

9199
Weston W. J.
Economics.

SERVANTS OF INDIA SOCIETY'S LIBRARY,
POONA 4.

FOR INTERNAL CIRCULATION

To be returned on or before the last date stamped below

1 7 SEP 1966

Dhananjayrao Gadgil Library



GIPE-PUNE-009199

ECONOMICS

*Copyright 1926,
The Gregg Publishing Company, Ltd
(S. B. - H. 69 - 6)*

ECONOMICS

AN ELEMENTARY TEXTBOOK

BY

W. J. WESTON, M.A., B.Sc.

Barrister-at-Law.

*Head of the School of Commerce.
The Polytechnic, W. 1.*

THE GREGG PUBLISHING COMPANY, LIMITED
KERN HOUSE, 36-38, KINGSWAY, LONDON, W.C.2

AND AT NEW YORK, CHICAGO, BOSTON,
SAN FRANCISCO.

X

F6

9199

PREFACE

WE ought to know how a nation earns its living , and the lessons that follow bear upon this important topic The writer is fighting for no particular cause. He does not offer a number of ready-made opinions for consumption He hopes, on the contrary, he has made it clear that an opinion to be worth anything must be the product of much knowledge and much clear thinking He would, indeed, be sorry if he has suggested that economics is an easy subject to study , so easy that the reading of an elementary book like this will enable one to pass judgment on the problems incident to the material well-being of the nation

The aim throughout has been this—to give the learner a wish to think upon those problems and some material to think upon. Each lesson has its exercise. The exercise calls for more than a paraphrase of part of the lesson , it calls for independent thought. At any rate it has been devised to do this. If it does not, it fails as an exercise.

W. J. WESTON.

London.

CONTENTS

LESSON	PAGE
I. WHAT IS ECONOMICS ?	1
II. WANTS AND THEIR SATISFACTION	8
III. VALUE AND COST OF PRODUCTION	13
IV. ABUNDANT PRODUCTION AND HOW TO OBTAIN IT	21
V. DIVISION OF LABOUR	27
VI. CAPITAL AND HOW DIVISION OF LABOUR DEPENDS UPON IT	35
VII. LAND AS A FACTOR OF PRODUCTION	41
VIII. DIMINISHING RETURNS AND THE LAW OF RENT	49
IX. SOME NOTES ON POPULATION	59
X. SHARING THE PRODUCE OF INDUSTRY	66
XI. HOW INDUSTRY IS ORGANISED	74
XII. THE REWARD OF LABOUR	82
XIII. BARGAINING ABOUT WAGES	96
XIV. PROFITS, THE REWARD OF ENTERPRISE	106
XV. INTEREST	114
XVI. MONEY AS THE MACHINERY OF EXCHANGE	120
XVII. OUR MONEY SYSTEM	126
XVIII. THE MARKET FOR MONEY	134
XIX. THE BANK OF ENGLAND	140
XX. TRADE BETWEEN NATIONS	147
XXI. FOREIGN EXCHANGES	154

LESSON	PAGE
XXII THE INTERVENTION OF THE STATE . . .	160
XXIII THE INCOME OF THE STATE . . .	167
XXIV. THE "BEST" TAXES . . .	176
XXV THE SPENDING OF THE STATE . . .	184
EXERCISES FOR REVISION . . .	191
SPECIMEN EXAMINATION PAPERS .	
ROYAL SOCIETY OF ARTS (INTERMEDIATE)	198
LONDON CHAMBER OF COMMERCE . . .	203
CHARTERED INSTITUTE OF SECRETARIES . . .	204
INSTITUTE OF BANKERS . . .	205
ROYAL SOCIETY OF ARTS (ADVANCED) . . .	207

ECONOMICS

LESSON ONE

THIS lesson should help you to form clear these facts :

1. Economics deals with the satisfying of man's
2. We obtain the goods we want mainly through help of others.
3. To get the help of others we ourselves are called upon for service.
4. The purpose of Economics is to gain
 - (a) Knowledge about the Business World.
 - (b) Social Improvement.

WHAT IS ECONOMICS ?

Making a Living

Economics is the study of man getting a living. Since much of our waking life is spent either in doing this, or in preparing to do it, we may say that Economics studies how men act in the ordinary business of life. Certain questions at once present themselves. Day by day the baker delivers his loaves and the milkman his milk ; and we should be greatly astonished if they did not. We should look upon the omission as an altogether unwarranted break. How is it that we can count upon the visits with such calm assurance ? There is a tempting display in the shop windows—things to eat, things to wear, things to furnish our houses withal. Whence come these things, and why ; and how is it we can requisition some of them ? How comes it about that, handing a round piece of bronze to the conductor, I may have a seat on a bus going my way ; that, handing a smaller piece of silver to the ticket seller, I am

allowed to see the pictures unfolding their story? How, in short, are we enabled to get what we call "our living"? Why do people, far and near, work to provide us with what we want, not only those things we must have to keep ourselves alive, but also some portion of those things that add to the comfort and enjoyment of life?

Economics studies one side only of a man's activities. It studies that side which is concerned with the getting of an income, and the spending of it in part satisfaction of his wants

None of us can expect satisfaction of all our wants. The "living" we earn is less than the "living" we should like. For man is a bundle of wants, and as his knowledge of desirable things grows, so do his wants. The baby is content with a milk diet and a cosy cot. Not long is it content with these, though. As life expands—as one craving after another develops—the things sought after multiply till the whole world seems unable to satisfy them. The great Alexander wept when he had no other world to conquer. We are better off than the Grecian king in that we shall never compass all we should like. The modern Englishman has wants that grow with every step taken by ingenious inventors. He is no longer satisfied with food to eat, clothes to wear, houses to live in. He wants a variety of food, a diversity of clothes, he wants not only a house, but a comfortably furnished house. He wants a wireless set and a motor car, a gramophone and a telephone. Nor does he any longer confine himself, as his ancestor did, to the place where he was born. He feels want of a yearly holiday in pleasant company elsewhere.

Economic Laws

When we look at a thing from an economic point of view, we examine that thing in order to see how far it helps us to make the comfortable living we seek, or hinders us from doing so. We try to frame clear and correct statements about facts connected with the earning of a living, statements we can apply as rules for our guidance.

These general statements we sometimes speak of as **Economic Laws**. It is an economic law that, if a man wants

to sell more of his products, he should lower the price ; for, as price falls, sales rise. It is an economic law that, as the supply of a thing increases, the price at which it can be sold decreases. It is an economic law that, as the reward for work increases, so the quality of the work becomes better. It is an economic law that, as a greater price is offered, there is a greater supply of the particular commodity. It is an economic law that, the keener the interest taken in the work, the greater will be the effect of the work.

Satisfaction of Wants

The wants of man are our starting point. These wants prompt man to efforts. The efforts being more and more wisely directed result in ever greater satisfaction. *Wants, Efforts, Satisfaction*—that is the summary of Economics. At the outset of human life upon this planet this process was a direct one. We could illustrate it as a straight line :

Wants	Efforts	Satisfaction
lead to	resulting in	

Hunger impelled a man to hunt. Cold forced him to deprive an animal of its covering. Weariness made him find and fashion a dug-out in which to rest.

It is only in unusual circumstances that we now must have recourse to this direct satisfaction of our wants. Our almost invariable method of satisfying them is the indirect one. Few of us grow much of the food we eat, or make the clothes we wear, or build the houses we live in. We depend upon others ; and, so long as we do something for those others, our dependence is justified. We earn an *income*, and at our pleasure we turn that income into the things we want. As we shall see later on, the modern method though indirect is much more effective than the direct one.

WANTS prompt to EFFORTS giving us INCOME
which enables us to SPEND in SATISFACTION

Aim of the Study

The first purpose of economics is to show how men living and working together satisfy their wants in increasing

measure. But this is not all Economics has an ideal. It does not confine itself to a mere description of industry and trade. It has a higher motive than information. It would indeed be a dismal study if this were all. Economics seeks not light only but fruit also. For the economist is keenly conscious of the drawbacks of even the best arranged societies of man. He knows that these drawbacks can be removed only if the causes upon which they rest are clearly set out, and his first object is this clear setting out. Economics does more than find out that many people live most squalid lives; that much misery and hardship exist among us; and that waste and harshness are prevalent. The economist does find out what he can of these things; but he does this not from idle curiosity. He does it because he knows that only by finding out the causes of evils is there any hope of remedying these evils.

Economics is a scientific study of men's social activities; but the practical results aimed at are social improvements. Economics, in other words, is both a science and an art. As a science it is concerned with a search after knowledge—with a search after truth for its own sake. It tries to say: In this way men act when earning a living; in this way such plans as you suggest have turned out in former times; by these means men and nations have become prosperous; through these things nations have decayed and disappeared. The science becomes an art when it is led to give practical direction. Just as the science of physiology guides the doctor in the art of healing, so the science of economics guides men to such a use of their resources as will lead to more abundant satisfaction. The study does give directions, does teach men to *do* as well as to *know*.

As a science it allows its lessons to suggest themselves to business men and to politicians, to those whom we might call economists in practice. As an art it shows how to apply the lesson. To the early writers on Economics the practical was in truth the primary one. The object of Adam Smith, the greatest of all these writers, was to show "how a plentiful revenue might be available for the State, and how the subjects of the State might be put into the way of making a comfortable living for themselves." The early writers and

their later successors were alike prompted by the praiseworthy motive of finding out how to lessen the load of humanity.

Service obtains Service

During our journey through life we consume great stores of food, we wear out much clothing, we avail ourselves of many people's services. If we cross the Atlantic on the *Mauretania*, we have our meals and our cabin space, we have the services of steward and doctor. For the Atlantic journey the shipping company makes careful provision beforehand; for the journey through life there is no ready prepared supply of food and of the other things we want. We must earn that supply in some way.

We are, perhaps, not so badly off as the bird or the beast. If they fail to find food, they perish; if we fail, we are supported by our fellows. But there is no reason to fail. Some service we can do for our fellow-men. Our guiding idea through Economics is this: This nation forms a co-operation of mutual service. We all live through helping other people to live. The fact is a little disguised through the intervention of money, but it is none the less true. We render services to the community. These services may be embodied in goods that can be sold, or they may be services—like those of the teacher, or the doctor, or the actor—that are rendered direct. The services we render entitle us to claims upon the whole income of desirable things. These claims are certified in the form of money, and the money enables us to make good our claims.

Not an Easy Subject

The prize—the social betterment—resulting from the successful pursuit of Economics is well worth striving after. But a warning note must be sounded. Ours is not an easy study. We delude ourselves if we think that the problems confronting us in Economics are simple of solution. They are not. Certainly many are very ready to talk glibly upon economic questions, and to give without much hesitation answers to the questions. But simple answers are not to be had. The number of things we must take into con-

sideration in order to form a judgment is usually too great to comprehend at once. Most of us are apt to fix our attention on one of these things ; and we mistakenly suppose we can consider the effect of this in isolation.

Thus, we know that many wealthy families have too much to spend, and that some of them spend in unworthy ways , and we are tempted to agree with the contention that a transference of their spending power to poorer people would be a benefit. Perhaps it would, if we could be certain that our measures did not bring about a great lessening of the good things to be divided—so great a lessening that poorer people themselves would be worse off. So, apparently, it has been in Russia.

When we draw hasty conclusions from a single fact we are reasoning in much the same manner as the Knight did in "Through the Looking Glass." The gate, you remember, was an obstacle to his progress, but he had a plan :

"I'll tell you how I came to think of it. You see, I said to myself, the only difficulty is with the feet : the *head* is high enough already. Now, first I put my head on the top of the gate—then the head's high enough—then I stand on my head—then the feet are high enough, you see—then I'm over, you see "

"Yes, I suppose you'd be over when that was done," Alice said thoughtfully ; " but don't you think it would be rather hard ? "

"I haven't tried it yet," the Knight said gravely : " so I can't tell for certain—but I'm afraid it would be a little hard."

.

EXERCISE

The paragraph below was written sixty years ago by one who thought that we were becoming too dependent on nations abroad. Study it and then write an account of the breakfast table showing how much we depend on foreign supplies for the furnishing of it .

"The plains of North America and Russia are our corn-fields ; Chicago and Odessa our granaries ; Canada and the

Baltic are our timber forests ; Australasia contains our sheep farms ; and in Argentina and on the Western Prairies of North America are our herds of oxen. Peru sends her silver, and the gold of South Africa and Australia flows to London ; the Hindoos and the Chinese grow tea for us and our coffee, sugar, and spice plantations are in all the Indies. Spain and France are our vineyards and the Mediterranean our fruit garden ; and our cotton grounds, which for long have occupied the Southern United States, are now being extended everywhere in the warm regions of the earth."

LESSON TWO

THIS lesson should help you to form clear ideas about these facts

1. The goods satisfying man's wants are of two kinds :
 " Free Goods," having no price ,
 " Economic Goods," obtained by labour and sacrifice.
- 2 These " Economic Goods " are wealth.
3. The power of satisfying want is " Utility."
- 4 Such goods as are scarce in relation to wants have a " Marginal Utility."
- 5 Money measures this " Marginal Utility."
- 6 The Money Measure is Price.

