilitation of such consumption as an end in itself, that is in any way worth achieving. Even without taking extreme cases into account, we may well ask, Does the expenditure of the ordinary middle-class woman of the present day in her endeavour to keep abreast of the ever-changing fashions in dress present itself as a worthy final goal of industrial effort? When, however, we turn round and regard such social phenomena as the means which the Time Spirit is using for the achievement of his ulterior purposes, they can then, for the first time, be made to fit appropriately into the general scheme of things. Suppose, for a moment, that we were without them, suppose that every man's desire for wealth ceased when his bodily needs were satisfied, or when he was assured of their satisfaction during the remainder of his life, is it not clear that then the health-giving spirit of enterprise in the body politic must immediately become extinct? The world does not always recognise how much it owes to the pecuniary adventurousness of those whose conduct, from a private point of view, it often

has to condemn as foolish and reckless. The man who puts his money into an untried gold mine would probably be looked upon by most of his friends, and not unjustly, as by no means conspicuous for his wisdom, yet if there were no such men, where would be our great and increasing gold product, the basis of our whole system of finance? When we see a man whose means are already ample lose the half of his capital in the attempt to increase it, we are inclined to exclaim at his folly. Yet if the already wealthy were not incessantly bitten by the insatiable and overpowering desire to be still wealthier, we should have few of the new departures in industry, few of those beneficial reductions in the cost of the necessaries and comforts of life which have been the great and salutary characteristic of the latter half of the past century. Few inventions, to take one instance out of many, have done more of late years, or promise to do more in the future, to promote the welfare of the masses of the people than the discovery of the freezing process, which has rendered it possible for us to make the antipodes one of the sources of our meat supply, yet it is well within the mark to say that during the twenty years that preceded the first successful shipment of frozen meat several hundred thousand pounds were lost in abortive attempts to send over a cargo. The poor could not make such attempts, the prudent probably would not. It is by the very rich, and by those among them alone who aim above all things at becoming richer, at being able to increase yet more their already profuse expenditure, that such projects are entered on and carried to successful issues. From the point of view of the "Invisible Hand" that is guiding our destinies, such expenditure and the desire for it are surely but the means by which the necessaries and comforts of the masses are cheapened, while, at

the same time, employment is promoted and its direct remuneration is increased.

At any rate, as regards the Free Trade case, it seems to me that we are much more likely to find ourselves on the track of the arguments that tell effectively on the mind of the average man if we keep the promotion of production rather than the promotion of consumption in view, as the end and aim of any fiscal policy. The "cheapening of commodities" by itself is not a formula that can be made to embrace everything in the aims and aspirations even of the poorest. When the Protectionist says to the labourer, "What is the use of cheap commodities to you if you are out of employment and have no means with which to buy them?" he feels the force of the reasoning. The Free Trader can, indeed, reply that it is Free Trade rather than Protection which will promote employment in the end; but, when he does this, he, of course, as I have said, drops the conception of consumption as an end and falls back on that of production. Even the poor consumer thinks not only of his day-to-day expenditure, but also of the margin that will be left which may go to swell his little savings bank deposit or to meet his payments to his Friendly or Co-operative Society. To the rich and the poor alike Production stands for all that side of life into which the earning and accumulation of money enters as an object of desire. Like all, or almost all the words of economics, its very meaning, as applicable to modern conditions, is a meaning that is dependent on the existence and the use of money. The question as to what is productive and what is unproductive labour can only be adequately answered if, dismissing all considerations of the utility or inutility of the product, we regard the productive labourer as one who makes or assists to make some-

thing that, when made, can be sold for money, and can thus itself be used temporarily, at any rate, as a medium for the storage of purchasing power. Take any instance you please and you will find that the classification will be made on this principle. For no other reason than this can it be that we should set down the maker of sham jewellery as a productive labourer, while we should rule out of that category such much more useful members of the community as the domestic servant or the schoolmaster.

If, then, the promotion of consumption generally is to some extent a misleading ideal; if it is not commodities that men want when engaged in the race for riches, it may be asked, What is it? It is not surely the metallic or the documentary money for its own sake that they desire to possess? Very frequently, I think, it is. As General Walker remarks, what the Western farmer wants with money is to let everyone know "how much of a man he is." One may certainly be eager enough in the pursuit of money without contemplating its expenditure in any form. Granting, however, that that for which most men want it is for the things that it will buy, there is a subtle but very pervasive and mischievous fallacy in treating the command over commodities and services generally as for all purposes absolutely identical with those commodities and services themselves. In physics we are forced to draw a distinction between energy and work, though energy is nothing else but the power of doing work; and the same distinction must be drawn in economics between the purchasing power over commodities which resides in money and the actual possession of the commodities themselves. The two are quite easily, indeed quite necessarily, separable in thought. We cannot escape from the conception of

the energy, the power of doing work, that is stored in our coal measures, though it has done no work for myriads of ages. In the same way we necessarily think of the purchasing power that resides in our money or in any form of our measurable wealth, though it, too, may lie dormant, at any rate, during many generations. Like energy, it is capable of being accumulated and stored in unlimited quantities, and it is well to recognise and face the fact that it is to its accumulation and storage that the business activity of men and of nations is directed. Its expenditure belongs to a different department of their social life altogether.

This false conception of money as an entirely negligible intermediary has made itself especially conspicuous as a source of error in connection with the national aspect of commercial questions. Nations, like individuals, are supposed by many of the economists only to want commodities in unlimited quantities, and in the eyes of some of them it appears to be held as a sufficient justification of a policy of free imports for England to establish the fact that it would tend to promote abundance in the world generally, without much consideration being given to the question whether this abundance is likely to characterise the economic condition of England itself, on the one hand, or, say, of Germany or of Japan, on the other. Such a line of argument, no doubt, appeals to those among us whose ideals are rather cosmopolitan than national, and they, as a matter of course, become Free Traders. They are necessarily, however, but a small minority in any period of any nation's history, and the general effect of the presentation of the Free Trade argument in this manner has certainly been detrimental to the cause that it aims at supporting, as it has given rise to the conception, of which much use has been made in

the recent controversy, that the case for Free Trade stands or falls with the cosmopolitan ideal. No doubt cosmopolitan eloquence adorned very freely the pages of the economists, both French and English, who flourished at the period when Free Trade was established among us. It was established, however, we must remember, not by the economists, but by the nation, and the view does not seem to be sustainable that cosmopolitan ideals had any really serious influence on the politics of the Englishmen of that period. We cannot forget that, about the same time, we engaged, for the sake of the most distant and visionary of national advantages, in a war, the purpose and the result of which was to re-establish the blighting power of the Turk in some of the most interesting of historical lands. If we wish to find the true sentiment of the England of that period in regard to the utility of Free Trade we will find it, not in the disquisitions of Mill or of Cobden on the general desirability of abundance in the world, but in the conclusion of Peel that a policy of free imports was that which would best enable us to "fight Protective tariffs." Was Pitt a Little Englander? we might fairly ask Mr. Chamberlain; yet we know that Pitt, in his day, at one time, contemplated making England altogether a free port.

In connection with this aspect of the question it is worth while to recall the fact that the first great victory won in this country for Free Trade was won in 1663, more than a hundred years before *The Wealth of Nations* was published. That victory consisted in the liberation of the export of gold and silver bullion. It will be well worth our while to look at the subject for a little, through the eyes of the economists of that period.

CHAPTER XII

FREE TRADE FROM THE MERCANTILIST STANDPOINT

At the period when the important Act was passed which, for the first time, liberated the export of bullion in England, the idea that money might be treated as negligible by the economist had never, of course, been so much as dreamt of by anyone. The accumulation, on the contrary, of the greatest possible amount of actual treasure in the shape of gold and silver was then universally looked on as the natural end and aim of every nation's commercial activity. Nor was the conception so absurd as, in the light of altered conditions, we may be liable nowadays to regard it as being. National loans were unknown, or at any rate in their infancy, and consequently if a nation desired or found it necessary suddenly to put an army in the field, there was little that it could fall back upon but its treasure. The world had had an object-lesson as to what gold and silver could do in the marvellous rise of Spain. "All Europe," said Colbert, "watched the house of a simple Archduke of Austria, without any importance in the world, attain in the space of three or four score years to the sovereignty of all the States of Burgundy, Aragon, Castile, Portugal, Naples and Milan, and finally aspire to the empire of the whole of Europe—that is to the empire of the world."

The influence of the money power in history is a subject that yet awaits its Captain Mahan. In regard

to the memorable struggles in the little world of Greek antiquity, it strikes one sometimes very forcibly what mighty consequences were capable of flowing from the possession of an amount of treasure that to modern ideas seems preposterously small. About twenty years after the commencement of the Peloponnesian War, Athens still had in her possession a treasure of a thousand talents, some £245,000 of our modern money. The greater part of it had been obtained by stripping the golden ornaments from the famous gold and ivory statue of Pallas. It certainly does not appear to us a very considerable sum to find in the exchequer of a nation, yet what did it effect? It went near changing the whole course of Greek history. When the city finally resolved to make use of the treasure it was in the last extremity of danger and distress. The news of the disasters in Sicily had been received; the allies were, one after another, revolting, and nothing but the slackness of the Spartan Admiral had prevented Athens itself from being occupied by the enemy. The treasure was sufficient, however, to equip a fresh fleet, to render possible the conspicuous, though short-lived triumphs of Alcibiades in the Hellespont, and the partial re-establishment of the Athenian empire, as well as to enable the war to be carried on for another eight years before the arrival of the fatal day of Ægospotami.

The lessons that antiquity had taught, all subsequent history had tended to confirm. It was universally felt that any nation which aimed at national success or even at national independence, must accumulate the greatest possible amount of treasure within its own borders, in order that its Government might find it there to draw upon in case of need; and there was scarcely a reign in English history, from William

the Conqueror to Charles the Second, which had failed to add its quota to the list of statutes and regulations which aimed at guarding the treasure of the country, and at preventing its export to the foreigner under any pretext whatever. How then did all this come to be altered? It is hardly necessary to say that it was not owing to any sudden access of cosmopolitan sentiment.

The change was largely due to the publication of the once famous work of the first and most important of the mercantilists, *England's Treasure in Forraign Trade*, by Thomas or Sir Thomas Mun. So little appears to be known about him that it is uncertain whether he is entitled to the honorary prefix or not. Referring generally to his reasoning, Adam Smith says: "These arguments produced the wished-for effect. The prohibition of exporting gold and silver was in France and England confined to the coin of those respective countries. The exportation of foreign coin and bullion was made free. In Holland and in some other places this liberty was extended even to the coin of the country." . . . "The title of Mun's book, *England's Treasure in Forraign Trade*, became a fundamental maxim in the political economy, not of England only, but of all other commercial countries." Judged by its results, the book must certainly be ranked among the great epoch-making books of the modern world.

The main line of argument by which Mun supported his case for the liberation of the export of treasure has been made familiar to the world by the citation in *The Wealth of Nations* of the well-known passage in which he likens the exporter of treasure to the husbandman sowing his seed. "If we only behold," he says, "the action of the husband-

man in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman. But when we consider his labours in harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions." Mun proceeds further to generalise on the principle of his illustration. "When this weighty business," he says, "is duly considered in his end, as all our humane actions ought well to be weighed, it is found much contrary to what most men esteem thereof, because they search no further than the beginning of the work, which misinforms their judgment and leads them into error." What he means, of course, is: Look always to ultimate results, results that will follow in the long-run, and which are only seen when the situation is surveyed in its widest bearings, and do not allow yourselves to be misled by regarding only the immediate and proximate effect of any line of political action. His maxim is the antidote to the widespread illusion which I have referred to, in the heading of this part, as the "Protectionist Fallacy" *par excellence*. I shall have to come back to the consideration of it presently. In the meantime, as regards the reform itself, it is necessary to point out how essentially it was a Free Trade measure in the modern sense of the words; and we are thus led again to recognise the closeness of the parallelism between the policies of Free Trade and of Sound Money. We must remember that an import is something that creates a debt on the part of the nation to the foreigner, which must be paid in gold itself if the foreigner so desires it. The main object of restricting imports in all countries and ages has been to prevent the creation of such debts, with the consequent withdrawals of money that they

may involve. A policy therefore that legalised the export of gold might well be held to have gone, by implication, a very long way in the direction of affirming the innocuousness of unrestricted imports, and if that affirmation is accepted the Free Trade case is established.

As to Mun's line of reasoning on the subject, Adam Smith, as we know, regarded it as "half solid and half sophistical," and the world has, I think, too readily accepted that estimate. Mun's general principle: Look to the end, do not rest in proximate results, is certainly a very modest and unpretentious maxim. It, perhaps, embodies, for all that, everything that is most worth attending to in the message that scientific economics has for the world, not only on the Free Trade question, but on every other that can be mentioned. A nation, for example, has a Poor Law under which a large number of indigent people, who would otherwise be in the depths of misery, are enabled to lead fairly comfortable lives. That is the proximate result, but as Mun would say, look to the end. See that you are not promoting the increase of the indolent and extravagant at the expense of the thrifty and industrious, and thus laying up for yourselves a store of pauperism and misery in the future tenfold that which you remedy in the present. The State or the municipalities, again, enter on a great house-building project, and the proximate result probably is that a certain number of people are better housed than they would have been otherwise, but look to the end and you will find, perhaps, that so many builders are driven out of the building trade, that fewer houses are built in the long-run than would have been built if natural conditions had been allowed to take their course; or, it may be, a Protective tariff is established, and

it becomes possible to point to great factories employing hundreds or even thousands of hands which have grown up under its shadow. Such "concrete instances" can always rouse the acclamations of the uninstructed. But the same principle would warn us: Do not rest in these concrete instances if you wish to compare the operation of Protection with that of Free Trade. Take, on the contrary, a survey of the industrial condition of the country as a whole. This, no doubt, will lead you into the study of great arrays of uninteresting figures which it may be very hard to present in such a manner as to bring down the house at a public meeting. But there is no choice. If you rest in proximate results you will assuredly be misled. You will sacrifice the advantages that now lie open to you. You may find that you are bringing down your clumsy axe, as Mr. John Morley recently put it, among all the delicate mechanism of your commerce and finance.

As to the superstructure that the other mercantilists raised on Mun's foundation, there was, no doubt, in the writings of the later members of the school, a large admixture of fallacy. It does not seem to me, however, that there is much that can reasonably be branded as fallacy in Mun's own presentation of it. We cannot fairly blame him for not having seen things in the light of developments that had not begun to unfold themselves in his day. Take his famous "balance of trade" theory, for example, the central doctrine of his system. Subsequent economists have told us often enough that it is all error and nothing but error, root and branch, from beginning to end. It will be found to have, however, for all that, I think, very much in common with the soundest reasoning on the commercial and financial position

of the country that we find in use at the present moment.

Taking for granted the ideal goal of the enrichment of the country, as an end to be aimed at, its enrichment not in what the economists call "real wealth," frequently a very shadowy conception, but in literal money-wealth, he sets aside as futile several of the nostrums for achieving it which were in favour in his day. It will be of no use, for instance, he points out to his countrymen, for you to rate above their true value the coins of other countries in order to cause an influx of them. In that you may, no doubt, succeed at first, but in the end your own sterling money will flow out as rapidly as the overrated coin flows in. It is not every method, as he says, that makes coin flow into the country that makes it ours when there. But, he contends, if you see to it that you export twenty-two hundred thousand pounds' worth of produce annually while you import only twenty hundred thousand pounds' worth, then you may make your minds at ease; the balance of £200,000 will, sooner or later, find its way into the country in the shape of treasure. That is the "balance of trade" theory, in its naked absurdity, as some of my readers will perhaps be ready to say.

But where precisely does the absurdity lie? If things went on as Mun describes, I can see no escape from the conclusion that the result would be what he predicted. The greater part of the mercantilist fallacies that Adam Smith assails with success are fallacies that arise in considering the special balances of trade with special countries. A writer points out, for example, that the balance of trade with France is against us, and urges, on that ground, that we should keep out French products. The very same fallacy is aired every week, nowadays, at Protectionist

meetings, when the orator sounds the alarm because our imports from certain countries (that is foreign countries) are increasing, while, as he says, it is only the increase in our exports to other countries (that is our colonies) that sets things right, as if anything else but this could possibly be expected. Mun's own statement of the doctrine is not open to criticism on this ground. He specially points out, indeed, that it is the country's general balance that alone has to be looked to if we desire to see whether its trade is in a healthy condition or not.[1] And he clearly sees that special balances may be against a country while nevertheless it is doing very well on the whole.[2] Further than this, too, though he looks to an ultimate influx of treasure as the final result of satisfactory trade, he is not at all solicitous about seeing this influx take place at any particular stage of the process. On the contrary, he grasps very clearly the truth that, if, at any moment, we possess the full money's worth of gold and silver in the shape of goods, that is tantamount to having the gold and silver itself.

The full importance of this concession may not be at once evident; it really amounts to substituting in the place of the idea of actual treasure the very different conception of the command of treasure at will. Mun reckons, for example, that if £100,000 are kept moving in trade for a year, say, employed in buying raw silk in Turkey, in conveying it to France, the Low Countries or Germany, in selling it there and in buying other goods with the proceeds, then the

[1] See edition in *Economic Classics*, edited by Professor Ashley, p. 57. "We lose these monies only which are made of the over-ballance of our general trade."

[2] *Ibid.* See p. 34.

£100,000, with average good luck, should be returned to its owner trebled. It must make the modern merchant's mouth water to hear of such profits. "But," he goes on to say, "if any man will object that those returns come to us in wares and not really in mony as they were issued out," the answer is that they must in the end be received "either in mony or in such wares as we must export again, which, as is already plainly shewed, will be still a greater means to increase our Treasure. For it is in the stock of the Kingdom as in the estates of private men who having store of wares doe not therefore say that they will not venture out in trade with their mony (for this were ridiculous), but do also turn that into wares, whereby they multiply their Mony, and so by a continual and orderly change of the one into the other grow rich, and when they please turn all their estates into Treasure; for they that have wares cannot want mony."[1] Mun's ideal goal for a nation's industrial activity thus is plainly not the acquirement of an accumulated mass of barren bullion, but the much more up-to-date one of a continually augmenting command of treasure at will. By a variety of examples he points the same moral, "Do not be afraid of letting your money go out of the country in the course of trade," which is, after all, very much the same thing as saying, "have no fear of free and abundant imports of commodities." He points out how Ferdinand I. of Tuscany had raised Leghorn from being a "poor little town" into a "fair and strong city" by his policy of permitting the unrestricted export of treasure.

"It is worthy our observation," he says, "that the multitude of ships and wares which come hither from England, the Low Countreys

[1] *Ibid.* pp. 22, 23.

and other places, have little or no means to make their returns from thence but only in ready mony, which they may and do freely carry away at all times, to the incredible advantage of the said great Duke of Tuscanie and his subjects, who are much enriched by the continual great concourse of Merchants from all the States of the neighbouring Princes, bringing them plenty of mony daily to supply their wants of the said wares. And thus we see that the current of Merchandize which carries away their Treasure, becomes a flowing stream to fill them again in a greater measure with mony."[1]

It is to be observed that, even as regards the literal aspect of the question of the export of treasure, England still is the only country that has so thoroughly assimilated Mun's principle as to have embodied it not only in its laws but in its institutions. London, as we know, is the only market in Europe where gold can always be obtained in unlimited quantities, where a bill for £1000 sterling means a bill for the corresponding weight in gold. When the gold is wanted for export the Bank of France charges an arbitrary premium, and the Imperial Bank of Germany puts difficulties in the way. At the Bank of England alone is the right to gold, as expressed in a bill of exchange, altogether real and indefeasible; and certainly London, like Leghorn, has found the adherence to that principle redound to its "incredible advantage." In consequence of it, as we know, London has become the clearing-house of the world; as regards the payment of debts it has even become, marvellous to relate, the half-way house between North and South America. New York ordinarily pays Buenos Ayres by sterling bills on London. Every foreign banker holds such bills as his favourite investment. The great and growing mass of foreign capital always available there owing to the combined

[1] *Ibid.* p. 25.

operation of Free Trade and Sound Money, tends to keep down our rate of interest, a most important item in the cost of production in all our industries, and at the same time constitutes a fund on the spot always available for the purchase of British produce. Both Free Trade and Sound Money are the lineal descendants of the Act of 1663 which liberated the export of treasure.

In applying Mun's doctrine to modern conditions it is, of course, clear that we must add to his conception of "treasure," of which the influx into a country is held to be desirable, that of other forms of money that have emerged since his day. What then are they? I have already referred to General Walker's conception of money as a thing of degree. Round the central kernel of gold and silver (nowadays, of course, of gold only) there cluster a variety of other things that, with varying degrees of confidence, we may rank along with it as money, none of which can be conceived of for a moment as out of relation to actual treasure itself. In the wonderful evolution of our financial system this is what has occurred, that if you give to any man, by document, an immediate and certain right to your gold on demand, and that if this right is not only itself immediate and certain, but is generally known to be so, then the chances are a hundred to one that he will never ask for your gold at all; the documentary right will itself serve all his purposes as well or better. Thus a vast mass of documentary substitutes for gold have come into existence that are, for almost every purpose, as good and as much prized as gold itself. The most infallible way therefore of making money plentiful in a country is to make it absolutely certain—as to the credit of our common sense we have, for the

most part, done in England—that these rights shall be real and indefeasible. The most infallible way, on the contrary, to make its volume shrink has always been found to be that of making it in any degree doubtful whether the claims to gold would be met in actual gold. Bimetallism was a nostrum for increasing the volume of money, but whenever it even loomed distantly on the horizon in any country the volume of money has been instantly found to shrink.

