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A Digest

OF

Marshall's Principles of

Economics.

VOL. I.

Books I to VI.

ALLAHABAD

RAM NARAIN LAL

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Introductory Note

THESE notes were prepared in the first instance for my own students. Certain circumstances seemed to call for them. The only text-book on Political Economy now prescribed by the University of Allahabad is Marshall's "Principles," a work little suited to beginners.

A synopsis, by the co-ordination and subordination of parts, may serve some useful functions. It may indicate the important points at issue which a beginner cannot be supposed to know, and it may show the inter-relation of parts of the argument which in an involved work is apt to become obscured and forgotten. For purposes of review, it may further serve to test the student's knowledge of the larger work.

The notes in many places will be found unintelligible without reference to the "Principles." They are intended as a guide to, not a substitute for, the prescribed text.

R. A. K.

Indore, July 1908.

DIGEST OF "MARSHALL'S PRINCIPLES OF ECONOMICS"

BOOK I.—PRELIMINARY SURVEY.

CHAPTER I.—INTRODUCTORY.

1. **Definition.**—**Political Economy** or **Economics** is a study of mankind in the ordinary business of life.

Scope.—**Political Economy** is thus a study of wealth and a part of the study of man.

Importance.—

(a) In shaping the world's history, economic agencies have been the most persistent. Also in shaping man's character.

(b) In settling practical questions, *e.g.*, the necessity of poverty, Economics plays an important part.

2. **Political Economy** is of recent growth.

Reasons for this —

(a) A wrong view of the bearing of Economics on well-being.

(b) Difficulty in recognizing a unity in the changing Economic conditions.

(c) Only recently have business concerns been clearly marked off from others.

3. The fundamental characteristic of modern Business is not competition but **free industry and enterprise** or **economic freedom**.

Competition is secondary. It implies selfishness which is probably declining.

4. Preliminary account of **Value**. Adam Smith notes two meanings :—

(a) Utility of some particular object.

(b) Purchasing power. This is the Economic meaning.

The Value of a thing is the amount of another thing which can be got then and there in exchange for the first.

Value in civilised countries is expressed in terms of gold and silver as money.

Thus **Price** is value in money.

CHAPTERS II AND III.—GROWTH OF FREE INDUSTRY AND ENTERPRISE.

1. **Reasons for slow growth.**—In early times growth was retarded by :—

- (a) Physical causes. Man's power over nature was small.
- (b) Custom. The innovator was regarded as impious and an enemy.
- (c) Divided ownership. This retarded innovation. Most important, as cumulative in effects.

2. **Development in different countries.**

- (a) Greece. The pioneers of civilisation in Europe. Failed to rise to the dignity of labour.
- (b) Rome. Preferred war and politics. She had many of the forms of modern economic life but the resemblance was superficial.
 - i. Dignity of labour was not realised.
 - ii. Imports were won by the sword, not by economic agencies.
 - iii. Business was solely for money gains.
 - iv. Better classes were excluded.

Still Rome contributed to economic science by giving us the **modern laws of property** and by **emphasizing individuality**.

(c) The Teuton. An old conflict between town and country revived.

Self-government in country districts was impossible until recent times. Discussion of industrial and social questions not possible over a wide area until telegraphy, railways and cheap printing came. Government was in the hands of the aristocrats who retarded Economic Freedom.

But in the cities self-government and free discussion was possible. So Athens, Florence, Burges.

The Mediæval towns were the forerunners of modern industrial civilization.

The influence of **Guilds** was important. At first good, but later oppressive.

Feudalism gave scope to the political ability of the ruling class, and trained the common people in habits of discipline and order. But chivalry did little for the lower classes.

(The Church helped the growth of Economic Freedom.

- 1. It defended the weak and resisted often the tyranny of the rulers.
- ii. It encouraged industries, agriculture, education.
- iii. It instituted markets and hospitals.

¶ But it failed to develop self-reliance and inner freedom.

The Growth of large armies led to the overthrow of the cities but **new forces** arose to maintain industrial progress, *viz* :—

- ✓ i. The Invention of Printing.
 - ✓ ii. The Revival of Learning.
 - ✓ iii. The Reformation.
 - ✓ iv. The Discovery of the New World.
- (d) Spain and Portugal.—They first benefited by the maritime discoveries.
- (e) Holland.—Industry had now become strong enough to sustain civilization in a northern climate. But Holland was retarded by religious wars.
- (f) France.—But she wasted her chances.
- (g) England.—Gained on all rivals. After Napoleonic wars she led in maritime enterprises.

Thus modern industrial problems are being worked out under the influence of English character.

3. Growth of Free Industry and Enterprise in England in greater detail.

(a) The **Character** of the English lent itself to Industrial Development.

The **Effects of the Reformation** on English industrial life.

- i. It produced an individualism which was necessary.
 - ii. It attracted Flemish and Huguenot refugees.
 - iii. It produced a people conscientious yet progressive.
- ⌘ (c) Freedom of enterprise led to **Division of Labour**. This showed itself not only in **diversified trades** but in the **organization of business** and the **localization of industry**. A large foreign trade assisted.
- (d) **Undertakers** necessarily arose who first simply organized but later supervised industry.
- (e) This led to **large factories** and the hiring of labour wholesale.
- (f) **Effects** of the new organisation.
- i. Increased efficiency of production.
 - ii. Distress among workers, though other causes also operated.
- (Attempts made to regulate evils were unsuccessful. Yet on the whole, Free Enterprise was good. It saved England from Napoleon's armies).
- (g) **Special features of the century**.
- i. Evils of Economic Freedom are better seen.
 - ii. Higher ideals obtain.
 - iii. The Telegraph and Printing Press enable people to prescribe for themselves.
 - iv. More and better collective action.

(h) **Influence of other countries** on economic problems.

- i. America.—Speculative and trust combines.
- ii. Australia.—The same.
- iii. Germany.—Government control.

CHAPTER IV.—THE GROWTH OF ECONOMIC SCIENCE.

1. **POLITICAL ECONOMY** owed little directly to ancient thought.
2. Discovery of the New World made the consideration of trade regulations necessary.

3. **The Mercantile System** showed Economic Science beginning to take shape.

It rested on the assumption that a country was rich in proportion as gold and silver came into it.

It conceded however that these might be exported, if in the long run they returned. Here unwittingly began a tendency of thought in the direction of Economic Freedom.

4. The first Systematic attempt to form an Economic Science was that of the **Physiocrats** in France.

They insisted on liberty, which they thought was Nature's Law; and on consideration of the welfare of the common people.

5. **Adam Smith**.—The most important writer up to his time.
 - (a) Natural powers, education and travel gave him great advantages.
 - (b) He developed the Free Trade doctrine.
 - (c) By his theory of Value, he gave unity to Economic Science.

6. **Successors of Adam Smith** studied various departments.

(a) Young.—Agricultural labourers.

(b) Eden.—Pauperism.

(c) Malthus.—Population.

(d) Bentham.—Not an economist, but he settled the tone which economics had at the beginning of the 19th century, viz., strongly logical, harsh in temper.

7. Statesmen and Merchants again became students of **POLITICAL ECONOMY**. The Merchants did some good work investigating—

(a) The laws of money.

(b) The laws of foreign trade.

(c) The conditions of working classes.

Their work however was defective in that—

- (a) They did not make use of the comparative method.
- (b) They did not allow for divergencies of character and of circumstances.

8. **Modern Economics** notes that man's character and efficiency are not fixed, but the product of circumstances ; and is more biological, and less mathematical. The characteristics of modern work are .—

- (a) a high notion of social duty.
- (b) a wide gathering of facts.
- (c) a careful analysis.
- (d) an abandonment of dogma.

9. There has also been progress elsewhere.

- (a) France. — A continuous development through the 18th century.
- (b) America.—The American school has been Protectionist but now a new school is arising.
- (c) Germany.—The most important work of the 19th century has been done here.

- i. They emphasised the possible bad effects of Free Trade List.
- ii. They pressed the claims of nationalism.
- iii. They employed to good effect the comparative method. Here lay their greatest work.
- iv. They also did good work in Economic Theory, Socialism, and Functions of Government.

CHAPTER V.—THE SCOPE OF ECONOMICS.

1. **Comte held** that a study of the whole of Social Science was necessary. This is too wide.

Comte's own experience shows his ideal to be unattainable, while physical science suggests that specialization is advisable.

2. **A principle is wanted** to determine the scope.

If Economic Science is made too wide it loses scientific precision ; if too narrow it loses reality and completeness.

3. **Money Value** is the principle sought for. Economics concerns itself chiefly, but not exclusively, with motives which can easily be measured in term of money.

Objections considered.—

- (a) Money has different values to the poor and to the rich.

But this difference may be neglected when averages of large numbers are taken.

(b) Many actions are habitual and not deliberate. But habit is largely based on deliberate choice.

4. Economic motives are **not necessarily selfish**. Economics concedes—

(a) That money may be sought for noble purposes.

(b) That other personal influences may be at work, *e.g.* pleasure of work, desire of power.

(c) That motives to collective action are of growing importance, *e.g.*, collective ownership, voluntary associations.

Economics is forced to neglect these only because they cannot be classed, reduced to law, and measured.

5. **Provisional Conclusions.**—

¶ (a) Economic science deals with the **individual** as a member of an industrial group.

¶ (b) It **measures the motives** in demand and supply, at first in simple cases, then in more complex.

¶ (c) Though it deals mainly with one side of man's life, it is **the life of a real man**, not a fictitious being—an "economic man."

¶ (d) It claims to be a **Science**. Its facts are observed, measured, and recorded; its problems form a homogeneous group.

(e) Its **contents** must be determined by the importance of the subjects and the possibility of applying to them the general reasoning and analyses of Economics. Here Ethical Instinct and Common Sense must often be the ultimate arbiters.

CHAPTER VI.—METHODS OF STUDY.

THE NATURE OF ECONOMIC LAW.

A.

1. **Economics** employs both Induction and Deduction :—

By **Induction** is meant the ascertainment of facts—the work of the "**Historical School**."

By **Deduction** is meant the analysis of these facts and their inter-relation—the work of the “**Analytical School.**” Both are necessary, they are supplemental.

2. **The Deductive Method.**

- (a) As the result of analysis, it predicts—moves from causes to effects.
- (b) In Economics, however, it cannot venture on long chains of reasoning. The forces are too numerous and indefinite. But it provides many short chains and connecting links.

3. **The Inductive Method.**

It explains, moves from effects to causes.

To explain, or discover causes is not always easy.

- i. Among innumerable antecedents which events are to be chosen and why?
- ii. No two economic events are exactly the same.
- iii. In dealing with the past, ignorance increases our difficulties.

4. **Common Sense as a Method.**

(a) We cannot doubt its helpfulness.

(b) But it does not go far enough.

- i. It does not seek the cause of causes.
- ii. Unless we generalize we must by common sense go over the same ground repeatedly.
- iii. Only by generalizing can common sense help future generations.

B.

5. **Economic Laws** are not like the universal laws of natural Science.

They resemble, rather, the secondary laws, *e.g.*, the laws of Biology, the effects of which cannot be predicted with certainty because of the multiplicity of the causes.

Social Laws are statements of tendencies.

Economic Laws are those social laws which relate to branches of conduct in which the strength of the motives can be measured by a money price.

6. **Normal Action** is action which may be expected under certain conditions.

The adjective corresponding to the substantive “law” is, in Economics not “legal” but “normal.”

7. Economic Laws or **Hypothetical** only in the sense that all scientific doctrines are; *i.e.*, certain conditions are assumed. However, in Economics, these conditions are important and emphasised.

8. Economics is an **applied Science**, but not an art. The distinction between a pure and applied science is one of degree.

CHAPTER VII.—SUMMARY AND CONCLUSION.

The student should read carefully the summary in sections 1 and 2.

In section 3 is given a list of topics of interest to the Economist. It will be noted that some of these are not discussed in the present volume, *e.g.*, the money Market, Foreign Trade, Taxes.

Many of the motives stimulating the modern Economist are practical issues lying outside the sphere of Political Economy. See section 4.

CONCLUSION.

Economics is a study of the Economic aspects and condition of a man's political, social and private life, especially his social life.

Its aim is not simply knowledge for its own sake, but to contribute to a solution of social problems.

It is thus a Science, pure and applied, rather than a science and an art.

It avoids political issues, the exigencies of party organization and diplomacy.

Economics (or **Social Economics**) is a better term than Political Economy.

BOOK II.—SOME FUNDAMENTAL NOTIONS.

[It is important to note here the drift of Book I and the outline given of the following four books. In Book I, Prof. Marshall lays down :—

- (a) The Definition and Importance of P. E. (Chapter I).
- (b) The Growth of Free Enterprise, which is the characteristic of modern business, in various countries (Chapter II), but especially in England (Chapter III).
- (c) The Growth of Economics as a science (Chapter IV).
- (d) The scope of P. E., and some provisional conclusions (Chapter V).
- (e) The methods to be pursued in our investigations and the nature of the laws we shall discover (Chapter VI).

In Book II we have a **Preliminary Study of Wealth** and some allied terms.

Book III discusses **Wealth in relation to man's Wants and their Satisfaction**.

Book IV discusses **Wealth in relation to man's Efforts to produce it**.

Book V outlines the Causes which bring prices measuring Wants into **equilibrium** with the prices measuring Efforts.]

CHAPTER I.—INTRODUCTORY.

1. Economics regards Wealth as satisfying Wants and as the result of Efforts.

The question is, **What things** resulting from man's efforts and satisfying man's wants are wealth ?

2. In Economics classifying and defining are difficult, because—

(a) The character and uses of the things are changing.

(b) The terms in Economics are those in common use. These are neither consistent nor definite.

3. However, clearness of notion is more important than rigidity of terms.

CHAPTER II.—WEALTH.

1. **Wealth** consists of desirable things or goods, but not all goods.

2. Two classification of **Goods**—

a. Goods.	{	External	{	Material	{ transferable.
					{ non-transferable
		Internal		Personal	{ transferable.
					{ non-transferable.
					non-transferable.
b. Goods.	{	Material	{	External	{ transferable.
		Personal	{	External	{ transferable.
				Internal	non-transferable

3. **Material Goods** are useful material things, rights to hold or derive benefits from material things, or to receive them at a future time.

Personal Goods are of two classes :—

(a) Benefits derived from other persons, *e.g.*, labour dues and personal services of all kinds, property in slaves, organisation of business (External).

(b) A man's own qualities and faculties for action and for enjoyment (Internal).

Transferable Goods are those which by nature can be transferred from one owner to another.

Free Goods are those given by nature and not appropriated.

Exchangeable Goods are those transferable goods which are limited in quantity and are not free.

4. **Wealth or Economic Goods** consists of those external goods which are distinctly a man's own and which are directly capable of a money measure. Two classes :—

(a) Those material goods to which he has private rights and which, therefore, are transferable and exchangeable.

(b) Those immaterial goods which belong to him, which are external to him and which serve directly as a means of enabling him to acquire material goods.

5. The term 'Wealth' is sometimes used in broader senses :—

(a) **Personal Wealth** including all personal goods as energy, faculties, etc.

(b) **Common Wealth** including benefits of living in a certain place, security, roads, education, etc. These may be neglected in comparing

one man's wealth with another's, but should be noted in comparing distant times and places

(c) **National Wealth** including :—

- i. The wealth of individuals.
- ii. Public property.
- iii. Free gifts of nature.
- iv. Organisation of the State. Less Bonds, etc., held by foreigners.

(d) **Cosmopolitan Wealth**—national wealth extended over the whole globe.

6. **Value in Exchange** of an Economic Good is measured by its price, *i.e.*, the sum of money for which it will exchange. (It is supposed in this volume that the general purchasing power of money is steady).

CHAPTER III.—PRODUCTION, CONSUMPTION, LABOUR, NECESSARIES.