WANTS AND THEIR SATISFACTION

Wealth Means Economic Goods

Economics is concerned with what is needed for the material welfare of men. But it does not concern itself with what can be obtained without labour and sacrifice. These things, of course, man welcomes. But they give rise to no economic problems. The economic problems arise only in reference to the things which are scarce in regard to wants and which, therefore, cannot be obtained except by labour and sacrifice.

We may put it in this way. Men have wants ; they seek satisfaction of these wants , whatever satisfies the want is a *good*, is a thing desirable. Some of these things—like sunshine, or oxygen, or the pleasant sights and sounds of nature—we get without payment :

“ No price is paid for the lavish summer.
June may be had by the poorest comer.”

Important as they are for man's well-being, they do not concern us in our study. For they are *free goods* ; and we

are concerned only with such goods as cannot be had without labour and sacrifice. These we can get only if we pay their price ; and we call them *economic goods*.

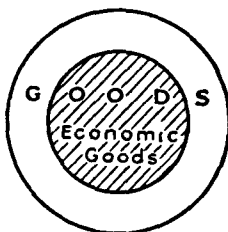
Of course, the more "free goods" there are, the better for all of us. The aim of science and of invention is indeed to make goods more and more abundant—more nearly free that is. As soon as they become so abundant that no one would have any more even as a gift than they cease to be wealth. When once goods are available for whoever wills, they have passed from the class of economic goods into the class of free goods. We would give nothing then for the goods ; for there is, indeed, no need to give anything. Who to-day would buy a building site where once great Babylon stood ? Who to-day would give anything for a great tract of land in the Sahara or in Northern Canada ? To-morrow conditions may change and this land become an object of desire ; it is now available for anyone. Worthless as things are now, when men seek them they become of worth : "Primitive man, for his own delight, or the delight of his children, or perhaps for some magical purpose, scratched animals on bone, and to-day we have these toys preserved in glass cases. A street-boy scribbled on a wall in Pompeii, and his writing is jealously guarded."

Wealth Obtained by Exchange

Economic goods are such as are not freely given. It is to these economic goods that in our study we restrict the term "wealth." They can be obtained only by effort, by labour and sacrifice. We obtain them, the necessaries and comforts and some small share of the luxuries of life, by exchanging our services for them. We are obliged to do this because in relation to our wants, they are scarce. Wealth begins where scarcity begins.

Draw a big circle including a smaller circle. We may let the big circle stand for all things man wants—including, you note, such things as pleasant companionship, agreeable conversation, animated street scenes, such scenes as Lamb had in mind when he wrote "I often shed tears in the motley Strand from fulness of joy at so much life." But for these things we do not need to pay.

The big circle represents things wanted The included



circle represents things not only wanted but more or less difficult to get

“ Goods ” Satisfy Wants

But let us make quite clear to ourselves another point about “ goods ” In its wide sense “ goods ” are those things that a person wants. He thinks they tend to his well-being. It may certainly be that he is mistaken. He may want what is not really beneficial to him. Still, if he does want it, if he is prepared to sacrifice something for it, it is “ good ” to him.

As economists we are not asked to judge whether what a man wants really does tend to his well-being. We are not asked to decide whether a further supply of whisky to a drunkard, another ice to a girl who has already eaten several, another week’s holiday to a boy whose interval of idleless is already excessive, are really goods. Because these things do satisfy some want, some purpose of utility or of pleasure, they are goods.

Utility and Price

“ Free goods ”—the light of the sun, the beauty of the stars—have utility, the power of satisfying human wants. “ Economic goods ”—the loaf of bread, the glass of beer, the right to watch the “ Cup Final ”—have utility too ; they also command a price They are obtained as a result of exchange What we gave for them is a burden, and in the act of exchange we weigh against that burden the benefit we expect from the “ good ” we buy. The burden is, among us, nearly always measured in money. This money we call the price of the benefit we receive.

These economic goods are wealth simply because they command a price ; so that, if any of them ceases to command a price—either because it has become abundant enough to satisfy all possible demands for it, or because the desire for it has grown faint among men, or for any other reason—it ceases to be wealth. A diminution of wealth does not always mean a diminution of welfare. The decree that freed the slaves in the United States destroyed much wealth at a stroke. The country probably gained though the slave owners lost.

Economic "Wealth"

For the purpose of reasoning accurately about the life of the nation we are obliged, you see, to take some liberties with language. *Wealth* is in truth well-being, as it is in the word "commonwealth" (the general well-being), and in the petition "Grant him in health and wealth long to live." We, in our study, restrict the meaning to what is bought and sold. *Wealth is worth money*. A good temper and pleasant manners surely add to one's well-being. They are not, however, in our narrowed sense *wealth*. They are not "consumable utilities which need labour for their production, and can be appropriated and exchanged."

Now, clearly, when we have as much of anything as we ever anticipate wanting, we are not prepared to make any sacrifice for a further supply. Though the October hedges stand thick with blackberries we cease picking them when we know that we cannot use more than we have already picked. Even the slight sacrifice involved in the trouble of collecting—whether we collect for tarts, or for the making of jam, or for sale—seems wasted. We accept no burden when we anticipate no benefit.

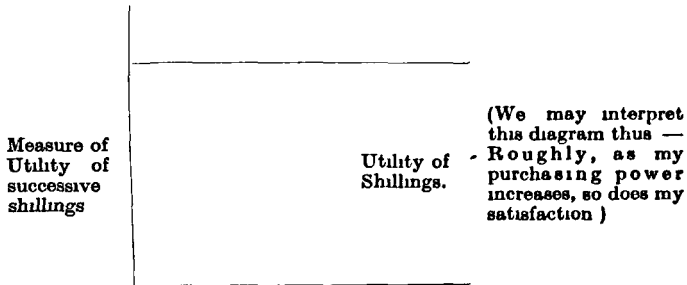
Diminishing Utility

We express this in language a little strange, but useful for reasoning purposes, that the *utility of a thing diminishes as more and more of that thing is at our command*. However greatly I want a thing at first, my desire becomes blunted as I obtain more of it. Weary and thirsty as I am after a long tramp through a summer's day the question "another

cup of tea ? ” fails to win a welcoming assent when my thirst is fully quenched.

The rate at which the utility diminishes—or, from the other point of view, the desire for more diminishes—varies greatly. Very little of some things is quite enough ; with others the point of satiety is reached only tardily.

I am given a gramophone as a wedding present ; and I welcome it heartily. A less hearty welcome awaits a second gramophone ; for, as my desire for gramophones is speedily satiated, the want of a bedroom suite, for instance, becomes more pressing. On the other hand, a cheque following another cheque seems well-nigh as acceptable as the first. It might rain cheques all day and I should not repine.



EXERCISE

Read carefully pages 10–12 and then show clearly why the utility of potatoes diminishes more speedily than the utility of shillings. Draw diagrams to help your explanation.

LESSON THREE

THIS Lesson should help you to form clear ideas about these facts :

1. That the Service you Render buys the Service you Want.
2. That Value is a Comparison of Services.
3. That Price becomes by Competition a Measure of Service.

VALUE AND COST OF PRODUCTION

Service for Service

We get our living by exchanging service for service. We live by exchange ; and money enables us to do so. The service we perform is measured as worth so much money. We command the services of others to a like amount of money. Often enough we have no idea who those others are ; for their services are embodied in the goods we buy. Value is put upon our service ; and that value (measured in money) is its price.

We may say that the price is the value measured in money ; measured, that is to say, in the only way that enables us to reason with some certainty about economics. We have something to sell. It may be a service to others—the singing of a song or the painting of a portrait ; it may be a commodity—a pound of beef or a yard of calico. The money we get for a commodity or service measures the power of that commodity or service over other things. It is its price that enables us to place the commodity or the service properly on a scale of preferences, to give it its order of precedence.

Because a yard of silk has a higher price than a yard of calico, therefore it is that the silk is more valuable than the calico. *The market price measures the value.* It is not the real service in the maintaining of life that measures

value ; if it were so, iron would be more valuable than gold, and the humble potato more valuable than the haughty peach. If service measured value, that of the sanitary man or of the farm worker would be more valuable than that of the boxing champion or of the diamond expert. So far as our study is concerned, however, the answer to the question *How much will this bring in the market ?* determines also the question *What is the value of this ?*

What is Value ?

Value, we say, is the market expression of men's preferences. Doubtless, a pound of salt serves more in the maintaining of human life than a pound of tobacco does. Things being as they are, though, the second has the greater value. It commands the greater price.

Salt is exceedingly useful, and at need a man would sacrifice much to get a supply. But since salt is so easily obtained the need does not arise ; and the price paid has little relation to the benefit obtained. Though the price were doubled, little less would be bought. Though it were halved, little more would be bought. Tobacco, on the other hand, has no great use. Before the days of Raleigh no one among us wanted it, or indeed could want it, and a man can, though perhaps not easily, dispense with it. Yet tobacco commands a great price. Though it has no great total utility, it has a great marginal utility ; and as a man wants tobacco he is required to pay highly for it. It is well for us that the most useful of commodities are the cheapest. The reason they are cheaper is that they can be produced at such little cost and in such abundance. Less useful things—a ball dress, or a motor bicycle, or a diamond pin—the want of which we should hardly feel, are the dearest. Costing so much to produce, they are scarce.

Value Implies Comparison

Whenever we speak of value, a comparison, a relation between things, is always understood. And the point of comparison we take is the amount of money obtainable for the commodity or the service. The value of a thing is the money it will bring.

This money measure is not entirely satisfactory. It certainly is not when the monetary unit expands and contracts in a manner altogether incalculable. We cannot measure with a piece of elastic—with a paper mark or rouble or crown. If our own pound sterling bought perceptibly more or perceptibly less to-day than it will to-morrow, money among us would be a bad measurer.

When, as with us, the pound has some relation to gold, the measure is fairly satisfactory. It is not that the pound, even when exactly equivalent to the gold sovereign, always has the same power of purchase. It is that gold represents a real cost of production: labour and resources have been diverted from the producing of other things and have been spent in the producing of gold. So it is that the monetary unit—when equivalent to a definite weight of gold—cannot fly far from this real cost.

Competition in the Market

Think for a while how price is connected on the one hand with what *can* be bought in the market, and on the other, with what *is* actually bought in the market. The first—the amount offered for sale at a certain price—we call the supply. The second—the amount that would be bought at a certain price—we call the demand.

Here is a beautiful little two-seater car. If none would give more than five pounds for it, the stream of cars into the market would speedily dry up. For no maker, however great his organising power, however much he benefited from large-scale production, could go on producing. Not Mr. Ford himself could. If the maker offered the car at five thousand pounds, again no demand would be forthcoming. For we can be pretty certain that the five thousand pounds could command things satisfying greater desires than that for the car.

Somewhere between the five and the five thousand is the market price. See how the matter is adjusted. Suppose for a moment that five pounds is the market price of a car. There would be so great a clamour for a car that sellers could not satisfy all the would-be customers. These customers compete eagerly for the supply, and the compe-

tion pushes prices up. As the price rises, the less eager seekers (or those whose purchasing power is needed for more pressing wants) fall out of the race. Fewer cars are wanted as the price gets higher.

But another effect accompanies this. As the price rises, it reaches a point where more and more makers will be able to put cars on the market. Not alone the strongest producer—he whose costs are least—but weaker and weaker ones find it profitable to make this particular car.

Having the expectancy of five thousand pounds for a car, so many makers would produce, would divert their capital and labour from other directions, that the market would be over-stocked. Then it would be that makers talked of an over-production of cars, of a glut in the market, and so on. Their meaning would be, not that all the cars could not be sold at some price, but that they could not be sold at a profitable price, at a price over cost of production. Competition among makers—the eagerness to catch the five-thousand buyer before others did—would have driven the price not only below £5,000 but also below the cost of production.

Cost of Production and Supply

Cost of production influences value by thus affecting the supply. A producer will not continue to produce when no prospect presents itself that he will ever again make a profit. Doubtless for a while he will produce for stock. But he cannot long continue to lock up his capital and labour without return. For the business man, whether he is a manufacturer or a trader, pays his way by handing to his banker the cheques that are paid him by his debtors. When cheques are not forthcoming he cannot go on: for he is then himself unable to draw cheques in order to pay his own creditors. The strong producer may be able to lower prices, and so induce sales. The weak one cannot. For his factory is poorly planned or ill-equipped or badly placed in regard to the collection of raw materials and to the marketing of products. He will seek more profitable use of his time and talents; he will divert to more fruitful enterprises such capital as is still available. As his unit of

production ceases operations, the supply begins to be cut off. Sellers will find buyers more eager, the eagerness being made evident by higher bids. The product in the markets of the world comes to have a more satisfactory relation to money; and through money it has a more satisfactory relation to other products.