There is, then, this inner ring round the central core of actual treasure. We may call it primary documentary money. It consists of bank-notes, cheques and the deposits against which cheques are drawn. These all confer the right to gold on demand. Outside this ring, again, is another consisting of the documents that confer the right to gold but not on demand; first, as being most akin to the more typical forms of money, bills of exchange, conveying rights to the principal sum after a lapse of, say, three months; and second, all the other enormous mass of interest-bearing securities conveying rights to income, in gold at our option, to be drawn at stated periods.

If we add these other forms of money and its congeners to Mun's coin and bullion, we may ask, Is it a matter of indifference to us whether our holding of our share of the world's treasure, in this sense, is increasing or diminishing? We know that it is not. On the contrary, the question whether the holding is on the down or up grade is a question that, perhaps, more than any other has been occupying all our minds during the past six months.

The now famous Board of Trade Blue Book (c.d. 1761) has done something to set us at rest on that subject. We have had, it appears, during the past ten years a normal annual excess of imports over exports

of £160,000,000. Against this, however, we have to set about £90,000,000 as the earnings of our shipping, and another £90,000,000 as the net annual proceeds of investments abroad, after allowing on the other side for the interest that has left the country on account of the investments of foreigners here. We should be thus, on this calculation, £20,000,000 annually to the good, and this sum would probably have gone to yet further increase our holding of foreign investments. There seems good reason to believe, too, that we may fairly add to this another £20,000,000, being our earnings as bankers for the world, and as the profits on trade that never touches our shores. Mr. Chiozza Money, a partisan, no doubt, but, at the same time, a careful and accurate investigator, makes our total balance to the good for 1902 much larger than our annual balance for the past ten years, as shown by the Blue Book. Putting on the one side our total imports £528,000,000, and on the other our exports £329,000,000, and adding to the latter services of all sorts, which, together with returns from investments, he puts at £227,000,000, he computes our credit balance for the year at £47,000,000. The services, etc., include £90,000,000 earnings of shipping, £100,000,000 interest on foreign investments, the rest being made up of bankers' and merchants' profits and commissions, sale of old ships which do not appear in the Customs returns, and remittances from Civil servants and soldiers residing abroad.

There is room, on this point, no doubt, for further inquiry, and for the collection, if possible, of more precise data. What I wish specially to point out, at present, is that we are still completely dominated, in all our calculations, by the central idea of Mun's balance of trade doctrine. We are far enough from

saying to ourselves to-day that it is of no importance how our balance stands. We say, on the contrary, let us spare no pains to strike it accurately. Do not let us confine our attention to visible exports only, but let us add to them everything else that comes under the general heading of earnings from abroad, and set that against our expenditure, as shown by our imports. As to allowing for freights, it is interesting to observe that Mun himself expressly insists on the necessity of doing this. He would, on that ground, add, on the average, 25 per cent. to the value of the exports that leave our shores and would deduct the same amount from the value of our imports,[1] no goods but our own, practically, being then conveyed in our ships. As to investments abroad, they are, of course, a development since his day that he could have known nothing about. His whole line of reasoning, at the same time, indicates that he would have taken account of them if they had come under his cognisance.

We may say then that the general position of our trade, as tested by the mercantilist criterion, comes through the ordeal well. We have reason to believe that we are annually increasing, by a very large sum, our holding of the world's treasure, or, at any rate, our command over it. If, on the one hand, we are using up our coal, our capital beneath the ground,[2] as indeed every nation is using up its mineral wealth, we are, on the other hand, building up a capital above the ground. It must be remembered too that the continual rise in our total income from the interest on foreign securities has been obtained in the face of a great fall in the general rate of interest. The

[1] *Ibid.* pp. 113, 114.

[2] It is satisfactory to find that the best opinion now is that it will last another three hundred years.

increased value of our principal must represent, therefore, a figure vastly higher than that at which we would have had to place it, had we to calculate its value now on the basis of the rates of interest of thirty years ago.

It is worth while to point out in closing this chapter, how different is Mill's point of view from Mun's, and how much less consistent is it with the postulates of all our recent calculations than the latter. Mill, holding money to be a nonentity, tells us that "things are only in their permanent state when the imports and exports exactly pay for each other." The eyes of the old mercantilist and of the modern financial reasoner are alike, on the contrary, directed to the surplus that they hope may be left over after imports have been paid for by exports or services. What is more certain then than the fact that in our practical reasonings we are all mercantilists still, in spite of economic theories that have been long dominant, and that have undoubtedly made a great noise in the world?

CHAPTER XIII

FREE TRADE: THE TEST OF GENERAL RESULTS

In my last chapter we endeavoured to look at the question of fiscal policy through the eyes of the first of the mercantilists, and found that that was much the same thing as looking at it through the eyes of the modern man of business. In continuing our survey on these lines we shall have, no doubt, to bid farewell to some of the arguments that have done a good deal of duty on the side of Free Trade in the past and that see the light occasionally even yet. ' If we are Free Traders, however, we need not regret them. We shall get on, indeed, very much better without them. One common type of the Free Trade argument which stirs the wrath of the ordinary man and, as likely as not, makes him into a neo-protectionist consists in variations on the theme that the exports of a country spell nothing but loss to it, and that its sole gain consists in its imports. While, perhaps, we bow to the authority of the economists who propound the doctrine, we all feel, at the same time, that we are ready to fight in any part of the world to preserve the markets for our exports, while few of us, too few perhaps, are concerned about cheap imports, except as a means towards profitable exports. The doctrine is an offshoot from the assumption of the negligibility of money, or rather of an unexpressed assumption that money does not exist at all. The economists who father it forget that, when

we place the value of an export at £1000, we necessarily have present to our minds not only the commodities that are sent out of the country for £1000, but the £1000 itself that, as soon as a bill of exchange is drawn against them, may be said to come in; and that, when we place the value of an import at £1000, we necessarily think not only of the goods received but of the debt of £1000 to the foreigner that is, at the same moment, created.

Many of the arguments of the too ingenious Bastiat are vitiated by this elementary oversight. Take the famous one in which the French economist compares two transactions, in the first of which a trader is supposed to send to America a cargo, worth at Havre 200,000 francs, to sell it and to buy an American cargo which, on the return to Havre, is valued at 250,000 francs, while, in the second instance, he despatches a vessel with a similar cargo which is lost at sea. In the first case there appears by the Customs returns, as Bastiat says, to be an excess of imports over exports, and, consequently, on the hypothesis of his antagonists, a loss to the country, while in the second there is an excess of exports over imports and a consequent gain, a conclusion which, of course, appears in the light of a *reductio ad absurdum* of his antagonists' theory. What Bastiat propounds is all, no doubt, literally true, but there is a fallacy, for all that, in taking such cases as typical of exports and imports in their ordinary sense. This is very obvious in regard to the second instance, that of the vessel that goes down at sea. Such a despatch of goods out of the country is not what can be called an export at all in the usual sense of the word. No influx of money accompanied it, as is the case with the normal export.

As to the first instance, it is valid in as far as it suggests that freight must not be left out of account in striking a balance between exports and imports, but wrong, I think, in suggesting that the profit on the American cargo should also be reckoned in. The instance evidently proves too much. If it represented the ordinary course of trade, then the exports of all countries would be, as a rule, shown in Customs returns, as about half the value of their imports, and we should never think of asking for any explanation of such an excess as English imports have shown over English exports of late years. It is one thing to say that this excess can be quite satisfactorily explained, and another to say that it needs no sort of explanation. We cannot get over the fact that, primarily, the imports of a country count as so much debt to the outward world and the exports as so much credit to set against it. These, indeed, are in effect the words of Professor Bastable, whose orthodoxy both as a Free Trader and as an adherent throughout of the dominant English school of economists will not be called in question. "A country," he says, "is clearly a debtor to other countries by the value of all its imports, as, on the other hand, it is obviously a creditor by the value of its exports."[1] Nor is this a proposition which while true in the abstract may safely be neglected in practice, if there are any such propositions. There are, of course, cases innumerable in which an excess of imports, as shown by the Customs returns, is a danger signal to which any country will do well to give heed. Such a case was that of Victoria during several years that preceded the crisis of 1893. The subjoined table from Wise's *Industrial Freedom* shows the position of that community in respect of imports and exports

[1] *Theory of International Trade*, p. 74.

during these years,[1] and the prediction was made in 1889 by Mr. Wise himself, on the strength of those figures, that the colony's course of combined protection and reckless finance must end in disaster, a prediction which was certainly abundantly fulfilled a few years afterwards. The period of recovery in Melbourne, on the other hand, has been characterised by a great shrinkage in imports and a great expansion of exports. The boom in land values, due largely to the ease with which money was obtainable in England, was mainly responsible for the increase in imports. The banks were taking all the money they could get as deposits at 4 per cent., and when it reached the colony, they had to make use of it in such a manner as to show a profit, and were thus driven to lend it freely and on inadequate securities. Money thus was too readily obtainable, and, at first, the owners of land, and, finally, everybody else came to imagine that they were much richer than, as a matter of fact, they were, and increased their expenditure accordingly without any proportionate increase in their production. The result was that imports continued to increase and debt to the outside world to be created, while there was no parallel expansion in the exports, the returns from which should have furnished the wherewithal to meet it.

I have already, in quoting the attempt at striking a national balance made in the Blue Book (c.d. 1761), incidentally endeavoured to show that the present excess of imports over exports in England affords no parallel to such a phenomenon as that presented by the excess at Melbourne between 1881 and 1889. Our

[1] Victoria. Excess of imports over exports in the years 1881 to 1889 inclusive :—

1881	466,000.	1884	3,151,000.	1887	7,671,000.
1882	2,554,000.	1885	2,492,800.	1888	10,118,000.
1883	1,344,900.	1886	6,735,000.	1889	11,668,000.

expansion of imports, as compared with exports, has been a steady one, extending over fifty years, a fact which alone is sufficient to place it in another category. Still, in connection even with it, we must not leave out of sight the fact that, in the past ten years, our Government expenditure has risen from £92,000,000 to £144,000,000 per annum, and that our municipal expenditure has reached £134,000,000. The truth is that though we may not see anything to be alarmed at in the excess of imports, when its cause is fully explained, we all breathe more freely when we see signs that our exports are expanding again more rapidly than our imports, as they have been during the past year. So far is it from being a truth that it is possible for us to accept that exports spell only national loss and imports alone national gain.

I cannot help agreeing with Mr. Chamberlain and Mr. Vince in the opinion that the current method of adding our imports and exports together is as absurd, or, at any rate, as unenlightening—except from the point of view of shipping—as it would be for a merchant to add together the two sides of his ledger. Such a method seems to assume that the true ideal for a nation to have before it is that there should be the greatest possible abundance of commodities going and coming, no matter how nor where. But such an ideal appeals to no one. What we all want surely is, at any rate, the national ownership of an abundance of commodities, or of their money value, and preferably the latter.

It is thus, it seems to me, no answer to the assertion that the value of our exports is not expanding as rapidly as we might expect, to turn round and say, "Ah! but look at the expansion in their weight." This appeal to the weight of commodities exported lies open to the rejoinder which has of course been made to

it.[1] "What good does an increase in the weight of what we send out of the country do to us if we get no more for it?" Indeed, the ideal of mere abundance becomes doubly absurd when applied to exports. *Primâ facie* an increase in the abundance of imports may present itself as desirable, but why the people of a nation should be expected to rejoice because they have sent away a greater weight of commodities, but only get about the same money for them, is something that it passes human wit to discover.[2]

There is the less occasion to resort to such questionable replies to the assertion that the expansion of our exports is unsatisfactory as there is no lack of valid answers ready to our hand. I have, to some extent, anticipated the most important of them. When we have added to the expansion of our exports of commodities in the last thirty years the expansion in our other earnings from abroad, in the shape of freights and commissions, we reach a figure which will stand comparison with that which can be shown by any other nation. That is not all that is to be said, however. We have also to take account of the great sum of

[1] By Mr. Parker Smith, M.P., for example, in the *Glasgow Herald*.

[2] Sir Robert Giffen, indeed, in a letter to *The Times* of October 29, 1903, points out a possible significance that figures bearing on the quantities, as well as the value, of exports, in 1872 and 1902 respectively, may possess. Raw material per unit of weight or measurement, having been much higher in 1872 than in 1902, the profit on the sale of an equivalent value should have been, he thinks, much greater, and he adduces figures that seem calculated to establish that point. One cannot help, however, looking with some suspicion on figures which would seem to prove that the profit on the turnover of the same capital in the export trade is now immensely greater than it was thirty years ago. The contrary would, on general grounds, appear much more probable, as the rate of interest, even allowing for the recent rise, is now much lower than it was then. Supposing that the price of raw material per lb. or per bushel was higher in the first-mentioned year than in the last, if about double the quantity had to be bought in the last, the aggregate payments in the two years may have been about the same.

money, estimated at ninety to a hundred millions sterling, which flows into the country annually from foreign investments. What bearing has it upon the question of the expansion or contraction of exports? If we were to inquire what becomes of this money when it reaches our shores, we should, no doubt, discover that some of it finds its way abroad again in the shape of fresh foreign investments, that another part goes to swell the fund available for English undertakings, while a third and probably by far the greatest part goes to augment the ordinary expenditure of the well-to-do. We can trace its operation in such a fact as the wonderful growth in the earnings of our railways, a growth that goes on with hardly a pause in the years that we call good and in those that we call bad alike. In 1870 the figure for these earnings stood at £45,000,000, and last year it had reached £109,000,000. We can trace it again in the great increase of employment in such trades as that of building, of furniture-making, and of printing. In these three trades alone half a million more men were employed in 1902 than were employed thirty years ago. It is certain that if this employment had not been provided for these workers they would have had to seek it in some other shape, and that shape would necessarily have been, to a great extent at any rate, in the manufacture of products for export, which, when despatched from this country, would have gone to swell our export returns. Our very prosperity thus plainly furnishes one of the reasons why the expansion of our exports of commodities has not been so rapid as some of us would have wished to see it. If the expenditure of the well-to-do in this country during the past thirty years had been less ample than it has been, both more capital and more labour would have been forced into competition

with the foreigner in the supply of neutral markets, and both this capital and this labour, in that case, would certainly have had to be satisfied with a lower remuneration. In half the cases that we hear of, of trades being supplanted and of industries dying, the real source of the trouble to the capitalists engaged in them has lain in the fact that their cheap labour supply has been dried up by the rise in wages. The troubles of the farmers are notoriously due to that cause almost if not quite as much as to the fall in the value of their products. From the labourers' point of view such a result is ground, of course, for unmixed satisfaction. If their wages in England have not fallen to the German or French level, they have largely to thank that immense annual influx of money from foreign investments at which some of our Protectionist friends tell us that they are beginning to tremble.[1] It is nothing to the workman where his remuneration comes from, so long as its source is not precarious, and our sixty years' experience of Free Trade seems to show that the fund which is its source in this instance is a steadily increasing one. Whether it is likely to continue to increase under a *régime* of Protection is a question to which our masters would do well in the present circumstances to give their best attention.

The right use then to make of our import returns is not to add them to our exports and to display the total as the amount of our foreign trade,—a result which can at the best throw only a doubtful and indirect light on our prosperity,—but to employ them as a clue which may put us on the track of those other earnings from abroad which we are legitimately entitled to reckon in along with our visible exports. Had it not been for the import returns we should never, probably, up to

[1] Cf. Mr. George Wyndham's speech at Glasgow in October.

this moment, have even made an effort to discover the true extent of the receipts from our shipping and from our foreign investments, and would never have realised the fact that in spite of manifold disadvantages our "balance of trade" with the foreigner is steadily and increasingly in our favour.

In looking at such general results, we must, of course, not leave out of account the counteracting agencies that have, to the extent of their operation, retarded our industrial progress. There is no getting over that fact, for example, that while our fathers were far ahead of the rest of the world in the introduction and use of steam power, we have actually fallen far behind America and several of our Continental neighbours in the introduction and use of electricity. This falling behind is in no possible sense due to Free Trade. It is probably, on the contrary, due in no small degree to one development of the protective principle that has already struck root vigorously among us, the movement in the direction of the municipalisation of industry. The invasion of the field of private enterprise by the municipalities cannot be otherwise than hostile to the adoption of new departures, and they are the very air that successful industry breathes. New departures can only be entered on, plainly, by those who are prepared to accept great risks of losing their capital in the hope of immense gains in the event of success, and, thus, the possibility of entering on them is necessarily confined to those who work either with their own money or with the money that they can borrow at their own risk. Municipalities, who work with the money of the community, can never venture far out of the beaten track; their placements of capital must always partake more or less of the nature of trustee investments.

Once therefore that a municipality finds itself possessed of an established system, say, of transit, it cannot fail to find itself irresistibly driven to protect it against the invasion of the new man with his pestilent inventions. In the extension of municipal trading we have thus one *vera causa* of industrial stagnation, and one which will probably make its influence felt still more in the future than it has in the past. If, moreover, in addition to it, our great established industries are further enabled, by a tariff, to fortify themselves against new departures, our failure to keep pace with the times and our consequent loss of neutral markets may become a very real fact indeed.

Another *vera causa* of industrial stagnation which Free Trade has had to contend with has been the policy of the operatives, through their Trade Unions, in the limitation of output, their hostility to machinery and their intolerable interference with the management of their employers' businesses. The Trade Union leaders see, what is, indeed, clear enough, that the introduction of Protection would leave them paralysed in the presence of the great and solid combinations of employers which would of necessity then come into existence ; and this fact in itself would be a very considerable set-off against the disadvantages to industry that Protection would bring with it. It counts, no doubt, for its full weight with the magnates who have taken up that cause, but naturally it has not, so far, been made prominent on tariff reform platforms.

Another of the reasons why we have been surpassed in certain branches of manufacture and cut out in certain neutral markets, is one on which a great deal has been said and written—our backwardness in technical education. None of the mining engineers

in South Africa, we are told, have been trained in English institutions. All have had their training in America or in Germany. An English training, it seems, is valueless. One such fact as this speaks volumes as to the leeway which we have to make up. Free Trade will never again, we must hope, identify itself with the principle of absolute *laissez faire*, as, no doubt, it did too unreservedly in former generations. The English principles of sound money and of unrestricted imports will stand, for the future, on their own ground, and will set themselves in opposition to special forms only of State interference with natural conditions, and not to all. There are, no doubt, a variety of ways besides education in which the direct action of the State can conduce to the enrichment of its people. The Colonies of Victoria and New Zealand, for example, have both done much to build up their dairy industries by grading their butter and sending out the boxes with the Government brand affixed to them. Such a principle possibly admits of further useful extensions. By the time our present fiscal controversy is over we shall probably have a clearer idea as to the direction in which State interference can be usefully extended than we have at present. Whatever else can be said of it, the controversy is unquestionably proving itself a valuable agency in promoting the political and commercial education of the community.

To sum up, then, generally, the results of Free Trade as tested by the old mercantilist or modern business standard, it appears that we have accumulated a share of the world's treasure, that is to say of its profit and interest-bearing investments, that is incomparably greater than that of any other European nation, and that also appears to be increasing much

more rapidly than any of theirs, and that we have achieved this in spite of such handicaps, first, as the withdrawal of labour from production for export by the very fact of our own wealth and prosperity; second, as our plunge into municipal socialism; third, as the inordinate power and the suicidal policy of our Trade Unions; and fourth, as our amazing backwardness in the matter of technical education. It must further be added, and it is perhaps the most important consideration of all, that the direction which our national energy has taken has to a great extent been centrifugal, while that of the most prosperous of our neighbours has been the reverse. If the energy that has built up great cities in the untrodden wilds, like Winnipeg and Johannesburg, had been concentrated on home production to the extent that it has been in Germany or in Belgium, the result could not but have been conspicuous in our export returns. I made some stay in Coolgardie, then at the zenith of its prosperity, about nine years ago, and it often struck me how thoroughly English the place was. Foreigners, of course, were equally welcome with Englishmen, and were subject to no disabilities, political or social. As a matter of fact, the popular and able President of the Chamber of Mines was a Frenchman, and one might come across about half a dozen Germans in a day's ramble, but the population, taken all round, was as English as that of Northumberland or Suffolk. All our religious denominations—Anglican, Presbyterian, Wesleyan, and, needless to say, the Salvation Army—had large and flourishing congregations. In the newest settlements of the Western States and of Canada, I find it stated by those who have visited them, that the population is similarly either English or American of the old Anglo-Saxon stock. We are still true to our

mission as pioneers, and when we compare our total achievement in the world during the past thirty years with that of other nations, we must certainly not leave this aspect of our activity out of account. The remarkable thing is that, in spite of the amount of British energy that has gone abroad, that which has remained behind is able to present so satisfactory a record. As regards diffused well-being, our working classes are, we know, incomparably better off than those of either France or Germany, and are even apparently gaining ground on those of the United States. As regards national resources, it is remarkable enough to find that while France, in a time of profound peace, has had, up to the present year, during which matters have somewhat improved, to face a series of heavy annual deficits, and while Germany is face to face with a deficit of £11,000,000 at the present moment,[1] we, in spite of the South African War, have been able, so far, to make our ordinary revenue meet our ordinary expenditure,[2] and this, notwithstanding the fact that our outlay in armaments is much greater than that of either France or Germany. It puts the case in a striking light to find that while, in the past eleven years, France has with difficulty added four millions per annum to her naval expenditure and Germany seven, we have increased ours by nineteen, and, apparently, have felt the strain less than either of them. Our Free Trade system thus need assuredly not be afraid of the appeal to general results, and Mr. Balfour is well within the mark when he says that, "judged by all available facts, both the total wealth and the diffused well-being of the country are greater than they have ever been."