1. Man cannot destroy matter, but he may destroy its utility. He cannot produce matter, but he may readjust it so that it becomes a utility.

The production of Utilities costs effort; the consumption satisfies wants.

2. **Labor** is any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasures derived directly from the work.

Nearly all Labor is in some sense productive but the term 'Productive' is apt to be misunderstood :—

- (a) The usual meaning—providing for **future** wants.
- (b) A better meaning—providing means of production and of durable sources of enjoyment.
- (c) If used in a different sense it should be so indicated, *e.g.*, productive of necessities.

(d) **Productive Consumption** usually means the use of wealth in production of further wealth. This would include not all the worker consumes, but what is necessary to efficiency—a line difficult to draw.

3. **Wealth** may be divided into Necessaries, Comforts and Luxuries.

Necessaries are things which meet wants that must be satisfied.

Here again there is ambiguity. There are—

- (a) Necessaries for existence.
- (b) Necessaries for efficiency.

CHAPTER IV.—CAPITAL ; INCOME.

1. **Capital** has many meanings. (There is need here for new and specific terms).

The Fundamental Attributes usually attributed to Capital are :—

- (a) **Productiveness** which controls the demand for it.
- (b) **Prospectiveness** which controls the supply of it.

But nearly all forms of wealth have these attributes to some extent. It follows, therefore, that this distinction between Capital and other forms of wealth is mainly one of degree.

2. **Capital**, according to Adam Smith, is that part of a man's stock from which he expects to derive an income.

It is useful to make Capital and Income correlative.

3. **Individual Capital**.—In primitive times the various forms of wealth were not distinguished. But when money came into use, a tendency arose to confine the term 'income' to those **coming-ins** which were in the form of money or its substitute—payments in kind. This we may call **money income**. What brought in this income was called **Trade Capital**.

Trade Capital (the usual expression for Individual Capital) includes those external goods which a person uses in his trade, either holding them to be sold for money, or applying them to produce things to be sold.

Debts, of course, will be deducted.

4. **Social Capital**, or Capital in general, consists of those kinds of wealth, other than the free gifts of nature, which yield income in the common acceptation of the term, together with similar things in public ownership.

National debts are neglected.

Land, though included in individual Capital, is omitted. It is well to distinguish between the nation's resources which are made by men and those which are not. Again, the use of a division into Capital, Land, and Labour will appear later.

5. Things considered as **agents** of production are Capital; considered as **results** of production, as subjects of consumption and as yielding pleasures of possession are Wealth.

6. Some rough **Classifications of Capital** :—

(a) Consumption Capital and Auxiliary or Instrumental Capital.

Consumption Capital consists of goods in a form to satisfy wants directly.

Auxiliary Capital consists of goods that aid labour in production.

(b) Circulating Capital and Fixed Capital (J. S. Mill).

Circulating Capital is such as fulfils the whole of its office in production by a single use.

Fixed Capital is such as exists in a durable shape.

(c) Specialised Capital and Non-Specialised Capital.

Specialized Capital is such as is designed for use in one trade and cannot therefore be easily diverted to another.

Non-Specialized Capital is such as can be so diverted.

(a) "Personal Capital" may be used as "Personal Wealth." It includes personal energies, faculties, and habits which contribute to production, and also business connections.

7. **Net Income** is found by deducting from a man's gross income the outgoings that belong to its production.

Net advantage is the true reward which an occupation offers to labour, and which is calculated by deducting the money value of all its disadvantages from that of its advantages.

Usance of Wealth means the whole income of benefits of every kind derived from the ownership of wealth whether used as Capital or not.

Interest of Capital.—

(a) In the narrow sense—is payment for the use of a loan.

(b) In the broader sense—is the money equivalent of the whole income which is derived from Capital.

Profit includes all excess of receipts over expenditure in a man's business.

Earnings of Undertaking or Management are what remains of profits after deducting interest on the Capital employed.

Rent is income derived from the ownership of land and other free gifts of nature.

(The term commonly includes income from things whose supply is limited and cannot be quickly increased, *e.g.*, houses. See later).

Social Income is the sum of the income of the individuals in a community.

- i. Care should be taken not to include anything twice.
- ii. If the community is a nation, it may be called National Income.
- iii. National Income is a better measure of general economic prosperity than national wealth.

[Marshall, in a note, shows how difficult it is to distinguish with definiteness between the kinds of Capital, as also between Capital and Wealth. The distinctions drawn in note 5 above must suffice.

Students are advised, throughout this book as elsewhere to note the examples given in the text and also to supply Indian parallels.]

BOOK III.—ON WANTS AND THEIR SATISFACTION.

CHAPTER I.—INTRODUCTORY.

1. Marshall does not emphasise the ordinary division of P. E., into Production, Consumption, Distribution and Exchange. The subjects, however, are not lost sight of. That of Book III is largely Consumption; that of Book IV, Production; of Book V, the interrelation of these two, preparing the way for the concrete problems of Exchange and Distribution in Book VI.

2. The subject of Book III is 'Wealth in relation to the diversity of man's wants which it has to satisfy' *i.e.*, Demand and Consumption.

3. The subject was somewhat neglected until recently. Greater prominence is now given to it, because of—

- (a) A revolt on Ricardo's undue emphasis of Production.
 - (b) The growth of exact habits of thought.
 - (c) The spirit of the age demanding the consideration of **well-being**.
-

CHAPTER II.—WANTS IN RELATION TO ACTIVITIES.

1. **The wants of a savage** are few. At first they are for Quantity rather than Quality.

Quality and Variety are first sought for in **food**, the Capacity for which is limited.

Then appears a desire for **distinction**, *e.g.*, in dress and house-room, the capacity for which is unlimited.

2. Later, there appears the **desire for excellency for its own sake**.

This is a want resulting from activity; therefore it is not true that "The Theory of Consumption is the scientific basis of Economics."

The Science of wants and the Science of efforts are supplemental. If either, the latter is the more important as being the better interpreter of History.

It follows that our study of wants must be elementary and formal. The higher study of Consumption can only come later.

CHAPTER III.—GRADATIONS OF DEMAND.

[As the ultimate regulator of traders' demand is consumers' demand it is with the latter almost exclusively that we are concerned in this book.]

1. **Want and Utility** are correlatives. In E. they are not considered from any ethical or prudential standpoint.

2. **The Law of satiable wants or diminishing utility** is that the additional benefit, which a person derives from a given increase of his stock of anything, diminishes with the growth of the stock that he already has.

The Total Utility, in other words, of a thing to anyone generally increases with every increase in his stock of it, but yet does not increase as fast as his stock increases.

3. **Marginal Purchase** is that part of a commodity which a person is only just induced to purchase.

The Marginal Utility of the commodity to him is the utility of his marginal purchase.

The Marginal Demand Price is the measure in money of the marginal utility to him.

4. **The Law of Diminishing Utility** restated in terms of price:—An increase in the amount of a thing that a person has, will, **other things being equal**, diminish the price which he will pay for a little more of it, or, in other words, diminish his marginal demand for it.

5. It must be remembered that the marginal utility of money varies. It is greater for the poor than the rich. Thus, a more definite expression of any individual's demand would be a statement of the amounts he would buy at the various prices likely to be asked.

Such a statement would be his **demand schedule**. See p. 171, *4th Edit.*; p. 96, *5th Edit.*, for an example.

An increase of demand does not simply mean—

- (a) increased willingness to buy,
- or (b) increased eagerness to buy a certain amount,
- but (c) **generally** an increase throughout the whole list of prices,—a raising of his demand schedule.

6. **The Demand of a Group of Persons or a market.** (So far we have considered the demand of an individual). The Demand on the part of any individual for some things is discontinuous. The **Aggregate Demand** of many persons shows greater continuity and is of more concern to the economist.

The General Law of Demand is, the greater the amount to be sold, the smaller must be the price at which it is offered in order to find purchasers; or, in other words, the amount demanded increases with a fall in price, and diminishes with a rise in price.

There is, however, no exact relation. We cannot speak of price as measuring marginal utility in general, because people differ.

7. We have been taking it for granted that the conditions of a market are unchanged. Note, however, that the appearance of a rival commodity would affect prices and complicate the problem.

* CHAPTER IV.—THE ELASTICITY OF WANTS.

1. A change in price will change the demand. But this latter change will vary according to the **elasticity of demand**.

2. **Elasticity of Demand** in a market is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price.

3. Clearest notions of the Elasticity of Demand will be obtained by considering one class of society at a time. **The Elasticity varies** according as the persons considered are rich or poor.

A General Statement however, is possible. It is true of nearly all commodities and with regard to the demands of rich and poor alike that the Elasticity of Demand is **great for high prices**, but declines as the prices fall and may gradually fade away.

Note Marshall's illustrations shewing variation in details—

(a) Salt, cheap medicines, &c., of which a limited supply is required.

(b) Food-stuffs and comforts of which a large quantity can be used.

(c) Moderate luxuries.

(d) Expensive luxuries.

4. **Demand for necessities** when the price is very high or very low has little elasticity.

Commodities having many different uses, have, generally speaking, great elasticity of Demand.

5. **Difficulties** in getting exact lists of demand prices and interpreting them.

(a) **The Element of Time.** So far we have supposed "other things to be equal." Yet time has to be allowed for effects to appear and in this time many changes are possible, *e.g.*, in the purchasing power of money, in general prosperity, in population, in the habits and fashions of the people, in the urgency of purpose.

(b) The inevitable faults of statistical returns--

- i. The difficulty in obtaining a well defined market.
- ii. The possibility of mistaking the increase of the stock for an increase of consumption.
- iii. The difficulty of ensuring that the commodities are of the same quality.

6. The inductive study of the laws of demand may be helped by--

- i. Traders analysing their own accounts, *e.g.*, a co-operative store in a certain district.
- ii. A comparison of tables of demand by different sections of society.
- iii. Collection of budgets from individuals in different classes.

CHAPTER V.—CHOICE BETWEEN DIFFERENT USES OF THE
SAME THING.

IMMEDIATE AND DEFERED USES.

1. A wise person will distribute his means between the gratification of different wants, so that there will be the same marginal utility in all.

2. When money is used, the different wants will be gratified in such a way that the same price measures equal marginal utilities of the different purchases.

3. But since some of the commodities may go for future use, the question arises, "How estimate these **future** benefits?"

Allowance must be made for--

- (a) the uncertainty of the future (objective and constant).
- (b) the lower value placed on a distant pleasure (subjective and variable).

Future benefits may be said to be 'discounted' but at different rates, according to the person, or his mood.

We cannot estimate the **quantity** of a future benefit, nor know how a man discounts a future pleasure. But by making two assumptions, *viz.* :--

(a) that he expects to be about as rich at the future date as he now is ; and,—

(b) that his capacity for pleasure will remain the same, we may get an artificial measure of the rate of discount of future benefits.

This work out at about 5 per cent. and will be the rate at which he will discount money in the money market.

CHAPTER VI.—VALUE AND UTILITY.

1. The price paid for a thing does not always represent the benefit the purchaser derives from it. He usually pays a lower price than he is prepared to pay. The surplus satisfaction which he obtains may be called **Consumer's Surplus**.

It is part of the benefit which a man derives from his 'environment,' or 'conjuncture.'

An example is necessary to give definiteness to the argument. See page 200, *4th Edit*; p. 125, *5th Edit*.

A similar statement might be made for the surplus satisfaction of a commodity to a community or market.

2. The analysis here aims at nothing more novel than making definite the vague statement everywhere accepted that the real worth of things is not to be gauged by the price paid for them.

3. The problem is complicated by—

(a) The consideration of 'rival' commodities.

(b) the difference of sensibility of different peoples.

This may be neglected if we are considering large groups of people.

(c) The difference of wealth.

This also may be neglected on the same condition.

(d) The fact that the purchaser's command of money changes as he purchases.

But except in some peculiar cases, the consideration of this is of no practical moment.

(e) The difficulty in getting more than a conjectural list of demand prices.

4. Due allowance must be made for the utility of collective wealth.

5. The higher aspects of the utility of wealth suggest—

(a) The value of work and a moderate income.

(b) The folly of personal display.

(c) The superiority of the collective use of wealth over the personal use.

BOOK IV.—THE AGENTS OF PRODUCTION.

LAND, LABOUR, CAPITAL, AND ORGANIZATION.

CHAPTER I.—INTRODUCTORY.

1. The subject of Book IV is “Wealth in relation to the efforts by which it is produced” or “Supply and Production.”

2. **The Agents of Production** are Land, Labour, Capital, and Organization.

Land includes materials and forces freely given by nature (Chaps. II and III).

Labour includes the economic work of man whether by hand or head (Chaps. IV to VI).

Capital. See notes given above (Chap. VII).

Organization includes the stored-up provision for production other than Capital. (Chaps. VIII-XII).

The last two are often taken together under the name of Capital, but for many purposes they must be studied apart.

Another Classification.

(a) Man—including Labour, Capital, and Organization.

(b) Nature.

3. **A Provisional Statement** of the relation of Demand and Supply, of Consumption and Production :

Demand is based on the desire to obtain commodities.

Supply depends mainly on the overcoming of the unwillingness to undergo “discommodities.” These are, generally speaking, **Labour and Sacrifice.**

Though work may be pleasurable in general it may be said that the willingness to do it is governed by the price to be got for it

The Supply Price is the price required to call forth the exertion necessary for producing any given amount of a commodity.

This simple statement assumes that the number of workers is fixed. Such is not the case. Complications arise, but these are reserved till later (Books V and VI). The present book is Descriptive.

CHAPS. II AND III.--THE FERTILITY OF LAND.

1. The notion that land is a free gift of nature while the product of land is due to man's work is not strictly accurate. But a scientific principle underlies the distinction, *viz.*, man has no power to create matter. It may be better stated thus:—

Man controls the supply of certain utilities, therefore they have Supply-price.

Man does not control the supply of certain utilities, they have no Supply-price.

2. **The Fundamental Attribute** of land is its **extension**, *i.e.*, it gives man room for his actions and determines his distance from, and relation to, other things and persons.

3. **Agricultural Land**—Though "Land" has a wide use, when the Production or Fertility of Land is mentioned, naturally Agricultural Land is thought of.

4. **The Conditions of Fertility** are—

(a) **Mechanical**.—The soil must not be too yielding, nor too porous.

(b) **Chemical**—It must contain the elements necessary to growth.

5. Man can alter the fertility—

(a) By labor he can produce large crops.

(b) By mechanical and chemical means he can prepare the soil for the next crop.

(c) He can adopt the crop to the soil.

(d) He can permanently alter the character of the soil.

6. **The Properties of Land** are thus of two kinds, original and artificial.

(a) The artificial are due to human activity, and involve an expenditure of Labor and Capital.

(b) The original include—

i. Space relations.

ii. Sunlight, air and rain given by Nature.

iii. Inherent properties.

On these are based the significance of ownership and the character of the Theory of Rent.

7. To decide how far fertility is due to either of these properties account must be taken of the kind of produce.

(a) Forest trees little from men.

(b) River bottom pastures .. do.

(c) Permanent pastures .. more from man.

(d) Arable lands .. more still, &c., &c.

8. The Artificial Properties may be increased, but sooner or later the extra return to the additional Labour and Capital falls off according to the **Law of Diminishing Return**. This may be stated thus,—

Except when the land is under-cultivated or when improved methods modify results, an increase in the Capital and Labour applied in the cultivation of land causes a less than proportionate increase in the amount of produce raised.

(a) In the two exceptional cases, the Law may be that of **Increasing Return**.

(b) The law relates to the **amount** of produce not to its **value**.

9. Jas. Mill speaks of equal successive **doses** of labour and capital.

The Marginal Dose is that which only just remunerates the cultivator.

The Marginal Return is that which only just remunerates the cultivator.

Land is on the **Margin of cultivation** when the dose applied just remunerates the cultivator.

Surplus Produce is what is raised over the marginal return.