The weakest producer, he whose costs are highest, will expect a reasonable profit if he is to continue in business. The market calls for a supply. The buyers in the market will not have their wants satisfied unless they are prepared to pay. The producer of the portion produced at most cost and yet needed to satisfy the demand will cover his cost of production. It is this cost of production that determines the price. We may call this cost of production the *marginal cost*. It also measures the *marginal utility*—the utility to the buyer who can just be persuaded to buy.

Marginal Utility and Cost of Production

If in the markets of the world the marginal utility is above cost of production, then other producers seek to share in the extraordinary profits to be made. The resulting increase in supply lowers the marginal utility towards—sometimes even below—cost of production. True it is that for short periods, and under special circumstances, the value of a thing is measured by the intensity of desire as compared with the amount offered for sale. As manufacturers take advantage of the extra profits, their competition reduces the profits. In the long run, and for the great majority of goods, it is difficulty of attainment that regulates the value; and difficulty of attainment usually means cost of production.

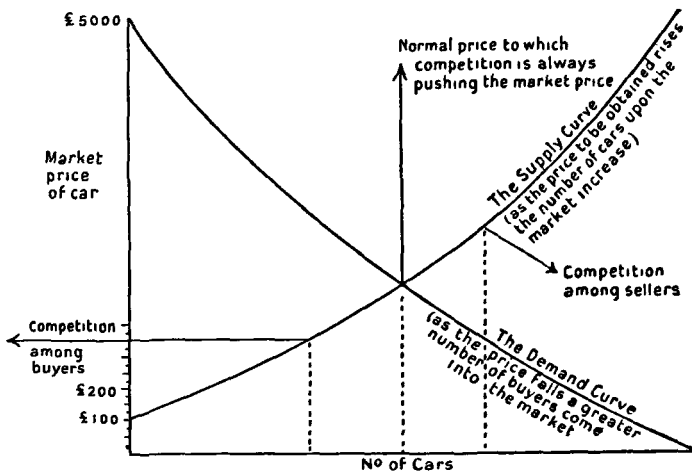
Which Cost of Production?

The question presents itself, though: What is the position when, as usually happens, the production has not one but several costs of production? A well-equipped and well-managed factory will make its calico at less cost than an ill-equipped, ill-organised and poorly furnished factory. Yet, other things being equal, the calico from the one commands the same price as that from the other. The value is the same though the cost of production is different.

A loaf made from wheat grown on the Bedford Level costs no less than a loaf made from wheat grown half-way up the Pennines. Which degree of difficulty of attainment—or, translated into money, cost of production—determines the value? Probably the greatest. When competition is free the cost of the whole output will be the cost of that portion produced at greatest expense, yet needed to satisfy the market.

In that event the strongest producers will obtain for their produce more than they would have been content to take. They will obtain what is sometimes called a producer's surplus, or rent. On the other hand, the keenest buyers—those with the most intense desires and the greatest purchasing power—will need to pay less than they would have been willing to pay. They will have a consumer's surplus or consumer's rent—a benefit they derive from their environment.

Let us try to make matters clear to ourselves by drawing a little diagram



We may interpret the diagram in this way. Below a hundred pounds no further cars will be produced—competition on the part of the buyers will force prices upwards. As the price rises higher and higher, a greater number of

cars can be put upon the market. At one point the number of cars that can be put upon the market at a price will, roughly at any rate, equal the number of cars that will be bought at the particular price. The price would always be pushed towards this point. When price is below this, competition in the market by buyers will force that price up; when price is above this, competition in the market by sellers will force the price down.

EXERCISE A

We say that the demand for a thing is inelastic when this demand is almost independent of its price; we say that the demand for a thing is elastic when a change in price has a great effect upon the quantity bought and sold. Show why the demand for coal is more elastic than the demand for sewing cotton.

In your answer make use of the following facts: (1) Sewing cotton accounts for only a little part of the cost of a suit; coal accounts for a great part of the cost of pig-iron. (2) There are practically no substitutes for sewing cotton; there are several for coal. (3) The producers of sewing cotton can combine and prevent competition; the producers of coal are scattered and work under varying conditions.

EXERCISE B

Expand these statements so as to make them easily intelligible to one who has studied economics only a little:

(1) A business will be a consumer of commodities and services; a draper will buy muslin and also the services of saleswomen. In its aspect of consumer, a business will not carry its consumption of anything beyond the point at which the marginal utility exceeds the price it will have to pay.

(2) A business will be a producer of commodities or services, a cotton factory produces muslin; a hair-dressing establishment supplies the services of barbers. In its aspect of producer a business will not carry its production of anything beyond the point at which the marginal cost of production exceeds the price it can get.

(3) Thus the price of a commodity tends to equal its marginal utility as measured in terms of money; and tends also to equal its marginal cost of production.

LESSON FOUR

THIS Lesson should help you to form clear ideas about these facts :

1. It is Utility that men Produce.
2. The ideal of Economics in Production is Abundant Production of Utilities.
3. Abundant Production depends upon :
 - (i) Efficient Factors of Production.
 - (ii) Efficient Co-operation of these Factors.

ABUNDANT PRODUCTION AND HOW TO OBTAIN IT

Man can bring forth Utility

When we produce we bring forth *utility*. We so move matter that it becomes better fitted to serve men's needs. The utility was there before ; our effort brings it out. It was hidden ; we draw it into the light. Next year's harvest exists in the grain of last year's crop. We move the seed, prepare the ground, provide the plant food ; and so we produce the harvest

As economists we keenly desire that a great many people should have an abundance of goods—plenty to eat, plenty to wear, nourishing food for the body, ennobling food for the mind. We welcome every means whereby men's needs are more easily satisfied. We say that a lessening of the fraction E/S —effort in relation to satisfaction—is economic progress. Abundance of production is our aim.

Production of Utility

But what exactly is production ? To produce means to do something whereby human wants, directly or indirectly, are satisfied. We make use of our artificial term “utility,” and say that we produce when we bring forth utility. We

know very well that, however much we labour, we could not create material. We can, however, so move material about, or fashion it, or combine it with other materials, that it comes to possess greater power of serving men. It possesses, that is, greater utility. Through our efforts it has become more marketable; it commands a greater price.

The coal in the seam a thousand feet down has some utility, otherwise it would not add to the value of the land above it. It has more utility when the miner has loosened it from the face of the seam; more when it reaches the pit mouth, more when it is in the coal cellar. Utility has been added because men have moved things. Indeed, if we analyse the work of men, we find that this alone, this moving, is all they can do. Man transports, and transforms, and transfers. So doing he creates utility, he makes wealth.

We Consume not Matter but Utility

When we consume we destroy, in like manner, not matter but utility. In this sense it is that we consume the suit of clothes we wear. Day by day it loses a portion of its utility until at length we discard it for ever. Here is a picturesque paragraph where the thought is expressed:

“The horse I ride has his own whole fell. Strip him of the girth and flaps and extraneous tags I have fastened round him, and the noble creature is his own sempster and weaver and spinner, nay, his own boot-maker, jeweller, milliner, he bounds free through the valleys with a perennial rainproof court suit on his body, wherein warmth and easiness of fit have reached perfection; nay the graces also have been considered, and frills and fringes, with gay variety of colour feately appended and ever in the right place, are not wanting. While I—I have thatched myself over with the dead fleeces of sheep, the bark of vegetables, the entrails of worms, the hides of oxen or seals, the felt of furred beasts, and walk abroad a moving Rag-screen, over-heaped with shreds and tatters raked from the Charnel-house of Nature, where they would have rotted, to rot on me more slowly! Day after day, I must thatch myself anew; day after day, this despicable thatch must lose some film of its thickness;

some film of it, frayed away by tear and wear, must be brushed-off into the Ashpit, into the Laystall; till by degrees the whole has been brushed thither, and I, the dust-making, patent Rag-grinder, get new material to grind down."

Utility is consumed as it serves the wants of men. It is wasted if it disappears without serving these wants; the potatoes rotting in the ground or in the pit are wasted in that their utility is vanishing though no one's hunger is lessened by them.

We produce in order to satisfy the wants of man. If these wants could be satiated without our effort, no production would take place. There would be no economic problem.

Problem : Limited Means, Unlimited Wants.

there is an economic problem at all, you see, is the fact that the attempt to make the limited suffice for the unlimited. Men's wants are without bounds. Besides, he has to marry, and bring into the world others who themselves also will want more and more. He is bound to work and contrive and labour to gratify those wants. The family we have to maintain is growing in number; the wants of that family are increasing even more rapidly than the number. That is to say, we want more and more for two reasons. First, the number of consumers is increasing. Second, the wants of those consumers are constantly expanding. The problem is, how shall we maintain a growing family in a constantly rising standard of living?

On the one hand the means of supplying the wants is limited. A man's bodily powers are not boundless. In the city boat-race an exertion of twenty minutes is the limit for human endurance. Exhaustion comes more slowly in other exertions; but it does come sooner or later. Nor are man's powers of mind without limit. If I attempt to study more than two, three, or four hours, my mind becomes dull and stupid. After a certain while—longer or shorter according to the student—another additional hour spent in study is waste instead of profit.

Moreover, the flow of savings—the savings that can be turned into capital to ease man's labour—is limited. And, partly because of our ignorance, the resources of nature—at all events such resources as are at our disposal—are also limited. And man's wants are infinite

Limited means of supplying wants, limitless wants—there is the reason why we shall always have an economic problem. How shall we use our resources so that the greatest possible number of wants shall be satisfied? And since—however cleverly we scheme, however hard we work—some wants must yet go unsatisfied, what wants, and whose, shall these be?

About the second question there will be contentions till the end of time. About one thing we are all agreed. Abundant production must be our aim. We have a great family to support—over forty millions in this small island of ours—and masses of goods are needed. The more easily those goods can be obtained, the better for us. To get much with little effort is our quite rational wish.

Conditions of Abundant Production

We want production to be abundant, we rejoice in a bounteous harvest, and we ought, as reasonable beings, to welcome a device that will lessen human toil in making this harvest serve man's needs. We want this abundant production for others as well as for ourselves; for economic motives are not, as they are sometimes said to be, exclusively selfish.

What then will bring about abundant production? We need two conditions. The factors of production—those things required before production can take place at all—should be efficient. There is one condition. These factors should co-operate heartily with one another. There is the other condition.

Factors of Production

Man and matter are the factors of production. Nature provides the materials and powers; it is for man to move the materials and thereby use the powers. We may perhaps liken production to a coach drawn by three horses—the

resources of Nature, the capacities of men, and the devices for lightening labour. The third factor is itself, as you note, the result of man's co-operation with Nature. None the less, its importance justifies our giving it a position of prominence. Some people, indeed, say that this third factor, or capital as it is called, is the mark of the present productive age. We live in an age of capitalism.

We need not, however, trouble to decide which of these three horses—*land, labour, capital*—is the most important. This would be like deciding which leg of a three-legged stool is most important. Whichever leg gives way, you are precipitated. It is clear enough that if the resources of Nature are small, or if through the ignorance of men they are not used with effect, production will be slow. For instance, before men of European culture came to the United States, the abundant resources of Nature were already there. But the people who lived where these abundant resources were could make no use of them. The region now peopled by over a hundred millions living in great prosperity was like a well-equipped ship having a very small and ill-equipped crew.

It is clear that, if the human factor is deficient in skill or in wisdom, again production will not be drawn far or fast. And, if poor tools are the only ones available, then too a brake will be put upon the coach of production. Nor will speed be great unless the factors pull well together.

To make the factors more efficient the one thing needed is knowledge. Even the use men make of the gifts of Nature depends upon this. We have, in truth, scientists who, far from being content with the command already won over Nature, promise yet further victories. To Professor Soddy, for instance, the present stage is only a small step on the way of progress. He writes: "For untold years men froze on the site of coal mines, and starved within the sound of the Niagara that is now at work producing food. Every single factor in wealth production existed, prior to the phenomenal expansion of the last century, except one—the knowledge how to control and utilise for life the store of sunlight preserved in fuel. It is precisely the same to-day. We are as far from utilising the stores of energy, which we know to

exist all round us in unlimited abundance, as savage men, who had not learned how to kindle a fire, were from utilising the power which has made our own age great."

EXERCISE

Read carefully pages 21-26, then answer this question :
What exactly is meant by the term " efficiency of labour " ?
What influences make the Englishman more efficient than the Spaniard ?

LESSON FIVE

THIS Lesson should help you to form clear ideas about these facts :

1. Division of Labour leads to Abundant Production.
2. Division of Labour is Inevitable.
3. Division of Labour has Drawbacks as well as great Advantages.

DIVISION OF LABOUR

Division of Labour and Abundant Production

We want production on a large scale. We must have mass production, a never slackening and mighty stream of uniform things to satisfy people's needs. And as a rule, mass production, large scale production, means on the one side a placing of the control of industry into fewer and fewer hands. On the other it means a separation of the operations of industry into more and more parts.