[1] Dec. 1903.

[2] Our late deficit was due to no falling off in the growth of our revenue; for figures see *Statist*, April 9, p. 704.

He can see no ground for misgivings in actual industrial conditions; he has to find them in the construction of hypotheses in regard to the future. Mr. Charles Booth and Professor Ashley [1] are also hostile witnesses who might be called to testify to the generally satisfactory results of the Free Trade *régime*, and Mr. Chamberlain himself is another. In his recent speeches he is driven to protest that "statistics might show that the country was increasing in wealth," while yet it might be the case that, for one reason or another, we were sinking into a condition painful to contemplate.[2] The significance of the protest lies in the fact that it is unmistakable evidence that, in spite of his oratory about ruined trades, he knows as well as the rest of us that the statistics do, as a matter of fact, show and show unmistakably that the country is increasing in wealth.

[1] See address to Glasgow Philosophical Society, Dec. 23, 1903.

[2] See speech at Birmingham, January 11.

CHAPTER XIV

FREE TRADE: THE QUESTION VIEWED DEDUCTIVELY

A good deal has been said, especially by German economists, as to the reliance by the Free Traders for the establishment of their case, on abstract theories, while the Protectionists suppose themselves to be more closely in touch with the everyday facts of life. We see now, however, that, from some points of view at any rate, the direct opposite of this holds good. Judged by the observation of existing facts, the success of our policy of unrestricted imports is found to stand on very strong ground, and any misgivings that we may find ourselves forced to entertain as to the future must rest on deductive or, as Mr. Balfour curiously expresses it, on "dynamical" reasoning exclusively. I am, at the same time, far from desiring to suggest that the observation of actually existing facts must always and necessarily be sufficient in itself to dispel all such misgivings as are found in the anticipated operation of causes that are seen or believed to be in action. These misgivings may, of course, be well grounded, although present appearances are altogether against them. The crisis in Melbourne in 1893, as we saw, was predicted, on deductive grounds, while the city yet appeared to casual observers to be in the full flood-tide of its prosperity. The prosperity was hollow; widespread insolvency was already impending, and the same, of course, may conceivably be true with

regard to England at the present moment. The deductive reasons for anticipating trouble, such as they are, are reasons that require at any rate to be answered deductively.

It is not, however, I think, in any quarter suggested that our State and municipal borrowing, considerable as it has been, is in itself sufficient to give rise to a general illusory appearance of prosperity in the country; and, as to private speculation or borrowed capital, there is no reason to believe that it has of late years been excessive; on the contrary, the business position is generally regarded as sound and satisfactory. The grounds of misgiving as to the future of our commerce that have been put forward are of a different character altogether. They have little or no relation to the existing financial situation, but are, in the strictest sense, theoretical. They rest on the fact of the existence of protective tariffs in most neighbouring and rival countries, and the anticipation that these tariffs will be increased where they exist, and that similar tariffs will be adopted elsewhere. The practice of erecting such tariff walls will go on, we are told, till in the end practically all our external markets are closed, and our export industries will, therefore, necessarily, one by one, die of inanition, while our home market even will be more and more invaded and monopolised by the foreigner. As the *Times* has put it, we seem to be in the position of the unhappy captive who found that, by some fiendish contrivance, his prison walls were made, from day to day, to contract, till at last they enclosed and crushed him.

Viewed deductively, we may ask, Is any or all of this possible? In the first place, it seems to the point to remark that the process of contraction which is to lead to our eventual suffocation does not even

appear to have begun as yet, though its alleged cause, the hostile tariffs of our neighbours, has now been, for many years, in operation. We have Mr. Balfour's own explicit admission to satisfy us on this point. If he had known of any facts which would have tended to establish the opinion that we were already growing poorer, that we were beginning to eat into our capital, it would, of course, have given tenfold force to his reasoning to have brought them to light. We cannot forget, too, that at the time when the agitation with reference to the alteration of our fiscal system was commenced, in the spring of last year, it was commenced with another object altogether than that of rescuing our industries from danger. Its object then was solely the consolidation of the empire. Some appearance of plausibility at any rate is thus given to the contention that the outcry in regard to the peril of industry is of a factitious character. First appearances at any rate are in favour of the conclusion that, the imposition of protective duties having come to be regarded as desirable for other reasons, the cry that the country is going to ruin has, after the time-honoured fashion, been raised in order to reconcile public opinion to the change. The practice of raising such cries was nothing new even so far back as Adam Smith's day. "There is no commercial country in Europe," he says, "of which the approaching ruin has not been foretold by the pretended doctors of this system"—as a preparatory step to the imposition of duties.

Leaving out of account, however, for the present such aspects of the subject as possess only a temporary and controversial interest, let us address ourselves briefly to the main point at issue, the question whether there is any reasonable probability that a commerce such as ours can be, first, impaired and, finally, destroyed

by the enactment of protective tariffs by our neighbours. The main reliance of those who entertain the contrary opinion is necessarily placed on some form of deduction from the unquestioned fact that, in the great commerce of the world, it is goods, as a rule, that pay for goods. That this is true with regard to our own commerce appears to be placed beyond controversy by what we already know as to its general trend. Nothing is more certain than the conclusion that we do not, in the end, pay for any of our imports of commodities with gold, for the simple reason that, on balance, we import annually more gold than we export; and for a similar reason, it appears to be equally certain that we do not pay for any of them, in the end, by the transfer of securities. The interest, at any rate, that we receive from foreign securities increases from year to year, and it is, therefore, out of the question to imagine that the principal is diminishing. We pay, no doubt, in the first instance, for commodities occasionally with gold and occasionally with securities, but in the long-run these payments are balanced and more than balanced by gold and securities received from foreigners. It appears then to be clear that, in a very true sense, all our imports of commodities are, sooner or later, paid for either by exports of commodities or by services rendered to the people of other nations.

In this connection there are two questions which we may put before ourselves to answer—first, is there a universal relation of concomitance between increases and shrinkages of imports on the one hand and of exports on the other; and second, if there is, are we justified in going on to infer that there is a strictly speaking causal relation between the two? To take a concrete illustration,—if a County Council orders

£40,000 worth of rails from Belgium, must it, first, be admitted that these rails will be paid for eventually by a set-off in the shape of £40,000 worth of British exports of some sort to some part of the world; secondly, if so, are we then justified in going on from this to conclude that the import must actually have stood in the relation of cause to the export as effect? Without professing to keep the discussion of these two questions absolutely apart, I propose to deal mainly with the first in the present chapter and with the second in the next.

To begin with, however, it seems necessary to clear the ground of some misconceptions as regards the first relation, that of simple concomitance. The statement that the Belgian rails, for example, will be paid for by a set-off in the shape of some British export is not to be confounded with the very different statement that they will be paid for by an export to Belgium. Such a statement may, indeed, have been carelessly made by some Free Trade reasoners; it is at any rate a convenient sort of statement to put into their mouths, as a preliminary to demonstrating its falsity. Mr. Chamberlain and Mr. Vince are, of course, at no loss for figures to prove that British imports from America are not paid for by British exports to America, as, over a long course of years, the first are seen to be greatly increasing while the second are seen to be declining. Such a line of reasoning, however, ignores the familiar phenomenon of triangular, or, as it ought to be called, multi-angular trade. An excellent exposition of this phenomenon is given in the very interesting pamphlet of Mr. Ewing Matheson, a past president of Leeds Chamber of Commerce, on the "Principles of Foreign Exchange as affecting Mr. Chamberlain's proposals."

A Russian merchant in Odessa, Mr. Matheson

supposes, has shipped a cargo of wheat, worth say £1000, to his customer in London. He draws a bill against it on London for the amount, sells it to an Odessa banker, and gets his money in roubles. His concern with the matter is then, ordinarily, for all practical purposes, ended. The banker watches his opportunity to dispose of the bill again at a profit. Presently an Odessa wine merchant turns up; he has bought claret and brandy from France and wishes to remit money in payment. As bills on London payable in sterling at a fixed rate have an international currency, he buys it and endorses it to the wine-grower, and sends it to Bordeaux. The wine-grower, on receiving it, again endorses it over to his banker, who credits him with its value and resells it. This time it is sold to an importer of Saxony woollens, and is again endorsed and sent off to Chemnitz to pay for hose. On its arrival in Saxony it is purchased by a wholesale dealer in Colonial produce who has to remit to Amsterdam payment for a consignment of Java coffee which he has bought. "In Amsterdam, at length, the bill is purchased by one of the Dutch Railway Companies, which has bought locomotives in Manchester, and has, by agreement with the manufacturers there, to provide money at a London bank to pay cash against the bill of lading. So that, at last, the cargo of wheat is settled, so far as the two countries are concerned, by a Dutch transaction, and the balance of indebtedness is adjusted."

The Russian tariff on British manufactures had certainly, in such a case, put difficulties in the way of the direct payment by Britain to Russia, by an export of British produce. It does not follow, however, for all that, that it was in the smallest degree effective in checking British exports generally. The contrary,

indeed, appears clearly enough. The wheat, as we saw, was paid for in the long-run by an export of commodities not to Russia indeed but to Holland.

So that even if we concentrate our attention on the simple facts of commerce alone, on the relation of simple concomitance between imports and exports, without going into the question of causality as existing between them, we seem to have data enough at our disposal for enabling us to lay the apparition that Mr. Balfour has endeavoured to raise. If, as appears to be certain, there will be found to be a general concomitance between every extension, say of Russian and American exports to England and some extension of English exports to some part of the world, no matter where, then it is clear that no tariff that Russia or America can impose upon our products can inflict upon us anything like the injury that Mr. Balfour suggests. If Russian or American producers, in sending in their commodities into this country, of necessity, open up a corresponding market for our produce somewhere, then their tariffs cannot destroy our market; they merely change its character.

Mr. Haldane, who has contributed something in the way of original thinking to the present controversy, follows out a line of reasoning of this description in an interesting manner.[1] Our Protectionist competitors are, of course, he remarks, doing all they can to push their own export trades in all parts of the world, and, that being so, it is certain that, in as far as they are successful, they must correspondingly increase their imports. A continually expanding market for the produce of every nation, Great Britain included, is thus being continually created. In that market our Free Trade system should, other things being equal, enable

[1] In letters to the *Spectator* of the 10th and 17th December.

us to compete on favourable terms with any other nation, and if we fail to obtain our share of the trade thus opened up, that cannot be due to hostile tariffs, but to our own defects of method. Mr. Haldane, however, contends that we are obtaining our fair share of this trade, and the figures which he cites seem to establish his point. The point is one which should be referred for further inquiry to the Board of Trade experts.

The doctrine that the unrestricted admission of foreign imports does not really, in the long-run, diminish the employment of home labour is, no doubt, the very corner-stone of the Free Trade deductive position. It is usually assailed by the Protectionists, by the method of adducing concrete individual cases which appear to be inconsistent with it. An interesting attempt, however, has recently been made to assail it on grounds of abstract theory. As the discussion of this attempt is incidentally calculated to bring out some points of importance in connection with the Free Trade principle, it will be worth while to devote a few paragraphs to it. The attempt is based on the reasoning in a work by Mr. Justice Byles, which has recently been republished. Mr. Parker Smith, M.P., one of the ablest of the Protectionists, has put the argument, I suppose as well as it can be put, in the columns of the *Scotsman*. The subjoined is, I hope, a fair summary of his reasoning.

The Free Traders, as he says, argue that if, for example, a contractor in the town of Barrow buys £40,000 worth of rails from Belgium at £8 per ton when they could have been supplied at £8, 8s. at home —a circumstance which, as a matter of fact, occurred— the result will be the same as regards the employment of British labour as if the home producer had been

patronised, because the rails will be paid for by British exports in the production of which British labour will be employed. But, Mr. Parker Smith remarks, if the order had been completed at home, the rails would equally have been paid for, not by money, but by British produce in some form, so that, in the second case, there would have been so much employment given in the production of the rails, and so much more in the production of the goods that paid for them, while, in the first case, the employment given in the manufacture of the goods that paid for the rails stands alone as far as British labour is concerned. The advantage conferred on the country in the shape of employment of labour in the second case, thus, should have been double or nearly double that conferred on it in the first.

The argument certainly has a formidable air. Mr. Parker Smith, too, is able to quote no less an authority than that of Adam Smith in substantiation of his contention. The view that he puts forward was certainly that given expression to quite explicitly by the great economist. That it was wholly inconsistent with the general tenor of Smith's reasoning in favour of Free Trade is, of course, beside the present question. The passage which is relied on is one in which the author of *The Wealth of Nations* is engaged in comparing the relative value to a country of its home and its foreign trade. It runs as follows:—

"The capital which is employed in purchasing in one part of the country in order to sell in another the produce of the industry of that country generally replaces by every such operation two distinct capitals that had both been employed in the agriculture or manufactures of that country, and thereby enables them to continue that employment. When it sends out from the residence of the merchant a certain value of commodities, it generally brings back in return at least an equal value of other commodities. When both

are the produce of domestic industry, it necessarily replaces by every such operation two distinct capitals which had both been employed in supporting productive labour, and thereby enables them to continue that support. The capital that sends Scottish manufactures to London and brings back English corn and manufactures to Edinburgh necessarily replaces by every such operation two British capitals, which had both been employed in the agriculture or manufactures of Great Britain.

"The capital employed in purchasing foreign goods for home consumption when this purchase is made with the produce of domestic industry replaces too by every such operation two distinct capitals, but one of them only is employed in supporting domestic industry. The capital which sends British goods to Portugal and brings back Portuguese goods to Great Britain replaces by every such operation only one British capital. The other is a Portuguese one."[1]

It is easy enough to satisfy ourselves by the application of the *reductio ad absurdum* method that this contention of Adam Smith's takes us very much too far. It would lead directly to the conclusion that the trade of a protected State, with an absolutely prohibitive tariff, should, almost necessarily, be about twice as profitable as that of a Free Trade State otherwise similarly situated. The trade of Victoria, for instance, between 1888 and 1900 should have been, on that hypothesis, about twice as profitable as that of New South Wales during the same period. In the last decade of the period at any rate the direct reverse of this was nearer the truth. It leaves altogether out of account, too, the important question of the area within which Free Trade is permitted. It is hardly open to doubt on the part of anyone, I think, that America owes her prosperity in great part to the large area within which trade is free, or that the German Empire is more prosperous than it would have been possible for a congeries of German States, all protecting

[1] *The Wealth of Nations*, Book II. chap. v.

out each other's produce, ever to have become. But if Adam Smith's doctrine in this instance holds good, and if it is capable of application as a general principle, then the trade of New York or Pennsylvania should have been twice as profitable as it is at present, if each had enclosed itself within an effective tariff wall. This, of course, would lead to the further conclusion that exchange altogether, outside the family groups, was undesirable.

The *reductio ad absurdum*, however, is not altogether a satisfactory type of answer in itself. It may, at the same time, warn us that something is wrong with our theory, and put us on the track of the right answer. I think Adam Smith has been misled, to some extent, by his conception of trade under modern conditions, as being alsolutely the same thing as barter. It is a conception that has played a great rôle in subsequent economics, but it is, for all that, at best, a misleading half truth. The phenomena of production for profit cannot be explained without taking account of the existence of money. By regarding trade simply as barter, Adam Smith is led to concentrate all his attention on the mere fact of exchanges being made, of "replacements of capital" as he expresses it, without making the inquiry at all whether these exchanges yield any profit or not; and *à fortiori*, without inquiring what are likely to be the relative amounts of profit under various conditions of trade, say, under trade within a wide and under trade within a narrow area respectively.

It is evident, however, that the mere fact of exchanges being made, supposing them to be profitless exchanges,—if such a thing were possible for any length of time,—would do nothing to account for the existence of a fund for the employment of labour.

The whole fund which is available in any country over a series of years for the employment of labour comes from the *profit* on exchanges, and consequently the greater the average of profits in a country the higher in the long-run will be the average remuneration of labour. In considering, therefore, what system will be most conducive to national prosperity, as tested by the conditions of the employment of labour, we may dismiss as irrelevant every other question but this one —Under which system will exchanges be likely to yield, on the whole, the greatest profit? Barrow producers, if confined to Barrow trade, might conceivably turn over their products, one to another, indefinitely; yet, if they made little or no profit on their exchanges, employment there would soon reach a vanishing point; while, if Barrow producers, on the contrary, were allowed to trade freely with the outside world, and if they made a substantial profit on this trade, well paid employment for labour would not fail to follow.

We seem thus to be led to the conclusion that, in any given case, the unrestricted foreign trade will, in the long-run, not only be equally profitable with the restricted home trade, but that it will, in all probability, be more profitable; and this, with the necessary reservations and explanations, is, no doubt, substantially true. The mistake lies in taking isolated cases and relying on them for the substantiation of universal propositions. In the present instance, for example, an occurrence in Barrow is pointed to and then it is assumed that, if this occurrence were repeated indefinitely, the general result would be equivalent to an indefinite multiplication of the first immediate result. It is contended and, no doubt, rightly, that if, in existing commercial conditions, the order of a Barrow contractor were placed in Barrow, that would be better

for the trade of the place than if it were sent to Belgium, or, for that matter, to Scotland, and it is thereupon inferred that the general principle of causing orders to be placed at home is more conducive to national prosperity than that of freely permitting them to be placed abroad. But, to take an extreme case, if, by law, it were made obligatory that all Barrow orders should be placed in Barrow, existing commercial conditions would be at once altogether revolutionised. The very state of things to which it is due that the placing of an isolated order there would be temporarily conducive to prosperity would be completely overturned and destroyed.

This deduction from isolated cases on the tacit assumption that the extension of the principle of such cases will not bring any new and counteracting forces into play, furnishes a good illustration of the typical Protectionist fallacy. One may take a parallel example from a kindred development to fiscal protectionism,—the Trade Union policy of restricting the output. At Leicester, we are told, quite recently, an edict has been issued by the Union authorities to the effect that the number of boots put through by each hand in a given time is to be reduced by about 25 per cent., the reason given being that there are at present a number of men unemployed, and that it is anticipated that if the reduction of output is made the masters will require to put on more hands to get their orders completed. The policy may, of course, be successful for the moment, but nothing is more certain than that, in the end, it must be suicidal. The boot trade, we know, has just been able to hold up its head against American competition by adopting generally the very opposite policy to this, by making use of every appliance that will save labour and will make the output per head as

great as possible. Mr. Chamberlain is, no doubt, fully warranted in his appeal to Trade Unionist sentiment; it is based largely on the same general fallacy as the Protectionist.

Economics, we must not forget, as a science, is auxiliary to the art of legislation, and the question that the legislator has always to ask is not what would occur in a given case, but what would be the result of a general law making such occurrences obligatory; not, for example, what would happen if a Barrow contractor placed his order in Barrow, but what would happen if the law obliged him to place it there. It is with normal and ultimate results that both economists and legislators are alone concerned.

One is irresistibly reminded of Kant's great principle of morality—"Let the maxim of your conduct be one that might become law universal."[1] Do not, for example, use language to conceal your thoughts. It may serve your purpose for the time being to do so, but if everyone were compelled to do so by law, human intercourse would become impossible. I do not, of course, mean to suggest for a moment that there is anything more than an analogy between the moral and the economic principle. The one has the sanction of the higher law, the other of expediency only. Still the analogy is a suggestive one. Both rest on the same general ground. Both lay it down that we must attend, not to isolated cases only, but to wide and ultimate results.

[1] Really Spinoza's. See *Ethics*, Part IV. Prop. LXXII.

CHAPTER XV

FREE TRADE: THE QUESTION VIEWED DEDUCTIVELY—*continued*

We may now go on to the strictly speaking causal relation between imports and exports, and ask ourselves, is it safe to predicate it unreservedly, is it safe to assert, for example, that the admission of so much American corn or German steel into Great Britain will in itself become, in a sense, the parent of an equivalent British export; and if it is, to ask further, how will that result be brought about? When we are engaged in the investigations of physics, the uniform concomitance of two phenomena in varied circumstances is ordinarily all that we can rely on in order to establish causation. In economics, however, the case is not quite the same. The isolation of phenomena for purposes of comparison in that sphere is not, to anything like the same extent, possible that it is in physics, and we never can feel altogether satisfied as to the existence of a causal nexus without seeing and understanding every step in the intermediate process.