If the cultivator owns the land he retains this.

But under certain conditions it may be exacted by the landlord as **Rent**.

10. The term "Fertility" is not absolute, but relative to time and place. Whether a piece of land can be called fertile depends on—

(a) the skill of the cultivator,

(b) the amount of Capital and Labour at his disposal,

(c) the possibilities of **intensive** cultivation.

Compare England and Western America.

11. Ricardo's statement of the law of D. R. was inexactly worded. In reality, the richest lands in a new country are often not the first taken up. He meant "other things being equal, &c.," but he did not mention them. They are important, *e.g.*, ease of cultivation and access, healthiness, protection.

12. Carey misunderstood him, pointing to the order of settlement in America. But explained as above, Ricardo's law stands.

Carey, however, has shown that Ricardo underrated the benefits which dense population offers to agriculture.

13. **Application of the Law of D. R. in other departments :—**

(a) River Fisheries .. The law holds.

(b) Deep-sea „ .. Opinions vary.

(c) Mines and quarries .. With certain qualifications, the law holds.

(d) Building ground .. The law holds.

CHAPTER IV.—THE GROWTH OF POPULATION.

1. The second agent of production is **Labor**. We may consider the growth of population in numbers (Camp. IV.), in strength (Chap. V), in knowledge (Chap. VI), and in character (incidentally).

2. **Growth in numbers among men** differs from that among animals in that it is governed, above present conditions, by past traditions and future forecasts.

3. History of the Doctrine of Population—

- (a) Note the discussion on State encouragement of large families in ancient times.
- (b) Opinion varied in England but a growing feeling against it.
- (c) Adam Smith said little on the Subject. A time of prosperity.
- (d) C. 1800, hard times. The problem rose. Malthus was the chief exponent.

4. **Malthus' Reasoning** was in three parts.

- (a) Relates to the **Supply of Labour**. Every race tends to increase alarmingly unless checked by scarcity or some other cause
- (b) Relates to the **Demand for Labour**. No country has been able to support its people after it has become thickly populated.
- (c) **Conclusion**. As in the past so likely in the future. Unless there is restraint, there will be suffering.

Later events, *e.g.*, the development of transport affect the validity of (b) and (c) but not (a). The argument is still valid in substance.

5. **Conditions of Growth in Population**—

- (a) **Natural increase** which depends chiefly on habits relating to marriage.
- (b) **Migration**.

6. **Population in England**.

- (a) In Middle Ages, there were restraints on the increase of numbers, *e.g.*, disease, famine, religious orders, &c. Increase was slow.
- (b) From 1760 onward, population grew at a fair rate, because of development of manufactures and mining, and injudicious poor laws.
- (c) C. 1800 the marriage rate varied with harvests, later with commercial fluctuations. Now it varies with money income, but not so well marked.

CHAPTER V.—THE HEALTH AND STRENGTH OF THE POPULATION.

1. The Basis of Industrial Efficiency is **Health and Strength** which is nervous as well as muscular. Vigour is influenced by climate and race.

2. Health and strength depend on:—

(a) The necessaries of life—

- i. food and its preparation.
- ii. clothing.
- iii. house room.
- iv. fire.

(b) rest.

(c) hopefulness, freedom and change.

(d) nature of occupation.

(e) place of residence.

3. Nature tends to weed out the weak. Man may interfere to check this tendency.

4. Practical Conclusion :—

People should not marry until able to keep a family in suitable conditions.

The forces for and against health and vigour sway to and fro, the former slightly dominating.

Note the falling birth-rate among the middle classes in Europe and America.

CHAPTER VI.—INDUSTRIAL TRAINING.

1. Population may be numerous and vigorous, but for industrial efficiency **training** is necessary.

2. The term "Unskilled Labor" changes its meaning.

(a) Skill with which we are familiar is often not recognised as such, *e.g.*, using machinery.

(b) Pure manual skill is losing its importance relatively to general intelligence and vigor of character.

3. **General ability and specialised ability.**—

(a) G. A. is the general knowledge and intelligence which are the common property of all the higher grades of industry.

(b) S. A. is acquaintance with the particular materials and processes required in individual trades.

(c) **The Supply of G. A.** is determined by —

- i. The mother.
- ii. The father and other members of the family.
- iii. The home.
- iv. The school or general education.

(d) **Technical Education**, besides imparting special dexterity, should keep the aim of developing the faculties almost as constantly before it as general education. This it often does not.

4. **Higher Education.**—

(a) **Direct use** is small except to the employer and the foremen.

(b) **Indirect** benefits are great all round.

- i. It stimulates activity.
- ii. It improves the intellectual and even the moral powers.
- iii. It makes possible the rising of geniuses from the lower ranks. This is the greatest benefit.

5. **Education in Art** often fails to develop character.

6. **Expenditure in Education**, private and public, is therefore not to be measured by the direct results but by the indirect.

The raising of one genius is worth what is spent on 10,000.

How to apportion the cost of education between the parent and the State is a difficult problem.

7. **Mobility** is mainly within grades, rather than between grades.

A provisional conclusion as to mobility.—Other things being equal, an increase in the earnings to be got by labour increases its rate of growth. Mill thought that the industrial classes were divided into four well-marked grades, but all sharp lines of division are tending to fade away.

CHAPTER VII.—THE GROWTH OF WEALTH.

1. The third agent of Production is **Capital**.

2. The early Forms of wealth were largely **Consumption Capital**. Later came **Auxiliary Capital**.

Recently the expensive forms of **Auxiliary Capital** have been increasing very fast. These are likely to increase—

- (a) New wants are developing rapidly.
- (b) Man's powers of accumulation are growing.

3. **The Habit of saving** was of slow growth.

This is due to apathy, wastefulness, miserliness and foolish self-sacrifice.

4. **A chief condition of saving is Security.**

The growth of a money-economy may—

(a) Hinder saving by tempting to extravagance.

(b) Increase saving by making possible investment through competent hands.

5. **A chief motive to saving is family affection.**

6. **The source of Accumulation** is surplus income derived from—

(a) Capital.

(b) Rent.

(c) Earnings.

(d) Public property and property of co-operative societies.

7. **The Development of Accumulation** depends on the relation between present and deferred pleasures. See Book II, Chap. V

Some waiting is generally involved.

Some reward is generally obtained but not necessarily so.

Interest is the **reward of waiting**, not of abstinence.

As a rule, the higher the reward of waiting the greater will be the willingness to wait. There are exceptions *e.g.*, a man desiring a certain annuity. But in spite of these, a fall in the rate of interest tends to make saving less.

8. **Provisional Conclusion—**

(a) Accumulation of wealth is governed by a variety of causes, *e. g.*—

i. Custom.

ii. Habits of self-control.

iii. Family affection.

iv. Security.

v. Progress of knowledge and intelligence.

(b) A rise in the rate of interest increases **desire** to save, and often the **power** to save. This is almost universal.

(c) A rise in interest at the **expense of wages** does not always increase the power to save.

CHAPTER VIII.—INDUSTRIAL ORGANIZATION

1. This is the **Fourth Agent in Production.**

From Plato downwards, the importance of organization has been recognized. Adam Smith made clear the advantages of Division of Labor. But the modern doctrine owes much to biology and evolution.

2. On the whole, those races survive and predominate in which the best qualities are most strongly developed.

3. The Ancient Caste Systems had an economic value. Their fault, as in the struggle for existence, was the sacrifice of the individual to the exigencies of society.

4. **Adam Smith** was careful in stating the "benefits of Division of Labour and Industrial Organization. He saw the limitations and incident evils of the system. His followers, however, took it for granted that a man would use his superior powers for the benefit of mankind.

5. **Conclusion.**—The struggle for existence will not necessarily bring about results which are recognised to be beneficial. A system which allows the higher faculties of the working classes to go to waste may be suspected. **An inquiry is necessary.** Can the present industrial system be modified so as to increase the opportunities of the lower grades—

- (a) for using their mental faculties,
- (b) for deriving pleasure from their use,
- (c) for strengthening them by use ?

CHAPTER IX.—INDUSTRIAL ORGANIZATION—(contd.).

Division of Labour. The Influence of Machinery.

[Before an answer can be given to the question with which the last chapter closed a survey of the facts is necessary. Marshall, therefore, proceeds to discuss :—

- (a) Division of Labor as illustrated by the different classes of operatives, with special reference to machinery (Chap. IX).
- (b) The reciprocal effects of Division of Labor and Localization of Industry (Chap. X).
- (c) The question how far Division of Labor depends on Large Capital (Chap. XI).
- (d) The growing Specialization of the work of Business Management (Chap. XII)].

1. '**Practice makes perfect.**' Physiological and Psychological explanations for this.

Note, however, a change of activity is often a form of relaxation.

2. **Specialization** in manual work is certainly a benefit.

Specialization in higher work is of doubtful value.

Specialization and routine lead naturally to the use of machinery.

3. **Conversely**, machinery accounts for some Division of Labour, but the **main cause** is **Large Markets**.

4. **The Influence of Machinery** on the quality of Human life is partly good and partly bad.

The good results are :—

(a) A greater call for general intelligence.

(b) By relieving the strain on the muscles, monotony of work is prevented from becoming monotony of life.

A bad result is :—

(a) Manual skill is lost.

5. The extensive use of machinery is made possible by the use of **Interchangeable Parts**.

6. Division of Labour leads to specialized skill and machinery. The efficient use of both depends on them being fully occupied. But there is a difference between them. A machine is a mere implement of Production ; man is not. It may be asked, " Does the human race as a whole gain by extreme specialization ? "

7. Among Economies arising from an increase in the scale of Production of any land of goods a distinction is drawn.

Internal Economies are those arising from an increase in the resources of the individual houses engaged, in their internal organization and in efficiency of management. These we have dealt with.

External Economies are those arising from the general development of an industry and its localization. To these we now proceed.

CHAPTER X.—INDUSTRIAL ORGANIZATION —(contd.).

The Concentration of Specialized Industries in Particular Localities.

1. In **early times** heavy goods were made near where they were consumed. But in lighter goods there was **some localization**.

2. **Origins of Localized Industries.**

(a) Physical conditions :—

i. Character of the soil and climate.

ii. Existence of mines and quarries.

iii. Easy access by land and sea.

(b) Patronage of the ruling powers.

(c) Character of the people and of individuals ; and their circumstances, religious political and economic.

3. Advantages of Localized Industry.

- (a) Hereditary skill is accumulated.
- (b) Subsidiary trades grow up.
- (c) The use of highly specialized machinery is made possible.
- (d) A local market for special skill is created.

4. Disadvantages.

- (a) It may demand too extensively one kind of labor only.
- (b) A district dependent on one industry is liable to extreme depression.

5. **The improvement of transport has two opposite tendencies** with reference to localization.

- (a) It tends to make localities buy more from a distance.
- (b) It tends to make the producer migrate nearer to the consumer.

This double tendency is illustrated in recent English History.

6. Movements of English industries.—

- (a) Statistics would show a rapid increase in the non-agricultural population of England. This is not really so great as appears because in the middle ages agriculturists did not keep strictly to agriculture. The change has been in distribution.
- (b) Better transport has enabled lands to raise what is best suited to them; e.g., dairy products.
- (c) Those leaving agriculture have gone into industries which do not call for skilled labour.

CHAPTER XI.—INDUSTRIAL ORGANIZATION—(contd.).

Production on a Large Scale.

(We consider now how far the Economies' of Production on a large scale are internal, and how far external).

1. **Manufacture** is typical for our purpose as best showing the advantages of production on a large scale.

The **Chief Advantages** are Economy of material, of machinery and of skill.

(a) **Economy of material.** Waste can be utilized; by products created.

(b) **Economy in Machinery.** The large producer knows and can use specialized machinery.

He has also advantages in buying and selling.

(c) **Economy of Skill.**—He can make the best use of the skill he has and can afford to use specialized skill.

Still, a small concern has some advantages, *e.g.*, closer supervision, saving in book-keeping, etc.

2. Where large production is possible, a firm may grow rapidly. But it may also fall rapidly.
3. **Advantages of large businesses other than manufactures.**

(a) Trading concerns. Advantages are with the larger firms because :—

- i. They buy on better terms.
- ii. They make better use of skilled labour.
- iii. They receive more cash payments.
- iv. They issue price lists.
- v. They are less affected by change in fashion.
- vi. Ready-made articles are popular.
- vii. They have travelling salesmen.

(b) The Carrying Trades. Advantages, again, are with the large firms, *e.g.*, Railways, Steamship companies.

(c) Mines and Quarries. Small concerns have the advantages of better supervision. But when deep shafts and costly machinery are necessary large concerns have the advantage.

(d) Agriculture. Treatment deferred.

CHAPTER XII.—INDUSTRIAL ORGANIZATION—(contd.).

Business Management.

I. **A Problem**—A well-managed business tends to become stronger as it grows. Why are the smaller concerns not entirely driven out ?

Business is the provision for the wants of others made in the expectation of payment from those benefited.

There have been, and are, many forms of business management.—

(a) **The primitive handicraftman** dealt directly with the consumer. So do the learned professions of to-day.

Precarious but often inevitable. No mental strain.

(b) A special class of **undertakers** (*entrepreneurs*) is a feature of modern business. They bring together Labour and Capital ; they 'engineer' business projects.

- i. An illustration from House Building. Builders and Architects.
- ii. Illustrations from the textile and other trades. Manchester warehousemen. Directors of 'House industries.' Sheffield trades.

(A disadvantage, the possibility of 'sweating'.)

2. **Qualifications of an ideal manufacturer.—**

- (a) A thorough knowledge of **things**— materials, machinery, the trade, and its demands.
- (b) Leadership of men.

3. **The supply of business ability will depend on—**

- (a) The opportunities of developing it.
- (b) The opportunities of getting command over capital.

4. **Methods of securing this business ability.—**

- (a) The **son of a business man** has both classes of opportunities. But ability is not always inherited.
- (b) **Private partnership.** Ability in an employee may be called upon.
- (c) **Public joint-stock companies—**Many men supply the capital, a few managers supply the ability. The system is possible only where there is business morality.
- (d) **Co-operative Associations—**This aims at avoiding the defects of (b) and (c). The employees have a share in the profits and in directing the policy. Its defect is the possibility of friction.
- (e) **Profit-sharing—**This is a partial application of (d).

5. **The Working Man's opportunity of rising.—**

In favour, the quantity of capital seeking employment.

Against, the growing complexity of business.

On the whole, the opportunities are favorable. It is well if it be steady ; too rapid a rise is apt to breed a tyrannical spirit.

6. **The Adjustment of Capital to business ability.—**

An able business man can speedily increase his capital ; a man of small ability in command of large capital speedily loses it. Thus—

- (a) Capital tends to adjust itself to ability.
- (b) Business ability in command of capital has a fairly defined supply price in commercial countries. This supply price of Business Ability in command of capital is composed of three elements :—
 - i. The supply price of Capital.
 - ii. The supply price of Business Ability and Energy.
 - iii. The supply price of that Organization by which Ability and Capital are brought together.
 - i. **Is Interest.**
 - ii. **Is net earnings of management.**
 - iii. **Is gross earnings of management.**

CHAPTER XIII.—CONCLUSION.

The Law of Increasing in Relation to that of Diminishing Return.

1. Land as an agent of Production obeys the law of Diminishing Return. Labour, Capital and Organization obey that of Increasing Return.

2. With special reference to Organization, the Internal Economies of a Representative firm **generally** increase as the volume of Production increases; the External Economies **always** increase.

Since Internal Economies fluctuate so much, it is necessary to speak of a **Representative Firm**—one fairly long established, managed with normal ability and with normal access to economies.

Some firms may grow until they hold a monopoly. But again they may fail. The Representative Firm must be the subject of discussion.

3. The **Part played by Nature** in Production shows a tendency to diminishing return.

The **Part played by Man** shows a tendency to increasing return.