In a very curious manner we have alongside one another these two characteristics of modern industry—the integration of control, the differentiation of the work. “Too many cooks spoil the broth” say those who seek control; and a steady progress towards unity results. We have Trusts, and Combines, and Rings, and all manner of ways of bringing the control of industry into fewer and fewer hands. “Many hands make light work” is a contradictory proverb; and it is acted upon in the minute division of employments. We have so many kinds of workmen to-day that the census returns need a dictionary to interpret them.

Division of Labour

The bargaining mind of men long ago brought about a division of work. “You do this for me and I will do that for you; you do what you are clever at, I will do what I

am clever at , then we will exchange ” For the advantage of this separation of employments early became clear to men ; and in these days the extent of it is amazing. The number of people who have in one way or another helped to make a plum pudding is beyond all calculation.

We live because others, maybe in distant places and in distant times, have worked for us. It would seem that others have a right to ask that we do something they want doing. As we saw in a previous lesson, the whole community is a co-operation of mutual service. We should make a sad mess of it if we were suddenly thrown upon our own efforts, for, most likely, we are skilled in producing only by co-operating with others. Few workers in these days can point to a thing and say “ I made this ”

Separation of Employments

There must always have been some division of labour among men and women, among strong and weak. The old rhyme asks,

When Adam delved and Eve span,
Who was then the gentleman ?

In reality, perhaps, it was not thus the tasks were divided. In early times, to judge from what we know of backward peoples to-day, the women were obliged to do the harder work ; the men took to themselves the easy task. Some differentiation there was, we may be sure.

In our own country, when during the twelfth and thirteenth centuries surnames were applied to men and women, the number of occupational names shows that separation of tasks had already gone far. Smith and Mason and Wainwright, Baker and Brewer, Merchant and Mariner, had their special parts to play in the providing of what people wanted. They made for others one thing ; they obtained in return a share of many things.

As exchange became more frequent and widespread—as the market extended, we say—the crafts were themselves divided. The wood-worker, the Carpenter, becomes a Wheelwright, or a Wainwright, or a Shipwright. The iron-worker, the Smith, specialises, and becomes a Spurrier, or an Armourer, or a Cutler.

Benefits of Co-operation

Even when co-operation is undesigned, it economises effort. We are told that two greyhounds hunting together will catch four times as many hares as one hunting by itself. We may call this conjoint action, thus co-operation, *division of labour*. But perhaps "division of labour" does not bring out its essential feature. The essential feature is co-operation, or combination of labour.

It is division of labour that has made it possible to say : "Observe the accommodation of the most common artisan or day labourer in a civilised and thriving country, and you will observe that the number of people whose industry has been employed in procuring him a part—though but a small part—of this accommodation exceeds all computation. Without the assistance and co-operation of many thousands, the very meanest person in a civilised country could not be provided for, even according to what we very foolishly imagine is the easy and simple manner in which he is commonly accommodated. Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy. Yet it may be true perhaps that the accommodation of a European prince does not always exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages."

We Specialise now

We are all specialists now. Long before the factory system—long before men and women worked along with steel and machinery, regulating their labour by the starting of the engine and adapting their movements to the speed of the spindle—there was this separation of employments. It is nowadays not a case of restriction to one occupation, it is that an occupation is minutely subdivided during time and over space.

The factory system has brought about so minute a division of employments that nowadays a workman is confined to

one tiny task in a complex operation. He no longer plies a tool, but he feeds and guides a machine. The market for the products of the factory has become so enlarged that the complicated and costly machine finds enough work to do.

Practice Makes Perfect

Let us examine some of the advantages of this specialisation, this division of labour. Practice at one task brings about dexterity. The task is performed more swiftly, more correctly, more easily. But this is not all. Thought, as well as energy and time, is saved. The task is performed with far less exertion of thought ; it has become mechanical, so that thought is set free for other work.

Very often, indeed, the most efficient is not the worker who thinks most about his job. It is he who does most at least expense of thought. We may, indeed, think so much about doing a thing—kicking a ball, or hitting a mark, or throwing a line—that we do it badly.

Round Pegs in Round Holes

Besides, when there is wise division of labour, tasks can be adapted to capacity ; there can be and should be what is called "vocational selection." The boy (or girl) should not be at the hazard of the first job that offers itself. He should by teachers and parents be guided to that for which his mind and body, with the training they have had, are most suited.

One of the most beneficial entries of the State into industrial matters is connected with this guidance. If things can be done without the interference of Government it is probably better that they should be done so. Hardly anyone, though, would deny the good work done by Juvenile Employment Committees and After-care Committees. There should be no square pegs in round holes ; for this is a drawback to the industry and a hardship to the worker.

In a large factory the queerest aptitudes can be utilised. Here, for instance, in a tea warehouse is a tea taster. The firm for which he "works" sells many thousands of pounds of tea a day. He is indispensable ; for he can, in order to produce a required effect, blend tastes as a painter can

mix colours. He is, for example, given a sample of a rival firm's tea selling at *2s 8d.* a pound ; and his problem is, " How shall I produce from the various chests at my disposal a better blend that can be sold at *2s. 6d.* a pound ? " He tastes the brews from many chests, he mixes the contents of the chests in the proportions that his intuition directs, and he produces the required blend.

Labour-saving Machinery and Scientific Management

When an occupation is divided into many operations it becomes plain that the movements needed are, many of them, uniform movements. They are, therefore, such as can be handed over to machines. Whenever the extent of the market is great enough, this handing over to machines takes place. Then it is that the demand for manual skill is lessened, the demand for tool-makers is increased.

. What is called scientific management seeks to exploit to the fullest the advantages to be derived from a reasoned division of labour. A careful study of the actual movements needed for a job is made, so that unnecessary movements may be cut out. The workman is taught only these movements. There is careful selection of those best suited to the various jobs. And, whenever the introduction pays, a machine takes over routine processes.

Critics of Divided Labour

Some writers on the state of society declare, indeed, that this division of labour which produces so much for us is a drawback to humanity. This, for instance, is what Ruskin writes : " It is not, truly speaking, the labour that is divided, but the men—divided into mere segments of men—broken into small fragments and crumbs of life ; so that all the little piece of intelligence that is left in a man is not enough to make a pun or a nail, but exhausts itself in making the point of a pin or the head of a nail. . . . And the great cry that rises from all our manufacturing cities, louder than their furnaces' blast, is all in very deed for this—that we manufacture everything there except men ; we blanch cotton, and strengthen steel, and refine sugar, and shape pottery ; but to brighten, to strengthen, to refine, or

to form a single living spirit never enters into our estimates of advantage."

Possible Drawbacks

That there are drawbacks to mass production none will deny. A worker who has spent much time in the learning of a trade will feel resentment and dismay when his trade is broken up into minute parts and each part is entrusted to a machine and its minder.

Monotony is wellnigh unavoidable, and it would seem that the worker is entitled to look for compensation in increased chance of variety in life. Besides, the confinement of the worker to one small task may easily make him overlook the harmony of interests in the community. He sees that his work is indispensable in the whole productive process, and he may, and usually will, magnify its importance. So it is that we have the contentions in relation to the sharing of price of the product; how much of the price should go to this worker, how much to that; how much as interest to capital, how much as profits to reward enterprise?

It needs some effort in these days to realise that our prosperity is bound up with, and is dependent on, the prosperity and production of others. Producer and consumer are not, as once they were, in contact with one another. The shoemaker was once well known to the man who wore his shoes. The need of the latter had in fact occasioned the efforts of the former. Where this was so—where there was close contact between the man making the effort and the man enjoying the result of the effort—it was hardly possible to doubt that consumption is based upon production, that the goods for consumption depend upon the goods produced.

We have now, however, a factory system of production, and markets are world-wide. The factory worker works for one he will never see, he cannot know who is the ultimate consumer of his goods. Indeed, there is nothing he can call *his* goods. He cannot nowadays say he made one single yard of calico or one brass nail. He is only one small wheel in a complicated machine turning the materials provided by Nature into the goods desired by man. He

has, therefore, only a producer's interest in the goods. That is, he is only concerned about their finding a sale at a high price. He sees only the selling end, and hardly realises that he is a buyer as well as a seller. Division of Labour tends to hide the essential harmony of interests among those who work together in production.

EXERCISE

Read this well-known paragraph from Adam Smith. Then show how Division of Labour and Trade must have grown up together.

“Without the disposition to truck, barter and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted. All must have had the same duties to perform, and the same work to do, and there could have been no such difference of employment as could alone give occasion to any great difference of talents.

“As it is this disposition which forms that difference of talents, so remarkable among men of different professions, so it is this same disposition which renders that difference useful. Many tribes of animals acknowledged to be all of the same species derive from nature a much more remarkable distinction of genius than what, antecedent to custom and education, appears to take place among men. By nature a philosopher is not in genius and disposition half so different from a street porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog. Those different tribes of animals, however, though all of the same species, are of scarce any use to one another. The strength of the mastiff is not, in the least, supported either by the swiftness of the greyhound, or by the sagacity of the spaniel, or by the docility of the shepherd's dog. The effects of those different geniuses and talents, for want of the power or disposition to barter and exchange, cannot be brought into the common stock, and do not in the least contribute to the better accommodation and conveniency of the species. Each animal is still obliged to support and

defend itself, separately and independently, and derives no sort of advantage from that variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another, the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock where every man may purchase whatever part of the produce of other men's talents he has occasion for "

LESSON SIX

THIS Lesson should help you to form clear ideas about

1. What Capital really is.
2. What work Capital does.
3. How important Capital is nowadays.

CAPITAL AND HOW DIVISION OF LABOUR DEPENDS UPON IT

What is Capital ?

Abundant production is possible where good natural resources are available for able workers using good machines. Or put the statement in another way. To get an abundance of goods, every factor of production—*Land, Labour, Capital*—should be efficient, and co-operation among them should be vigorous.

Choose the best workers you know. Put them in the waterless Sahara or in the icy regions of the Pole ; and no wealth would be forthcoming to keep them alive. Place them in the most-favoured natural conditions and deprive them of tools ; and little more would be forthcoming. To produce much we must have machines as well as men. It is about these machines, these tireless and obedient helpers of men, that we speak in this lesson. To them we give the name "Capital." They do not comprise the whole of Capital ; tools and machines—ranging from the earliest stone hammer to the giant and intricate mechanism of a modern power house—do, however, form a very important part.

As soon as man had progressed a little in the arts of production, it became very evident that little further advancement was possible unless he had at his disposal the product of former labour to help his present labour. He must, even at a far earlier stage, have had tools in order to minimise the effort required of him, tools that have developed

into the amazing engines of production that we see now in our factories and workshops. Compared with animals, man has little physical strength and is painfully slow. As a porter he is the dearest and least efficient of the animals. But he has been able to domesticate animals stronger and swifter than himself, he has been able to fashion weapons and tools to add to his power. He has saved capital, and has conquered the world.

It is only when capital becomes developed that division of labour, upon which so great an increase in production depends, can be extended. In former times, capital played only a small part in industry. The feature of modern industry is the great importance of capital.

The Developing of Capital

Our far-off ancestors, emerging slowly and painfully from a state of savagery to become pastoral workers, did so because they had reached the idea of Capital. We may perhaps hazard a guess as to the manner in which this came about. Surplus animals, left over after the savage appetite had been satisfied by the spoils of the chase, were preserved as pets. When famine pressed and the hunters returned empty from the chase, these animals, pets though they were, would of course be killed. So it dawned upon the savage that it was wisdom to preserve useful things as a precaution against future wants. That is, he learned that to save was wisdom, the superfluity of good times supplied the deficiency of bad times. Further, the profit he derived from the wool of the sheep, the milk of the cows, and the young of his captives, taught him that wealth saved may produce further wealth. He would, when he had learned that lesson, have formed to himself the idea of income and capital. Apart from the fact that these animals had formed an insurance against famine, they had also served as capital. He had saved them and tended them; and from them he had derived an income of good things.

One Mark of Capital

The earliest idea of capital was thus that which afforded an income. And this is the chief attribute of capital in our

times. To the business man, capital is the fund from which he derives an income—which income he can use without lessening the fund itself.

This view of capital, as that which, quite independent of the work of the owner, brings in an income, is not quite the idea that the economist has of capital. To the economist, capital is a factor of production—is, in truth, an exceedingly important factor of production. It is that without which productive operations, beyond the rude and restricted beginnings of primitive industry, are not possible. In order that present labour may be effective, it requires the service of past labour. It needs tools and machines; good places to work in; stores of material to work upon, and stores of food and shelter to maintain the efficiency of the worker. Capital is property—the result of labour—and its purpose is to supply productive labour with its various requisites.

The Work of Capital

Capital in the realm of man's production of wealth may be compared to language in the realm of man's reasoning. We could most likely reason in some measure without being able to put our reasoning into words. The germ of reasoning powers is in the lower animals. It is through his command of language that man is so superior in his reasoning faculties.