In more primitive conditions of trade than those which characterise the commerce of the civilised nations at the present day, it must be said that the causal relation between imports and exports ordinarily comes out very clearly. In these conditions it would be quite safe to assert that any community which should put obstacles in the way of foreign imports would, by that very fact, be literally, and not merely metaphorically,

driving away the customers for its exports. Glance, for instance, at the conditions of trading that Mun describes for us as existing in the seventeenth century. The proportion borne by freights and expenses to the value of the cargo was then enormously greater than it is now. A consignment of pepper costing £100,000 brought from the East Indies to be sold in Tuscany or in Italy would have to sell in those countries for £700,000 in order that the merchant might merely come out of the transaction without loss. In these circumstances it would usually spell ruin to any merchant to convey his produce to a distant market, and then to be forced to come back in ballast. He had then a very powerful inducement to buy a return cargo of some sort if it were at all possible. In regard to the English import trade Mun points out that it is absurd to affirm that the foreign merchant would be likely to take away money instead of English produce. It stood to reason, on the contrary, that he would "rather carry out wares by which there is ever some gain expected than to export money which is still but the same without any increase."[1]

In modern trade, too, it must be said that the part played by freights as bearing on the causal relation between imports and exports is, in some cases, of the very highest importance. We must recognise, however, that this importance is restricted to the case of heavy and bulky goods. In respect to the special circumstances of English trade it can hardly be exaggerated. Though coal, as regards value, is not one of the greatest of our exports, as regards tonnage, it represents about five-sixths of the whole. Our great shipping and shipbuilding industries are therefore bound up with the prosperity of our coal export trade, and this trade is

[1] *Op. cit.* p. 26.

itself to a great extent dependent for its continued success on the protection that we enjoy from the retroactive effects of the American tariff. The case is excellently put by Mr. W. Runciman, M.P., in his paper on "Shipping" contributed to that useful little volume *Protection and Industry.*[1]

"The carriage of coal in particular," he says, "from the United Kingdom is dependent on abundant imports back again into this country or into other near countries. For instance, were Russian grain unwelcome in our ports hundreds of vessels would be deprived of homeward cargo from the Mediterranean, and the outward coal voyages of our vessels would become possible only at greatly increased outward freights. The consequent rise in outward freights would mean that English coal could reach Italian, French, and Spanish ports only if it could secure a greatly enhanced price. Whereupon cheap American coal, which has long waited for its opportunity, might secure a permanent footing in our Mediterranean markets. . . . Or, again, consider how easily Welsh coal might be displaced in the Argentine by Virginian coal, the quality and cheapness of which are aided by the fact that the distance to the Argentine from the States is less than from Wales. These advantages of the American coal exporter are neutralised at present by the fact that steamers cannot afford to go out in such numbers from the States at the same low freight which is sufficient to remunerate them for carriage from England, for vessels which carry coal from, say, Norfolk (Virginia) to Buenos Ayres cannot get return cargoes to an equivalent homeward to the States owing to the United States tariff wall against foreign imports."

Many among us who are not extreme Protectionists are very full of the project of breaking down the tariff walls of our neighbours. Suppose that we could lay them all flat by a nod of the head, it seems to me at any rate open to question whether we should not act more wisely in leaving them alone.

The situation a couple of hundred years ago, too, was not disguised as it is now by the interposition of

[1] Methuen & Co., 1904.

innumerable middlemen. The merchant who made a voyage to India with his British lead and tin and cloth was usually the same man who made purchases there of pepper and calico to sell in Europe. The purchasers of commodities in the undeveloped country, moreover, very readily became transformed into the organisers of production there, just as, in England itself, the undertakers of the eighteenth century became the factory owners of the nineteenth. We went to India to sell our commodities and remained there to organise and eventually to rule. Similar developments indeed have taken place under our own eyes in modern times in our trade with Africa and with China. The history of the continuous expansion of the Roman Empire would probably be more comprehensible than it is if this factor received more attention. We know that before the conquest of Asia Minor by Lucullus and Pompey there were eighty thousand Romans there for Mithridates to massacre.[1] The Romans apparently, like ourselves, went to the East to trade and remained there to organise.

In primitive conditions thus the direct causal relation between the admission of imports and the growth of exports is obvious and undeniable, and instances are not wanting even in modern trade of a similar manifest relation between them. In comparing the progress of Sydney under Free Trade with that of Melbourne under Protection it had been observed that, between 1866 and 1900, the date of Federation in Australia, Sydney was steadily gaining, day by day, on her Protectionist rival, not only in wealth, trade, and population, but even in the establishment of fresh manufacturing industries, which were the very *raison*

[1] We hear, too, of Italian traders in Delos in the third century B.C. Holm, *History of Greece*, vol. iv. p. 507.

d'être of Melbourne's protectionism. One may obtain some inkling of the manner in which this came about from such an instance as the following. Some time in the eighties, I think it was, Messrs. Lever Brothers of Port Sunlight decided on establishing an agency in Australia for the sale of their soap, and naturally fixed on Melbourne, in the first instance, as being then by far the more important city of the two. Melbourne's protection of the locally made article, however, rendered the sale of English soap there impossible, so the agency was established in Sydney instead. After a few thousand pounds' worth of soap had been sold, the question presented itself, in what form could the money be remitted home with the most profitable results? and it was found that nothing so good could be done with it as to buy cocoa-nuts from the islands, to extract the oil and to send it to England to be made into soap. An oil mill was accordingly erected, and was worked for some years. The firm then, having a staff in Sydney, were led to the conclusion that it would be still more profitable to them to erect soap works and to use the oil on the spot, and thus an important branch of manufacture was added to the industries of the city.

No doubt this case is only one out of many similar. It puts in an interesting light the natural tendency of free imports to create production for export in the importing country owing to the fact that money, that is metallic money, as Aristotle says, is barren, and that therefore it will pay no one to take it away, if he can find profit-yielding commodities to take away in place of it. The operation of the principle will be found to be universal, though, in modern trade between advanced countries, it may be impossible to trace it in detail, owing to the infinite complexity of the conditions. If we ask

why it is that gold so seldom passes from country to country in the course of trade, the answer undoubtedly must be that the importers of commodities can always find some method, direct or indirect, of making their remittances in such a manner as to make a profit from them, and that that can only be found by means of the transmission of commodities. The importer is not himself, of course, usually nowadays the transmitter of the return export, but his transaction, for all that, enters as an element into the general process of transmission. We find an outcome of the principle in the fact already commented on that, in part at any rate, because England admits more commodities free of duty than are admitted by any other great country, there is always an immense amount of foreign money in London, and much of it comes ultimately to be expended in the purchase of British produce. Mr. Felix Schuster's enlightening paper in the *Monthly Review* of January last has made this fact the property even of the uninitiated public. The Japanese indemnity was paid through London, and the result was that it went out to Japan largely in the shape of British-built war ships. How cheap money encourages the export of produce is made clear when we consider that our loans go out to the borrowing countries very largely in the shape of commodities. So long as our Colonies and other new countries, such as Argentina, find London the cheapest market in which to borrow, so long is it certain that they will themselves continue to be great and profitable markets for all that we have to send them.

I think it must be admitted at the same time that the cause of scientific investigation has suffered, to some extent, by rash and hasty statements on the part of some Free Traders as to the causal relation

commodities which are the raw material of British industries. The whole matter is infinitely more complex than Mill or Ricardo imagined.

I had occasion to point out in a previous chapter how the very fact of our prosperity tended to check the rate of increase in our exports, and so, conversely, no doubt, bad times are often temporarily a source of increased exports. In such times firms which find themselves in financial difficulties are frequently driven to consign large portions of their stock to their correspondents or customers abroad and to accept whatever they can get for it. We have in fact the now familiar phenomenon of dumping. Bad times, however, by no means necessarily or even ordinarily synchronise with dear money. No doubt in periods of panic extraordinarily high rates of discount and widespread bankruptcy come together, but then we have had no panic since 1866, in spite of the economists' law which was to furnish us with one once in every ten years, and the hard times that the present generation has known have been accompanied as a rule rather with a plethora than with a scarcity of money. Discount rates were never lower than at the period when our last Commission on Industrial Depression brought up its report.

The classical theory seems to take it for granted that the commodities of a country, like the goods in a great bazaar, are all exposed at once for sale. Money comes in, they rise in price and consequently remain in the country. Money goes out, they fall and are exported. What is left out of account altogether in the theory is nothing less than the fact of organised and specialised production. The economists do not consider how many commodities there are that have their definite market to which they go no matter

what the price is. An Australian squatter, for instance, for the most part produces all his wool for the home market. He sends it there and takes his chance of the price. He could send no more if the home price rose, because he has no more to send. He will send no less if it falls, because he knows he would lose more by keeping it than by selling it for whatever it will fetch. With regard to such a product it is meaningless to assert that exports will be stimulated by low prices in the country of production and checked by high, and the commodities in wholesale trade that are not, to a great extent, in a similar position to this are, I think, very few.

It must, of course, be admitted that the fluctuations that take place in the foreign exchanges from day to day and almost from hour to hour have a considerable effect on the profits of merchants engaged in the transmission of commodities from country to country. That, however, is not the same thing as saying that they can have much effect on the volume of production for export. Their transiency and incalculability puts the latter out of the question. Production has no time to adjust itself to such fluctuations, and the man is not born yet who can predict them for any length of time before they occur. Altogether the theory appears to belong to the economics of Cloudcuckooland rather than to those of Throgmorton Street or Lombard Street.

It is perhaps putting an undue strain on the doctrine that goods pay for goods even to make a definite assertion that the admission of a few thousand pounds' worth, say, of Belgian rails will necessarily be attended with an export of British produce of precisely equivalent value. It is safer, I think, to fall back on the general conception of organisation. The

imports and exports of a country may be looked upon as parts of an organic whole, continually acting and reacting on each other. One may compare them to the roots and leaves of a tree. It would be rash to assert that if you remove one particular root you will destroy some special leaf, but it is certain that if you destroy all the roots you will destroy all the leaves, and certain too that the leaves, generally speaking, will grow and flourish just in proportion as the roots are left to strike deeply into the ground without interference.

This principle of organisation is well illustrated in a letter in a recent issue of the *Standard* from a Mr. Weager, a practical man engaged in the iron and steel industry. Mr. Weager, indeed, not only incidentally illustrates it but also specially recognises and draws attention to it. Referring to the stress laid by Mr. Chamberlain on the two positions, first, that our exports to the Colonies and British possessions are increasing, and, second, that we are taking more from foreign countries than we are sending to them, he remarks:

"It is not difficult to see that the first position, as to our increased exports to the Colonies, which Mr. Chamberlain so strongly advances, is dependent on the second position which he equally strongly deprecates. Let me illustrate," he continues. "Export merchants know that the fence wire trade is one of the most important with the Colonies. Up to some fifteen years ago we could not compete with continental production of wire. Germany then had the bulk of the trade with Australia and New Zealand, but chiefly through London shippers. This resulted in Germany laying down very extensive plant for the production of the initial material, namely, wire rods, which must be regarded as manufactured stuff, although it is useless until drawn into wire. The output of wire rods from these works became so great that Germany could not consume it. She therefore looked out for another market, and offered the material to us at some £2 per

ton less than her own wire drawers were made to pay through her protection. . . . Well, what was the result? Our trade in fence wire came to the front again, and, on the strength of getting this semi-manufactured material from Germany so much less than her own wire works, we were enabled to regain our footing in the Colonies, and even compete with Germany in her own foreign markets. And this is not spasmodic dumping under cost price, it is a regular trade that has been going on for years, and upon which Germany is getting a profit, small to be sure, compared with what she would want were it not that she is obtaining such a large profit from her own consumers, owing to their being protected."

Such an illustration shows, at any rate, the necessity of looking at the industrial position as a whole in order to rightly comprehend and appreciate it. The labour spent in the Blue Book (c.d. 1761) in showing to what an extent exports to some parts of the world have been increasing and to other parts decreasing, is mainly labour thrown away. If our exports to the world generally, visible and invisible, plus the return from invested capital, have been paying for our imports and leaving a balance in our favour, that is all that we need care about. The contrary conception lands us again in all the futile discussions of the eighteenth century in regard to special balances of trade with special countries which were the weak aspect of the later mercantilist economics.

We find ourselves now face to face with a series of much argued questions which, it may be thought, can only be effectively dealt with by means of vast arrays of detailed information, information which it would plainly be impossible to furnish or to deal with in a work like the present. I think, however, that the consideration of general principles has its place, and perhaps, after all, the most important place in connection with their treatment. It might be held that in reference to such an instance as that cited, it would

be necessary to endeavour to ascertain, on the one hand, what would have been the amount of British labour displaced by the free admission of the wire rods, and, on the other, what would have been the employment created by success in the manufacture of the finished product. With regard to such questions, it must be said, in the first place, that such information can seldom be obtained at any rate in a reliable form, and in the second, that, when it has been obtained, it has, so far as I have seen, been found uniformly to tell in favour of the Free Trade position. It is now a familiarly known fact that, by our first infringement of Free Trade principles, we assisted the sugar-refining industry, which employs about five thousand men at the expense of the sugared goods industry, which employs nearly fifty thousand.

It may be asked further, if it were necessary to proceed in this detailed manner in the investigation of all parallel cases, would not the desirability of making use of labour-saving machinery be still an open question with us? If, before the newspapers, for instance, were allowed to introduce a linotype machine which would save the labour of half a dozen compositors it had been necessary for them to satisfy an industrial board that, in the end, more labour would be created by it than that which was displaced, the introduction of such machinery would have been, up to this moment, effectually barred. Why is it then that the hostility to machinery has ceased to exist except among the very ignorant? It can be for no other reason than this, that the survey of general results and the consideration of general principles has convinced the educated of its untenableness. If the case is looked at from the point of view of those who desire chiefly diffused well-being in the community,

it has become clear that the more extended use of machinery is uniformly attended in the end with higher wages and greater purchasing power for those wages among the working classes; and if it is looked at from the point of view of those who look first to national power, it has become equally clear that a country like China, which lags behind, puts even its independence in peril, while one like Japan, which pursues the opposite course, may hope to emerge into the position of a world power. In view of considerations such as these we feel it necessary to accept as best we can the cruel hardships inflicted in innumerable individual cases by the displacement of labour which machinery brings about.

What is it, again, we may ask, in the use of labour-saving machinery that leads up to such results? and the answer must be that it is the tendency to reduce in all directions the cost of production. It is to that alone that it owes its efficacy in bringing about in any nation both diffused well-being and corporate striking power. The tendency to reduce cost of production, however, is a characteristic that it obviously shares with the policy of according the freest possible admission to all those commodities that serve as instruments or that enter as raw material into the finished products of other industries.

In investigating the questions at issue between the Free Traders and the Protectionists it is desirable, I think, to put these products into a class by themselves, and not to confuse their case with that of absolutely finished products. I have had already to allude to the great waste of energy displayed in the Fiscal Blue Book in its elaborate statistics of our especial balances of trade with different parts of the world. There is, perhaps, a still more conspicuous display of wasted

energy in its tables and charts illustrating in detail the exports and imports of the commodities that are designated as "manufactures." There is really nothing whatever to be made of them, for the simple reason that no consistent line of demarcation is drawn or can be drawn between the two categories of manufactures and raw materials, as there set forth. What can be the use of telling us that the imports of manufactures into Great Britain in 1902 were £149,000,000, when a table in another Blue Book computes those of the previous year in so different a manner as to put them at only £93,000,000, and would on the same basis have put those of 1902 at £100,000,000?[1] A difference of 50 per cent. in the figures issued by the same department with regard to such an item is calculated to open our eyes to the entire futility of attempting to present them at all. Such attempts, indeed, we can see without difficulty, necessarily must be futile. The constructors of the table in the Blue Book themselves remark that the category of manufactured articles is in some respects unsatisfactory and even misleading. It excludes such articles of British manufacture as jam, confectionery, biscuits, and spirits, for the singular reason that they are articles of food. Why manufactured articles of food should not be "manufactures," while manufactured articles of clothing are so reckoned, is a question which it would be hard indeed to answer. "Manufactures," too, it appears, mean one thing when applied to imports and quite another when applied to exports. Coal is, of course, a "raw material," but if so, on what possible ground can slates, stones, crude zinc, and unwrought copper be described as "manufactures"? These inconsistencies are not superficial and are not correctable. They are not flaws on the

[1] Sir R. Giffen's letter to the *Times*, October 29, 1903.

surface, but are the evidences of deep-seated fallacy pervading the whole conception. They are the necessary consequence of the absence of any philosophical principle underlying the meaning that it has been attempted to give to the word "manufactures," as contrasted with the meaning of the words "raw material." It has been suggested or taken for granted that raw materials are things that do not owe their value to labour, while manufactures are things that do; but this will not hold water for a moment. The wages spent in raising coal, the typical raw material, are the equivalent of from 60 to 80 per cent. of its average market price. It has again been suggested that we may take the degree in which the article is removed from the crude condition in place of any absolute line of demarcation between raw material and manufactures, and may hold that the more an article is manufactured the more suitable it is as a subject for protective duties. No reason, however, has been advanced, and none that I know of can be advanced, for holding that it would be, generally speaking, desirable to force the productive energies of the country to occupy themselves with the earlier rather than with the later stages of manufacture, with sugar-refining, say, rather than with confectionery, or with iron-founding rather than with machine making. So far as one can judge, indeed, the advantage is all the other way, as in the later stages of manufacture the labour employed is very frequently at any rate more highly paid.

There is evidently some confusion of thought here. It is one thing to maintain that partly manufactured articles are suitable as subjects for taxation in proportion as they approach the finished stage, and quite another to maintain that completely finished articles

which are, at the same time, articles of luxury and which do not serve as raw material or as instruments in any other organised industry are thus suitable. The last opinion, indeed, is held by so advanced a Free Trader as Mr. Edward Atkinson. There is no doubt a line to be drawn at this point with sufficient accuracy to serve many useful purposes, and it would be well worth while to have a Blue Book issued which would devote some pages to the attempt to draw it, and to apply it to the details of our exports and imports. Public speakers and writers on the Protectionist side uniformly fall back for their examples of the sort of manufactures which ought to be taxed, on these finished articles of luxury, while they apply their arguments to the unfinished articles or to necessaries. It must be admitted that the case for absolute Free Trade in regard to them stands on less impregnable grounds than it does in the case of those articles which producers buy with the intention of making a profit out of the further manipulation of them. From the mere consumers' point of view many of them have, indeed, hardly any case at all. Who would be the worst off if silk dresses that now cost £50 were made to cost £100, or if gloves at 5s. per pair were made to cost 10s. ? The inferior dresses or gloves would advertise the purchasers' wealth quite as effectively as the superior. If we look at the matter from the producers' point of view, that is from the point of view of the general healthiness of the industries of the country, the case is different. The more expensive classes of boots and shoes are certainly among the finished articles of luxury on which duties might have been imposed without much apparent injury to anyone, but, in the light of recent developments in the bootmaking trade, could we wish that

this had been done? A few years ago, owing no doubt in part to the mere protection that distance affords, we had fallen so far behind the Americans in the application of labour-saving machinery to that branch of manufacture that our market was, for a time, at their mercy. Now, under the healthy stress of competition, we have adopted up-to-date methods, and not only are not afraid of foreign competition, but are exporting considerably more boots than we import.

Duties on such articles, it may be said, would afford a convenient method of retaliation on nations who penalised our manufacturers, and certainly if we are to have retaliatory duties at all, it would be well that they should be rigidly confined to things of this kind. If we tax producers' goods, the chances appear to be a hundred to one that we will do more harm to ourselves than to our rivals. As regards retaliation altogether it must, however, be said, that, whenever it gets beyond the stage of threats, it becomes open to objections of its own which do not apply even to consistent protectionism. Put a moderate duty on German toys or German pianos with the intention of keeping it on, and capital may, with a fair degree of safety, flow into the industry. Put it on with a view of using it as a means to strike a bargain in reference to the admission of some other product, and no one knows where he is. He puts his money into the toy industry and finds that the duty to which he had looked to secure his capital has been bargained away for reasons with which he has no concern. Such methods, if they became common, would make for the complete disorganisation of trade. No phase of protectionism would do more to corrupt the Legislature. The principle, too, that goods pay for goods, with its corollaries, we must remember, applies no less to

finished than to unfinished products. As the old mercantilist whom I have so often quoted remarks, "If we should become so frugal that we would use few or no Forraign wares, how shall we then vent our own commodities?"[1] It is curious indeed to find so up-to-date a sentiment in such an archaic guise.[2] Probably Mr. Edward Atkinson's view is about the right one, that finished articles of luxury are exceptionally well suited to be the subjects of revenue duties, and that they should be dealt with on that basis.

As regards the class of goods that are, on the contrary, the raw material used in the manufacture of other goods, whether they appear in the import and export returns under that name or under that of "manufactures," they all fall under the heading of "capital." They are all wealth intended to be used in the production of fresh wealth. With regard to such things we must remember that it is not, now and then, merely, but, necessarily and always, that the interference with their importation for the benefit of one industry will paralyse another. They are all things that are only bought because there is seen to be a profit in the manipulation of them, and if their price is raised generally this profit must necessarily be

[1] Mr. H. W. Wilson, in the *National Review* of February, makes the proposal that finished articles of luxury should be made the subject of revenue duties, and thinks that, in that way, about £9,000,000 could be raised. Mr. Wilson is one of the most brilliant of the Chamberlainite champions. This proposal, however, is not only not Chamberlainite, but is distinctly a Free Trade proposal. Indeed, our urgent need of this £9,000,000, if it could be thus obtained,—a point on which I reserve my opinion,—is one of the most cogent reasons against our making use of duties on such articles for purposes either of retaliation or protection. Such uses would, of course, be incompatible with their effective use as revenue duties.