The **Law of Diminishing Return** has been stated above.

The **Law of Increasing Return**.—An increase of Labour and Capital leads generally to an improved organization and therefore to a return increased more than in proportion, unless in those industries engaged in raising raw produce. Even here the law of diminishing return is checked.

The **Law of Constant Return**.—The action of the two laws may balance, and increased labour and sacrifice may give an increased product just in proportion.

An increase in the volume of labour does not always yield a more than proportionate increase in the total efficiency of labour. It may lead to insanitary conditions, or to famine.

But as things are in England at present, an increase in numbers is generally accompanied by more than proportionate increase of the means of satisfying human wants. Much of this increase, however, is due not to increased industrial efficiency but to increased wealth and therefore does not necessarily benefit those that do not share that wealth.

BOOK V.—THEORY OF EQUILIBRIUM OF DEMAND AND SUPPLY.

CHAPTER I.—ON MARKETS.

[Book III discussed wealth in relation to man's wants and their satisfaction, *i.e.*, Demand. Book IV discussed wealth in relation to man's efforts to produce it, *i.e.*, Supply. Book V proceeds to outline the causes which bring prices measuring wants into equilibrium with prices measuring efforts].

1. **The Organization of markets** is so intimately connected with commerce that its full discussion is deferred to a later volume.

2. **A market** is the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly.

It need not be localized, though it tends to be.

If not localized, allowance must be made for expenses of delivery.

On the other hand, the telegraph, railway, and press tend to make wide markets.

3. **The conditions of a wide market** :—

(a) The commodity must be in universal demand.

(b) It must be capable of being easily and exactly described.

(c) It must be portable, *i.e.*, durable and valuable in proportion to its bulk. *Cf.* wheat and bricks.

Illustrations :—

(i) Bonds and shares of a Government or well-known company fulfil these conditions.

(ii) Gold and silver are also good examples.

(iii) At the opposite extreme are—

(a) things made to order.

(b) perishable and bulky goods.

(Between these extremes lie the great majority of markets which the economist has to study.)

4. **The Time Element in markets**.—This is more important to-day than the element of space. The equilibrium depends on the length of time over which the market is taken to extend.

(a) If the period is short, the supply is limited to the stores on hand.

(b) If the period is longer, supply will be influenced by the cost of producing the commodity.

- (c) If the period is very long, this cost in turn will be influenced by the cost of producing the labour and the material things required for producing the commodity.

These classes blend one into the other.
In Chapter II we shall discuss the first class.

CHAPTER II.—TEMPORARY EQUILIBRIUM OF DEMAND AND SUPPLY.

1. **The simplest case** of Equilibrium is that of picking fruit to satisfy one's own hunger. The trouble of picking soon balances the pleasure of eating.

In barter there is usually no true Equilibrium. Either party might probably have given more. The case of rare objects is unimportant.

2. **A typical case of temporary equilibrium** is a corn-market in a country town. Suppose that the grain is one kind and quality and that buyers and sellers are **evenly matched** in intelligence and resources, both sides will make calculations as to what will be offered and bought at various prices. The price where the supply balances the demand will be the market price. (See table on p. 411, 4th Ed. ; p. 333, 5th Ed.)

3. **In the Labour Market** there are noteworthy **differences**. The resources of the two parties are often not the same ; the disadvantage is usually on the side of the labourer.

This has important results in theory and practice.

4. **In barter** a true equilibrium is not likely to be attained. The acuter bargainer will bring about an equilibrium which will be to his advantage. Further uncertainty is due, not to the fact that one commodity is bartered for another, but that the marginal utilities of both are variable, while in a case of selling, the marginal utility of one of the things, *viz.*, money, is fairly constant.

CHAPTER III.—THE EQUILIBRIUM OF NORMAL DEMAND AND SUPPLY.

1. In the case of commodities not very perishable, the supply price is not determined simply by the stock in hand (as was supposed in last chapter) but largely by calculations.

(a) on future production and consumption,

(b) on the world's market,

(c) on the possibility of substitutes.

We now consider markets extending over **longer periods**, the slow and gradual adjustment of supply and demand.

2. **The Real Cost of Production** includes all the efforts and sacrifices in producing a commodity.

The Money Cost of Production is the sum of money paid for these sacrifices—the expenses of production.

It is possible to carry the analysis of these expenses back to any length ; it is advisable to go back only to the supply prices of the raw materials.

The Expenses of Production are the sum of supply prices of the factors of Production.

The Factors of Production are the things required for making a commodity. They vary greatly in relative importance according to the commodity and the locality.

e.g., Lumber in Canada—cost of labour is important.

The same in London—cost of freight is important.

NOTE that *changes in the amount* of a commodity produced may alter the relative quantities of the several factors of production.

3. **The Principle of Substitution.** In any set of circumstances the producer will use those factors of production which are best suited to his purpose, and will **substitute** so as to get a combination whose joint supply prices are as low as possible.

4. **The Problem of the Equilibrium of Normal Demand and Normal Supply** is worked out on the same principles as the simpler problem in Chapter II.

(a) It is supposed that there is free competition, that both sides are equally intelligent and that at any one time there is but one price on the market, allowance being made for shipping, etc.

(b) A demand schedule is drawn up (See Book III, Chapter 3). There is a demand price for each amount of the commodity.

(c) A supply schedule is then drawn up. This is more difficult as the conditions of normal supply are less definite. They must be studied in detail latter.

They will vary :—

(i) With the length of the period of time over which the market is taken to extend.

(ii) With the economies at the disposal of a firm. The normal supply price must provisionally be regarded as the expenses of production of a Representative Firm.

(iii) According as the law of Diminishing of Increasing Return is operating. (The latter case is postponed at present).

In finding the normal supply price of any commodity, *e.g.*, cloth it will be necessary to reckon—

- (1) the price of raw materials,
- (2) wear and tear of fixed capital,

- (3) interest and insurance on all capital,
 - (4) wages of workers,
 - (5) earnings of management.
- (d) The two schedules are set over against each other.
- (e) The demand price for a certain amount produced in the unit of time will be found to equal the supply price. This is Equilibrium.

5. The **Equilibrium Amount** is the amount produced in a unit of time when demand and supply are in Equilibrium.

The **Equilibrium Price** is the price at which the Equilibrium amount is sold.

The Equilibrium is **Stable**, if, when some accident moves the scale of production from its equilibrium position, the contending forces bring it back instantly to that position.

In real life, however, **Stable Equilibria are rarely formed** since the demand and supply schedules themselves do not remain unchanged for any length of time.

6. In a **Stationary State** the Money Cost of production would represent the Real Cost of production (*i.e.*, average value and normal value would be the same thing.) But in a state of change such as we live in, this is not the case. Adam Smith contended that 'in the long run' it would be so. Hence the great importance of the **element of time**.

The remainder of the present volume will be chiefly occupied with interpreting and limiting the doctrine that in the long run the Money Cost of Production will equal the Real Cost of Production.

In Chaps. V and XI, 4th Ed. (Chap. XII, 5th Ed.) the notion of Equilibrium will again be discussed.

In Chap. XIV note, 4th Ed. (in Appendix I, 5th Ed.) the question whether cost of production or utility (demand) governs value, will be discussed. Meanwhile it will be sufficient to say that in short periods, the influence of utility predominates in market values; in long periods (in the long run) the cost of production predominates.

CHAPTER IV.—INVESTMENT OF RESOURCES FOR A DISTANT RETURN. PRIME COST AND TOTAL COST.

1. In discussing markets extending over long periods we must notice the **principles** on which men make investments of resources for a distant return.

2. A man, making an article for himself out of materials provided by nature, *e. g.*, a house, considers the **real** cost of production. Two motives play upon him:—

- (a) Impelling:—the **utility** of the article when finished.
- (b) Deterring:—the necessary **effort** involved, and the **waiting**.

These will vary in the various possible plans, but probably in the plan chosen the gain will outweigh the real cost.

3. In the investment of capital by the modern man of business, however, the **money** cost of production is thought of in making payments for labour and materials. But the same motives are at play, and he will expect that the fruit of the outlay will exceed the outlay itself with interest thereon, and compensate for his waiting and risk.

4. **The Principle of Substitution** will be in constant use. (Can other economies be substituted with advantage?) Different men will take different routes to the same end.

It follows, therefore, that the **margin of profitable investment** is not a mere point on a fixed line, but a boundary line of irregular shape cutting one after another every possible line of investment.

5. The principle of Substitution is closely connected with :—

(a) The broad tendency to a diminishing return to the increased application of capital and labour.

(b) The principle of the diminution of marginal utility.

A business man, *e.g.*, a speculative builder, will be ready to **substitute** according to decisions which he makes as to :—

(a) The relative urgency of the various ends.

(b) The relative advantages of the various means of attaining these ends.

(c) The margin up to which he can carry the application of each means towards each end.

He will push the investment of capital in each direction until he reaches, what appears to him, the margin of profitableness, substituting means and ends according to what seems his own advantage.

6. The Business man expects to be recouped for the **Total Cost** of the article produced.

(a) **The Prime or Special Cost** includes the price of the raw material and ordinary labour, and the extra wear and tear of plant.

(b) **The Supplementary Cost** includes standing charges on account of the durable plant in which much of the capital of the business has been invested, and also the salaries of the upper employees. (These cannot be quickly adapted to changes in the amount of work to be done).

(c) **Total Cost** is the sum of these two.

7. The division between Prime and Supplementary Costs is not definite. It varies with the duration of the enterprise in question.

e.g., In short periods, the division between wages (prime costs) and salaries (supplementary costs) is indefinite ; in longer periods, division as to outlay on plant.

This variation is the chief source of difficulty in the study of the relation of marginal costs to values, the discussion of which is resumed at Chapter VIII.

CHAPTER V.—EQUILIBRIUM OF NORMAL DEMAND AND SUPPLY CONTINUED, WITH REFERENCE TO LONG AND SHORT PERIODS.

1. In this chapter we have the detailed discussion promised in Chapter III. See Digest § 4 ; *c, i*.

The difficulties arising from differences between the results of long and short periods are not created by the economist. In common life we tacitly allow for them, using the term **Normal** in an elastic way.

For examples of this elastic use see p. 436, 4th Ed. ; p. 363, 5th Ed.

2. The term **Normal** must be given a wider or narrower sense according as one considers a long or short period ahead.

The calculation made in Chapter III (*e.g.*, in the cloth trade, wages, raw materials, risks, etc.), will vary according to the time over which the market extends.

3. The problem of value is so complex that it is necessary to break it up. Each group of tendencies may be isolated for study by supposing the other tendencies to be inactive—“other things being equal.”

The first step is to consider the fiction of a “stationary state” in which, though there is movement the general conditions of production and consumption, of distribution and exchange remain motionless.

In a stationary state, the problem of value would be simple. The demand and the supply schedules of prices would always be the same ; the normal price would not vary for long or short periods.

The stationary state, however, is so far removed from the real world that such a doctrine of value would be misleading.

A modification of the fiction brings us nearer to real life and yet helps us to break up the complex problem. The **statical method** makes less violent assumptions. One feature of the problem is supposed to be stationary and a study made. The results of a number of these studies are then combined.

4. The **Problems of Value** are best classified according to the periods to which they refer.

Using the statical method, Marshall proceeds to discuss the three classes referred to in Chapter I (Digest § 4 ; *a, b, c*), illustrating by reference to the fishing trade.

(*a*) The **market price** for a day.

Here practically we have the stationary state ; general economic conditions may be neglected.

(b) **Short periods** of a year or two.

Here fluctuations due to weather, and variations in the number of seafaring men may be neglected: but we must consider the influence of good wages in attracting sailors from other ships and the inducements to rig up old boats.

The normal price here, will be the price which will quickly call labour and capital enough to obtain the daily supply. The normal supply price is likely to be raised by an increase in demand.

(c) **Long periods** extending over many years.

Here fluctuations in the weather, and those extending over a short period only, may be neglected. But we must consider the inducements to boys to enter the trade, and to capitalists to build new boats and employ new methods.

5. The normal supply price here will probably decrease with an increase in the demand.

The average price and normal price will coincide only by accident, or, as we have seen in Chapter III (Digest § 6), in the stationary state which is a fiction.

6. **The main result re-stated.**

(a) **Market values** are governed by the relation of demand to stocks actually in the market, with some reference to future supplies and trade combinations.

(b) When the market extends over a **period**, the general drift of the term **Normal Supply Price** is the same whether the period be long or short.

- i. A certain aggregate production is estimated.
- ii. A price is expected which will be just sufficient to induce people to produce the amount.
- iii. The cost of production is thus *marginal*.

But the **causes** which determine this margin vary with the length of the period.

(i) For *short periods* a change in demand will not affect the stock of the *appliances* of production. An increased demand will call for overtime, insufficient labour, and inconveniences until the margin is reached. A decreased demand will throw some of the apparatus and men out of employment. The price will fall, but not so far as it might, through fear of spoiling the market. It will nearly always be considerably above the Prime Cost. (Where there is much **fixed capital**, prices can fall far below their normal level without reaching the Prime Cost but such a fall is opposed by many causes. Even in short periods the supplementary cost has its influence on supplementary prices).

- (ii) For *long periods*, there is time to introduce material, plant, and suitable organization. Estimates on the incomes of these will govern supply and determine the long-period normal supply price.

7. Though these periods cannot be sharply divided, still on the basis of the length of time, a **rough classification** of the problems of value may be made.

In each, price is governed by the relation between demand and supply.

- (a) As regards **market** prices, Supply is the stock in hand, or at least in sight.
 - (b) As regards **short-period** normal prices, Supply is what can be produced for the price in question in a given time **with the existing plant**.
 - (c) As regards **long-period normal prices**, Supply is what can be produced by the **plant, which itself** can be profitably produced and applied in the given time.
 - (d) There are also **secular movements** of normal price, caused by the gradual growth of knowledge, population, and capital, and the changing conditions of demand and supply from one generation to another.
- [(a) and (b) are to be discussed in Vol. II
 (c) will occupy largely the remainder of this Vol., *i.e.*, the main topic will be the relation of wages, profits, prices, &c., for long periods.
 (d) will be noticed occasionally, while Book VI, Chap. XII, will be given up to it.]

CHAPTER VI.—JOINT AND COMPOSITE DEMAND ; JOINT AND COMPOSITE SUPPLY.

1. **Direct Demand** is demand for things which directly satisfy wants, *e.g.*, bread.

Derived Demand is demand for things which go to produce commodities directly demanded, *e.g.*, flour, labour of bakers.

Joint Demand is the sum of the Derived Demands. A Direct Demand thus often gives rise to a Joint Demand.

The Law of Derived Demand.—The Demand price of a factor of production is, for each separate amount of the commodity finally produced, limited by the excess of the demand price of the commodity over the sum of the supply prices of corresponding amounts of the other factors of production.

Note—that the illustrations here are all for short periods, *e.g.*, house building and the plastering trade.

Practical limitations to this theory. There are conditions to be fulfilled if a check in the supply of a factor of production is to raise its demand price.

- (a) It must be an **essential** factor in the production of the commodity.
- (b) The commodity itself must be in constant demand.
- (c) The price of the factor must be a relatively small part of the expenses of production.
- (d) A small check to the amount demanded must cause a considerable fall in the supply price of the other factors.

The first condition is frequently not fulfilled because of—

- (a) The principle of Substitution.
- (b) The possibility of lessening the proportion of the factor even when nothing is substituted.

2. **Composite or Aggregate Demand** for a commodity is the compounded demand of the different people wanting it, *e.g.*, coal. There may be **rival** demands between the trades, but in relation to supply they are compounded into one Composite Demand.

3. **Joint supply** is the supply of different things from the same source, *e.g.*, beef and hides.

The supply prices of the separate commodities are often hard to determine unless both are of value and their proportions change.