So the production of wealth—but a woefully small production—could take place though men had nothing but their nails and teeth to help them. With these, where conditions are favourable, they might be able to keep themselves alive. It is capital that enables production to exceed what is barely necessary for daily wants. By means of the locomotive and the railway track, for instance, one man is enabled to do work that a thousand men could not perform without that auxiliary capital. By means of a cotton gin—the material embodiment of the mental labour of its ingenious inventor, dead a hundred years ago—an amount of cotton such as would have occupied a negro a whole year is cleansed from seeds in an hour. By means of his plough the farmer produces much more wheat than he could with-

out it : in a very real sense the inventor of the plough still works alongside the farmer. James Watt, who taught us how to use the unlimited powers of Nature, earns even now much more than any other worker among us.

Capital—providing the materials and means of production, and maintaining the workers during the process—makes possible operations beyond the imagination of early minds, and multiplies production in an amazing degree. Life among us is hard for some and easy for others. But for none is it so hard as it would have been for all unless men had stored up capital in the past. We honour in their descendants the claims of these men who stored up capital. These descendants may receive an income without working for it. Yet no injustice is done thereby to others.

Capital is Indispensable for Labour

Capital is a help to labour. In a modern civilised society it is much more, it is indispensable to labour. A man might, it is true, be willing to live as a parasite on others—dependent on legal or voluntary charity. Without the aid of capital, however, his own or others, a modern worker would perish. As a worker he must have command of capital.

This is what is meant by the expression “industry is limited by capital.” Industry cannot be employed to any greater extent than there is capital to invest. If you injure capital, or drive it away, at the same stroke you lessen the scope for productive labour. If you foster capital by providing favourable conditions, if you attract it from other countries, you at the same time give additional employment to industry. The good of capital and the good of labour are bound together.

Labour is Indispensable for Capital

Capital is necessary for labour. The opposite also is true. If capital is needed by labour, labour is no less needed by capital. For capital is kept in existence, not by being hoarded, but by being constantly renewed. If capital is unemployed, even such capital as exists in more durable forms such as buildings or machinery or tools, it

perishes in a longer or shorter period. Capital employed in the wearing out of tools, the destruction of materials, the consumption of food and clothing by workers, perishes also. The difference is that in the first case the disappearance of the capital is the final stage. In the second case, there has been a productive process which has replaced the capital expended, and replaced it probably with an increase.

Kinds of Capital

Capital is often separated into two great divisions—circulating capital and fixed capital.

Part of the capital engaged in production, being once used, is no longer capital. The raw material—the fibre from which the cotton seeds have been separated, that the cotton spinner uses—is destroyed when once it has been turned into thread. It can no longer be the spinner's capital, though it can be—and is—that of the weaver. Clearly, too, the portion of the spinner's capital that he pays away as wages exists no longer as his capital. If his business is to continue, this part of the capital needs to be constantly renewed from the sale of the finished product. Being renewed it is again parted with in buying materials and paying wages. It is perpetually changing hands. Capital which thus performs the whole of its office in the production in which it is engaged by a single use, is Circulating Capital.

‡ Instruments of production—plant, machinery, tools, having a longer or shorter life—form another large portion of capital. The efficacy of these is not exhausted by a single use. Sooner or later, indeed, they wear out and must be replaced. But being of a more or less permanent character they need not be replaced after each single operation. The sale of the product will provide a fund from which this more durable capital may be constantly renewed. Capital which exists in a durable shape, the return on which is spread over a period, is called “Fixed Capital.”

EXERCISE

Does an increase in capital bring about a decrease in the number of workers employed in an industry? Before beginning your answer read what Mr. Ford says on the matter

“We have been steadily cutting down the number of men employed per unit of output. If we can arrange the work or the machinery so that one man can do the work formerly done by three, then of course we put the change into effect at once and find new places for the men whose jobs have disappeared in the process. We really do not have to find new places for these men. The places open for themselves, for the making of new and better machinery is getting with us to be a big industry of itself. The machine which actually produces goods is each day more nearly approaching the automatic, and the emphasis is shifting to the tool maker.

“Nobody with us ever thinks of improvements lessening the number of jobs, because we all know that exactly the contrary happens. We know that these improvements will lessen the cost and therefore widen markets and make more jobs at higher wages.

“But you must remember that there is more in giving service than just the designing of machinery, there is more in management than merely the handling of men. I define service as the low cost production of high-grade goods, made by well-paid labour and manufactured and distributed at a profit. No man can really claim to be in business until he has equipped himself to attain these objectives.

“With all we have here in this country, it is foolish to think in terms of other than prosperity. Prosperity is a condition in which every one can buy what he needs and in addition nearly everyone can buy to some extent what he wants. That condition we now have.”

LESSON SEVEN

THIS Lesson should help you to have clear ideas about these facts .

1. The prosperity of a people depends greatly upon the natural resources they know how to use
2. Climate and soil and sub-soil give the materials upon which man works.
3. The environment has its effect upon the worker himself.

LAND AS A FACTOR OF PRODUCTION

Man's Control of His Environment

It is said at times that trade and industry make us independent of our surroundings. A harvest failure in the fields around would not condemn us to famine, as it would have done our ancestors; and as, even now, it would condemn peoples who have not yet learnt how to trade. The world is before us where to choose our sources of supply. True as it is in one sense, the statement is misleading; we are as dependent on our environment as ever we were

Our environment has extended, that is all. Whether a country is able to afford a living to a great population depends on the natural resources its people know how to use. It is these natural resources that we have in mind when we speak of land as a factor of production.

Natural Resources of Britain

Examine the matter in relation to our own island. What is our economic endowment? Has nature been bountiful or niggardly in regard to us? If a man works here with all his might, and especially with all his mind, will there be left free to him, after earning his living, some hours of the day, some weeks in the year, and some years of his life? Is all his energy to be expended in winning a livelihood?

The Influence of Land

Trade and industry are not all-powerful. Natural conditions play a great part. The build of our country—its mountain masses, its lowland plains, the arteries draining and irrigating it, the climate—its winds, its rain, its sunshine, the nature of the ground—its power of growing crops, its mineral wealth—all these are much as nature made them.

Indeed, we cannot easily exaggerate the influence of nature on the lives of men. The build of the country determines where they shall make roads—whether of water, or of welded stone, or hammered steel. The climate determines what crops they shall grow. The natural forces available in coal or in running water determine where industry shall be carried on. And, in backward peoples, the immediate environment settles what food they shall eat, what clothes they shall wear, what habitation they shall shelter in.

In the earliest stage of all, when men lived on what the ground brought forth of itself, the plains near them would dictate whether they were to be eaters of roots or of berries, or of nuts, or of fruits. In the hunting and fishing stage, when fish and the flesh of captured animals formed a great part of the food, and skins provided clothing, the kind of hunting and fishing would be determined by the nature of the land. The slow gliding river or shallow sea water in which fish were plentiful would make fishers; though, doubtless, the appearance of a herd of buffalo or the news of deer in the neighbourhood would impel a fisher to the more exciting occupation of hunting.

From the Hunter to the Shepherd

When the great advance was made from hunting and fishing to shepherd life, it was through the taming of the more useful animals—the sheep, the goat, and, most useful of all, the ox. But whether a savage tribe could make that great advance would depend upon the animals that climate and soil allowed to live on the land. When the shepherd state could no longer supply enough food for the

growing population, tilling the land began. Or, perhaps, we may say that tilling the land, giving a greater and more reliable supply of food, enabled a larger population to live. And, even more than hunting, farming is dependent on climate and soil. Farming could begin only in places where a fertile soil and a congenial climate amply and speedily rewarded the blundering and not very vigorous efforts of the earliest farmers.

Nature Still Means Much

Natural conditions still mean more than anything else, even to advanced communities like ourselves, with the world as our customer and provider. Such an "advanced community" may, to some little extent, modify these natural conditions. But these natural conditions are themselves what have made advanced communities, and so enabled them in some measure to adapt these conditions to their needs. There has never been an advanced community in the tropics or near the poles; and it is not at all likely that there ever will be.

Effect of Hot Climate

Consider the effects of great heat. We may partly understand what life in the tropics must be by remembering how we felt in a hot house. A very short while spent in the heated moisture-and-perfume-laden air seems to take all energy from us. If only we had enough to eat and a little to wear in such a climate we should not trouble. And, in the tropics, though nature is bountiful in her gifts, she is fearful in her expressions of wrath. In Egypt, maize is six feet high, and ready for gathering six weeks from the sowing. A few days' toil, a tickling of the soil with the hoe, and the planting of mealies, will ensure food for a year; but a tornado or an earthquake will destroy in an hour the labour of months.

And—at all events, where the lessons taught by British engineers are not learnt—it appears to the dwellers in these hot lands that they can only wait and hope patiently and placidly for the life-giving supplies of water. It is only natural that the people in these regions should cease to

struggle against Nature's expressions of wrath, or her grudging giving of water, and should take with calm and resignation the goods the gods provide. There is no incentive to strive and store. Besides, the peoples have never had energy enough to form a good government, such a government as would preserve to the man that labours the fruits of his labour, such a government, therefore, as would encourage labour and saving.

Effect of Cold Climate

A very cold climate would seem to be an even worse obstacle to progress. The records of explorers towards the poles—the accounts of their battles with blizzards, of the many days together when they were obliged to crouch, close shut, within their tents or snow huts; of the gnawing hunger that could hardly be satisfied—give us a far-off idea of the difficulties and dangers that beset one. Life in such a climate must be spent in a ceaseless struggle to wrest the means of living from dreary sea or barren shores, and in necessary rest from exhausting labour.

Our Own Climate

We, in these islands, are lucky in that our climate does not, on the one hand, summon us to slothful ease, and that, on the other hand, effort in it meets with an appreciable reward. We live in a temperate climate; and the experience of ages shows that this is the climate most favourable to both bodily and mental vigour. Besides, most of our weather comes with the prevailing winds from the deep Atlantic. We live, therefore, in a climate that is equable as well as temperate; in a climate where summer is not so very much hotter than winter, we do not, as we should if we were living in New York, or Madrid, or Moscow, spend half the year in a furnace and the other half in an ice house.

Environment and Character

Environment has much to do even with the character of a people. A possibility of steady exertion throughout the year has produced among us a race marked by steadiness and resolution. The dreary climate of Norway, owing to

excessive cold and the very short winter days, hinders constant work either at farming or at fishing. In like manner, the drought of summer and the resulting hardness of the earth, enforces the peasant of Spain and Portugal to spells of idleness. As a result, we have these countries, so different from one another in other ways, alike possessing a population marked by fickleness of character and inability to persevere.

Advantages of an Insular Climate

The insular position of our land has more than once guarded us "against invasion and the hand of war." The pestilences that have ravaged Europe were often stayed at the Channel; and, while hostile armies were marching across the Continent, nothing here hampered the steady progress of industry and commerce. Till quite lately security could be asserted of our country alone. Here alone was there protection *by* the Government from foreign foes, and protection, too, *against* the Government—against extortion and oppression by its officials.

Now, security is needed if there is to be peaceful progress in the arts and crafts of life. Those who labour must have confidence that they will be permitted to enjoy the fruits of their labour. Those with money to invest, in factories or workshops or railways, must have confidence that the earnings of their capital will not be filched from them, and that the undertaking brought into being by their money will not be destroyed as an incident of war. We have long been able to enjoy this confidence. The early strength of the central authority among us hindered the rising of a number of warrior barons such as there were in Germany.

Admiration and honour have with us always attended the amassing of huge fortunes, so that ambitious and active men have here used their keenness and energy in industry and trade, in creating wealth instead of pillaging it from others.

The world position of Britain is also to its advantage. Britain stands at the centre of the land half of the globe. The sea affords easy access to the rest of the world. The long summer days during the growing months bring the

crops to ripeness, and the prevailing westerly winds from the ocean bring to Britain more moisture than could otherwise be expected, considering its distance from the Equator, Canada and the United States, the chief sources of its food supply, and good markets for its products, are beyond the narrow parts of the Atlantic

Change in Economic Position

We were very differently placed before the New World came into vision. The ice barrier in the North Atlantic, the outlying fragments of which constitute a danger to shipping, even in these days of steam and wireless, hindered communication with North America at the point where the passage is shortest. So, likewise, the north-west trade wind, ever blowing away from Europe, proved an obstacle as great to communication with South America. None would venture into a wind that would never veer round and blow him again to land. The inspiration of Columbus was that he might utilise the north-east trades and cross the ocean, and that to return he could find his way north to the south-westerly winds. Following this inspiration, he discovered America; and Britain ceased to be the farthest limit of the known world. It became a conveniently placed middle house.

Our islands are on a raised part of the ocean bed—on the continental shelf, as it is called. On this submarine plateau the tide wave is as a result banked up, and there is a strong scouring of the waterways at each flow and ebb. Inlets into the land permit of the placing of the ports near to the centres of population, so that all the land may share in the cheapness of water carriage. Notice, for instance, how Liverpool, a great exporting port, is almost in the centre of these islands, close to the industrial districts.

Our coast has excellent harbours easily reached from the Atlantic and through the narrow seas. Improved by man's ingenuity as they are, these harbours are among the most convenient in the world for shipping. As with many human works on land and water, the efforts of the past generations have left a lasting result even on the ocean floor.