[2] *Op. cit.* p. 81.

cut into as regards one industry at least as much as it is augmented as regards another. There is no escape from that conclusion. We may safely therefore take our stand on Mr. Chamberlain's admission of the impolicy of taxing raw material, and ask what reason is there that tells against the taxation of products in the initial stages of manufacture that does not equally tell against their taxation at a more advanced but still unfinished stage. On the same ground, too, unless general principles are to be thrown to the winds altogether, the taxation of food manifestly stands condemned. If the food in question were the food of slaves or of horses, its taxation would at once, on this ground, be ruled out of court. Can it be held that the fact that it is the food of free human beings who, at the same time, are either actual or potential producers, makes such taxation in any degree less open to objection? Of course that fact makes the situation much more complex. The food that it is proposed to tax is not indeed alone the food of the workers themselves; it is also that of a vast number of non-workers who are dependent on them. The effect of its taxation on profitable production is therefore not altogether so immediate and direct as would be the effect of the taxation of raw cotton or raw wool. It is, in the end, for all that, not a whit less certain. One of the most unmistakable lessons that the nineteenth century has taught us is that of the intimate connection between the abundance of food for the labouring class and vigour and efficiency in their labour, and it cannot be open to doubt that, in the end, that which applies to the labourers themselves will be found also to apply to their children and their wives. If the latter alone are stinted in their food supplies the day of reckoning may be deferred, but it will assuredly not be evaded. It

should, I think, be the policy of the Free Traders, in the future, to do away altogether with every form of food taxes. Let us listen to no sophistries about broadening the basis of taxation. Every reason for holding the taxation of raw cotton or crude iron indefensible applies with at any rate equal force against taxing anything that enters into the weekly budgets of the poorest section of the labouring classes.

In reference to machinery I have had occasion to observe that the reason why the hostility to its use has become extinct among all but the very ignorant has not been that it has been proved, or that it could be proved, in regard to each special new machine, that the advantages which it will confer on the community will outweigh the hardships, in the way of displacement of labour, which it will, in individual cases, inflict, but rather on account of considerations of the most general nature, but not, for all that, of a humanitarian or cosmopolitan character. The most cogent of these considerations is probably this one, that for a whole people to adopt a hostile attitude towards machinery would in the long-run put even their existence as a nation in peril. Such a consideration, then, though general, is the direct reverse of cosmopolitan. Another social and industrial phenomenon which is, in this respect, on all-fours with the introduction of machinery, is to be found in the creation of facilities for transport. The analogy which it presents to the adoption of Free Trade is plainly even closer than that presented by the use of machinery in production. The line of reasoning based on it was very ably presented sixty years ago by Bastiat and recently with great vigour and effect by Henry George. Both of these writers dwell with justice on the absurdity of devoting all the energies of civilisa-

tion to the levelling of natural barriers, while, at the same time, we proceed to erect fiscal barriers in their place. Again, however, it seems necessary, in the view of this generation, to purge ourselves, in advancing such an argument, of every suspicion of philanthropy. The argument, indeed, has quite firm ground to stand on apart from any reference to the interests of humanity. We can regard it securely from the point of view of the exclusive interests of Great Britain or of the British Empire. If we feel nothing but satisfaction when we hear of larger and more powerful vessels being put on in the Atlantic trade to convey American products to our markets more cheaply than they have been conveyed hitherto, on what ground can we propose to undo, more or less, the work of such vessels by taxing these products at one end of the line, even if we do it, as we allege, by way of counterpoise to the taxation that America has put on at the other end? The fallacy of the proposition becomes no doubt all the more conspicuous when we know that what we import from America is mainly food and raw material. A doctrine that Thomas Carlyle was fond of enforcing was that the whole duty of a man or a nation is to put himself or itself in conformity with the general tendencies of the world. Whether it is our duty or not, we cannot help, I think, harbouring a suspicion, in the background of our minds, that, in the long-run, it must prove to be to our interest, and the wider our experience becomes the more certainly will this suspicion show itself to be well founded.

Now that we hear so much about retaliation it is not without interest to recall some of the methods of retaliation that were recommended and were, now and then, pursued among our forefathers, two or three hundred years ago. They bore then mainly on

monetary policy, which was to those generations very much what general commercial policy is to us. The coins of every important European country then circulated freely in the territories of every other. Our guineas and shillings were met with commonly on the Continent, while the French livres, the Spanish pieces of eight, and the Dutch guilders were used, as a matter of course, in our internal commerce. Occasionally our neighbours across the Channel would run their coins through the melting pot, take out some of the silver and put lead in its place, in the hope that their livres would go on buying the same quantity of foreign commodities as they did before the alteration. The trick would, of course, soon be found out, and then the Protectionists of the day would proceed to exhort us not to take such attempts at injuring us "lying down." We should call in our coinage, they would tell us, melt it down and replace some of the silver with lead, so as to give the foreigner as good as we were getting from him. Mr. Shaw's *History of Currency* is full of accounts of these retaliations, as dealt out by the Continental nations to each other. Our ancestors were, for the most part, wise enough to keep clear of them. They indulged in none of them, at any rate, since the days of Elizabeth. The retaliatory sentiment, however, even in England exercised in other respects a great influence over monetary policy. It was continually urged, of course, and for a long time with success, that it would be the height of folly for us to allow our "treasure" to leave our shores while France and Spain were doing all in their power to prevent theirs from doing so. A bill of exchange on Paris could not legally be met by the export from France of the precious metals, and it was urged in England for many years with much iteration and

much emphasis that it would be madness for us, on our part, to initiate one-sided free trade in the monetary substance. We did it, for all that, and have maintained the practice to this day, though, so lately as eight years ago, our present Prime Minister would have had us relinquish that far-sighted policy at the instigation of a party in France and in the United States; and we have certainly found that the course which we have pursued has redounded to our "incredible advantage." The day may yet come when fiscal questions will be as well understood as monetary questions are now, and when any sort of retaliation that would place restrictions on the import of food or of producers' goods will be looked upon universally as no less absurd than those measures of monetary retaliation which would have involved the mixing of lead with our silver, or which would have laid an embargo on the export of our gold.

As to the general notion that underlies the admonition not to take the fiscal policies of our neighbours lying down, it seems to imply a good deal of confusion of thought. One can, of course, well understand and appreciate the merit and importance of valour in its own place, but what has valour to do with questions of pounds, shillings, and pence? It is not a pecuniary virtue. The man who backs an outsider because he thinks there will be more in it if he wins may be a more courageous man than the man who is content to back the favourite, but it does not follow, for all that, that he is a wiser man. If there were anything in such a view of merit or demerit in the matter as Mr. Chamberlain and his friends set forth, then we should look on the plunger who stakes his fortune on a turn of the die in the same light in which we look on the hero who falls at the head of a charge of cavalry. If

we look on Germany or France as the enemy, assuredly in ninety-nine cases out of a hundred the most effective retaliation that we could deal out to either of them would be to leave things alone. In abolishing, by our share in the Sugar Convention, the disparity that existed between their price and our own for the raw material of the various sugared goods industries, we acted perhaps as if we had been animated by the desire of forwarding the interests of the human race, but we no less certainly sacrificed our own special national advantage to promote that of our supposed antagonists. Our action may have been philanthropic, but it was bad business. It is not often easy to show that attempts at retaliation are likely to gain the immediate ends at which they aim, but it is easier to show that they may occasionally gain them than to show that they are on the whole worth gaining.

In regard to a matter that is cognate with retaliation, negotiation with our Colonies, the same consideration is applicable *mutatis mutandis*. The real danger to any of our special trades that supply the Colonies lies not so much in the erection of tariffs as in their reaching the self-sufficing stage, and there is good ground for believing that, on the whole, Free Trade would assist them to reach the self-sufficing stage more rapidly than Protection. I have already given an instance to illustrate the manner in which Free Trade operated to create new manufacturing industries in Sydney more rapidly than Protection did in Melbourne. It certainly was the fact that in Sydney between 1898 and 1900 the hands employed in manufactures increased by 14,000, while those similarly employed in Melbourne increased during the same period by only 5000, and that in spite of the fact that these years were in Melbourne a period of industrial recovery. This

aspect of the matter should be considered by those who anticipate such immense benefits to British trade as the result of colonial negotiations. There is after all very little truth in the conception that Protection is necessary or desirable to foster the infant industries of a country, backed though it is by Mr. Mill's authority. It is contradicted by the whole course of American industrial history before the Declaration of Independence, and is contradicted too by the very rapid growth of the cotton manufacture in the Southern States since the Civil War, in spite of the fact that they formed part of the area of American Free Trade and were exposed all along consequently to the very powerful competition of the Eastern States.

CHAPTER XVI

SOME PROTECTIONIST ARGUMENTS

I PROPOSE to devote this concluding chapter to some of the Protectionist arguments that have not been dealt with, or have been insufficiently dealt with, in the preceding pages.

THE INCIDENCE OF DUTIES

First, then, as to Mr. Chamberlain's reasoning with regard to the incidence of duties; the paradox that a duty does not, in ordinary circumstances, fall on the consumer has so much in it that is contrary both to common sense and to well-established fact, that it might be sufficient to say with Mr. Felix Schuster, "I mention this argument merely to dismiss it." It has some aspects, however, that call for notice. It owes the form in which it is usually presented nowadays to Prince Bismarck. If a duty fell with its full weight on the home consumer, he asked, why then need the foreign producers concern themselves about it at all? In that case it would not touch them in any way. We know, however, that they always do and must concern themselves about the duties which their neighbours impose on their products, and, thus, Prince Bismarck and those who follow him think that they have an unanswerable *reductio ad absurdum* to apply to their antagonists' contention. The reasoning is, however, not so cogent as it may appear at first glance. There is really no ground for asserting that a duty may not

both fall on the consumer with its full weight, that is to say, raise the price of the product to him by its full amount, and, at the same time, injure the producer by restricting his market. The price may, of course, be higher and also there may and probably will be less of the product consumed when things have had time to settle down. The two disjunctive propositions in the dilemma are thus not mutually exclusive.

We must keep firm hold of the truth that nothing but fluctuations of supply and demand or the anticipations of such fluctuations before they actually occur can affect prices in any way. The economists may not be unanimous on this point, but the whole business world always takes it for granted. In view of it much that is otherwise obscure in connection with the incidence of duties becomes comprehensible enough. There is a fallacy, I think, in assuming, as some of the Free Traders now and then assume, that a Government by putting 6d. per cwt. on to flour or 2d. per lb. on to tea, does something that is equivalent to passing an ordinance that the consumer shall pay this extra 6d. or this extra 2d. The immediate effect certainly often appears in this light, but that is owing to the discounting of future results that rules so universally in commerce.

Suppose there is a duty of 2s. per quarter put on corn, there appears to be nothing in that fact standing alone to produce any immediate effect either on demand or supply, and it might thus with some show of reason be argued that the price will not rise, that the middleman or the producer will have to pay all the duty, and that, thus, the foreigner will be got at. Unfortunately that will not be the end of the matter. The middleman, let us suppose, is caught by the duty in the first instance. When he makes his

next purchase, however, he will offer 2s. per quarter less than he has been giving for the product, and the loss will fall on the producer. Among the producers, however, there will be a certain number with whom, for one reason or another, it was already a toss up whether they should put in wheat next season or should use their land for some other purpose. The lower prices now obtainable will decide them to adopt the latter course, and so the supply will tend to be reduced and prices will tend to rise. Economic forces thus will not fail to work out their full effect in the end. Economic laws, as I have already pointed out, must always be interpreted with the proviso "normally and in the long-run."

It will thus be seen how little to the point it is to quote instances in which the price of the wheat of one year is compared with that of another, and to urge that the principle that the consumer ultimately pays the duty is refuted by the fact that we can point to cases in which a duty has been imposed, but in which a rise in price has not followed the imposition, without taking into account the fact that there may have been in the interim time for counterfluctuations. That, indeed, might be shown to have happened in a considerable number of cases without invalidating the principle when rightly understood. A far better test is to take various countries at the same time, where various scales of duties have been for a considerable period in force, and when that test is applied it becomes clear enough that the principle holds good.

One of the favourite forms in which the new reasoning appears is in its application to the history of the events that succeeded the abolition of the Corn Laws. It is no doubt perfectly true that the great fall in corn to present prices from those ruling in the

middle of the last century did not take place till about thirty years after their abolition, and it appears to be seriously contended that the reduction of 8s. per quarter in the total sum that importers had to pay for their wheat went for absolutely nothing during this thirty years, while at the same time, at the end of the period, another event happened, the reduction in the cost of transport, and that this and not the abolition of the Corn Laws was that which brought down prices. It is not thought necessary to explain why one reduction in cost should affect prices while another parallel reduction did not, but, taking the case generally, it seems to be held, that, from first to last, the abolition of the duty had no effect whatever of any sort, and, consequently, I suppose, that there can be no reason to anticipate that its reimposition would have any effect either.

The explanation of the phenomenon is not, after all, very recondite. The thirty years after the repeal of the Corn Laws were, no doubt, in part, owing to the adoption of general Free Trade, a period of great prosperity in England, and were also characterised by a very rapid increase of population. The steadiness of the price of corn and the increase of population are both well displayed graphically in a paper in the *Fortnightly Review* of December last by Mr. Mallock, which supports the Protectionist case. The two facts must be taken together. The increase in population accounts for the absence of a fall in corn prices. Had, however, that increase taken place without an immense increase in our corn supplies, it would unquestionably have been attended by a repetition of the famine prices of the "Twenties," and it was precisely in bringing about this increase of supply that the causal agency of the abolition of the duty exhausted itself.

During these thirty years, owing to good trade in England, and to the fact that there were annually so many more mouths to feed, the extra demand fully compensated the reduction, as regarded its effects on prices. The producer therefore, at this time, practically got the whole of the reduction as profit, and we know how effectually that fact contributed to the stimulation of his production. This increase in production was, too, of course, that which made it pay to increase the facilities for transport, so that there was no aspect of the phenomenon in regard to which the reduction of duties was not an active agency in forwarding the well-being of this country. Free trade, Mr. Balfour himself admits, was necessary to us then in order to enable us to fulfil our Imperial mission. He does not attempt to explain why it should be less necessary to us now.

The "Wide-Markets" Argument

The argument as to the combined effect of Protection abroad and Free Trade at home in creating wider markets for our rivals than those which we ourselves enjoy, together with the contention as to the importance of such markets in view of the "law of increasing returns," put forward, I think, in the first instance, by Mr. Byng, appears now to be regarded by public writers on the Protectionist side as a very important find, so much so that one can hardly open a magazine or a review without seeing it set forth in one shape or another. The American manufacturer, perhaps, we are told, has an assured market of 70,000,000 people; add to that the English market, which is free to him, of 40,000,000, and he has a total population to cater for of 110,000,000, while the English manufacturer, on the other hand, has only a market of 40,000,000

altogether, and even in that he is exposed to the competition of the civilised world. The former is thus in a position to produce on a vastly larger scale and consequently far more cheaply than the latter. Being secure too against losing his capital, he can put money into his business in quite unlimited quantities. Our cousins across the Atlantic, especially those who are engaged with the iron and steel industry, have recently had good reason to wish that this was an accurate representation of the true state of the case. The Protectionist, however, finds it quite a good enough representation of it to furnish him with yet one more reason for believing that, however prosperous we may appear to be at present, our industries must shortly go down in the struggle with our foreign competitors.

What strikes us at once about the argument is that it is a very palpable *petitio principii*. To possess vastly wider markets than ours, and markets too that one can exploit with perfect confidence as to the result, really means nothing else but to enjoy industrial conditions that, taking everything together, are vastly superior to ours. If the Protectionist can be satisfied that these are furnished under his system he need go no farther; his case is proved already. What the wide-markets argument does is thus to set on one side, as out of court altogether, all the general reasoning in favour of Free Trade either by way of the appeal to statistics or by way of the appeal to common sense, to take it for granted without more ado that Protection affords greater advantages to the producer than Free Trade does, and then to take this assumption as a premise by which to prove itself over again, as a conclusion.

It will be possible best to show where precisely the fallacy lies if we look at the subject in the light of a

concrete example; and we cannot, I think, find a better one than that which was recently under our consideration, the case of the import of wire rods and the export of fence wire. In that case Germany supplied us with the initial stuff at £2 per ton less than German wire drawers could purchase it for in their own country, and thus enabled us to capture from them the trade with our Colonies in the finished product. In such a case, however, Germany had, of course, the fullest possible enjoyment of the alleged wide-markets advantage for whatever it was worth. Prices were maintained for her in her own market, while our market and that of our Colonies were free to her. Her own protection, however, by its reaction on her own industrial conditions, completely neutralised all these advantages, and that is what Free Traders contend must happen in every case in which products that are the raw material of other industries are raised in price by the operation of the system. It was on this ground precisely that Peel contended that we could most effectively fight high tariffs by free imports. It is only in semblance, then, that the Protectionist enjoys a wider market than the Free Trader. If one looks alone at the selling price of products it may appear, for a moment, that he does so, but if one takes into account also the economy of production, the appearance vanishes. There are two ways in which a man may gain in commerce or industry, one is by selling at a high price and another by buying or producing at a low price. Profit depends on the margin between the cost and the sale price, and may, of course, be cut into either from above or from below. Free Trade, as compared with Protection, is liable, it may be held, to allow the margin to be cut into from above, but it is quite overlooked by those who propound the wide-

markets argument that Protection tends to cause it to be cut into far more disastrously from below.

There is something in the nature of an illusion, if not optical at any rate mental, in our inevitable mode of regarding buying and selling respectively, which has to be allowed for. In retail trade, where numberless sellers offer their goods practically at the same price, buying, to some extent, goes by favour. The seller is there frequently under a real obligation to his customer, and the customer, if he is also a retail trader, will naturally look to see the favour returned. In wholesale trade and yet more completely in the purchase and sale of securities on the Stock Exchange, this sentimental element in the relation of buyers and sellers vanishes. The two parties to the transaction there stand absolutely on a par as regards mutual advantage. The conception of a favour as accorded by the buyer, however, still, for all that, hangs about our ideas on the subject, and goes to account for the popular favour which policies that aim at securing markets command as compared with policies that aim at securing cheap materials and instruments of production.

If we make the appeal to facts to decide the point whether Free Trade or Protection really does most to widen our markets, we might of course return to Mr. Haldane's figures, to which I have already alluded, and which seem to show that when we start fair with Germany, say, in supplying French markets we can more than hold our own with her, or when we start fair with France in supplying German markets we can equally outrun her. A significant fact in this connection is surely this: that while the market of India is open to the whole world on the same terms as it is to us, we almost monopolise it. We can ask, too,

why it is, to quote Mr. Ewing Matheson, that "under present conditions the manufacturers of the United States must come to this country if they wish to supply us or our Colonies to advantage? The largest American boiler makers have their works in Scotland; there also is the Singer's sewing machine factory; Messrs. Frazer and Chalmers of Chicago and San Francisco, the most notable manufacturers of mining machinery in the world, have their works near London; the largest makers and installers of electric plant in the world, the Thomson-Houston Company, are at Rugby. Westinghouse makes his electric machines and gas engines at Manchester; and the American Screw Company have their works at Leeds."[1] How could any or all of this be true if it were true that Protection necessarily secured wider and safer markets than Free Trade? But, of course, an adequate appeal to facts would involve the restatement of the whole of our case and the consideration of every aspect of our opponents' case over again, so obvious is it that no issue is raised by the wide-markets argument except the old issue in a new guise.

The Example of other Nations

When the Protectionists ask, is Britain alone wise in holding to Free Trade when other highly capable nations, such as the Americans, as well as several of our own Colonies, have adopted Protection, it is, I think, to the point to remark that it is certainly the case, from some cause or other, that Great Britain's commercial instincts have led her to adopt a saner line of policy generally in financial and monetary matters than that which has found favour in the United States. We have not been seriously troubled

[1] *Op. cit.* pp. 37, 38.

here with Inflationist or Free Silver agitations. We have not prohibited joint stock banking, nor have our politicians as yet tried to wreck the Bank of England as Andrew Jackson wrecked the Bank of the United States. It is not, as Lord Hillingdon recently remarked, because of her various economical and fiscal heresies that America has prospered, but in spite of them.

It is remarkable, too, among ourselves, to note to what an extent the *personnel* of the Protectionist camp to-day coincides with that of the Bimetallist camp a few years ago. To mention only a few conspicuous names: we have Mr. Balfour himself, Mr. Long, Mr. Chaplin, Sir John Dorrington, Mr. Moreton Frewen, and Mr. Vicary Gibbs who now represents the great banking interest on Mr. Chamberlain's Commission. They all are, or at any rate were, enthusiasts for the application of both remedies for commercial depression. Both policies have, of course, as their aim the maintenance or raising of prices, and Mr. Balfour, as we know, as a Bimetallist, expressed in very vigorous language the opinion that a fall in prices was the worst evil that could befall a commercial community, a view of economic progress which goes far probably to account for his present leanings towards Protectionism.