4. **Composite Supply** is the supply which comes from different sources on the Principle of Substitution, *e.g.*, beef and mutton; brick and stone. There may be **rival** supplies but in relation to demand they are compounded into one Composite supply.

5. The four problems above have some bearing on the causes governing the value of almost every commodity.

From their cross connections many complicated problems arise, *e.g.*

- (a) Leather and charcoal, when the latter was used for smelting.
- (b) Cotton and cotton seed.

CHAPTER VII.—PRIME AND TOTAL COST IN RELATION TO JOINT PRODUCTS, COST OF MARKETING. INSURANCE AGAINST RISK. COST OF REPRODUCTION.

1. **The problem** is that of distributing supplementary costs between the joint products of a business.

- (a) Difficulty when one branch of a business supplies raw material to another, *e.g.*, in mixed farming.

- (b) Difficulty where the joint products come together, *e.g.*, apportioning the expenses of a ship against freights on heavy and on bulky goods.

(In practice the supplementary costs are treated first, as proportionate to the prime costs, and then modifications are made).

2. Two points of special importance in the matter of sharing expenses :—

(a) Expenses of marketing.

(b) Insurance against risk.

- (a) Some goods market easily. Many manufacturers charge against these *less* than their proportionate share of supplementary expenses, and charge others with a greater share.

When the action of the law of increasing return makes the supply price unstable, the difficulty of fair apportioning is increased. It is especially unstable when the trade falls into the hands of a few firms.

- (b) Besides ordinary risks assumed by Insurance Companies, every business has other risks, *e.g.*, loss from carelessness or fraud, which must be reckoned in the supplementary cost, and distributed among the joint products. Care must be taken to omit nothing, and to include nothing twice.

Risk usually depreciates the value of stock, though in romantic undertakings, like gold mining, this may not always be the case.

3. Because of risks, it again appears that though the value of a thing tends to equal its normal (money) cost of production, it does not coincide except by accident.

Carey suggests that we should speak of value as equal to the cost of reproduction. But normal cost of production and normal cost of reproduction are convertible terms. The latter, though coming closer sometimes to market value, does not govern market value. Where purchasers cannot wait or when waiting would avail nothing, it has no influence.

4. The discussion of the general theory of equilibrium of normal demand and supply is finished.

The study of the **peculiarities**, and the **mutual relations** of the agents of production is postponed to Book VI.

But certain general questions must be considered :—

(a) **Marginal Costs** in relation to—

- i. values in general,
- ii. agricultural values,
- iii. urban values.

(b) **Equilibrium** with reference to the law of increasing return.

(c) The Doctrine of Maximum Satisfaction.

(d) The Theory of Monopolies.

MARGINAL COSTS IN RELATION TO VALUES. GENERAL PRINCIPLES.

[At this point Professor Marshall, in his 5th Edition, introduces two new Chapters (VIII and IX) the substance of which was given elsewhere in the older editions].

1. **The problem.**—The relation of marginal costs of products to—

(a) the value of those products,

(b) the value of the land, machinery and other appliances used in making them.

This continues the discussion of Chapter VI. The main argument, here, applies also to earnings of labour, but for simplicity we confine ourselves to earnings of land, machinery, and other material agents of production.

2. **Re-statement of the principle of substitution.**—Producers will choose those factors of production, the sum of whose prices will be less than the sum of the prices of any other set of factors.

Custom, law, etc., may hinder this selection, but the tendency is always in operation.

Illustrations—

i. Steam power *vs.* hand power in ploughing.

ii. Skilled *vs.* unskilled labour,

iii. Hand-power *vs.* machine power.

A business man, taking advantage of his economic freedom, will review the possible substitutes and estimate how much **net product** will be caused by a certain extra use of each agent.

3. **Net product** is the addition to the value of the total product after deducting any extra expenses involved in the change.

He will employ each agent up to that margin at which its net product would no longer exceed the price paid for it.

This notion of the marginal employment of any agent of production implies a possible tendency to diminishing return from its increased employment.

The Law of Diminishing Return is very general, but note that Diminishing Return resulting from the disproportionate use of any agent of production is distinct from the Diminishing Return, due to the pressure of population on the means of subsistence, which comes however well adjusted the applications of Capital and Labour may be.

4. We assume, then, the appropriate use of resources.

The part played by the **net product** at the margin of production is an important feature in the Doctrine of Distribution.

It does not mean, however, that the marginal use of a thing governs the value of the whole. Marginal use together with value are governed by the general relation of Demand and Supply.

It means, simply, that we must go to the margin to study the action of those forces which govern the value of the whole.

Under ordinary circumstances an agent of production, *e.g.*, iron, is not thrown out of use except at the point when there is no surplus of profit, *i.e.*, it is thrown out for its marginal uses. *Vice versa*, it comes in at the same point. Thus our study is at this point.

5. If a man is pushing his investments up to the margin, he may put his capital into what gives immediate returns or into something more durable—always consulting his best interests. While capital is 'free' or floating and is yielding speedy returns, these may be called **Inter st** or **Profits**. They will bear a calculable ratio to the Capital.

When the capital is 'sunk' in old investments the terms **Interest** and **Profits** cannot be so appropriately applied. The money value of the capital cannot be ascertained except by capitalizing the net income which it will yield. The capital yields a **Quasi-rent**. Between these two classes of investments there is no sharp division. Nor is there between **Quasi-rent** and **Rent** on land. Even in the first there is something of the nature of rent. All are species of a large genus.

6. The problem of value here may be made plainer by reference to an imaginary substance, further illustrated by the incidence of taxes.

(a) **The Incidence of Taxes.**—As a general rule a tax on production tends to check production, but the burden of the tax mainly shifts "forwards" on to consumers. A tax on consumption shifts "backwards" on to the producer. This shifting is illustrated by taking the cases of :

- i. a tax on printing,
- ii. a tax on local printing,
- iii. a tax on printing presses.

(b) **The Principles of the incidence of taxes applied to an imaginary case :—**

- i. A shower of hard, indestructible meteoric stones, limited in number and all found.

(a) The stones would afford to their owners a large producers' surplus, which would be governed by the demand for their services and the number of stones. (Since no more are to be found, on the side of supply, only the cost of producing a possible substitute would influence the value, and that indirectly).

- (b) The stones might be used overtime, but at an increasing disadvantage. The Law of Diminishing Return would begin to operate.
 - (c) A purchaser of stones would expect them to yield him interest on their price, just as he would expect machinery to do. The value of the stones (as of a machine) would be found by capitalizing the income they would be capable of earning and that income would be governed by the value of the services rendered.
 - (d) The earning power and, therefore, the value would be independent of the cost of production; it would be governed by general demand and supply. The supply in the case of a machine would be controlled by the cost of producing new machines; in the case of a stone there would be no such control, if there was no substitute.
- ii. Suppose the stones are not all found and the supply increases slowly:—
- (a) People would search for stones up to the point or margin when the gain from them would just reward the capital and labour involved in the search.
 - (b) In the long run the normal value of the stones would be such as to maintain equilibrium between demand and supply.
- iii. Suppose the stones are quickly worn out but are easily found.
- (a) Their value would closely correspond to the cost of finding them.
 - (b) Any variations would be small and short.

These imaginary cases illustrate the problems in hand.

i. The first case illustrates **Rents proper**

- (a) The stones would, as in the case of land, be distributed among the various uses so as to get the greatest possible net product. The margins of applications of these several uses would be **governed** by the relation of the fixed stock to the aggregate of demands.
 - (b) The price paid for the use of the stones (or land) is **indicated** by the value of the services rendered at any one of the margins.
 - (c) A uniform tax on the stones, like a uniform rent on land, collected from the user, would lower their net service. But it would not diminish their supply, nor alter the gross value of their services. It would, therefore, fall entirely on the owners.
- ii. The second case illustrates **Quasi-rents** on factors of production more or less permanent.
- (a) Revenue from the stones (or such factors) would be greater than interest if the demand for them were to

rise suddenly. The supply increases but slowly. The income yielded would be more or less akin to rent.

(b) A tax on these stones (or such factors) would fall ultimately on the consumers of utilities produced by them. But for some time, it would fall mainly on the owners, for, as above, the supply of the stones could not be diminished immediately nor raise the gross value of their services.

iii. The third case illustrates **Interest on capital** invested on what can be quickly replaced or disposed of:—

(a) Supply would change so rapidly with demand that services can never yield much more or less than normal interest.

(b) A tax would soon fall on the consumer.

(In connection with the second case, especially, note that what may be regarded as a prime cost in a long period will be considered a supplementary cost in a short period, and that the one blends into the other).

7. From interest on free capital to Quasi-rent of embodied capital there is likewise a gradual transition. The difference is fundamental, yet one of degree.

8. In real affairs, there is a blending of the above elements. In all land in use there is an element of capital; in all investment, an element of rent. The combinations are innumerable but it is the duty of science to analyze them.

AGRICULTURAL VALUES.

[Professor Marshall, in his 5th Edition, has compressed Chaps. VIII and IX of the older editions into one chapter on "Marginal Costs in relation to Agricultural Values." Sections have been rewritten so as to bring into relief his conception of a margin and the important part it plays. As the fuller discussion of the older editions seems necessary it is synopsisized here.]

CHAPTER VIII (4TH EDITION).

RENT OR INCOME FROM AN APPLIANCE FOR PRODUCTION NOT MADE BY MAN, IN RELATION TO THE VALUE OF ITS PRODUCE.

1. **The problem** is not so much rent *per se*, as rent in so far as it affects the value of produce. It is one in which the element of time is prominent.

A knowledge of the classical doctrines of Rent is largely taken for granted, and students would do well to read the discussion in Walker or some elementary work.

2. **The Classical Doctrines** of Rent are usually stated too simply and are apt to be misinterpreted. They are:—

(a) The price of the whole produce is **determined by the expenses, or money cost, of production on the margin of cultivation.**

(b) Rent does not **enter into** the cost of production.

3. But let it be noted : —

- (a) Rent is taken here as another name for **surplus produce** which is in excess of what is required to remunerate the cultivator for his capital and labour. He may be so situated that he has to surrender this surplus to another, but if he owns the land himself he **retains** it.
- (b) The marginal application of capital and labour, the return from which just remunerates the cultivator, is not necessarily applied to **inferior land**; and it is the **margin of profitable expenditure** on any land.
- (c) The doctrines do not mean that rent is not part of the cultivators' expenses. But when he is calculating whether or not he can profitably apply more capital and labour, he need not think of the rent. That has to be paid in any case.

4. **The Classical Doctrines re-stated :—**

- (a) The amount of produce raised, and therefore the position of the margin of cultivation (*i.e.*, of the profitable application of capital and labour to any land) are both governed by Demand and Supply. Thus cost of production, eagerness of demand, margin of production and price of the produce mutually govern one another.
- (b) Rent does not control the conditions of Demand and Supply : the fertility of land, the price of the produce and the position of the margin govern rent. It is the excess returns of capital and labour applied to land over what would be obtained at the margin of cultivation.
- (c) It follows that we cannot take the cost of production of parts of the produce not at the margin and use it in estimating the price of the whole produce.
- (d) The cost of production of the marginal produce can be ascertained without reasoning in a circle. The cost of production of the other parts cannot. But the price of the whole produce tends to the cost of the marginal produce.
- (e) Thus, differences in Rent of land result from differences in its **net advantages**, including fertility and situation.

All that is required for rent to appear is that the law of diminishing return should come into play.

There may be rents where all the land is equally fertile. In a new country there may be no rent and the best land unoccupied.

5. So far we have treated agricultural produce as a single commodity. But the different kinds of agricultural produce enter into competition for the use of fertile soils. The margin of cultivation for one particular crop may be quite different from the margin for agricultural produce in general. Rent may certainly enter into the price of this particular crop.

The margin of cultivation may more accurately be described as the margin of the profitable application of capital and labour to all lands for any competing crop.

6. The same doctrine will be found applicable to **urban lands**, but on the **mining royalties**. These latter are regarded as compensation for wealth abstracted.

Just as in agriculture there is a margin of production, *i.e.*, a point where it may be debated whether more capital and labour can be profitably expended ; so in manufacturing there is a **margin of building**, *i.e.*, a point where it may be debated whether capital and labour can be profitably expended in additions rather than in renting more ground.

Just as in agriculture, rent though entering into the cultivator's expenses, is no part of the cost of production ; so in manufacturing and retailing in the same sense, rent is no part of the price.

CHAPTER IX.—(4TH EDITION)

QUASI RENT, INCOME FROM AN APPLIANCES FOR PRODUCTION ALREADY MADE BY MAN, IN RELATION TO THE VALUE OF ITS PRODUCE.

1. The problem, here again, is Quasi-rent in relation to value. Quasi-rent is distinguished from rent in that it comes from an appliance **made by man**.

The resemblance, however, is close enough to warrant the name. The stock of land is **permanently** fixed ; the stock of appliances, for short periods, is temporarily fixed.

2. But to the individual producer land is but one form of capital. In debating whether to take more land (rent) or employ more ploughs (quasi-rent) he makes no distinctions. So also a manufacturer or trader.

3. To society, however, there is a difference. If he takes more land there is less for others. But if he invests in improvements he leaves just as good a field as before. Income from appliances stands in the same relation to the value of products as do true rent, but only for a **short** period.

4. **Re-statement of the main principle :—**

(a) The price of anything and the amount produced are governed by supply and demand.

(b) The price just covers the expenses of production of the part raised at greatest disadvantage.

- (c) Every other part yields a surplus above its direct cost. This surplus is a result, not a cause, of the selling price.
- (d) For long periods, the relation of rent to value is distinctive. Yet, for short periods, from rents to quasi-rents on permanent improvements and finally on less durable improvements and implements there is a continuous series.

5. There is in quasi-rents the same danger of circular reasoning as in rents :—

e.g., since Quasi-rent is governed by the price of produce it cannot be reckoned among the causes of that price.

6. The career of a settler in a new country illustrates the fact that the occupation of land does not necessarily involve rent. The land may be regarded rather as yielding profits.

The illustration of meteoric stones shows that the immovability of land is not essential as regards rent. If the number of the stones is limited, income from them may be a true rent.

CHAPTER X. — URBAN VALUES.

(5th Edition, Chap. XI.)

1. The problem here is the influence of **Environment** on the income from an appliance for production. Above we have noted incomes raised—

(a) From free gifts of nature,

(b) From investment of private capital.

But they may also come in part.

(c) From the indirect result of the general progress of Society.

Site Value is largely "public value," *i.e.*, its value may be due to a large population grown up near by.

Situation Value is the money value of the advantages of situation.

(It has been noted that the value of agricultural land is affected by situation. In all trades access to external economies depends partly on situation.)

2. **Situation rent** is the difference between the incomes from two businesses with the same facilities except as to situation.

There are exceptional cases where the advantageous situation is created by individual effort and outlay. Here the increased income is rather to be reckoned as **Profit**,

e.g. (a) Pullman City ; Saltaire.

(b) A group of landowners combining to make a railway which does not bring in much profit, but increases the value of their land.

3. **The Capitalized Value** of building land is the actuarial discounted value of the net incomes which it is likely to afford, allowance being made for expenses on the one hand, and increasing advantages on the other.

The **Ground rent** is calculated on the basis of capitalized value.

It may be a little higher at the beginning of a lease, because of increasing advantages; and a little lower towards the end because of increasing inconveniences.

4. The relation of the rents of factories and shops to prices has been noted in last chapter. The principles are the same.

5. **Composite Rent.**—The so-called rent of a building has usually two elements:—

(a) Quasi-rent for the building itself.

(b) Rent (often situation rent) of the ground.

In some cases the component elements can be distinguished.

e.g., A flour mill worked by water and built where there is choice of sites.

But in many cases they cannot.

e.g., The same mill built where there is no choice of sites.

Here arise many difficult problems in determining the true value of the products.