But these permanent effects of man's efforts in the past are among our present conditions for the making of a living. Any "new" country like Western Canada would give much for our roads and drainage system, our waterworks and our other public wealth. Our country is in truth what the Canadians call "improved land," land won from its primitive savagery. We benefit still because enterprising men have drained the land and cleared it of whatever hindered farming. One has, like Tennyson's yeoman, "stubbed Thornaby Waste"; others have turned what was neither good dry land nor water fit for sailing upon into farm land or docks

Character of People the Great Factor

Yet Britain has no very extraordinary natural advantages. The "ships, colonies and commerce" that add so much to its wealth and prosperity are the result mainly of the character of its people. Its people are energetic; there are nowhere, in spite of disquieting instances to the contrary, more strenuous workers than the British. They are trustworthy; an Englishman's sense of duty is proverbial. They are far-seeing; large and lasting gains are preferred before small immediate gains. They are persevering; steady exertion for a distant object rather than feverish spurts of energy is the rule among us. And they are resourceful; the world owes to British inventors most of the master inventions of the world.

EXERCISE

Suppose Matthew Arnold to be correct in what he writes below. Which would be, judging from what he writes, the more effective worker, an Englishman or a Frenchman?

"What are the essential characteristics of the spirit of our nation? Not, certainly, an open and clear mind, not a quick and flexible intelligence. Our greatest admirers would not claim for us that we have these in a pre-eminent degree; they might say that we had more of them than our detractors gave us credit for; but they would not assert

them to be our essential characteristics. They would rather allege, as our chief spiritual characteristics, energy and honesty, and if we are judged favourably and positively, not invidiously and negatively, our chief characteristics are no doubt these :

“ Energy and honesty, not an open and clear mind, not a quick and flexible intelligence. Openness of mind and flexibility of intelligence were very signal characteristics of the Athenian people in ancient times ; everybody will feel that. Openness of mind and flexibility of intelligence are remarkable characteristics of the French people in modern times, at any rate, they strikingly characterise them as compared with us, I think everybody, or almost everybody, will feel that. I will not now ask what more the Athenian or the French spirit has than this, nor what shortcomings either of them may have as a set-off against this, all I want now to point out is that they have this, and that we have it in a much lesser degree ”

LESSON EIGHT

THIS Lesson should help you to form clear ideas about these facts :

1. Economic rent arises because of diminishing utility.
2. Economic rent measures a difference in yields.
3. Economic rent is measured from the yield of the marginal land.

DIMINISHING RETURNS AND THE LAW OF RENT

Relation between Effort and Result

Doubtless you all know a good deal about gardening. At any rate you know that to scatter even the best seed on stony ground or among weeds would be waste. None of the seed would come to maturity. Clear the land, however, feed it with suitable plant food, water it during a drought, ever be alert to remove the weeds that suck away sustenance from your plantings, and you should get abundant crops. A little tending effects much.

You know, though, that a time comes when further tending, far from increasing the crop, is actually hurtful. It reduces the crop. The point where this further tending becomes hurtful is not easily fixed ; and matters do not work out in a uniform manner. Still, the great fact is there : we cannot make the crop grow beyond a point.

Observant gardeners know another important fact about the relation between effort and production. They know that for a while an increase in work upon the land means an even greater increase in the product of the land ; they know that if they increase by 10 per cent. the care bestowed upon the land, then increase in production is more than

10 per cent We have Increasing Returns The spending on the land has been a profitable spending.

Diminishing Returns the General Rule

This very satisfactory state of affairs does not last long After a while returns no longer increase, they diminish Ten per cent more care is taken, but the increase in produce is less than 10 per cent

We have Diminishing Returns A point is reached when it does not pay to spend upon the land Double the amount spent and the produce is less than doubled. We cannot with any certainty fix the definite point when returns do cease to increase and begin to diminish Just so we cannot fix a point when it ceases to become lighter and begins to be darker We know very well, though, when it has become darker. The farmer likewise knows very well when his exertions fail to reap their old reward. But he cannot say with any assurance at what point further attention to the land would not be worth while Like most men engaged in the practical work of the world he acts as much from intuition as from careful calculation.

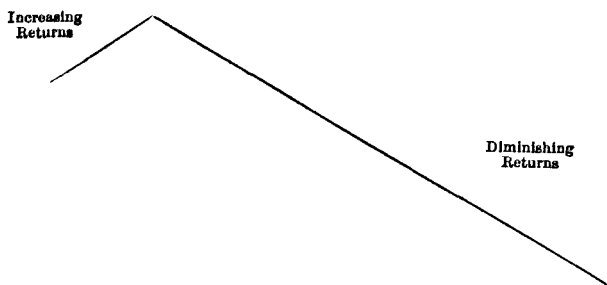
It is not, you see, that production goes on steadily until some point is reached at which it stops altogether. Diminishing Returns, after a not very advanced stage, operate in a constantly growing degree A clever comparison bringing out the point clearly is this.

“The limitation to production from the properties of the soil is not like the obstacle opposed by a wall which stands immovable in one particular spot and offers no resistance to motion short of stopping it entirely. We may rather compare it with a highly elastic and extensible band, which is hardly ever so violently stretched that it could not possibly be stretched any farther, yet the pressure of which is felt long before the final limit is reached, and felt more severely the nearer that limit is approached.”

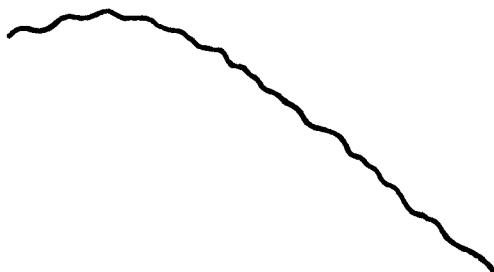
The pull upon our own land is a light one nowadays For the farm lands of the world are eager to supply our needs It was a heavy pull when, during the dismal years of war, most of those lands were cut off: we got the wheat we wanted, but at great cost

No Regularity in the Movement

You hardly expect either the increasing or the diminishing to proceed regularly. It is not a steady ascent followed by a steady descent. It is not



It is rather a series of curves :



A movement in an opposite direction may stay for a little while the general movement upwards or downwards.

Besides, conditions may change. If the price for his crops is likely to be higher, the farmer may decide to spend more upon his land, to employ more labour upon it, to feed it with better plant food. The last £10 he spends upon it will not bring him as much money as the first £10 would. It will, however, if his calculations are correct, bring him in at least £10 ; and he hopes, of course, that it will bring more.

Diminishing Returns in other Applications

Let us make quite clear to ourselves this idea of diminishing return by thinking of it in relation to things other than

the products of the land We see the tendency in operation, for example, in the making of things ; that is, in production As a rule a bricklayer will lay fewer bricks each hour as the hours pass The number he lays during the hour before the welcome whistle tells him he may cease for the day is less than the number he lays during the hour after breakfast. True, there may be a time when he is warming up to his work Then we have increasing returns. But this period is of no long duration

In study, again, we may do good work for an hour, or two, or even three ; but for succeeding hours the work is less effective In consumption, likewise, the first portion of a commodity satisfies a desire more intense than that satisfied by the second portion. The first piece of bread and butter, the first cup of tea is more desirable than the last we consume This last, indeed, is on the margin of consumption It is a question whether it is worth while to consume it at all

Again, in exchange we know that the more people have of a thing the less eagerly they wish for a further amount The lower, therefore, we must fix our prices in order to sell.

An English householder able to get during the year only one ton of coal would, wisely, have a fire only during the coldest days. He would obtain a very great amount of satisfaction from its use A second ton would still confer great benefit upon him. He would, perhaps, be able to have a fire whenever he needed it in winter. The third and fourth tons would find him comfortably off, but perhaps even if he could get the coal free he would decline to store more The first ton has much utility, the last ton has little

So, too, a piece of bread given to a starving man confers on him infinite utility. The second piece is less desired, and so on till a point of satiety is reached, when the eating of more bread would be a nuisance, not a satisfaction.

The first portions yield a surplus of satisfaction. The last is only worth the trouble it takes to get.

Diminishing Return and Rent

Well, now, what has this diminishing return to do with the rent that is exacted for the use of land ? Whether the

land is wanted for a crop of wheat or a group of houses, we know that people are willing to give something for its use. This does not apply to all the land in the country, you say True, it does not. No farmer would pay anything for permission to grow wheat on Salisbury Plain ; no buidler would pay for permission to erect a row of villas on Scawfell. Payment is made only when it is worth while to make it. This payment, this rent comes because of the diminishing return of which we have spoken. How so ?

As you know, all life, yours and mine and that of the animals we eat to maintain our own, depends upon the green plant, upon the crops of the field. We may say that the amount of life to be sustained measures the amount of demand made upon the ground. As life increases the demand increases.

When the flocks of Abraham and Lot multiplied, when their people, too, grew in numbers, contention arose. For the land could no longer suffice for both households. Then it was that Abraham and Lot agreed to part.

But abundance of land is not always available. Here is a group of peaceful farmers. They and their families live comfortably on the produce—vegetable and animal—of the land about them. What land will they farm ? Clearly, the land farmed will be what, all things taken into account, yields most to the efforts of the farmers. Land that can easily be induced to give crops will be tilled in preference to the more stubborn soil ; land near at home will be preferred to land far off.

Peace and security and plenty of food bring about increase in numbers. The land is asked to yield more food. The land responds nobly—responds as well as ever it can—to the greater care lavished upon it. But its powers are not boundless. It makes a weaker and ever weaker reply to the multiplied calls upon its resources. Far better after a time to go farther afield for crops, or to farm land that gives less to labour. A day's work on the worst land will, now that diminishing returns have begun upon the better land, give a greater produce. It " pays " to farm the poorer land.

True it is that a less bountiful crop rewards the efforts of the farmer. But this crop, though small, is yet greater than

the additional amount would have been if the efforts had been exerted upon the better land. When the crops needed are so great as to bring inferior soils into cultivation we have two sources supplying the one market. One source has an advantage over the other. The advantage, measured in money, is rent. And the greater the advantages one piece of land has over another—whether these advantages arise from the soil, or the position, or from a combination of these—the greater the rent that can be asked.

The land that pays to cultivate, but no more than pays—the land we can imagine the farmer hardly knowing whether to cultivate or not—we may call the marginal land. No one who cared for his own interests would, or could, pay a rent for this marginal land. It is “no-rent land.” The rent of other land is the money measure of the advantage possessed by that other land over the marginal land.

Rents may Fall and Rise without Limits

You see, then, the reason why the rent of land is in some places astonishingly high, and why in other places no rent at all is obtainable for land. The more calls made upon the land, the greater the price people are prepared to pay for its use. Rent rises, we say. The price of other things,—of cabbages and motor cars, of bungalows by the sea, of silk stockings and of strange boots,—also rises as demand becomes greater. But with these, with all things that can be manufactured by labour, there is a factor always preventing the rise in price from soaring beyond measure. The rise in price brings forward a greater supply. Many makers seek to turn the intense desire for these particular goods to their profit. The resulting increase in supply acts as a brake upon the movement of prices.

But the amount of land is fixed. It has cost nothing to produce, it will not disappear if no price at all is paid for it. The rent may rise indefinitely. A man who wants the headquarters of his business to be half a mile from the Bank of England is competing with a million other business men. A man who wishes his shop to be in Regent Street has to pay dearly to gratify his wish; for the sites in Regent Street are limited and the would-be users of those sites are without

an assignable limitation. There is, therefore, no check to a rise in rent.

Nor is there anything to act as a check to a fall in rent. If nothing can be got for last year's hats no more of such hats will be produced. A lowering of price means, as a rule, a lessening of supply; no one will continue to make what he cannot sell at satisfying prices. But the same amount of land is there whether many people want it, or few—whether much or little is paid for its use. The sites upon which great Babylon was built, the sites that once were eagerly coveted, are there yet. No rent can be had for them, though: for nowadays no one wants them.

Distinction between Land and Other Factors of Production

Land as a factor of production is thus different from labour and capital, the other factors of production. Increase the wages of workers in a particular industry and you are pretty certain to increase the number of entrants into that industry. The influx will prevent the wages from rising far above wages in similar industries. Let capital make higher interest in one industry, and capital inevitably flows to that industry. Raise rents and the supply of land still remains what it was.

The Real Cost of Land

In economics we are constantly exercising ourselves in going behind the money measure to the goods of which money is the measure. We distinguish, for instance, between nominal wages and real wages, between the money a man gets for his services and the goods he gets for that money. So here we ought to distinguish between the rent paid for the use of land, and the real cost of land to the community.

There is, to be sure, no real cost in the sense of outlay. It has entailed no labour and sacrifice to make the land; and it has its endowment of sunshine and rain whether men exert themselves or not. But real cost there is in this sense. When the land is used for one purpose, it cannot be used for another. Because there are shops in Regent Street, we

cannot grow wheat there. Because land is wanted for houses, it cannot continue as a cricket-ground or a nursery-garden. The limitation placed upon its use is the real cost.