Mr. Chamberlain and his friends have made a point recently of asserting that it was not by the vote of the working man that Free Trade was carried, but by that of the middle classes. There may be something in that. It has probably been in no small degree owing to the greater preponderance of the political influence of the middle class with us, as compared with its influence among our kindred across the Atlantic, that we have adhered for so many years

both to Free Trade and to Sound Money. It is a singular but undeniable fact that, all through American and Colonial history, we find the working man going straight for all sorts of programmes that very emphatically do not conduce to his own advantage. The paper money inflation during the American Civil War and after it raised enormously the cost of living, while wages rose but little in proportion, yet inflation was the working man's policy *par excellence* there, and if the Labour Party in Sydney had their way, they would issue inconvertible paper to-morrow. They were, at any rate, eager to issue it when I was there some nine years ago. The Berry Ministry in Melbourne who, though they did not introduce Protection, made it far more thoroughgoing than it had been before, were the same Ministry that dismissed half the Civil Service in one day, with the view of acclimatising the American "spoils system." Protection was certainly then the working man's policy in Victoria, but it was no one else's. It was rare, indeed, to find anyone in the commercial or professional classes who was not an out and out opponent of it. One may form some idea of the trend of opinion among the commercial classes by the leanings of the Press. They are all the more significant as regards Australia inasmuch as they have been the same for many years past. In Sydney the two morning daily papers, the *Herald* and the *Telegraph*, have both been all along ardent supporters of Free Trade. The influential *Evening News* has been the same, and Protection has only been championed by a very second-rate concern, the *Star*. In Australia, altogether, there are seven great daily morning papers, and five of them are for Free Trade. It strikes the returned colonist as quite a surprising phenomenon to find Protection the fashion-

able theory among the upper classes in England. I think it is safe to predict that that phase will be transient, whatever the ultimate issue of the fight may be. The upper and middle class Protectionists among us who despise "the thin end of the wedge" argument, and think that there is no reason why we should not apply a little protection here and there without introducing too much of it, should reflect that if Protection is carried at all, it will be carried by the working man vote, and that then the control of it will pass out of their hands altogether. The present proposals are for 10 per cent. duties on manufactures, but the arguments in support of them that have been bringing down the house at Mr. Chamberlain's meetings are arguments that would warrant nothing but 50 per cent. or 70 per cent. duties. Already we are getting ominous hints that other nations "are wise enough to make their Protection effective." Revolutions have a way of swallowing their children, and the fiscal revolution appears to be no exception. Already the proposers of moderate duties are in a fair way of being swallowed.

The Protectionist case is, of course, one that it is much easier to present to a popular audience than the case for Free Trade. You can take concrete instances of factories that have been shut up owing to competition which Protection would have prevented; or, where the system has been already at work, you can point to special industries that have grown up and flourished under its shadow. Such instances will often tell with the working man in cases in which the Free Trader would find it impossible to get him to grasp the force of reasoning which appealed to the statistics in regard to the industrial position throughout the country generally. Trade Unionism, however, what-

ever else its merits or demerits may be, has certainly been an immensely influential agency in teaching the working man to interpret statistics, and it is one of the best omens for our future that he appears, in England, to be rapidly distancing his wealthier neighbours as regards the comprehension of economic phenomena.

As to the example of European nations, it must not be forgotten that we have some of them with us as Free Traders, and if the area of these is not large, they possess, on the other hand, with civil liberty, a moral and intellectual weight that is not possessed by nations where the power is wielded by a class whose interests may be subserved by Protection, while the interests of the mass of the people are not. As to the German Empire, nothing appears to be more certain than that the advent of civil liberty there would ring the knell of Protectionism. The position of France, no doubt, is peculiar, but it is the one great nation which Mr. Chamberlain admits to be less progressive than we are ourselves. Its immense advantage over us in one particular, in the fact, namely, that so great a proportion of its population are engaged in agriculture, is one which Protection cannot assist us to emulate. Common sense and experience alike tell us that the landlord would be, in the end, the sole gainer by a rise in the price of produce. The depopulation of the country districts is plainly enough due in the main to other causes than the cheapness of food products. What we want in order to counteract it is the application to Great Britain generally of the principle of the Irish Land Act or of the similar but more thoroughgoing New Zealand Land for Settlements Act.

So far, I have taken it for granted that the example of our neighbours should naturally be in point as

applicable to ourselves, the difference in relative circumstances being left on one side for the moment. It is very evident, however, as observed already, that what is called Protection in America and Australia is an entirely different thing from Protection as it must present itself in any European country. The food of the people, in these new lands, cannot be touched by it. This fact alone would render it inapplicable altogether as a precedent for either Mr. Chamberlain's or Mr. Booth's proposals; and the more that we consider the matter, the more special reasons will we find that are calculated to put in an ever stronger light the folly of dreaming of Protection in Great Britain.

Even the most cursory glance at economic history can hardly fail to impress the mind with the thought, how little the nations, as a rule, owe the policies that they pursue to theory, and how much, on the contrary, to the circumstances of the day and of the place. Monetary history, for example, furnishes innumerable illustrations of this conclusion. Facts, there, we find, ordinarily came first, and theories subsequently adjusted themselves to facts. To take one or two instances, it is an axiom with us nowadays that the standard metal should be coined free of charge by the State for anyone who chooses to bring it to the Mint; but the Act of Charles II., under which the system was introduced, was passed avowedly as a temporary measure to deal with the exigencies of the then existing situation. It had, at first, a statutory duration of only a few years, and it was not till after it had been more than once renewed that it was finally adopted as permanent. The limitation of the legal tender of silver likewise, about a hundred years afterwards, was initiated by another temporary measure which again was renewed as it expired on several occasions. On

one of these occasions, when it should have been renewed, by an oversight, no renewal was enacted. Things went on, however, for all that, in very much the same manner as if it had been renewed. Every feature, indeed, of our present monetary system had already practically come into existence in the eighteenth century, though the Act that formally put it into shape was not passed till 1816.

Similarly we know that it was circumstances rather than theory that forced on Sir Robert Peel his historic change of attitude in regard to the Corn Laws, and it has been circumstances rather than theory, I think, that has kept us true to Free Trade from that date up to the present. When the Protectionists declaim against the slavish subservience to doctrines that are sixty years old, can any sane man really believe that it is the respect for authority that counts with us for so much in this matter when it counts for nothing at all in regard to any other? These sixty years have been years in which every time-honoured opinion has been in the crucible, when the surest way to get a hearing, at any rate from the British public, has been to put forward some preposterous paradox, to assert, perhaps, that King John was a stainless patriot, or that Shakespeare did not write *Hamlet* or *Macbeth*. The very fact that "the pioneers of thought"[1] have made so little impression on Free Trade sentiment in England up till a year ago, at any rate, while they have attacked it with some success elsewhere, is well fitted to make us suspect that there must be reasons in our special circumstances to account for the fact. In Australia they have been discussing Free Trade and Protection continuously for forty years past, while the controversy has been dormant here. Does anyone imagine that

[1] See Mr. Alfred Lyttelton's speech of 26th January.

Cobden's authority has been a bulwark of the Australian Free Traders? The fact of his existence is about all that is known of him to most of the politicians there on either side. The postulate of both sides has been, all along, the practical issue, the question which policy is most likely to bring wealth and prosperity in its train.

In the days of the Norman and Angevin kings, when the village communities produced at home nearly all that they could want for health and comfort, when there were hardly such things as retail shops in the country, and when the desire for luxuries and ornaments on the part of those who could pay for them was supplied at fairs held annually, there would, perhaps, have been no great harm done if the foreign vendors of such things had been sent about their business, and if foreign trade had been rigidly confined to a few such outside requisites as salt and millstones. Then, indeed, it might have been said that this country had a true internal trade that it might be possible to protect if it were so desired. Now, on the contrary, it can hardly be said that it has any internal trade at all that is not a mere appendage of its external trade.

It is sometimes indeed urged by Free Trade reasoners that the mistake which the Protectionists make lies in ignoring our internal trade and laying too much stress on our exports. The criticism which, it seems to me, it is most to the point to make, is one which directly reverses this proposition. What is not sufficiently taken into account is the preponderating importance in our commercial system of our earnings from abroad. Put "earnings from abroad" in the place of exports and compute them how we will, so long as we do not leave services rendered to foreigners and returns from our investments in other countries

out of account altogether, and we find that they amount to between five and six hundred millions annually, probably much nearer six than five, that is to say, a good deal over £13 per head of population, a figure which those of no other nation even remotely approach. To assert that our internal trade is several times as great as our external trade, if, in a sense, literally true, is really a statement only calculated to mislead. Suppose that a given sum obtained from abroad is turned over several times in internal trade, the source of the money is foreign trade for all that. Our export of coal, including bunkers, is about 25 per cent. of our total production. The rest is used at home. Is therefore the home trade the really important matter as regards coal? Before we can answer that question we should require to know how much of the coal consumed at home is used to smelt iron intended for export, or to smelt iron which will be converted into machinery intended for export and so on. If, further, we take into consideration the fact that even the coal used to make the machinery that works up textiles is also really, to a great extent, in a sense, coal for export, because the textiles are largely exported, it will be seen how little there really is in our internal trade that is not part and parcel of our external. "Workmen," remarks Mr. Ewing Matheson,[1] "who see only that the goods go from one part of this country to another, are sometimes sceptical as to the vast share that foreign trade has in their prosperity. The machine tool-makers of Keighley, who send their planing machines or lathes to bridge builders at Derby or Stockton, may think it a home trade, but the tools are really to make bridges for export; the maker in Leeds who sends Bessemer plant and hydraulic machines to

[1] *Op. cit.* p. 42.

Glasgow or Sheffield, must know that they are to be employed mostly on steel for exportation, which can only be paid for by imported goods; his neighbour the woollen manufacturer, who sends his cloth and ready-made clothing to London, should know, even if his workmen do not understand, that the clothing is for sale in Melbourne and the cloth in Buenos Ayres."

We may again look at the subject in the converse fashion. The building trade and the furniture trade are, if anything is, internal trades, but where is the money coming from that will pay for the houses and the furniture? Unquestionably it will come, for the most part, either directly or indirectly, out of those five or six hundred millions of earnings from abroad that reach this country annually from across the seas. Building and furniture making accordingly flourish or stagnate just in proportion as our foreign commerce is prosperous or our foreign investments are profitable. The fact that we import all the raw material of so many of our industries is one that is so familiar to us that we are liable to lose sight of it. It strikes the stranger, perhaps, more vividly than it does the Englishman. Mr. Atkinson, for instance, in his evidence given before the United States Industrial Commission in 1901, has occasion to remark that "Great Britain producing neither sugar nor fruits in any considerable measure has established a vast export industry in jams, preserves, and other types of fruit products."[1] Unfortunately, since that date, we have put a war tax on sugar which now looks like becoming permanent, and we have rashly and wantonly entered that fatuous Sugar Convention.

Taking into consideration the fact that we have no internal trade which does not find, in the prosperity of

[1] P. 528.

our export trades, the source of its own prosperity, we may well ask, What can Protection do for us? Nothing is more certain than that Protection is, in the nature of things, powerless to assist an export trade. Facilities for buying our raw material, tools, and half-stuffs in the cheapest markets form the first condition of success in that sphere. In proportion, consequently, as countries become exporting countries Protection begins unfailingly to lose its hold upon the more intelligent part of the population. It was, as we know, that fact in recent American conditions that converted President M'Kinley, during the latter part of his career, into a friend of reciprocity, an important step, from his standpoint, in the direction of Free Trade. The influence of the same fact is likely to become increasingly manifest in the America of the future.

Dynamical Conceptions

The conception of impending danger to our industries from the extension of the tariff policies of our neighbours is what Mr. Balfour calls a "dynamical" conception. The expression is a useful one. It may be taken as meaning a conception which has reference to things that ought to happen in the world, but which do not. It may be, however, that when we find that they do not happen we may see reason for calling in question the "ought" also.

Another of these dynamical conceptions is that of designed dumping, of the sort of dumping by which the manufacturers of America or Germany are supposed to extinguish a British industry, and then to raise prices to the consumer as soon as the industry is extinguished. Such things happen continually, of course, among rival traders and rival trading and transport companies within every country, and so the

Protectionist goes on to argue that they ought to be found happening between nations also. When instances are asked for, however, none are forthcoming. The reason is that the analogy between the competition that exists between traders and that which exists between nations is at fault. In the latter there is not the solidarity and, consequently, not the possibility of steadily designed action that there is in the former. The latter sort of competition is not something that can be directed by one master brain, but rather consists of the strivings of a collection of unconnected competing groups which happen to be in rivalry with similar groups in another nation. At any rate, when alleged cases of designed dumping are traced to their source they invariably turn out to be not the carrying out of the projects of tyrannous wealth, but the forced sales of bankrupt or semi-bankrupt enterprise; or it may be that, in other cases, they result, as in the instance of the wire rods above referred to, in sales steadily continued for years at a low but still a real profit, and then the benefit we derive from them vastly outweighs the injury they inflict.

Yet another of the dynamical conceptions is that of retaliation that is at once effective and useful; that, however, is dealt with elsewhere.

The Imperial Aspect of the Question

It is the less necessary to dwell here at any length on the Imperial aspect of the tariff question, as I have endeavoured, throughout this exposition, to rest the case for Free Trade rather on national than on humanitarian grounds. It is certainly the first interest of all the Colonies to belong to an empire that is strong and sound at heart, and if Free Trade appears to be

necessary to continued strength and soundness, Imperial reasons for it are abundantly established.

We have to consider, too, that, much as we might wish for a British Zollverein, there are dangers to Imperial unity connected with attempts to realise that ideal that would undoubtedly become more conspicuous and more real just in proportion as such a consummation was approached. At present the colonial Protectionists are quite content to remain within the empire, and, indeed, are among the most loyal of its sons, but let it once be felt that continued connection with the mother country meant the abolition of the tariffs that they value so highly, and there would be good reason to fear that these parties in every colony, with their funds, their organisations, and their energy begotten of self-interest, would be driven to adopt a Separatist attitude.

The possibility, too, of corruption following in the wake of Protection in England is, I think, a very serious matter from the Imperial point of view.

Who can doubt that the steadfastness of Canadian loyalty to Great Britain hitherto, in spite of the material advantages which the Colonists might gain by annexation to the United States, is in very large measure due to the fact that the political methods which prevail in London conform more closely to their ideals of government than those which prevail in New York or Washington? In Australia, again, would not the gibes of Separatist newspapers like the *Sydney Bulletin* tell against us with tenfold force if they had behind them a substantial basis of fact in jobbery rampant at St. Stephen's? If Mr. Chamberlain's policy opens the floodgates to corruption, we may bid farewell to our dreams of a consolidated empire.

The Duke of Devonshire estimates the outside amount that the Colonies can stand to gain under the proposed

Preferential scheme at two and a half millions, and this amount would be *pro tanto* reduced if the consumer paid anything less than the full amount of the duties. It is, of course, only by the rise in English prices that the Colonies stand to gain anything. Would it not, in such circumstances, be infinitely preferable—if something must be done for the Colonies—to directly subsidise our imports of food from them to that amount, at a cost of less than one penny in the pound of additional income tax, rather than take the plunge into Protection ?

APPENDIX

NOTE ON THE HISTORICAL DEVELOPMENT OF DOCUMENTARY MONEY

CHEQUES and bills of exchange are frequently spoken of as having owed their origin to a definite invention like that of the telescope or the steam-engine; and the Jews in the early Middle Ages often get the credit of having been their inventors. Their true mode of origin, it seems to me, must have followed rather the analogy of the origin of language or of the use of written characters. Given, that is to say, the requisite stage of economic development, one in which the transference of property by document was possible, and their emergence, or the emergence of something that was practically identical with them, would be found to be inevitable. Lenormant reproduces from the Babylonian tablets several examples of orders for the transmission from one holder to another of specified weights of silver and copper. This was in the days that preceded the striking of money, so that the cheque, remarkable to relate, is older than the coin. Some of these documents constitute in themselves, he thinks, the clearest possible proof of the practice of *cambium trajecticum* in Babylon. Here is a specimen of one of the very earliest bills of exchange. I give it in Lenormant's rendering. He heads it "Mandat de payement tiré d'un lieu sur un autre."

"Quatre mines quinze sicles d'argent
"(creance) de Ardu-Nana, fils de Yakin,
"sur Mardukabalussur, fils de Mardukbalatirib,
"dans la ville d'Orchoé.
"Au mois de tebet
"quatre mines quinze sicles d'argent
"a Belabaliddin, fils de Sinnaid
"Our, le 14 arakhsamna,

"l'an 2 de Nabonide,
"roi de Babylon."
"Suivent les noms des temoins."[1]

The bill is drawn at seventy-six days from date. An instrument of this kind bore, in the language of the Assyrian law, the name *Sipartu* or "missive," and in a collection of very ancient juridical formulæ, says Lenormant, we find the following: "His Sipartu—not paid—to be despatched—he has exchanged it for money." The issue of an accompanying document embodying this formula corresponded to modern endorsement, literal endorsement on tablets of baked clay being of course in the nature of things impossible. There is thus evidence that these bills drawn in one place on another were negotiable and were habitually negotiated.

As to the Attic practice, it will be remembered that Bekker makes Charicles get a Sicilian letter of credit cashed in Athens, his authority being a transaction described in one of the orations of Isocrates in which the orator's client is described as having obtained in Athens cash for an order drawn by him on his father in Pontus. The plots, too, of the Trinummus and of the Curculio, which, no doubt, must be looked upon as throwing light rather on Greek than on Roman usages, it will be remembered, both turn on the forgery of orders on bankers, the one in Athens, the other in Epidaurus.

Lenormant remarks that the cause of this remarkable phenomenon of the appearance of bills of exchange, before their time, in early Babylon and Assyria is, no doubt, to be found in the fact that "the commerce of Assyria and Babylon was of necessity, on account of the geographical situation of these countries, a land commerce conducted by means of caravans, and that in almost every direction it had to cross deserts infested by robber nomads. In these circumstances the first consideration of the merchant would be the discovery of any possible means by which the necessity for conveying silver over great distances could be avoided. . . . When we had creditors at one end of such a caravan route and debtors at the other, the first idea of the remittance of money by bills of exchange would of necessity begin to germinate in the minds of the creditors." He remarks further that, after many centuries

[1] Inedit, Musee de Sainte Irene a Constantinople.

during which the bill of exchange had fallen into desuetude in the world the reappearance of similar conditions, as regarded difficulty and danger of transport to those which had existed in Assyria and Babylon, brought about its reappearance at the commencement of the early mediæval period, and goes on, in a note, to dwell on the retrogression in Rome both as compared with the Babylonian and with the Athenian practice, which had apparently allowed documentary money to fall almost or altogether into abeyance. I am convinced that this alleged retrogression in Rome, if it had any existence at all, has been greatly exaggerated. A development like the transmission of funds by sets-off of debts due at the two ends of a trade route, once it had been learned in the world, could hardly be unlearned again, and certainly not in a period the greater part of which was one of advancing wealth, intelligence, and civilisation. Besides this *à priori* reason, however, there is positive evidence in the Digest that seems to me quite sufficient to set aside the suggestion of retrogression. As an illustration of the contract "Facio, ut Facias," Hunter gives the following:[1] "Titius has a debtor in Carthage, and Gaius a debtor in Rome. Titius and Gaius agree that Titius shall collect and keep the debt in Rome, and Gaius collect and keep the debt in Carthage. This resembles mandate, but differs from it in a material point. If each collected the debt as agent at the cost and risk of the principal, it would be mandate, but in this contract they exchange debts, and each takes upon himself the whole cost and risk of collection. On the other hand, it might be said that the expense incurred by one is a set-off to the expense incurred by the other; and it might be argued that in collecting the debt each acts as an agent, but that the responsibility of each as principal has been compounded by special agreement. Paul, however, considers it the safer course to treat the case not as mandate, but by the *actio in factum præscriptis verbis*." (D. 19. 5, 5, 4.) Again, as throwing light on the question what sort of promises are impossible of fulfilment, and what are not, he gives the following:[2] "Titius and Gaius agree by stipulation that Gaius shall give Titius the same day 100 aurei at Carthage. The contract is made in Rome. If each party had previously notified to his

[1] *Roman Law*, ed. 1, p. 373. [2] *Op. cit.* p. 419.

agent at Carthage that such a promise was to be made, there is no impossibility in the performance, and the stipulation is valid." (D. 45. 1, 141, 4.) Such instances as these make it perfectly clear that the transmission of funds without the transmission of metallic money was perfectly understood in Rome in the imperial period, and if it was understood there can be no doubt that it must have been continually practised. Who can doubt that the Roman and Carthaginian argentarii, who made a business of financing maritime adventures between the one city and the other, must have settled their respective accounts against each other by set-off when the nature of their trade permitted it?