CHAPTER XI—EQUILIBRIUM OF NORMAL DEMAND AND SUPPLY, CONTINUED, WITH REFERENCE TO THE LAW OF INCREASING RETURN.
(5th Edition, Chap. XII.)

1. This chapter continues the study begun in Chapters III and V. The case of increasing returns was deferred for the time being.

2. The tendency to increasing returns does not act quickly.

Illustration,—an increased demand for pocket aneroids.

3. The tendency is difficult to forecast, largely because of the difficulty in calculating the “elasticity of supply.”

The influence of price on demand is similar in character for all commodities; and the elasticity of demand is not affected materially by the length of time at which we are looking ahead.

But the elasticity of supply depends on the nature of the commodities and the length of the market. These are variable.

4. This tendency to a fall in the price of a commodity as a result of a **gradual development of the industry** is not to be confounded with the tendency due to some **individual firm** taking advantage of its new economies.

The rise and fall of individual firms may be frequent while a great industry is going through one long oscillation, or gradually moving forward.

5. The solution of our problem is to be sought in tracing the action of a **representative** (or average) **firm**. By so doing we get at a marginal cost which for a long period (but not for a short) falls with a gradual increase of demand.

It must be remembered that the use made here of the statical theory of equilibrium is fraught with danger. In its earlier stages the theory diverges but little from actual fact, and gives definiteness and precision to the problem. But the results are correct only within limits. The problem is really one of organic growth.

CHAPTER XII.—THEORY OF CHANGES OF NORMAL DEMAND AND SUPPLY IN RELATION TO THE DOCTRINE OF MAXIMUM SATISFACTION.

(5th Edition, Chap. XIII.)

1. **Gradual Changes** in the adjustment of demand and supply have been considered above. We now consider **Substantive Changes**.

These may be caused by—

- (a) New inventions,
- (b) Diminution of population by war or pestilence,
- (c) A successful substitute,
- (d) A failure in supply,
- (e) A tax on supply.

It may be necessary to make out a new schedule of demand, or supply, or both.

2. **An increase in normal demand** involves an increase in the price at which each amount can find purchasers; and an increase of the amount which can find purchasers at any given price.

An increase in normal supply involves a fall in the price at which each amount can be supplied; and an increase of the amount which can be supplied at any given price.

3. **The effects of an increase of normal demand** will depend on whether the commodity obeys the law of constant, of diminishing, or of increasing return:—

- (a) In the first case, an increase of demand simply increases the amount produced **without altering** the price.
- (b) In the second case, an increase of demand **raises** the price and causes more to be produced (but not so much more as in (a)).
- (c) In the third case, an increase of demand **lowers** the price and causes much more to be produced.

4. **The effects of an increase of normal supply**. There will always be a reduction in price. The fall however will vary—

- (a) When the commodity obeys the law of diminishing return, the fall is small.

(b) When it obeys the law of increasing return the fall is great (especially if demand is very elastic).

(An endless variety of problems suggest themselves when we consider in this connection joint and composite demand and supply).

5. **The effects of changes in the condition of supply on consumers' surplus or rent.**

Let a **tax** represent changes which cause a general increase in normal supply prices.

Let a **bounty** represent changes which cause a general decrease in normal supply prices :—

(a) When the commodity obeys the law of **constant return**.

- i. In the case of a tax, consumers' surplus is **diminished** by more than the gross receipts of the tax.
- ii. In the case of a bounty, it is **increased** but less than the bounty.

(b) When the commodity obey the law of **diminishing return**.

- i. A tax will raise the supply price by something less than the full amount of the tax. Gross receipts from the tax **may be greater** than the resulting **loss of consumers' surplus** and **will be greater** if the tax acts sharply.
- ii. A bounty will lower the supply price and increase consumers' surplus, but less than if it were a commodity under (a).

(c) Where the commodity obeys the law of **increasing return**.

- i. In the case of a tax, consumers' surplus is **diminished** even more than in (a).
- ii. In the case of a bounty, it is **increased** even more than in (a).

6. These results throw light on the doctrine that a position of **stable equilibrium** of demand and supply is a position also of maximum satisfaction

The **doctrine is true** in the sense that the aggregate satisfaction of the buyer and seller is greatest at the position of equilibrium, because any production beyond the equilibrium amount could not be maintained if buyers and sellers act freely.

The **doctrine is not true** in the sense that the aggregate satisfaction would diminish, if by some means there was an increase of production.

- i. If the producers are very poor, an increase in production might raise the **aggregate satisfaction**.

- ii. If increased production, and a consequent fall in prices, are due to improved methods, the consumer may be benefited without injuring the producer.

It follows, therefore, that the aggregate satisfaction **can be increased** beyond the level attained by the free play of demand and supply.

The artificial means used to do this may have indirect evils, but we overlook these at this point.

7. **A suggested plan** to increase the aggregate satisfaction. Let the community levy a tax on their own incomes, or on the production of goods which obey the law of diminishing return, and devote the tax to a bounty on the production of goods obeying the law of increasing return.

However correct this may be in theory, the practical difficulties of collecting the tax and distributing the bounty must be reckoned.

8. We may, however, safely conclude :—

(a) Maximum satisfaction is attained, not by encouraging a man to spend his income as he pleases but to spend it on things which obey the law of increasing return.

To spend on things obeying the law of diminishing return decreases the real purchasing power of one's neighbours.

(b) A tax on expenditure generally causes a greater loss of consumers' surplus than one on commodities incapable of large production and obeying the law of diminishing return.

(c) **It might be** to the benefit of a commodity to follow the suggestion in section 7.

These considerations are not in themselves a valid ground for Government interference. Further investigation is necessary.

CHAPTER XIII.—THEORY OF MONOPOLIES.

(5th Edition, Chap. XIV).

1. **The doctrine of maximum satisfaction** is not usually thought of in connection with **monopolies**. But a monopoly might be used for the public good.

Our study is the relative quantity of benefits accruing to the public and to the monopolist from the adoption by him of different courses of action.

2. **A monopolist seeking his own interest** will adjust supply to demand so that he will obtain the greatest possible total net revenue.

The net revenue of a stock company excludes earnings of management, but includes interest on capital and assurance against risk.

Monopoly net revenue is the dividends less what is allowed as interest and assurance.

(Marshall's illustration is a Gas Company having the monopoly of supplying a town).

3. In the case of monopoly, **the demand schedule** is as usual.

The supply schedule must represent **the normal expenses of production** of each several amount supplied.

The monopoly revenue schedule may be constructed by placing against each amount supplied, the difference between the demand price and the supply price as calculated above.

This difference will be the monopoly net revenue. A monopolist will adjust the supply so that the difference will be as great as possible.

4. **The effects of a change** in the conditions of supply.

(a) **An increase in the expenses, fixed in total amount** (*e.g.*, a tax of a round sum regardless of the amount of commodity produced), will not diminish production.

Since to change the original price does not benefit the monopolist, to change after the fixed sum is deducted will not benefit him either. (See p. 541, 4th Ed. p. 481, 5th Ed.)

(b) **A decrease, fixed in total amount** (*e.g.*, a bounty) will not diminish production.

The reasoning is parallel.

(c) **An increase in the expenses proportionate to the monopoly revenue** (*e.g.*, a tax on monopoly revenue) will not diminish production (see p. 541, 4th Ed.; p. 481, 5th Ed.)

(d) **A decrease proportionate to the monopoly revenue** (*e.g.*, a bounty) will not diminish production.

(e) **An increase in the expenses proportionate to the quantity produced** (*e.g.*, a tax on output) will diminish production

(f) **A decrease proportionate to the quantity produced** (*e.g.*, a bounty) will increase production.

5. A monopolist consulting the public interests can often produce more and sell cheaper than if there were no monopoly.

No advertising is necessary. Work can be on a large scale and therefore with better methods and machinery. But whether human nature will permit a monopoly to sell at the best rates is a question incapable of general solution.

A government monopoly may possibly lower its rates from a direct interest in the welfare consumers.

A private monopolist may also lower his rates and yet be acting in his own interest. After he has his commodity introduced he may again put up the price.

6. **The Total Benefit** of a monopoly is the sum of the **monopoly revenue** and the **consumers' surplus**.

If the monopolist regards the gain to the consumer as of equal importance with gain to himself, he will aim at producing just that amount of the commodity which will make this total benefit a maximum. This, however, is not likely, even in the case of a Government monopoly. The consumers' surplus will be counted at a fraction of its value. The sum of the two may be called **Compromise Benefit**.

7. **General Results.**

(a) The amount offered for sale by the monopolist will be greater (and the selling price less) if he desires to promote the interests of consumers than if his sole aim is to obtain the greatest possible monopoly revenue.

(b) The amount produced will be greater (and the selling price less) as the desire of the monopolist to promote the interests of consumers becomes greater.

These are the only general results capable of exact proof, and even these are almost self-evident.

8. The interests of the producer are well conserved. He has genius and practice on his side.

The interests of the consumer are often under-estimated. He is at a disadvantage unless some able administrator is willing and free to champion him.

Even the administrator is not likely to be a match for the business man with his experience.

Statistics are needed to show the schedules of demand and consumers' surplus. Our present statistics are very scanty from this standpoint.

9. Our study has assumed that the monopolist can buy and sell freely. But there may be two monopolies dependent on each other. Whether it would be better for these to fuse or not, is a problem which cannot be solved by abstract reasoning.

[Professor Marshall's summary of Book V must be carefully read by the student in whatever edition he is reading. It cannot be synopsized.]

BOOK VI.—VALUE, OR DISTRIBUTION AND EXCHANGE.

CHAPTER I.—PRELIMINARY SURVEY.

1. **The Drift of Book VI as a whole.**—Nature yields a surplus over necessities. The distribution of this surplus is not the easy problem it would be if human beings were regarded as slaves or machines. Then, exchange value would determine distribution.

The Questions raised here are :—

- (a) What general causes govern the distribution of this surplus ?
- (b) How is distribution affected by—
 - (i) the standard of comfort,
 - (ii) the standard of life,
 - (iii) the struggle for survival,
 - (iv) the claim of capital, etc. ?
- (c) How does capital create a claim ? &c., &c.

2. **The Drift of Chapter I.**—A preliminary survey of the influence of demand on distribution, noting :—

- (a) That the early writers gave demand a subordinate place, representing value as governed mainly by the cost of production ;
- (b) How true their results might be in a stationary state, and what corrections were necessary to bring them into harmony with actual conditions ;
- (c) How many striking features of the modern problem were exemplified where men owned their own implements and materials, aside from “capitalistic” methods ;
- (d) How “net product” will be distributed among the various kinds of labour employed on one commodity.

3. **The Drift of Chapter II.**—A supplementary survey of the influence of supply on distribution, noting :—

- (a) How the rearing and training of any class of labour affects supply ;
- (b) How the magnitude of supply affects demand ;
- (c) How the broad lines of distribution of the national income are fixed between labour, and the owners of capital and land.

The Remainder of the Book will discuss in detail some of the points thus raised ; others will be left for another volume.

4. The Physiocrats' account of distribution was very simple. Wages and profits were fixed as low as possible by natural laws. The natural value of anything was the sum of wages and profits required to remunerate the producer.

Adam Smith saw that this position was not true in England. Labour and capital were not at the verge of starvation. Neither Malthus nor Ricardo held to this "iron law of wages."

Recent writers, *e.g.* Walker, have shown that poorly paid labour is often dear labour and, conversely, that high wages often increase the efficiency of labour.

5. **The Problem of Distribution** is much more difficult than the early writers supposed.

The Solution may be sought in breaking the problem up into simpler questions and treating each separately.

(a) Suppose a state in which:—

- (i) labour is interchangeable and of equal value,
- (ii) no capitalists or middlemen are present,
- (iii) population is stationary,
- (iv) the gifts of nature are free and accessible,

then, the problem of value would be simple.

- (i) Things would be valued according to the labour spent on them.
- (ii) All would have an equal share in the "wages-fund," or "earnings stream."
- (iii) Increased efficiency (*e.g.*, inventions) would increase effective demand and the share in the "earnings stream" all-round.

(b) Suppose a state similar to the above except that each has his own trade,

Then, the results would be the same, only the irregularities would last longer. Time would have to be allowed to pass from one trade to another.

(c) Suppose the further divergence that population increases but at a fixed rate.

Then, the same results, though the law of diminishing return asserts itself.

(d) Suppose further that labour is not industrially equal but in grades whose numbers are not fixed by economic causes.

Then, though the shares in the earnings-stream be unequal they, would still vary according to the demand for the articles in each grade.

(e) Return to the real condition of life, but for simplicity sake consider only the side of demand. (Supply in Chapter II). Then, since in modern business much of the national income passes through the hands of

'undertakers,' it will be distributed, according to the principle of substitution, so as to procure for them the greatest 'net product.'

Wages in any grade will tend to equal the net product due to the additional labour of the man on the margin of employment. (This is not put forth as a doctrine of wages but it plays an important part).

6. As in the demand for labour, so in the demand for capital, its employment will be pushed up to the point where it will bring in the greatest 'net product.'

The aggregate demand for capital is the sum of the demands of all individuals in all trades.

Interest will tend to equal the net product due to the additional capital employed on the margin of profitable investment.

7. Provisional Conclusions —

(a) Every agent of production tends to be applied in production as far as it profitably can be, *i.e.*, by the principle of substitution the greatest possible net product will be sought.

(b) The marginal uses of the agents of production do not govern values but are governed together with value by the general relations of demand and supply.

In estimating the National Income an ambiguity may arise. Should we include what a man does for himself? It is better to follow custom and leave this out. The point is not important if we are consistent throughout.

CHAPTER II.—PRELIMINARY SURVEY—(continued).

1. Our study of the influence of demand must be supplemented by a study of the reflex influence of supply.

The Problem is, How do demand and supply govern the distribution of the **National Dividend**?

Though Ricardo and his followers were wrong in neglecting Demand, they were right in considering the study of supply as more urgent and more difficult.

2. The causes which affect the supply of labour and capital were discussed in Book IV.

We saw there that the affective supply of any agent of production depends on—

- || (a) the stock in existence,
|| (b) the willingness of those holding it, to apply it to production.

3. The Supply of Labour.

(a) Increased remuneration usually calls forth **immediately** greater exertion. There are exceptional cases.

- (b) In the long run, the supply of efficient labour is certainly increased by higher wages and a more judicious mode of living.

Note the importance of the latter cause.

Demand and supply exert a co-ordinate influence on wages. They are not governed by demand price nor supply price, but by the whole set of circumstances which govern demand and supply.

The phrase 'general rate of wages' is convenient but inaccurate. Every group of workers has really its own problem.

4. **The Supply of Capital :—**

- (a) On the whole a rise in interest will tend to increase the volume of saving.

- (b) Locally, the increase may be speedy as capital will come in from the outside ; but the world over the increase will be slow and gradual.

Note again the co-ordinate influence of demand and supply.

5. **The Supply of Land.**—The case of land is different. Its supply is limited. Its value like labour and capital may be affected by demand, but it is not subject to the influences discussed here.

In relation to demand, land may be regarded as a form of capital. In relation to supply, the amount is fixed.

No change will increase the *national* income in this respect.

6. **A provisional Conclusion :—**

- (a) **The National Dividend** is the aggregate earnings of the several agents of production. It is divided into :—
- i. The earnings of labour.
 - ii. The interest of capital.
 - iii. Producer's surplus or rent.

- (b) It is distributed among them, generally speaking, in proportion to the marginal need which people have for their services.

7. **Points remaining to be discussed :—**

- (a) **The interaction of the various groups of the agents of production.**

- i. An increase in the supply of any agent will benefit most other agents, but not necessarily all. It will lessen the demand for substitutes.

Illustration—cheap slates and tiles.

- ii. In all cases, the national dividend is increased.
- iii. An improvement in a trade will affect all having dealings with the workers in that trade.

(b) The relation of capital in general to wages in general.