If food is hard to get, as it was in the war-time, land may be diverted from less to more urgent uses. Lawns and flower-beds may become plots for potatoes and cabbages. The real cost of the land growing potatoes is then the fact that it is no longer available for flowers.

A plot of land, you see, may be put to many uses, not one only. A crop of wheat, a row of houses, a factory, a shop centre, these are some of the possible uses. With some plots there can be no doubt as to what is the desirable use. No one would dream of growing wheat in Regent Street. The rent obtained for the land as sites of shops is a pretty good indication that this is the most desirable use of the land. Changing conditions may make an alternative use more desirable, and then the rent to be obtained for this alternative use will sufficiently indicate this. What is now the inferior plot may become the superior. During the Great War the "better" wheat lands across the seas became worse than fields at home. For these "better" lands were, in a sense, through the difficulties and dangers of shipping, pushed farther away. It became profitable to plough high up the hillsides and far away from the roads.

Price and Rent

The price to be obtained for a piece of land arises from the fact that rent can be had for it. The greater the rent, the greater the price. But another kind of income,—interest such as is given by an investment in Government stock,—also influences the price of land. The greater the rate of interest the lower the price of land. We may put the relation between the price of land, the rent of land, and the rate of interest in an equation,

$$\text{Price} = \frac{\text{Rent} \times 100}{\text{Rate of interest}}$$

EXERCISE A

Below is a statement of the President of the Chamber of Shipping of the United Kingdom :

" Outward freight rates from this country last year represented only 3 per cent. of the selling price of the manufactured goods which were transported ; and the prices of food sold in this country bear scarcely any trace of the freights charged for its carriage. For instance, meat was brought from Argentina at $\frac{4}{5}d.$ per pound ; grain was brought from New York at a figure equivalent to only $\frac{1}{4}d.$ for a four-pound loaf ; and rice was transported from Rangoon at $\frac{3}{10}d.$ per pound. Even our clothes bear scarcely any trace in their price of the long journey which their wool and cotton made across the world in ships. The freight paid on the wool which goes to make one square yard of woollen cloth will scarcely be the price in the retail market of two single yards of its warp or weft, and the cost of carriage of the raw cotton which goes to make a cotton sheet, is about one halfpenny."

1. Explain what effect these low costs of sea transport have—

- (a) on the British farmer. How will the price of his wheat be affected ? How will his rent be affected ?
- (b) on the British cotton-weaver. Will his market be greater or less ?
- (c) on the payment for shipping services. Will there be greater or less demand for these ?

2. What did the President mean by saying that " this country is dependent on its mercantile marine not only for its transporting, but also for its very existence " ?

EXERCISE B

Consider the paragraph below, which is taken from Miss Newbigin's " Modern Geography." Then show that the

term "natural resources" (or Land) has a different meaning under differing conditions.

"The nature of the change introduced by the great industrial revolution may be realized by thinking of the great cathedrals of England, and noting how insignificant the towns in which they are placed are at the present day, when compared with the great centres that have sprung up near the coal-fields. Yet the very existence of these magnificent monuments of the past, means that in the old days the towns in which they were placed were not only centres of population and of wealth, but had also prestige enough to draw men's eyes towards them. Their very peace and cleanliness to-day means that the life of the nation is eddying round other centres. The emotions which found expression in their lofty spires now seek another outlet in the magnificent municipal buildings, the art galleries, the hospitals, the universities, and schools of the industrial centres. The same lesson may be learnt by considering the county towns of some of the counties where the change wrought by the industrial revolution has been greatest. What do the towns of Alnwick, Durham, York, Lancaster, Appleby, Carlisle, now signify beside the great towns in the north, which depend for their existence upon the coal-fields? The great development of North America is similarly the product of the age of iron and coal, and here also the population tends to congregate round mineralized regions. In brief, it is true generally of the civilized world that the attraction of the towns, of which we hear so much, is in reality the attraction of minerals, especially of coal and iron."

LESSON NINE

THIS lesson should help you to form clear ideas upon these topics :

1. What the " population problem " means.
2. How " diminishing returns " affect the problem.
3. How we are concerned in the matter.

SOME NOTES ON POPULATION

We ask the land to yield crops because people must eat in order to live. The more people there are the greater the call upon the land. Or, perhaps, it is better to put the matter the other way round : the greater the crops, the greater the amount of food available ; then the greater the number of people. For population depends not on the number of births but on the amount of food. " Countries are populous," wrote Adam Smith, " not in proportion to the number of people whom their produce can clothe and lodge, but in proportion to that of those whom it can feed. When food is provided, it is easy to find the necessary clothing and lodging."

The " Population Problem "

You see, many men, eager to better the lot of their fellows, were greatly concerned at finding, as they thought, that an increase in food supply meant only an increase in numbers, so that people were no better off after the increase. " When goods increase, they are increased that eat them."

One of these men expresses the idea in this way :

" It is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have

increased the comforts of the middle-classes, but they have not yet begun to effect those great changes in human destiny, which it is in their nature and in their futurity to accomplish. Only when the increase of mankind shall be under the guidance of judicious foresight can the conquests made from the powers of Nature by the intellect and energy of scientific discoverers become the common property of the species, and the means of improving and elevating the universal lot." This was written by John Stuart Mill, whose great book you will, no doubt, at some time read with interest and enjoyment.

The Teachings of the Economists

In general, these rather doleful writers declared, the growth of the population proceeds at an ever-increasing rate, but the growth of food supplies proceeds at an ever-diminishing rate. "Through the animal and vegetable kingdoms Nature has scattered the seeds of life abroad with the most profuse and liberal hand, but has been comparatively sparing in the room and nourishment necessary to rear them. The race of plants, and the race of animals shrink under this great restrictive law, and man cannot by any efforts of reason escape from it."

There is a constant tendency for population to grow faster than the food supplies. In the first, in the growth of population, these early economists saw increasing returns at work. In the second, in the growth of food supplies, they saw decreasing returns at work. If returns did not diminish, if we could be certain that every additional worker born into the world would pay his way, would produce as much food as previous workers had done, there would be no population question. Diminishing returns make it a question of the very greatest importance.

A Modern Statement of the Question

What these men thought is in general probably true. Here is what Dean Inge, a keen thinker of our own day, writes.

"The Industrial Revolution came upon us suddenly; it changed the whole face of the country, and the apparent

character of the people. We were no longer able to grow our own food, but we made masses of goods which the manufacturers were eager to exchange for it; and the population grew like crops on a newly irrigated desert. During the nineteenth century the numbers were nearly quadrupled. It was the position of capital wanting employment, and of natural advantages for using it, that called these multitudes of human beings into existence, to eat the food which they paid for by their labour. And it should be equally obvious that the existence of forty-six millions of people upon 121,000 square miles of territory depends entirely upon our finding a market for our manufactures abroad; for only so are we able to pay for the food of the people. It is most unfortunate that these exports must, with our present population, include coal, which, if we had any thought for posterity, we should guard jealously and use sparingly; for in five hundred years at the outside our stock will be gone, and we shall sink to a third-rate Power at once. We are sacrificing the future in order to provide for an excessive and discontented population in the present."

Increasing Returns Rule at Times

At times peculiar conditions bring about a reversal of things. That is to say, population may increase, but the amount of food available for each may also increase. This was so with us when the application of steam to transport and the development of large-scale production enabled the produce of far-off lands to feed our city populations. During a great part of the nineteenth century a unit of productive power among us, applied in factory or workshop, gave command over an ever greater quantity of food.

The world is filling up though; pasture lands that can be put under the plough are not boundless, and the pressure of population on food is becoming more evident. True, there are still regions clamouring for a vigorous people able to put to good use Nature's gifts. In most parts of the world, however, the increase of labour and of capital has made it very evident that land is fixed in amount, and is not capable of indefinite increase.

Basis of Our Prosperity

Our well-being was, and is, based upon two conditions. First, our manufacturers would always be able to make, our merchants would always be able to sell abroad the things that would be readily taken in exchange for our necessary supplies of food and raw materials. Second, the calls of other manufacturing peoples upon those sources of food for our people and food for our factories would affect us little.

Our Drawback

The question of food supply is for us of importance for this reason. On the whole we get our food by making things. We send out calico in order to get corn. Doubtless, food supplies can yet be increased. The vacant spaces of the world are not yet filled, nor are Nature's resources exhausted. But diminishing returns begin to operate as we go farther afield, or go to less productive sources. That is to say, we get the additional food by paying the higher price that calls the food into existence. There is a constant tendency for a bushel of wheat to command an ever greater number of yards of calico.

Much of Western Europe is like our country in this. It cannot feed itself, and as its population grows there appears a tendency for food to command more of other things. A leading economist puts the matter in this way :

“The prosperity of Europe during the nineteenth century was based on the facts that, owing to the large exportable surplus of foodstuffs in America, she was able to purchase food at a cheap rate measured in terms of the labour required to produce her own exports, and that, as a result of her previous investments of capital, she was entitled to a substantial amount annually without any payment in return at all. The second of these factors then seemed out of danger, but, as a result of the growth of population overseas, chiefly in the United States, the first was not secure.

“Europe's claim on the resources of the New World was becoming precarious; the Law of Diminishing Returns was at last reasserting itself, and was making it necessary year

by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread."

Science may bring Increasing Returns

Science and invention may do much to fight against this tendency to diminishing returns. The patient searcher after knowledge may yet show us how to grow two ears of corn where but one grew before. There are indeed those who tell us that we have walked but a little way along the path of progress and that therefore we need not worry about the population problem. Science will solve it. Read, for example, what Professor Soddy thinks :

"Painfully and with infinite slowness man has crawled to the elevation from which he can envisage his eventful past as a whole from one standpoint, as that of a struggle for a miserably inadequate allowance of energy. He looks back across the gulf of time from the day of the nameless and forgotten savage who first discovered the art of kindling a fire to himself, his logical descendant, master of a world largely nourished by the energy of fuel, and humming with the music of inanimate machinery.

"A consummation of man's freedom from anxiety, from thought for the morrow, will come from the energy to be liberated from matter. The energy is there, but the knowledge of how to liberate it at will and apply it to useful ends is not—not yet.

"The problem will be solved when we have learned how to transmute one kind of element into another at will, and not before. It may well take science many years, possibly even centuries, to learn how to do this ; but already the quarry is in full view and, by numerous routes, investigators are starting off in hot pursuit "

Science has done marvels. The old proverb, "You cannot make a silk purse of a sow's ear," has been falsified. For, without the intervention of the silk worm, we can now make silk dresses out of lumps of wood. The artificial silk has not indeed beaten the silkworm at his delicate and miraculous task. Yet it has gone far as a rival. Other astonishing things science may achieve—it may produce food from unexpected sources. But we are not, perhaps,

as prudent people, justified in relying upon what is after all largely a gamble

Summary of the Matter

In a land where Nature yields much to labour a sparse population may be an evil. For growth of population would allow more co-operation, more division of labour, would provide more hands to till the fields and more soldiers to defend them.

After a while—a short while where the extent of the land is small and its endowment of sunshine and rain a little one, a long while where the land extends far and where Nature is lavish of her gifts—the tendency alters. It is ever more difficult for new-comers to find a place. Unless an outlet in other lands is available, hunger and wretchedness must attend further increase.

Among creatures other than men numbers are kept down by the two possibilities of being eaten and of not having enough to eat. The gnats are kept down because they are food for the swallows. The swallows are kept down because the supply of gnats falls short. It is always “Nature red in tooth and claw.” Man alone by his foresight is able to escape what seems the inevitable lot of other creatures. But it is only by his foresight, where that fails he himself becomes subject to the danger, not indeed of being eaten, but of not finding enough to eat.

EXERCISE A

Explain what is meant by “Man’s Conquest of Nature.” Read this paragraph and suggest some drawbacks of this conquest.

“A population may be too crowded, though all be amply supplied with food and raiment. It is not good for man to be kept perforce at all times in the presence of his species. A world from which solitude is extirpated is a very poor ideal. Solitude, in the sense of being often alone, is essential to any depth of meditation or of character; and solitude in

the presence of natural beauty and grandeur, is the cradle of thoughts and aspirations which are not only good for the individual but which society could ill do without. Nor is there much satisfaction in contemplating the world with nothing left to the spontaneous activity of nature, with every rood of land brought into cultivation which is capable of growing food for human beings; every flowery waste or natural pasture ploughed up, all quadrupeds or birds which are not domesticated for man's use exterminated as rivals for food, every hedgerow or superfluous tree rooted out, and scarcely a place left where a wild shrub or flower could grow without being eradicated as a weed in the name of improved agriculture."

EXERCISE B

Between 1900 and 1910 the average price-level of British manufactured exports rose 5 per cent.; the average price-level of British food imports rose 10 per cent. Explain why this should be so. What effect has this fact upon our power to get the things we want?