If, however, a widely ramifying credit system existed in the Roman Empire, how is it, it may be asked, that we hear so little about it? The answer is that the existence of a credit system in wholesale trade is precisely the sort of fact that is calculated to elude observation. Such a system undoubtedly existed in Athens, yet there are only one or two texts that give us any inkling of it. Indeed, it is only of quite recent years that we have begun clearly to recognise the existence of such a system among ourselves. Among all the economists of the nineteenth century, Tooke and Henry Dunning M'Leod are the only two writers who appear to have been fully aware of it in all its bearings. Sir Robert Peel and the experts at whose suggestion he introduced the Bank Act of 1844 were of opinion that the bank reserve could be adequately safeguarded by the limitation of the note issue, forgetting that it could be quite as effectually depleted by the presentation of cheques as by the presentation of notes, forgetting, indeed, the very existence of such documents as bills of exchange and cheques. M'Leod served himself heir to Tooke's opinions both as to the Act of 1844 and generally on the bearing of credit on economical questions, and it is interesting to remember that the late Lord Farrer, a very weighty authority, saw in him the only English economist in whose writings was to be found a valid theoretical basis for the sound money doctrine.[1] Whenever credit instruments came to be used as the money of retail trade, then they became a conspicuous fact in the world, a fact known to and discussed by the man in the street, and from

[1] *What do we pay with?* p. 69 ff.; embodied in *Studies in Currency*.

this, I think, the idea has arisen that credit money altogether is a much more recent development in commercial history than is really the case. What is certainly recent is its use in retail trade and that only. Few are probably aware that it could with truth be said of the Italians as far back as the earlier part of the seventeenth century, that they had such remedies against the want of money that that want could "neither decay nor hinder their trade,[1] for," as Mun says," they transfer bills of debt, and have Banks both public and private, wherein they do assign their credits from one to another daily for very great sums with ease and satisfaction by writings only, whilst in the meantime the Mass of Treasure which gave foundation to these credits is employed in Forraign Trade as a Merchandize, and by the said means they have little other use of money in those Countreys more than for their ordinary expences."

If, however, the use of documentary money in wholesale trade has to a great extent eluded observation even in modern Europe, there is no reason why it should not have existed without attracting much general notice in Imperial Rome. Another objection to the suggestion that it did thus exist may perhaps be urged on the ground that the Roman Law never, even in Justinian's time, fully recognised the transfer of property by document. It does not appear to me to be one that is entitled to much weight. In the first place, the distinction between the constitution of a transfer by a document, and the validity of the use of the document as evidence of the transfer, is a refined one that could only have a chance application here and there to practical questions; second, the commercial world has other ways of enforcing the rights and obligations that emerge within it besides the appeal to the civil tribunals. Bills of exchange were negotiated habitually in England for centuries before an Act of William and Mary made their negotiation legal. In more modern times, as we know, the commercial consensus of the business houses of California proved itself much more than a match for the law of the United States, in maintaining, in spite of the law, gold payments within that State.

[1] *Op. cit.* p. 23.

INDEX

Acceptability of standard substance, meaning of, 142; genesis of, 143.
Addington, Lord, 48.
Anderson, Dr., 71.
Appeal to popular usage in language, by Mill, 6, 9; by Henry George, 6; justification of, 12 ff.; protests against, 7, 8; the appeal in jurisprudence, 26 ff.
"Appreciation of gold," 18.
Aristotle, 55, 57, 142, 230.
Ashley, Prof., 211.
Atkinson, Hon. Edward, 242, 244, 269.
Austrian economists, 125, 128.

Babelon, Ernest, 165 *n.*
Bagehot, 130.
Bain, Alexander, 103, 104, 119, 122.
Balfour, Right Hon. A. J., 210, 212, 214, 218, 249, 256, 261, 270.
Barbour, Sir David, 48.
Barter, trade generally identified with, 139, 222; of primitive peoples, Schurtz on the, 158.
Bastable, Prof., 171 *n.*, 200.
Bastiat, 94, 113 *n.*, 170, 171, 199, 246.
Bekker, (App.) 276.
Bentham, 122.
Bills of exchange, place of in monetary hierarchy, 194; peregrinations of, 217; in Babylon, (App.) 275; in Athens, (App.) 276; in Rome, (App.) 277.
Bismarck, Prince, on the incidence of duties, 252.
Boeckh, 165.
Booth, Charles, 211, 265.
Bradley, Prof. A. C., 47 *n.*, 54.
Brown, Dr. Thomas, 120.
Bryan, W. J., 94.
Bucher, Prof., 147, 156.
Burton, Sir R., 159.
Byles, Mr. Justice, 219.
Byng, 256.

Cairnes, 59, 74.
Capital, definition of, 41; Henry George on, 5; Mill on, 13; Marshall on, 42.
Carey, 83.
Carlyle, Thomas, 247.
Causation in economics, Marshall on, 155; heteropathic, 46.
Cause of exchanges, Jevons' error as to the, 128.
Chamberlain, Right Hon. Joseph, 182, 202, 211, 216, 225, 236, 245, 252, 261, 263, 265, 272.
Chaplin, Right Hon. Henry, 261.
Circular reasoning of Bain, 104, 105; of Jevons, 106, 109.
Cobden, 182, 267.
Colbert, 183.
Coleridge, Lord, 29.
Communism, early, Schurtz on, 149.
Comte, Auguste, 50.
Consumers, appeal to, 171, 172, 177 ff.
Cornelissen, 124, 125.
Cost viewed as loss of opportunities, 130; pain not of its essence, 131.
Credit, double character of, 44.
Criterion of truth in mental science, what, 4; Descartes on, 65.

Darwin, Charles, 97.
Davey, Lord, 30.
Definition, nature of, 13, 57, 62.
Degree, universality of the conception in mental science, 53; money a thing of, 56, 193.
Descartes, 65.
Determinist argument, Mill's statement of the, 52.
De Vienne, M., 162 *n.*
Devonshire, the Duke of, 272.
Digest, the, (App.) 277.
Dorrington, Sir John, 261.
Double exchange theory, 220, 222.
Dumping, called inundating in Bastiat's day, 113 *n.*; a "dynamical" conception, 270.
Dutt, Romesh, 163 *n.*

Economics as a mental science, 3.
Elphinstone, Sir Howard, 27.
Encyclopædia Britannica, 232 *n.*

Exports related to imports as credit to liabilities, 199; excess of imports over, in England, 195, 201; in Victoria, 200; operation of loans with regard to, 231.

Fallacies, those that really mislead, 59.
Farrer, Lord, (App.) 278.
Fiscal Blue Book, 195; waste of energy in, 237, 239, 240.
Fortnightly Review, 255.
Free Trade, its principle allied to that of Sound Money, 175, 186, 192, 193, 262; questionable arguments for, 179, 182, 198, 232; its first great victory, 182; its relation to the cosmopolitan ideal, 181; tested by general results, 203, 208, 210; promotion of manufactures by, in Sydney, 230; in England, 260; parallel with use of machinery, 246; with facilitation of transport, 247; imperial aspect of, 271.
Frewen, Moreton, 261.

George, Henry, 5, 6, 14, 34, 246.
Goldberry, 159 *n.*
Gibbs, Hon. Vicary, 261.
Gide, Prof., 147.
Giffen, Sir Robert, 18, 48, 203 *n.*, 232, 240 *n.*
Gilbart, 233.

Haldane, Right Hon. R. B., K.C., M.P., 218, 219, 259.
Halsbury, Lord, 30.
Hamilton, Sir W., 4.
Hamilton, W. F., K.C., 28 *n.*
Hardcastle, 27.
Hawkins, Mr. Justice, 29.
Herbart, 121.
Hillingdon, Lord, 261.
Hobhouse, Lord, 30.
Holm, Adolph, 229 *n.*
Homo Economicus, Pantaleoni on the, 129; true conception of the, 132.
Hume, David, 23, 93, 119.
Hunter, (App.) 277.
Huxley, Prof., 51.

Imports, effect of on the employment of home labour, 216, 220, 223; causal relation with exports, 216, 226; in the seventeenth century, 227, 229; through freights, 228, 231; a questionable view, 232.
Im Thurm, 157.
International values, Mill on, 67.
Isocrates, (App.) 276.

Jackson, Andrew, 261.
James of Hereford, Lord, 30, 32.
Jevonian theory summarised, 49, 123; Cornelissen on the, 124.
Jevons, 35, 97, 98, 100, 102, 104, 106, 108, 109, 112, 113, 116, 122, 125, 129, 132.

Kant, Immanuel, 24, 121, 225.
Koler, 158 *n.*
Kubary on the money of the Caroline Islands, 153.

Leibnitz, 24, 47.
Lenormant, Fr., (App.) 275, 276.
Leroy Beaulieu, 89.
Letourneau, 149 *n.*
Lever Brothers, 230.
Lichtenstein, 149 *n.*, 158 *n.*
Liquidity of assets, meaning of, 137.
Locke, 94, 119.
Long, Right Hon. W., 261.
Lotze, the ellipse and the straight line, 33; the principle of gradation, 54; on Kant, 120.
Lyttelton, Right Hon. Alfred, 266 *n.*

M'Culloch, 73, 80, 90.
Macfarlane, 8.
M'Kinley, President, 270.
M'Leod, H. D., (App.) 278.
Mahan, Capt., 183.
Maine, Sir H., 15.
Mallock, W. H., 60, 255.
Mansel, 9, 64.
Marco Polo, 145.
Mariner, 149.
Marshall, Prof., 42, 48, 155, 171 *n.*
Marx, Karl, 94.
Matheson, Ewing, 216, 260, 268.
Meanings of words, how learnt, 21, 36, 40; the "occasional meanings," 61.
Menger, 111.
Metaphysical paradoxes, of Hume, 23, 93; of Kant, 24; of Leibnitz, 24; of Hobbes, 24; of Comte and Huxley, 25.
Mill, James, extension of Ricardo's theory, 89.
Mill, J. S., 4, 6, 8, 9, 13, 16, 20, 46, 52, 67, 73, 80, 92, 93, 99, 100, 104, 116, 123, 171, 182, 197, 233, 234, 251.
Mind, 37 *n.*, 54, 61 *n.*, 63.
Mommsen, 145.
Monetary standard, the, bearing of modern psychology on, 136; stability of its value, 137, 145; alleged fluctuations of, 139; an object of insatiable desire, 141; Walker on, 140.

Money, alleged insignificance of, in economics, 140, 171, 181, 198, 222; origin of, 142; development of, out of ornament, 144; first uses of, 151; money of primitive peoples, Schurtz on, 148; social money, Schurtz on, 154; related to commodities as energy to work, 180; a thing of degree, 56, 193; documentary money, its relation to gold, 193.
Money power in history, Colbert on, 183; in Hellenic world, 184.
Money, Chiozza, 195.
Monteiro, 158 *n.*
Monthly Review, 231.
Morley, John, 188.
"Multiply," Jevons' use of the word, 118.
Mun, Thomas, his epoch-making book, 185; Adam Smith's criticism of, 187; his general principle, 187; his "balance of trade" theory, 188; vindication of, 193; his point of view contrasted with Mill's, 197; on the payment for imports, 227; an up-to-date view, 244; on Italian credit money, (App.) 279.
Municipal trading, 206.

National Review, 244 *n.*

"Occasional meanings," Paul on, 61; Stout on, 61.
Ornament and money, 163; Mommsen on, 145; importance of homogeneity in material of ornament, 146, 156, 160; ornaments of the divinity, 160; ornament as earliest property, Schurtz on, 150.

Palgrave's *Dictionary of Political Economy*, 46.
Pallas, 149 *n.*
Pantaleoni, 7, 110, 129.
Paul, *History and Principles of Language*, 61.
Peel, Sir Robert, 182, 258, 266, (App.) 278.
Physics and mental science, contrast of methods in, 3, 35, 38, 101; criteria of truth in the two branches of investigation respectively, 4.
Pitt, William, 182.
Point of law and question of fact, 5.
Popular language, alleged caprice in, 16; questionable use of, by Mill, 4, 8; by Hamilton, 4; by Jevons, 9; by Hume, 10; by Henry George, 6, 34.
Powell *v.* The Kempton Park Racecourse Co. Ltd., 28.
Predication, nature of, 20.
Principle of continuity, Stout on the, 121; Ward on the, 121.
Productive and unproductive labour, basis of the distinction, 180.
Protection, nature of the typical fallacy in, 169, 186, 187, 188, 223, 224, 263; strength of the *primâ facia* case for, 173; the "wide-markets" argument for, 256; a *petitio principii*, 257; one thing in England and another in America, 174, 265; affinity with bimetallism, 261; example of other nations in regard to, 260; connection with political corruption, 272.
Psychology, phenomena of, necessarily expressed in physical language, 43; bearing of, on Jevonian theory, 119, 122, 127; on the question of the monetary standard, 136; older and newer schools contrasted, 120; of Ward, 119; of Bain, 119, 122; of Bentham, 122; of Brown, 120; of Hume, 119; of Locke, 119; of Herbart, 121; of Kant, 121; of Stout, 119 ff.
Psychophysicists, the, 35.

Reid, Dr. Thomas, 10.
Religion and money, Curtius on, 162; in Athens, 164; in Antioch, 165 *n.*; in Jerusalem, 166 *n.*; in Babylon, 166.
Rent, historical evolution of Ricardo's theory, 71, 92; does rent enter into cost of production, 73, 74, 78; see-saw between popular and technical meanings, 75; transfer of value taken for reduction of value, 77, 78; rent one case of value, 89; Carey on, 83; Cairnes on, 59, 74; Adam Smith on, 85; Leroy Beaulieu on, 89; Anderson on, 71; Mill on, 73, 80, 92; M'Culloch on, 73, 80, 90; Walker on, 79, 84.
Retaliation, through monetary systems in Stuart period, 248; difficulties peculiar to, 243; valour not a pecuniary virtue, 249; a "dynamical" conception, 271.
Ricardo, 71, 75, 79, 80, 83, 85, 91, 94, 232, 233, 234.
Runciman, W., M.P., 228.

Sayce, 166 *n.*
Schurtz, Dr. Heinrich, 148, 149, 150, 151, 154, 158.
Schuster, Felix, 231, 252.
Scotsman, the, 219.
Scripture, Prof., 35.
Shaw, W. A., 248.
Shell money, 145, 155, 159.
Smith, Adam, 71, 85, 87, 94, 142, 185, 189, 214, 220, 221, 222.
Smith, Parker, M.P., P.C., 203 *n.*, 219, 220.
Spencer, Herbert, 37.
Spinoza, 225 *n.*
Standard, the, 236.
Statist, the, 210, 233.
Stout, Prof., 25 *n.*, 61, 119, 121, 134.
Sugar Convention, the, 250, 269.

Taxation, incidence of, 252; of finished articles of luxury, 242; of producers' goods, 244; of food, 245.
Technical phraseology in economics, 45; in jurisprudence, 26, 27; translation of ordinary language into, 110, 111.
Thring, Lord, 27.
Times, the, 213, 240 *n.*
Tooke, Horne, 232 *n.*
Tooke, Thomas, 232 *n.*; his status as an economist, 233 *n.*, (App.) 278.
Trade, barter theory of, 139, 222; internal and external, 267.
Trade Unionism, 207, 224, 263.
Type instance, the, 21; in jurisprudence, 28.

Unimportance of theory in history, 265.

Value, in use and in exchange, meanings reconciled, 16; Mill's definition of, 116; can "ratio of exchange" be substituted for "value"? 115; its alleged origin in labour, 94; negative value, 112; labour standard of value, 87.
Veblen, Prof. Thorstein, 156 *n.*
Vince, C. A., 202, 216.
Voluntary action, Stout on, 134.

Walker, General, 18, 56, 79, 84, 140, 180, 193.
Ward, Dr. James, 25 *n.*, 119, 121.
Weager, Mr., 236.
Wilson, H. W., 244 *n.*
Wise, R. B., 200.

Printed by MORRISON & GIBB LIMITED, *Edinburgh*

Telegrams:
'Scholarly, London.'

41 and 43 Maddox Street,
Bond Street, London, W.
October, 1904.

Mr. Edward Arnold's List of New Books.

THE REMINISCENCES OF SIR HENRY HAWKINS

(Now Lord Brampton).

Arranged by RICHARD HARRIS, K.C.,

AUTHOR OF 'ILLUSTRATIONS OF ADVOCACY,' 'AULD ACQUAINTANCE,' ETC.

Two Volumes. Demy 8vo. With Portraits. **30s. net.**

'Hawkins'—to use the more familiar name of the best known and perhaps most popular English judge of the nineteenth century—was called to the Bar at the Middle Temple in May, 1843, and after 'sixty years' hard labour' in the practice and administration of the Law has been prevailed upon to give the world the benefit of his exceptional experience of life in all its phases. These two volumes of reminiscences are packed with good stories—legal, racing and miscellaneous—for Sir Henry was as keen a sportsman as an advocate—and he has come in contact in his time with every grade of society and occupation. He enables the reader to form an idea of what a 'big practice' means, of the destructive effects of his own cross-examination, of the eccentricities of a British jury; and his tales of Tattersall's, Crockford's, the Ring, theatricals at Knebworth, the Barnstaple election, and last, but not least, of his beloved four-footed 'Marshal,' Jack, make a most interesting and attractive book.

JERUSALEM UNDER THE HIGH PRIESTS.

Five Lectures on the Period between Nehemiah and the New Testament.

By EDWYN BEVAN,

AUTHOR OF 'THE HOUSE OF SELEUCUS.'

Demy 8vo. **7s. 6d.**

Readers of Mr. Bevan's brilliant work on the Seleucid dynasty will welcome this new and, in its way, not less important volume of history from his pen. Originally written in the form of lectures for popular audiences, the book aims rather at giving a clear and connected sketch of what is certainly known about a crucial period in the history of our religion—a period of which it must be confessed most people are extremely ignorant—than at investigating the obscure problems which beset the specialist. The subjects of the lectures are: (1) The End of the Persian Period and the Macedonian Conquest; (2) Hellenism and Hebrew Wisdom; (3) Judas Maccabæus and his Brethren; (4) The Hasmonæan Ascendancy; and (5) The Fall of the Hasmonæans and the Days of Herod—a list of subjects sufficient to show the value of the book to everyone who finds any interest in the Bible.

FINAL RECOLLECTIONS OF A DIPLOMATIST

By the RIGHT HON. SIR HORACE RUMBOLD, BART., G.C.B., G.C.M.G.,

Demy 8vo. **15s. net.**

Sir Horace Rumbold begins the third and concluding series of his 'Recollections' in the year 1885 at the point to which he brought his readers in the volumes already published. He describes his life as Envoy Extraordinary and Minister Plenipotentiary to Greece from 1885-1888, and to the Netherlands from 1888-1896. In the latter year he was appointed Ambassador to the Emperor of Austria—an exalted position which he retained until his retirement from the Diplomatic Service in 1900.

The conclusion of these 'Recollections' presents a set of Diplomatic memoirs as comprehensive as they are interesting. Sir Horace Rumbold has known nearly all the famous personages of his time, and the personal touches and pleasant anecdotes with which he illuminates their characters render the volumes excellent reading.

THE RUSSO-JAPANESE WAR.

By T. COWEN,

LATE SPECIAL CORRESPONDENT OF THE 'DAILY CHRONICLE.'

Demy 8vo. With Illustrations from Photographs.

This book will probably be the first instalment of the great mass of literature which may presently be expected from the seat of war. After tracing the course of events leading inevitably to the outbreak of hostilities, Mr. Cowen describes with great completeness the nature of the country, both in Korea and Manchuria, over which the struggle has been waged, and then devotes himself to a brilliant and graphic account of the actual conflict both by land and sea.

[*In preparation.*

EDWARD AND PAMELA FITZ-GERALD.

Being some Account of their Lives
Compiled from the Letters of Those who Knew Them

By GERALD CAMPBELL.

Demy 8vo. With numerous Portraits. **12s. 6d. net.**

Since Thomas Moore's 'Life of Lord Edward FitzGerald' was published in 1831, one or two further memoirs have appeared, mainly founded upon that work. 'Edward and Pamela FitzGerald' differs from these in several particulars. Its author, one of the rebel leader's great-grandchildren, who has had access to a number of family letters and papers, has endeavoured, after giving a picture of the home-life of the FitzGerald family, to concentrate his attention on those years during which Lord Edward was gradually becoming entangled in the coils of the Irish Rebellion. After dealing with the reasons which led him to adopt the cause of the revolutionary party, and the circumstances of his arrest and death, the book proceeds to consider more particularly than has yet been done the history of Lord Edward's wife, Pamela, the reputed daughter of the Duc d'Orléans and Madame de Genlis.

ALESSANDRO SCARLATTI: HIS LIFE AND WORKS.

By EDWARD J. DENT,
FELLOW OF KING'S COLLEGE, CAMBRIDGE.

8vo. With Portrait.

To most musical people Alessandro Scarlatti is little more than a name, and even musical historians have been singularly cautious in their references to him. He is, however, a very important figure in the history of music, on account of his influence on the formation of the classical style—*i.e.*, the style of Handel, Bach, Haydn, Mozart, and Beethoven. His numerous works have almost all remained in manuscript, although he was quite the most celebrated composer of his time (1659-1725), and the difficulty of obtaining access to them has no doubt prevented musicians from studying him in detail. For this biography special researches have been made in the principal libraries of Europe, and much new material has come to light. Besides the story of Scarlatti's life, derived in great part from hitherto unpublished diaries and letters, a careful analysis is given of his most important compositions, considered specially in their relation to the history of modern tonality and form. The book is copiously illustrated with musical examples, and includes a complete catalogue of Scarlatti's extant works, with the libraries where the manuscripts are to be found.