- i. Capital and labour may be competitors for the same field of employment. This, however, is not important.
- ii. An increase of capital, generally speaking, calls for an increase of labour. It increases the national dividend and thus opens new fields for labour.
- iii. An increase of capital raises **Real wages**. All classes of commodities are produced more cheaply.
- iv. An increase of **trade capital** was considered more beneficial to the labourer. The relation is not definite.
- v. Conclusion :—
 - (a) The broad theory of distribution already given covers the general relation of capital and labour.
 - (b) Capital and labour co-operate in the production of the national dividend, and draw their earnings from it according to their respective marginal efficiencies.
 - (c) Their interdependence is very close.
 - (d) However, the undertaker is of growing importance. (His influence will be noted in the next eight chapters and particularly in the next volume).

(c) The Wages-Fund.

Early last century special causes emphasized the dependence of labour on capital. This led to an exaggerated view, the **Wages-Fund Theory**.

The theory is that there is a fixed amount devoted to the payment of labour, irrespective of the number or efficiency of the labourers, and unalterable by law or any device of the employers or employees.

Marshall argues against the theory as too simple, as considering only the demand side of wages, and as overlooking the fact that wages are paid out of the national dividend.

- (d) **The relation of surpluses** to one another and to the national income is of little practical importance.

 CHAPTER III.—THE EARNINGS OF LABOUR.

[In Book V., and again in the two general chapters in Book VI., the study of the peculiarities of the several agents of production was postponed.

A more detailed analysis must be given of demand and supply in relation to labour, to capital and business power, and to land respectively.

Chapters III-V will discuss wages ; the present chapter, in particular, the methods of estimating and reckoning them].

1. It is said that competition tends to equalize earnings of people engaged in the same trade or in trades of equal difficulty.

This statement needs interpretation.

- (a) **Time-wages or time-earnings**, *i.e.*, what a person gets as wages in a given time, are made unequal by competition. Efficiency will be reckoned.
- (b) **Piece work earnings**. Even these will not tend to equality unless the machinery employed is the same all round.
- (c) **Efficiency-wages**, *i.e.*, wages paid with reference to the exertion of ability and the efficiency of the worker will tend to equality. Here only does the statement hold good.

The Corrected Law.—The tendency of competition is generally to equalize efficiency-earnings in the same district.

Even here a correction is necessary. When expensive machinery is used, it is to the employer's advantage to raise the true earnings of the more efficient workers *more* than in proportion to their efficiency.

Note that the general tendency here is liable to opposition from custom and trade unions.

2. Adam Smith distinguished between **Real and Nominal Wages**. **Real wages** may be said to consist in the quantity of the necessaries and conveniences of life that are given for it.

Nominal wages may be said to consist in the quantity of money.

The words " that are given for it " must cover not only necessaries, etc., purchasable but also advantages attached to the occupation.

3. In calculating the real wages of an occupation many things must be considered. Allowances must be made—

- (a) For **varieties** in the **purchasing power** of the nominal wages.
- (b) For **varieties** in **special articles** of consumption (various grades of society consume different things).
- (c) For **trade expenses**.
- (d) For **payments in kind**, keeping in mind the value to those who receive them. (The Truck System may be an abuse to the labourer).
- (e) For the **certainty or uncertainty** of success. (An average of salaries may be taken. But even so, an allowance for anxiety and risk must be made. On the other hand, a few extremely high prizes have disproportionately great attractive force.
- (f) For **irregularity** of employment.
- (g) For the possibility of **supplementary wages** and family earnings.

4. **Conclusion:**—The attractiveness of a trade depends not on its money earnings, but on its **net advantages**.

This will include not only net wages but all such advantages as healthiness and cleanliness of the work and locality, social position, etc.

These net advantages will be reckoned differently by different individuals and by different nations

Some people do not hesitate at dirty work. Some prefer the country to the city, and *vice versa*.

A paradox. Sometimes the dirtiness of an occupation is a cause of lowness of wages. Only the lowest unskilled workers will take the work and they get low wages because they can do little else.

CHAPTERS IV AND V.—EARNINGS OF LABOUR - (*continued*).

I. **Certain Peculiarities** of the action of demand and supply with regard to labour are important especially as they are cumulative in their effects.

(a) **First peculiarity:**—The worker sells his work, but he himself remains his own property.

Money invested in his education never returns in full to the investor. It will be limited, therefore, by the means, the foresight, but especially the unselfishness of parents and friends.

In the higher grade of society parents are eager to invest capital *in* their children. The poor either will not or cannot.

The evil is cumulative. The worse the children of our generation are provided for, the less able they will be to provide for their children; and conversely, a good start in life is important.

(The degradation of the lower classes in proportionate-to the rough work done by women).

(Technical training depends much on the unselfishness of the employer. The benefits are cumulative but *he* may not get them).

(b) **Second peculiarity:**—The seller of labour must deliver it himself.

The workman may consider the circumstances of the work and the character of the would-be employer, and act accordingly. The peculiarity has importance only in individual cases and is not generally cumulative.

(c) **Third Peculiarity:**—Labour is perishable. Lost time cannot be regained.

(d) **Fourth Peculiarity:**—Sellers of labour are often at a disadvantage in bargaining.

This disadvantage is greatest in the lower grades of labour. They have no reserve and their places can be easily filled. There are exceptions, *e.g.*, domestic servants.

The evil is cumulative in two ways. It lowers wages which lowers efficiency, and again wages. Again, disadvantage in bargaining lowers efficiency in bargaining and its normal value.

- (e) Fifth Peculiarity :—Labour takes a long time to prepare for its work, and the returns from this training are slow.

On account of this it is difficult to forecast the future of trades.

Parents in choosing for their children are determining, a generation ahead, the labour supply for a trade (or at least a grade of labour).

In so far as they are unable to forecast the future, the supply of labour in a trade in any one generation tends to conform to its earnings in the *preceding* generation.

Allowance must be made, however, for possible movements of adult labour. They are of growing importance because of the increasing demand for general ability.

2. Economic progress brings an increasing difficulty in predicting the demand for labour a generation ahead, but it brings an increasing power of remedying errors of adjustment.

3. We have seen that in the long run the appliances for the production of a commodity exact a controlling influence over the supply and price of the commodity, but not in short periods.

Problem: How far does this principle apply to human beings who as agents of production are not merely a means of production but an end, and who remain their own property?

In the case of labour a "long period" is generally very long, a generation. The average earnings would not be at all certain to give a normal return to those who provided the labour.

The earnings of labour, therefore, must be regarded as determined by the available stock at the time, and the demand.

If demand increases, in the case of handicraftsman, the whole of the rise in prices goes to them in wages. In the case of undertakers intervening the rise in prices goes at first to them, but they cannot retain it. Eventually, by competition, a great part reaches the employees.

4. Again we have seen, that when a factor of production is being exhausted, only part of the returns can be regarded as net earnings. A sum equivalent to the exhaustion must be deducted from the gross returns. The labourer is being exhausted. Allowance must therefore be made for this before we can determine his real wages.

This cannot be made up, as in the case of machinery, by working overtime. On the contrary there must be recompense for extra fatigue.

5. Conclusion :—

For short periods the earnings of labour (like the market price of anything) are determined mainly by the relation of demand to available stock. Demand here is 'derived' from the demand for the goods produced by the labour. Fluctuations in wages therefore follow, and do not precede, fluctuations in the selling prices of the goods produced.

For long periods, the earnings of labour will tend, by the adjustment of supply to demand, to an amount corresponding fairly with the cost of rearing and training the supply.

But the economic and non-economic conditions of a country are constantly changing. Therefore the point of adjustment of normal demand and supply in relation to labour is constantly being shifted.

(The extra income caused by some natural abilities obeys the law of rent to a certain extent. This is true when considering *individual* cases, especially for short periods, but not when considering the normal earnings of a *whole trade*.)

CHAPTER VI.—INTEREST OF CAPITAL.

1. In Chapters I and II the main principles of the action of demand and supply in relation to capital were discussed. It is necessary, however, to go into some details.

2. **The main points** are well known. Economics has made no startling discoveries.

(a) No interest would be paid on capital unless some gain was expected from its use.

(b) These gains are various.

(c) Few lend **gratis**, because there is a demand for capital.

(d) Few care to save much; there is an unwillingness to wait.

3. **The chief problems** for us here are :—

(a) How do capital and the other agents of production mutually determine one another?

(b) What influences sway men in their choice between present and deferred gratifications?

4. **The History of the Economic Doctrine of Capital** has been a long development.

(a) In primitive communities men borrowed because of great need. Advantage was taken of this by the lender. This led to the condemnation of taking interest.

Aristotle and the scholastics in general condemned interest. The circumstances obscured the real nature of—

- i. The services rendered by capital.
 - ii. The sacrifice made by the lender.
- (b) Some modern writers, *e.g.*, Rodbertus and Karl Max contend that the payment of interest oppresses the working class, at least indirectly.

If out of the proceeds of business interest is paid, there will be less for wages. But this assumes that the whole surplus of production is due to labour. Part is due to sacrifice.

5. **Net Interest** is the reward of waiting.

Gross Interest (commonly called Interest) includes other elements, *e.g.*,

- i. Insurance against risks.
- ii. Earnings of management.

Earnings of Management will vary with the circumstances of each loan,

e.g., Loans to business men on good security are low. Loans by pawnbrokers and to costermongers are high, though the risk is no greater. The difference pays the earnings of management.

Insurance against risks. They are of two kinds.

- (a) **Trade risks** vary according to the business.
- (b) **Personal risks** vary according to the character of the borrower.

A man is not as careful in investing other people's money as his own.

It follows that (a) **Gross Interest** does not tend to equality.

(b) **Net Interest** does.

This is seen in the fact that stocks will sell at the same price the world over.

(The real rate of Interest varies with the purchasing power of money).

CHAPTER VII.—PROFITS OF CAPITAL AND BUSINESS POWER.

I. The study begun in Book IV, Chaps. 12 and 13, is continued here.

It was noted there that the supply of business power in command of Capital may be regarded as consisting of three elements:—

- (a) The supply of capital.
- (b) The supply of business power to manage it.
- (c) The supply of organization by which the two are brought together.

Last chapter dealt with the earnings of the first element, *i.e.*, Interest. This chapter will deal with—

- (a) The earnings of the second and third elements together or the **Gross Earnings of management**.

- (b) The relation in which this will stand to the earnings of the second element by itself, *i.e.*, to the **net earnings of management.**

The causes which govern these will be seen to be less arbitrary than is generally supposed.

2. A business survives if it is fitted to **thrive** in an environment, not necessarily because it is fitted to **benefit** that environment; *i.e.*, success depends on immediate rather than ultimate efficiency.

Thus, there are **two classes of undertakers** :—

- (a) Those who open up new and improved methods of business. They often miss their reward.
 (b) Those who follow the beaten tracks. Their services are direct and seldom miss the mark.

All may get rewards proportionate to the **direct** services rendered to the community, but in an ideal state of society many would get more. However we are studying the action of causes that determine the earnings of management under existing conditions.

3. Let us trace the adjustment of the earnings of ordinary workmen, of foremen, and of employers of different grades. The Principle of Substitution is everywhere at work.

- (a) Adjustment of demand for the services of foremen (and therefore the earnings) as compared with those of ordinary workmen.

Will an extra foreman on higher pay and less workmen be to advantage in production?

- (b) Adjustment of demand for foremen and salaried managers as compared with services of heads of businesses :—

Will it be to advantage in production?

- (c) Adjustment between earnings of business men on a large and on a small scale.

A large business can use machinery and borrow capital better; a small business can be better supervised.

Again, which will be to advantage in production?

(A man with borrowed capital is at a disadvantage in trades which move slowly and which are risky. Interest is high. He plays an important part when profits are high, and sales quick. Moreover to maintain his social position he will often work for small returns).

4. The adjustment of the earnings of employees as against those of management are best shown in a joint stock Company.

Both alike get their earnings by labour simply.

5. Each modern method of business has its advantages and disadvantages. Each will be pushed to the margin of profitable employment.

6. Conclusions as to the earnings of Management : —

- (a) The general tendency is to adjust earnings of management to the difficulty of the work done.
- (b) The adjustment may be hindered in certain case by the difficulty of ascertaining what is the price that is being paid for it, but generally it is fairly accurate for the trade as a whole

CHAPTER VIII.—PROFITS OF CAPITAL AND BUSINESS
POWER—(*continued*).

1. The Problem : Is there any general tendency of rates of profits to equality ?

Note that in small businesses profits often appear higher than they really are. Some of the labour wages are included as profits while in a large business some earnings of management are excluded as salaries.

2. A distinction must be made between profits per annum and profits on the turnover.

3. Profits per annum.

- (a) When the same elements are included, profits in large and small businesses are much the same.
- (b) When the same elements are included, and profits are reckoned in the ordinary way, the rate of profits generally declines as the size of the business increases.

When profits are lower in small businesses, these latter are disappearing before combines.

- (c) When the work of management is difficult and risky, profits per annum are generally high.

Marshall notes two special cases.—

- i. When the circulating capital is large relatively to fixed capital. This, of course, necessitates more management.
- ii. When the wages bill is very large relatively to the capital.

American writers would make profits simply remuneration for risks, what remains after interest and earnings of management are deducted from gross profits. This, however, would reduce the work of management to mere routine superintendence.

- (d) The tendency to equality in ordinary trades may be stated thus :—Where equal capitals are employed, profits tend to be a certain percentage per annum on the total capital, together with a certain percentage on the wages bill

4. Profits on the turnover.

- (a) These vary much more widely than annual profits.

They vary with the length of time, the amount of work, and the likelihood of deterioration.

Compare rates in stocks, retail cloth goods, and toys.

- (b) Each branch of trade has its customary or fair rate of profit on the turnover.

Experience fixes this and it is of practical service to those in the trade

5. The whole of normal profit enters as a constituent element of the normal or long-period supply price; and the causes which govern normal profits resemble those which govern ordinary earnings. But disturbing causes affect profits and ordinary earnings differently.

- (a) Profits bear the first effects of a change in prices. They fluctuate with prices and in even greater ratio. Wages will change in time, but not in the same ratio.

The employee at the worst earns nothing; the employer may be at a *loss* he may lose his capital.

- (b) The profits of individuals differ more widely than wages.

Their average value is over-estimated because those who lose their capital disappear from sight.

- (c) While in the income of an artizan or professional man there is an element of quasi-rent, it is insignificant. The profits of the undertaker are really all quasi-rent.

CHAPTER IX.—RENT OF LAND.

1. Our special study here is the **net income of Land**.

In this chapter we consider the **total quantity** of net income, or producer's surplus.

In Chapter X we consider how this income is distributed. (Land tenure).

2. To avoid questions of tenure, let us suppose that the land is cultivated by its owners.

- (a) The income accruing from the inherent properties of land is independent of man. It goes to the owner.

A tax on such income would fall on the owner.

- (b) The income derived from permanent improvements would first go to the owner, but later would benefit the consumer.

The incidence of a tax again shows this.

3. Application of the discussion of Book IV as to the tendency to diminishing returns.

- (a) The cultivator expects the producer's surplus or rent, *i.e.*, the excess of gross produce over what is necessary to compensate capital and labour.

- (b) After a point soon reached this will diminish until the margin of profitable investment is arrived at.

- (c) The surplus depends on—
- i. The richness of the soil (which cannot be estimated absolutely).
 - ii. The relative value of things he has to sell and those he has to buy. (Industrial environment)
(We must suppose the cultivator to be of normal ability and enterprize. This affects producer's surplus both ways).

(d) A rise in the real value of produce generally raises the produce value of the surplus, and its real value even more.

The rise on poor lands is relatively greater than on good lands.

(e) It follows from this discussion that producer's surplus is not evidence of the bounty of nature. Advantageous situation is as productive of producer's surplus.