STUDIES IN VIRGIL.

By TERROT REAVELEY GLOVER,
FELLOW AND CLASSICAL LECTURER OF ST. JOHN'S COLLEGE, CAMBRIDGE,
AUTHOR OF 'LIFE AND LETTERS IN THE FOURTH CENTURY.'

Demy 8vo. **10s. 6d. net.**

This book does not deal with questions proper to an edition of, or a commentary on, Virgil. As little space as possible is given to matters of pure scholarship, philology, or archæology, but an attempt is made to realize as clearly as may be the literary and poetic value of Virgil's work by showing the poet's relations with his age and environment, his conceptions of the questions peculiar to his time and country, and of those common to all times and countries, and his own peculiar sense of the direction in which the answers of these questions are to be sought.

ON THE ROAD TO LHASA.

By EDMUND CANDLER,

SPECIAL CORRESPONDENT OF THE 'DAILY MAIL' WITH THE TIBET MISSION.

Demy 8vo. With Illustrations from Photographs.

A special interest attaches to this account of the Tibet Mission, the progress of which has been watched with such intense anxiety by the British public. Mr. Candler was the first Englishman to be wounded in the sudden attack made on the Mission at Guru in the early days of the expedition, but was fortunately able to resume his work in a remarkably short time, and to be present at the entry into Lhasa.

FLOOD, FELL, AND FOREST.

By SIR HENRY POTTINGER, BART.

Two volumes. Demy 8vo. With Illustrations. **25s. net.**

Few men probably know their Norway better than Sir Henry Pottinger, and fewer still have described it, from the point of view of sport, better than he has done in this book, in which the experience of a life-long sportsman and the graceful literary touch of a skilled writer are combined with the happiest effect. Whether the subject be elk-shooting, salmon-fishing, or camping, Sir Henry abounds in interesting anecdotes and valuable information, and his book cannot fail to give pleasure to all lovers of the rod and gun.

PAGES FROM A COUNTRY DIARY

By PERCIVAL SOMERS.

Large Crown 8vo. With Photogravure Illustrations. **7s. 6d.**

These extracts from the diary of a country gentleman form a delightful record of the various occupations and amusements which fill the time of the good old-fashioned type of Englishman who is content to find his work and his pleasures within easy reach of home. The author is a true sportsman, as well as a man of enlightened views, and his graphic and humorous descriptions, adorned with many anecdotes, of his occupations indoors and out of doors throughout the year, will appeal to all who are fond of nature and the tranquil charms of country life.

ECONOMIC METHOD AND ECONOMIC FALLACIES.

By WILLIAM WARRAND CARLILE, M.A.,

AUTHOR OF 'THE EVOLUTION OF MODERN MONEY,' ETC.

Demy 8vo. Cloth, **10s. 6d. net.**

In this work the keynote of the first two parts is the stress laid on the essential character of the distinction which exists between the methods of investigation that are appropriate in physics and those that are applicable in sciences, such as economics, which belong, in truth, to the mental sphere. It is, in the author's view, to the ignoring of this distinction that the present dominance, in the Universities, of the mathematical economics is due. Another outcome of the same erroneous line of thought is, he contends, the current view as to the insignificance of money in economics. In the third part the author brings his general line of reasoning to bear on the Fiscal Problem. While he is an uncompromising Free Trader he would throw overboard those Free Trade arguments that ignore the national point of view in favour of the cosmopolitan.

POLITICAL CARICATURES, 1904.

By F. CARRUTHERS GOULD.

Super royal 4to. **6s. net.**

Also an Edition de Luxe of 100 *large-paper copies, numbered and signed,* **£2 2s. net.**

The cordial welcome with which the volume of cartoons for 1903 was received by the public will, it is believed, be repeated in the case of this further selection of 100 pictures, which is uniform with the last. The principal topic handled by the eminent caricaturist of the *Westminster Gazette* during 1904 is, of course, the Fiscal Question, but nearly every other subject of public interest is treated by him in his inimitable manner.

THE WHITE MAN IN NIGERIA.

By GEORGE DOUGLAS HAZZLEDINE.

Demy 8vo. With numerous Illustrations and a Map. **10s. 6d. net.**

The author of this graphic account of life in Northern Nigeria was for some time Private Secretary to Sir Frederick Lugard, the High Commissioner, and was thus in a position to learn the truth about many important controversial questions. He has endeavoured, however, in these pages to avoid controversies and to confine himself to representing the country, the people, and the administration as they appeared to him when he was still fresh to them. The result is a brightly-written book which will not only be useful to those who contemplate following in the author's footsteps, but will convince, it is believed, all who take an interest in such things that the control of the country is well worth retaining, even at an apparent financial loss for a few years.

SUNSHINE AND SENTIMENT IN PORTUGAL.

By GILBERT WATSON,

AUTHOR OF 'THREE ROLLING STONES IN JAPAN.'

Demy 8vo. With numerous Illustrations. **12s. 6d. net.**

This book might almost have been entitled 'Three Rolling Stones in Portugal,' for, as in the author's previous story, there are three principal heroes, who travel through the country (as soon as their original enterprise of digging for the bones of mammoths in caves attracts them no longer), and a most fascinating heroine. The book is full of vivid and humorous descriptions of the party's open-air life in Portugal, and the reader will envy Mr. Watson's good fortune in meeting, wherever he goes, such charming creatures as Columba.

COMMONSENSE COOKERY.

Based on Modern English and Continental Principles worked out in Detail.

By COLONEL KENNEY-HERBERT.

Large Crown 8vo. New and Revised Edition. **7s. 6d.**

OUTLINES OF THE SYNOPTIC RECORD.

By the Rev. BERNARD HUGH BOSANQUET,
Vicar of Thames Ditton;
And R. A. WENHAM.

Crown 8*vo.* **6s.**

The authors have aimed at producing a concise historical commentary on the Synoptic Gospels, based on the ascertained results of modern criticism. An introductory chapter deals with the Synoptic Problem, and on the facts set forth therein are based the plan and arrangement of the book. The narrative follows mainly the Gospel of St. Mark, and the substance of the teaching of Jesus is introduced at suitable points. To attain conciseness, the discussion of doctrinal and Christological questions has been avoided, and the narrative of the fourth Gospel has been introduced only so far as is necessary in order to elucidate or supplement the Synoptic outline.

ENGLISH ESTATE FORESTRY.

By A. C. FORBES.

Demy 8*vo. With Illustrations. Probable price,* **12s. 6d. net.**

Forestry is a subject the importance of which is by no means adequately recognised in this country. It is, indeed, seldom that one finds an owner of woodlands who has a competent knowledge of the scientific theory and practical possibilities of timber-planting. Mr. Forbes's book will be found a most valuable corrective of the prevailing happy-go-lucky methods. Dealing first with the rise of economic forestry in England, he traces the evolution of the modern plantation, and considers the present condition and possible developments of estate sylviculture. Then, after discussing the various kinds of trees and how to grow them, he devotes a number of most interesting chapters to the principles of forestry and the details of woodland work.

POULTRY-KEEPING

AS AN INDUSTRY FOR FARMERS AND COTTAGERS.

By EDWARD BROWN, F.L.S.,
Secretary of the National Poultry Organization Society.

Crown 4*to. With copious Illustrations. New Edition. Revised throughout and much enlarged.* **6s. net.**

THE WALLET SERIES OF HANDBOOKS.

MR. EDWARD ARNOLD has pleasure in announcing the publication of a series of handbooks, ranging over a wide field, which are intended to be practical guides to beginners in the subjects with which they deal. The first five volumes, of which descriptions are given below, may be regarded as typical of the scope and treatment of the whole series, which is published at 1s. net per volume, paper, and 2s. net cloth.

ON COLLECTING ENGRAVINGS, POTTERY, PORCELAIN, GLASS, AND SILVER.

By ROBERT ELWARD.

Each subject is first treated historically, and then many valuable hints are given with the object of putting the collector on his guard against forgeries and worthless specimens generally.

DRESS OUTFITS FOR ABROAD.

By ARDERN HOLT,

AUTHOR OF 'FANCY DRESSES DESCRIBED,' 'GENTLEMEN'S FANCY DRESS AND HOW TO CHOOSE IT,' ETC.

After preliminary general advice on the outfits required by ladies and gentlemen for prolonged tours and voyages, the author, who is a well-known writer on this important subject, describes the actual dress requirements of both sexes at a very large number of places in all parts of the world, having regard to the climatic and social conditions prevailing at each.

ELECTRIC LIGHTING FOR THE INEXPERIENCED.

By HUBERT WALTER.

In this volume the art of lighting a house of moderate size with electricity is discussed for the benefit of the person who is anxious to do the thing well and cheaply, but who has no practical knowledge of the many little details which have to be considered in order to get a good result. All technical matters are explained in the simplest possible manner.

HOCKEY AS A GAME FOR WOMEN.

By EDITH THOMPSON.

The ever-increasing popularity of Hockey among the fair sex renders necessary an authoritative treatise on the game from the feminine point of view. The author is an acknowledged mistress of her subject, and deals exhaustively with the whole theory and practice of the game.

WATER-COLOUR PAINTING.

By MARY L. BREAKELL ('PENUMBRA'),

An enormous amount of experienced advice on the practice of a most fascinating art is compressed into this small volume, which will be found invaluable, not only by beginners, but also by more advanced students.

MY SPORTING HOLIDAYS.

By Sir HENRY SETON-KARR, C.M.G., M.P.

Demy 8vo. With numerous Illustrations. **12s. 6d. net.**

Sir Henry Seton-Karr has all his life been accustomed to devote his spare time to sport in all its forms, and, fortunately for those who love to read a well-told fishing or shooting story, has kept a record of many of his most interesting adventures in Norway, Scotland, and the Far West. He differs from many sporting writers in mentioning the 'misses' with no less frankness than the 'hits,' and his bright and amusing pages give a vivid picture of the vicissitudes of the sportsman's 'luck.' There is a valuable chapter on sporting rifles and their use.

GHOST STORIES OF AN ANTIQUARY.

By MONTAGUE RHODES JAMES, Litt.D.,

DIRECTOR OF THE FITZWILLIAM MUSEUM; FELLOW AND LATE TUTOR OF KING'S COLLEGE, CAMBRIDGE.

Crown 8vo. With Illustrations. **6s.**

Those who know the extensive and miscellaneous character of Dr. James's researches in various fields of learning will not be surprised to find him appearing as the author of a volume of 'Ghost Stories.' Originally written for domestic entertainment only, they certainly succeed in producing that dreadful feeling of growing horror which belongs to the best kind of ghost stories, told in the right way.

ENGLAND IN EGYPT.

By VISCOUNT MILNER,

HIGH COMMISSIONER FOR SOUTH AFRICA.

Eleventh Edition. With additions summarizing the course of events to the year 1904. *Crown 8vo.* **6s.**

The great and far-reaching change in England's position in Egypt effected by the signature of the Anglo-French agreement has rendered necessary a further addition to Lord Milner's work, tracing the course of events from 1898, when the book was brought up to date by a chapter by Sir Clinton Dawkins, to the present time. This important task has been carried out by Sir Eldon Gorst, K.C.B., late Financial Adviser to the Egyptian Government, who describes in a masterly chapter the recent results of British rule in Egypt and the Soudan, and the hopeful possibilities of the future.

NEW FICTION.

Crown 8vo. 6s. each.

THE CELESTIAL SURGEON.

By F. F. MONTRÉSOR,

AUTHOR OF 'WORTH WHILE,' ETC.

PETER'S PEDIGREE.

By DOROTHEA CONYERS,

AUTHOR OF 'THE BOY, SOME HORSES, AND A GIRL.'

With Illustrations by Nora K. Shelley.

THE SHADOW ON THE WALL.

By MARY E. COLERIDGE,

AUTHOR OF 'THE KING WITH TWO FACES,' 'THE FIERY DAWN,' ETC.

SCENES OF JEWISH LIFE.

By Mrs. ALFRED SIDGWICK,

AUTHOR OF 'CYNTHIA'S WAY,' 'THE THOUSAND EUGENIAS, AND OTHER STORIES,' 'THE BERYL STONES,' ETC.

THE RAMBLING RECTOR.

By ELEANOR ALEXANDER,

AUTHOR OF 'LADY ANNE'S WALK.'

THE REAPER.

By EDITH RICKERT.

CHECKMATE.

By ETTA COURTNEY.

THE EVOLUTION THEORY.

By AUGUST WEISMANN,

PROFESSOR OF ZOOLOGY IN THE UNIVERSITY OF FREIBURG.

Translated by J. ARTHUR THOMSON,

PROFESSOR OF NATURAL HISTORY IN THE UNIVERSITY OF ABERDEEN.

Two volumes, Royal 8vo. With many Illustrations. **32s. net.**

The importance of this work is twofold. In the first place, it sums up the teaching of one of Darwin's greatest successors, who has been for many years a leader in biological progress. As Professor Weismann has from time to time during the last quarter of a century frankly altered some of his positions, this deliberate summing up of his mature conclusions is very valuable. In the second place, as the volumes discuss all the chief problems of organic evolution, they form a trustworthy guide to the whole subject, and may be regarded as furnishing—what is much needed—a Text-book of Evolution Theory. The book takes the form of lectures, which are so graduated that no one who follows their course can fail to understand the most abstruse chapters. The translation has been revised by the author.

HOUSE, GARDEN, AND FIELD.

A Collection of Short Nature Studies.

By L. C. MIALL, F.R.S.,

PROFESSOR OF BIOLOGY IN THE UNIVERSITY OF LEEDS, AND FULLERIAN PROFESSOR OF PHYSIOLOGY IN THE ROYAL INSTITUTION.

Crown 8vo. With numerous Illustrations. **6s.**

This book is intended as a guide to the observation of live plants and animals, and deals with the structure and habits of a number of the commonest forms of life. The book is illustrated by many figures, drawn by Mr. A. R. Hammond, in most cases direct from nature.

LECTURES ON DISEASES OF CHILDREN.

By ROBERT HUTCHISON, M.D. EDIN., F.R.C.P.,

ASSISTANT PHYSICIAN TO THE LONDON HOSPITAL AND TO THE HOSPITAL FOR SICK CHILDREN, GREAT ORMOND STREET;

AUTHOR OF 'FOOD AND THE PRINCIPLES OF DIETETICS.'

Crown 8vo. **8s. 6d. net.**

THE BECQUEREL RAYS AND THE PROPERTIES OF RADIO-ACTIVE SUBSTANCES.

By the HON. R. J. STRUTT,

FELLOW OF TRINITY COLLEGE, CAMBRIDGE.

Demy 8vo. With Diagrams. **8s. 6d. net.**

The extraordinary properties of radium have excited so much interest, not only in the scientific world, but also among the public at large, that a clear and accurate account of radio-activity will, it is believed, be generally welcomed. The amount of elementary scientific knowledge assumed to be possessed by the reader has been confined to the smallest limits, and in the case of those parts of the subject which cannot be satisfactorily treated without the use of mathematical symbols the premises and results of the calculations are given verbally in the text and the calculation itself in an Appendix.

ASTRONOMICAL DISCOVERY.

By HERBERT HALL TURNER, D.Sc., F.R.S.,

SAVILIAN PROFESSOR OF ASTRONOMY IN THE UNIVERSITY OF OXFORD.

Demy 8vo. With Diagrams. **10s. 6d. net.**

In these lectures, written for delivery before the University of Chicago, Professor Turner traces the history of modern Astronomical Discovery, first showing by what an immense amount of labour and patience most discoveries have been made, and then describing in detail many of the more important ones. Among his topics are Uranus, Eros, and Neptune, Bradley's discoveries of the aberration of light and the nutation of the earth's axis, the photographic measurement of the heavens, Schwabe's work on the sun-spot period, and Mr. Chandler's discoveries in connection with the Variation of Latitude. In spite of the technical nature of the subject, Professor Turner writes with so much clearness that the general reader will find the book no less interesting than will the astronomer.

AN INTRODUCTION TO THE THEORY OF OPTICS.

By ARTHUR SCHUSTER, Ph.D., Sc.D., F.R.S.,
PROFESSOR OF PHYSICS AT THE UNIVERSITY OF MANCHESTER.

Demy 8vo. With numerous Diagrams. **15s. net.**

This volume is intended to serve as an introduction to the study of the higher branches of the Theory of Light. In the first part of the book those portions of the subject are treated which are independent of any particular form of the undulatory theory. The author has endeavoured, by means of elementary mathematical reasoning, to give an accurate account of the study of vibrations, and has laid special stress on the theory of optical instruments. In the second part mathematical analysis is more freely used. The study of luminous vibrations is introduced through the treatment of waves propagated in elastic media, and only after the student has become familiar with the older forms of the elastic solid theory are the equations of the electro-magnetic theory adopted. The advantage of these equations, more especially in the treatment of double refraction, is explained, and the theory of ionic charges is adopted in the discussion of dispersion and metallic reflexion.

THE ELECTRIC FURNACE.

By HENRI MOISSAN,
PROFESSOR OF CHEMISTRY AT THE SORBONNE; MEMBRE DE L'INSTITUT.

Authorized English Edition.

Translated by A. T. DE MOUILPIED, M.Sc., Ph.D.,
ASSISTANT LECTURER IN THE LIVERPOOL UNIVERSITY.

Demy 8vo. With numerous Illustrations. **10s. 6d. net.**

This work embodies the original French Edition, together with the new matter incorporated in the German Edition. Moreover, Professor Moissan has written, specially for this edition, a chapter dealing with the most recent work. The book, while dealing largely with Professor Moissan's own researches, gives a general survey of the experimental work accomplished by means of the electric furnace up to the present time. The bearings of this work on technical processes are frequently discussed.

THE CHEMICAL SYNTHESIS OF VITAL PRODUCTS

AND THE INTER-RELATIONS BETWEEN ORGANIC COMPOUNDS.

By PROFESSOR RAPHAEL MELDOLA, F.R.S.,
OF THE CITY AND GUILDS OF LONDON TECHNICAL COLLEGE, FINSBURY.

Super Royal 8vo. **21s. net.**

The great achievements of modern Organic Chemistry in the domain of the synthesis or artificial production of compounds which are known to be formed as the result of the vital activities of plants and animals have not of late years been systematically recorded.

The object of the present book, upon which the author has been engaged for some years, is to set forth a statement as complete as possible of the present state of knowledge in this most interesting and important branch of science. The book will consist of two volumes, of which the first will be ready very shortly. The treatment is calculated to make the volume a work of reference which will be found indispensable for teachers, students, and investigators, whether in the fields of pure Chemistry, of Chemical Physiology, or of Chemical Technology.

HUMAN EMBRYOLOGY AND MORPHOLOGY.

By ARTHUR KEITH, M.D. Aberd., F.R.C.S. Eng.,
LECTURER ON ANATOMY, LONDON HOSPITAL MEDICAL COLLEGE.

A New Edition. Greatly enlarged. Demy 8vo.

[*In Preparation.*

The greater part of the work has been rewritten, many of the old illustrations have been replaced, and a large number of new figures introduced. The alterations have been rendered necessary owing to the advances which have been made in our knowledge of the early phases of development of the human embryo, of the implantation of the ovum and formation of the placenta, and of the development of the heart, lungs and nervous system.

RECENTLY PUBLISHED.

THE ANTIPODEANS. By MAYNE LINDSAY. Crown 8vo., 6s.

LOVE'S PROXY. By RICHARD BAGOT. Crown 8vo., 6s.

THE VULGAR TRUTH. By L. LOCKHART LANG. Crown 8vo., 6s.

MISS CAROLINE. By THEO DOUGLAS. Crown 8vo., 6s.

MAUREEN. By EDWARD MCNULTY. Crown 8vo., 6s.

AULD ACQUAINTANCE. By RICHARD HARRIS, K.C. Crown 8vo., 6s.

THE BINDING OF THE NILE AND THE NEW SOUDAN. By the Hon. SIDNEY PEEL. Demy 8vo., 12s. 6d. net.

THREE YEARS IN THE KLONDIKE. By JEREMIAH LYNCH. Demy 8vo., 12s. 6d. net.

THROUGH THE LANDS OF THE SERB. By MARY E. DURHAM. Demy 8vo., 14s. net.

THE BACK BLOCKS OF CHINA. By R. LOGAN JACK, LL.D., F.G.S. Demy 8vo., 10s. 6d. net.

SPORT AND TRAVEL IN THE NORTHLAND OF CANADA. By DAVID T. HANBURY. Demy 8vo., 16s. net.

SIAM IN THE TWENTIETH CENTURY. By J. G. D. CAMPBELL. Second Impression. Demy 8vo., 16s.

THE STOCK EXCHANGE. By GODEFROI D. INGALL and GEORGE WITHERS. Crown 8vo., 5s. net.

BRITISH RAILWAYS: THEIR ORGANIZATION AND MANAGEMENT. By HUGH MUNRO ROSS. Crown 8vo., 5s. net.

A JUNIOR HISTORY OF ENGLAND. From the Earliest Times to the Death of Queen Victoria. By CHARLES OMAN and MARY OMAN. Crown 8vo., 2s.

LONDON: EDWARD ARNOLD, 41 AND 43 MADDOX STREET, W.