The Physiocrats and Adam Smith held the first position. Ricardo, through a better analysis, moved from it.

4. The central doctrine of rent is applicable to nearly all systems of land tenure.

The English system, however, is the most important for the science.

It has helped English Economists to pioneer the way in Economics. It may not last, for it has its disadvantages.

The main feature of the English system is the division between the landlord's and the farmer's share in production.

The landlord supplies the permanent improvements and requires of his tenant the whole producer's surplus of a normal year, after deducting enough to compensate the average farmer with normal profits on his capital.

5. Rent in relation to other forms of wealth. In an old country and not looking far ahead, the distinction though a valid one is very slight.

e.g., a man debating whether to buy more land or put in better plant.

In a new country and looking to the future, the distinction is important.

The State might here easily obtain for itself true rents without affecting industry.

6. The Capital Value of Land. This is the actuarial discounted value of all the net incomes which it is likely to afford—with allowance both ways.

Commonly the value of land is reckoned as a certain number of times the current money rental. This is approximate.

CHAPTER X. - LAND TENURE.

1. Early forms of land Tenure were generally based on partnerships on terms fixed by custom, rather than by conscious contract.

The so-called Landlord was the sleeping partner. But he could not turn the tenant out. What was paid was not rent. The Theory of Rent did not apply.

2. English History shows that **custom** is not so hard and steady as at first appears.

Money rents remain stationary, but real rents often change, *e.g.*, an under-rented farmer has to make his own improvements while a steady tenant often gets concessions.

The same is true of the earlier systems.

The terms were often vague and capable of unconscious modification.

Where real rents did change, custom was a protection against the changes being sudden or violent.

3. **Various systems of Tenure.**

(a) **Metayage or Rental by shares.** In Latin Europe and America we have many forms of this.

Advantages. It offers to a man without capital, some of the advantages of co-operative production, profit-sharing and payment by piece work.

Disadvantages.—It is apt to involve much friction:—

- i. If the control of the landlord is slight, cultivation is poor and management costly.
- ii. If the control is effective, the effects are not very different from those of the English plan of tenure

It is useful only when the holdings are small, the tenants poor and the landlord able to manage closely.

(b) **Peasant Proprietorship.**

Advantages.—It stimulates many virtues, self-respect, self-denial, industry; and has many sources of happiness.

Disadvantages.—The Peasant proprietor is wasteful in his thrift, and though industrious is inefficient.

There are many well-to-do French and German peasants and many poor English labourers. But against these last must be set the many rich men who are descended from English labourers.

The American farmer is a 'peasant proprietor,' but his width of view saves him from the failings noted above.

(c) **The English system of Tenure** though faulty and harsh in many respects has stimulated and economized enterprise and energy.

It Merits —i. It enables the landlord to supply that part of the capital for which he can easily and effectively be responsible, *e.g.*, the land, the buildings and the permanent improvements. (This averages in England five times what the farmer provides and gives interest about 3 per cent)

- ii. It gives considerable freedom of selection in the matter of tenants, but yet not too much.

4. **Large and Small Holdings.** Though the natural agents obey the law of diminishing return, man's part in agriculture obeys the law of increasing return as in manufacture.

But the economies of production are not quite similar.

(a) Agriculture cannot be a localized nor a highly specialized industry.

(b) Agriculture requires a constantly increasing knowledge and calls for attainments which find better employment in business where their whole time is occupied in high-class work.

This would suggest very large farms for those who have great business ability, and small farms to be worked by the tenant, his family and helpers for those without business ability. Men of average ability who will not work themselves will be crowded out.

5. **How far landlords in their own interests will adjust the size of their holdings to the real needs of the people.**

In the case of small holdings the landlord will seek higher gross rents.

- i. There are more buildings, fences, roads, etc., required.
- ii. Insurance against the loss entailed by putting the farms together again will likely be sought.

Marshall thinks there is a public need for small holdings in every district. Peasant Proprietorship is unsuited to England or the genius of her people. There should, however, be no artificial hindrances.

Co-operation in agriculture has good opportunities, but requires habits of mutual trust which are wanting.

6. **Failure of the English System in Ireland.** This brings out its difficulties. These difficulties are :—

(a) The English system is competitive, but competition does not act easily in agriculture : —

- i. It is difficult to decide what are normal prices and harvests.
- ii. Difficulties arise from local variations of the standard of skill and enterprise.

(b) It is not easy to give just compensation for improvements.

7. **The conflict between public and private interests in the matter of building on open spaces, calls for delicate adjustment.**

e.g., Should a man be allowed to build where he likes, or work a mine as he likes, &c. ?

CHAPTER XI. -- GENERAL VIEW OF DISTRIBUTION.

1. At the end of Book V, a summary was given showing the continuous application of the general theory of supply and demand in different periods.

So here the thread of continuity has been sought connecting the various agents of production, material and human, in spite of their important differences of outward feature.

- (a) Compare a man accumulating personal property in his son's education and accumulating material capital *for* his son. The motives are the same.
- (b) Again, human agents of production and material agents are weighed one against the other and employed according to the law of substitution. It may be slow but it is thorough.

There is no breach of continuity as we ascend from the unskilled labourer to the skilled, to the foreman, to the manager, Junior partner, and Senior partner.

- (c) Business undertakers are to a certain extent a separate class. This is because substitution here is less highly organized. Nothing can take their place. But perhaps in future this work may be done more cheaply. Yet even now, it is worth more to society than it costs.
- (d) Note in this connection the contrast between the fluctuations of profits and of wages. The former are great; the latter small. (Abstractly the income derived by the undertaker from rare natural abilities resembles rent. But in reference to normal prices it should be considered as profits.

2. The various agents of production stand to each other in a double relation.

(a) They are often rivals for employment.

(b) They all constitute the field of employment for each other.

i. An increase of capital enriches the field for the employment of labour.

(a) It opens up new undertakings.

(b) It calls for new machinery.

(c) It increases the joint product of land, labour, and capital and reduces the share of that product which any given amount of capital can claim as its reward. This is the chief benefit.

ii. An increase in **numbers** or **efficiency** of any group of workers has similar results on other workers. It benefits the latter.

But the effects on the group of workers themselves vary. An increase of numbers would be injurious; an increase of efficiency would be beneficial.

CHAPTER XII.—THE INFLUENCE OF PROGRESS ON VALUE.

I. The field of employment for labour and capital at any place depends on :—

- (a) Natural resources.
- (b) Power to turn them to good account.
- (c) Access to markets.

New countries though rich in (a) often offer a poor field of employment for labour and capital because lacking in (b) and (c),

Access to markets, and especially power to turn the resources to good account by means of mortgages, bring an influx of capital and raise nominal wages very high. After a time, however, the influx of capital is slower; wages tend to fall, especially nominal wages.

2. In England also, access to distant markets has had a conspicuous influence on the field she offers to labour and capital.

England's present industrial condition is the direct result of tendencies which developed in the 18th century, *viz.* :—

(a) Tendencies to production on a large scale.

(b) Wholesale dealings in labour as well as goods.

The key-notes of the modern movement are :—

(a) The reduction of many tasks to one pattern.

(b) The diminution of friction which might hinder powerful agencies from combined action.

(c) Development of transport by new methods and new forces.

The real national dividend of England in the 18th century as now depended much on the fact that she exported what obeyed the law of increasing return. However, the mode of dependence differed.

Then, foreign trade brought in many comforts and luxuries but did nothing to cheapen the price of foodstuffs.

Now, it gives England an immense command over necessities.

This is due to her command over cheap transportation, rather than to recent improvements in manufactures.

The latter have been imitated by America and Germany.

3. **The influence of progress on the labour values of some leading commodities.**

(a) **Grain.** About 1810, the price was the highest on record and now it is the cheapest.

(b) **Meat.** About 1810 it was hardly touched by the poor, now it is used extensively.

(c) **House-rent.** Ground rents have risen, but not the quasi-rent element. Interest on capital has gone down. Materials are about the same.

It is commonly supposed that rents have risen, but allowance must be made for the kind of houses occupied.

(d) **Fuel.** Coal is used. People are better off.

- (e) **Clothing, Water, Light, News, and Travel** are all better and cheaper.

4. **The influence of progress on the values of the chief agents of production.**

The Natural Dividend being at once the aggregate net product of, and the sole source of payment for, all the agents of production it follows—

- (a) That the larger it is, the larger will be the share of each agent of production (other things being equal).
- (b) That an increase in the supply of any agent will generally lower its price, to the benefit of other agents.
- (a) **Land.** It has sometimes lowered the value of English agricultural land, but not of agricultural and urban land taken together.
- (b) **Appliances of production.** Progress may lower the value of those appliances which can be separated from their site, *e.g.*, machinery, ships; but not when the value of the site must be added in, *e.g.*, railways, docks.
- (c) **Capital.** Progress has greatly increased the supply of Capital.

The growth of wealth has produced a self-control and unselfishness which have promoted man's willingness to sacrifice the present to the future, in spite of an unwillingness to work long hours.

This increase of capital has lowered its proportionate but not its total income.

5. **Nature and cause of changes in the earnings of different industrial classes :—**

- (a) There is a relative fall in the earnings of *trained* ability (scarcity value no longer obtains), and a rise in the average income of the whole people.

This fall is greatest in the old and familiar skilled occupations.

- (b) Artizans' wages rose relatively to those of unskilled labour at the beginning of the 19th century, but now that tendency is reversed.
- (c) There is a relative fall in the wages of elderly men and a rise in the wages of boys and girls, and of women.
- This fall is to be regretted.

- (d) The earnings of excessive genius are rising as a result of two causes :—

(a) The general growth of wealth.

(b) The increased facilities for communication.

Note the large fortunes made by some in the United States. These, however, are exceptional.

6. Progress is fast improving the condition of the great body of the working class by :—

- (a) Raising the wages of labour.
- (b) Lessening the inconstancy of free labour.

This point, however, is debated.

But great evils remain.

- (a) The number of those unfit for hard work remains the same.
- (b) Many work hard providing others with the means of luxury and get little for themselves.

CHAPTER XIII (5TH EDITION.)

1. In Book III, it was noted that the key-note of economic progress was the development of **activities**, not new wants.

The problem here is, what is the connection between changes in manner of living and the rate of earnings? How far is either to be regarded as the cause of the other?

2. **The standard of Life** is the standard of activities adjusted to wants. Both are included.

A rise in the standard of life implies an increase of intelligence, energy and self-respect.

A rise in the standard of life for the whole population means increased national dividend and benefit all round.

A rise for one trade means a rise in real wages for that trade, and *some* benefit all round.

The Standard of Comfort is the standard of material wants satisfied.

A rise in the standard of comfort would *probably* mean a rise of the standard of life, but not necessarily so.

A mere increase of wants will not raise wages.

3. The relation of the standard of comfort to earnings varies.

When the law of diminishing return is in operation, a rise in the standard of comfort may raise wages by stinting the population.

So long as good fortune attends England (the law is not in operation since England imports her grain), a rise in the standard of comfort will not increase wages merely by action on numbers.

(Though a group of workers might raise wages for a little by scarcity of labour, it would not last. Except in the lowest grades, increased efficiency is the only way),

4. The relation of the standard of life and activities to the standard of earnings.

The relation of wants to earnings may be dismissed.

The problem is, how do changes in activity affect wages?

Changes in activity may take many forms. Suppose, however, that they are represented by changes in the number of hours of work.

- (a) Fewer hours would have a good effect on wages where hours are so long as to cause great wear and tear, or to affect the well-being of the next generation.
- (b) Where much machinery is used, fewer hours and double shifts would increase production with the same capital, and therefore wages.
- (c) For most trades fewer hours would mean less wages even granted that efficiency increased slightly.

Reasons why many think that wages can be raised by making labour scarce, independently of such special cases referred to in (a) and (b)

- (a) People fail to distinguish between the immediate and permanent effects of a change. More get work for a short time but the extension of business is checked and less get work later.

The argument that wages can be raised permanently by stinting labour assumes that there is a permanent fixed 'work find'—a certain amount of work to be done whatever the price of labour. Not so; the demand for work is from the national dividend and every check on that falls in part on the working classes.

- (One trade, however, may benefit by strategy at the expense of others.

- (b) People under-estimate the effects of such a change on the supply of Capital. Free capital will be sent abroad : fixed capital soon wears out and will not be replaced. In a few years wages will be reduced below their present level.

Attempts to raise wages by methods which lessen rather than promote efficiency are short-sighted. Capital and the best vital force will be attracted away to other countries going straight for raising the standards of life and of efficiency.

In cases such as are discussed here, it is difficult to appeal from abstract reasoning to experience. It is so difficult to isolate the effects.

Care must be taken not to confuse the two questions, whether a cause tends to produce a certain effect and whether that cause is sure to be followed by that effect.

5. In England such movements are directed by **Trade Unions.**

The problem here is, what influence has Trade Unions had on the standards of life, work and wages ?

To test by experience the influence of any union on wages is more difficult now, since sons of union men do not always stick by their fathers' trades.

The earlier efforts of Trade Unions raised the standard of life and character, as much as wages.

Previously combinations had been forbidden There was a lack of outlook and dignity.

6. The 'Common Rule' was the instrument so successfully used by Trade Unions.

The 'Common Rule' was the insistence on a standard wage for an hour's work of a given class, or for piece work of a given class.

Trade Unions benefited the nation as well as themselves by such uses of the Common Rule as made for a true standardization of work and wages.

There are dangers, however, of doing harm :—

(a) If the Common Rule is allowed to work for a false standardization, *e.g.*,—

i. Attempts to fix the standard wage at the equivalent of the labour required to perform a task by antiquated methods, or without machinery.

(This would check production, lower the national dividend and lessen wages on the whole).

ii. Insistence on the full standard wages for elderly persons.
iii. Delimitation of occupations pushed to extremes. (Some delimitation is implied in the common rule, and applied with moderation and tact it may be a social good).

(b) The standard of wages is expressed in terms of money. But since the purchasing power of money varies an extreme application of the Common Rule would be imperfect.

When credit is good, money wages may go up. Then when depression comes, if these money wages remain, there would be no margin of profits. All business would be affected. All would gain in the long run if Trade Unions would set up several standards and consent speedily to a decrease in wages when credit falls.

7. The main drift of the study shows that :—

(a) The distribution of wealth is improving.

(b) The matter is one of great delicacy. Violent changes are bad.

(c) Government ownership is not necessarily good.

The growth of the national dividend is due largely to invention and the accumulation of expensive appliances. But Government officials have contributed few inventions and have made few accumulations except with resources borrowed from individuals.

Collective ownership would likely deaden energy and arrest economic progress.

8. Existing inequalities of wealth are often exaggerated.

An even distribution would lower the income of many artisans.

But they are also needlessly great.

9 The **Residuum of unemployable** needs exception treatment

It includes those who are physically, mentally or morally unfit to do a good day's work for a good day's wage.

Economic freedom on the whole is good, but with the Residuum interference is necessary.

Some have suggested a 'minimum wage' but there are many difficulties, and there is no experience to guide us.

10. The **Unskilled labourers** are decreasing, but machinery is also decreasing the demand for them.

The best means of raising their wages is such an education of character and faculty for all classes as will :—

(a) Reduce the number incapable of anything but unskilled labour

The State must insist on good surroundings and provide means for well-being. Private philanthropy may help.

(b) Increase the numbers of those capable of that higher constructive imagination on which material progress mainly depends.

11. A **truly high standard of life** cannot be attained till man has learned to use leisure well.

It is easier to work well than to spend wealth well, and much easier than to use leisure well.

Leisure must be sought, too, for the young—leisure for school and for such play as develops character. It is, further, in the interest of the young that parents have leisure.

It follows that violent economic changes work mischief, if they outrun the slow transformation of that character, which mankind has inherited from long ages of selfishness and strife.

There is evil in extreme impatience as well as in extreme patience with social evil.