LESSON TEN

THIS Lesson should help you to form clear ideas about

- 1 What is meant by the *Distribution of Wealth*
- 2 How the *Wealth* is shared among those who co-operated in producing it
- 3 How *Money Incomes* are paid for contributions to the *Real Income*
- 4 How the amount of *Income* is settled by *Bargaining*.

SHARING THE PRODUCE OF INDUSTRY

Incomes Allotted by Bargaining

We produce the things we need by means of a co-operation with our fellows. By ourselves we could not produce what would suffice for the simplest life. In conjunction with others we can produce what suffices for a most complex life. But, as soon as we have given up producing for ourselves, we must have regard to the wants of others, to their whims and wishes. We want them to help us, we must be prepared to help them. What can we do? Well, we are endowed with hands and brains, we can perform services. Some among us are also endowed with property, with land or with money wherewith to buy materials and machines. And property too, Land and Capital, can perform services towards production. Our services and the services of our property are wanted to produce wealth, and we sell those services at a price. That price is our income. We get this income as the result of a bargain.

We look to others for our supplies. The supplies are forthcoming when we do what others want done. We may think we should like another job more than the one we now have allotted to us. We may even suppose, and with good reason, that we could do better work in that other job. That does not matter so long as we are unable to get paid

for the other. I can produce both poems and potatoes. Therefore, not willing to starve and unable to do without others' services, I produce potatoes.

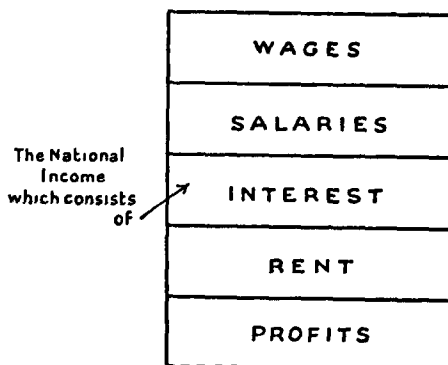
The Income of the Community

During the course of a period of time, a greater or less amount of goods—things that satisfy wants—are produced among us. There are things to eat, things to wear, property of all kinds; and there are, besides, services rendered. These goods—these commodities and these services—constitute the real income of the community. This real income is the means of maintaining the life of the nation. We may, if we choose, call the whole of these goods the *National Income*. They constitute the fund that we share among us—share, not at one great ceremonial distribution, but during the very process of production. If we took the period of time as a year, if we could reckon all the commodities consumed among us and all the services rendered one to another in that time, we should have the National Income for the year.

It is this National Income that, being divided among us, is sometimes called the National Dividend. Our contribution to the real income is in the main paid for by the money income we receive. The money income does not pay for all our contribution; for we render—outside as well as inside the family circle—some unpaid services to one another. The mother tending her sick child does work similar to that for which the nurse is paid, the town councillor gives services similar to that for which the Member of Parliament gets his £400 a year. In our country, happily, these unpaid services greatly add to the National Income.

The questions that arise in relation to the National Income (or National Dividend) are such as these: Why does this man get a big share? How is it he can consume many commodities, command many services? Why does that man get a little share? Land and capital contribute to the National Income. To whom, as things are now, goes the payment for the services of these inanimate factors of production? Let us approach the problem in this way.

Draw an oblong and divide it into five parts



The National Income, the amount of desirable things made available in the period, is the whole oblong. The greater the area of this oblong—in other words, the greater the amount of production that takes place—the greater the various shares are likely to be

In a great society like ours, to be sure, many have a share who have not, either by their own services or by the services of their property, helped to produce the National Income. We have a large group of criminals who prey upon society, and we have a large group of those who prefer begging to working. Apart from these, all get a separate income because they have contributed to the income of all.

Wages are payments for the services of workers. Salaries are payments for the services of the directors and organisers of work. Interest payments are for the services of capital. Rent is payment for the services of the appropriated gifts of Nature. Profits are the payments for the services of those who show enterprise and take risks.

The Employer the Paymaster of Society

In the distribution of shares we may regard the employer as the paymaster of society. He buys the worker's share of the joint product by advancing wages; the capitalist's share by advancing interest; the landlord's share by advancing rent. By selling the product in the market, he

hopes to recover all these advances ; he hopes, indeed, that something will be left after all his outgoings have been covered. The part that is left he takes as his profit

True, his hopes may be disappointed , instead of a profit there may be a loss. He has thrown realised wealth into the melting-pot, whence it will, he trusts, emerge with a surplus. It comes out diminished, not augmented. In the hope of gain he has run the risk of loss , and the risk has become reality. On the whole, however, a profit accrues. The taking of business risks is a paid service , and, correctly interpreted, profit is the name of the payment

The Greater the Production the Greater the Shares

Co-operation produces the things ; and, clearly, the more things there are produced during the period, the greater the total to be shared. In a simple state no one would have thought to become better off by producing less. It is no different, really, in our complex society ; though here we cannot see clearly the result of limiting production. Restrict the flow into the reservoir, and someone will be short of water ; limit production, and someone will want goods.

The sharing of the things is based among us upon the rules of—first, a *right of private property*, and, second, a *right to bargain freely*,

These rights are not quite unrestricted. The right to private property is limited in that the State demands a part of one's property. It imposes taxes on a man during his life ; it takes a part of what he leaves behind. Besides, it is not entirely true that a man can do what he likes with his own. The interests of society restrict the possible uses. I may not use my revolver to practise shooting in Oxford Street. I may not overwork my horse. I may not so build on my land as to deprive another of the light he gets. I am obliged to use my property in such a manner as not to injure another.

Every session Parliament, in the interests of the whole society, imposes some restraint on the use of individual property. A quite recent and interesting instance is afforded by the Advertisements Regulation (Amendment) Act of 1925. The Act preserves the beauty of the country by

forbidding land-owners to erect hoardings for advertising purposes, wherever these hoardings would disfigure the landscape. Some bargains, too, are prohibited. We are not allowed, for instance, to make a business of crime, knowing that a man has done wrong, we are forbidden to sell our silence about the matter.

Right to Property

Among us, whatever a man acquires without force or fraud is his own, whether he acquires it by way of industry, or trade, or gift. We are quite content that a man should be permitted to begin in a cottage and end in a mansion, confident that during the process of his acquiring the property he will have performed good service to the community. He may use the property he has acquired after his pleasure; he may keep it, or waste it, or give it away, or employ it as capital to produce more wealth. We even recognise an unlimited right to give the property away after death. The power of bequest, we say, is among us attached to the idea of property.

This assurance to each of all his property is only subject to the right of State to call upon its subjects for help in time of need. But these calls for help, taxation during life, probate duties after death, are among us fixed by law, they are not arbitrary. Under these rules, a man is allowed to acquire such property as he obtains by fair bargaining, whether he sells his labour or the use of his property, whether he bargains for wages or for interest or for rent.

The System of Individualism

When these two rules, the right to have property and to use it as one wishes, and the right to bargain freely, are in being, we have what is called *Individualism*. Within limits, this is the method under which we, as a nation, earn our living. Long ago we came to the conclusion that where abundant production is called for, there must be strong motives to work and to save; and that private property and freedom of contract are sharp spurs to industry. Under these there will be effective labour and an abundant flow of savings.

The System of Socialism

A great and growing party is, however, so keenly conscious of the evils of the present method, that it would forbid private property, at any rate, as the means of production; and it would substitute, for this freedom of contract, regulation by the Government.

Since society, organised for the purpose of producing much and of distributing fairly, would control the production and the distribution of goods, such a method is called Socialism. There are many varieties of Socialism—some so fanciful that we can hardly think their advocates to be really serious in proposing them

All the varieties agree in thinking that where everyone may, if he chooses, be an employer, and produce what things and what quantities he will, our present system is chaos. For the chaos the Socialist wishes to substitute regulation and order.

The Marks of the Individualistic System

Both Individualist and Socialist seek the greatest good of the people. They both look upon society as a co-operation for mutual service. Where they differ is about the means of obtaining the greatest good. How can we ensure that the right goods are produced in the right amounts? How can we ensure that justice presides over the division of these goods? The Socialist declares that these objects are best obtained through regulation and combination. The Individualist prefers the method of freedom and competition. The Individualist upholds private property because it is the most powerful instrument for making a man work for his fellows, and because most fortunes have been made in ways that have led to great benefit to the community. He honours in their descendants the claims of those who have so added to public wealth that life is made easier for all. He believes that a great inventor or organiser has usually conferred upon society much more than he gets from society.

He upholds landed property and patents and copyrights because he thinks the investment of capital in what may be

profitable ways can only be secured when profits are assured, either for always or over a limited period

He upholds interest because he feels that the chance of a paying investment is a great incentive to save and to economise public wealth. He supports the unlimited choice of occupation and the freedom of contract, not merely because a free man is a higher being than one whose whole life is regulated and prescribed, but also because as he thinks a certain justice proportions rewards to services.

He thinks that although we cannot punish idleness or intemperance or improvidence by law, yet that these drawbacks in a man's character should be visited by their natural penalty of poverty. He thinks, too, that toil, temperance and prudence ought to reap their fitting reward of comfort.

The Individualist views the pursuit of private good as a means toward the general good. He would lay the burden of proof as to the desirability of State interference upon its advocates. He himself admits it only when the case is very strong; for he looks upon the active business of life as a part of practical education. Competition does, indeed, bring some evils in its train, but it keeps everyone keyed to a higher pitch. It may weed out the inefficient and the idle; but it nerves and stimulates those who are shrewd and strong.

A Note on Socialism

In its large sense, Socialism implies the placing of the interest of society before merely individual interests. In this sense all who seek to improve social conditions, all who recognise responsibility for their fellows are Socialists. In this sense it is that "we are all Socialists now." For we have taken upon ourselves collective responsibility to an ever greater degree—in education, in charity, in industrial conditions themselves.

In the narrow sense Socialism implies that all the means of production, all Land and Capital, should be owned by the community. Thus all rent and interest would go to the State; to the individual would go only the reward of his labour whether of hand or brain. This reward would be assessed and made effective by labour certificates showing the amount of labour rendered. The State would control

all instruments of production and distribution. Thus the collective authority of the State would be substituted for the action of separate employers. It would be State officials that would control industry.

EXERCISE A

“ Yes, everything belongs to everybody. Just so all the gnats that fleck the air belong to all the swallows. But when a swallow has a gnat in its beak, then this particular gnat belongs to this particular swallow.”

This is an argument to justify private property. Can you suggest other reasons why private property should be permitted ?

EXERCISE B

Examine these two arguments. Which of them appears to you to be the sounder ? Expand the argument you prefer.

(a) Since there is only a little for all of us, he who has much is acting unjustly.

(b) He who has much is unjust only when his share has become greater through another's loss. He should be praised rather than reproached when his share is great, because he himself has produced much and has, while producing it, added to the public wealth.

LESSON ELEVEN

THIS lesson should help you to form clear ideas about :

- 1 How Production is Guided.
- 2 The work of the Trader
- 3 The Growth of two opposing tendencies—
 - (1) The Division of Labour.
 - (2) The Uniting of Control.

HOW INDUSTRY IS ORGANISED

The Economic Machine Works Itself

A great French economist thus expresses the wonder we all must feel when we think of the men, far off and near, who have supplied our wants . “ On entering Paris which I had come to visit, I said to myself—Here are a million of human beings who would all die in a short time if provisions of every kind ceased to flow towards this great metropolis. Imagination is baffled when it tries to appreciate the vast multiplicity of commodities which must enter to-morrow through the barriers in order to preserve the inhabitants from falling a prey to the convulsions of famine, rebellion, and pillage And yet all sleep at this moment, and their peaceful slumbers are not disturbed for a single instant by the prospect of such a frightful catastrophe On the other hand, eighty departments have been labouring to-day without concert, without any mutual understanding, for the provisioning of Paris ”

Men all over the world wish, and work, to become better off Therefore it is that the machinery by which our wants are in some measure supplied works itself. The farmer plants wheat in this field because he thinks he will profit by it , the iron-master makes bedsteads or knives or saucepans for a like reason Neither is directed how he shall use his land or his capital And we are content to leave it so ; for in this country we are convinced that an attempt to

regulate and control would result in nothing but muddle and waste. No one settles how much wheat shall be grown, nor where it shall be sent when reaped, nor to whom it shall be allotted. There is no agreement, no mutual understanding among the growers.

Desire to profit brings about Production

We want so many loaves to come into the house this week, no more, no fewer. Why are we confident about getting these loaves? There is no supreme council guiding and directing the productive powers of the world, deciding that this tract shall be devoted to wheat, that to timber, that to pasture land where sheep and cattle range. Nor, indeed, could there be such a council. Even in war time—in a time of stress and strain—when all were eager to use resources in the most effective way, it was difficult to organise an industry in a single country. The difficulties—where many countries worked together—were too great for human powers.

Here, for instance, is what a careful observer wrote about the shipping control: "The normal economic system works itself. For its current operation it is under no central control, it needs no central survey. Over the whole range of human activity and human need, supply is adjusted to demand, and production to consumption, by a process that is automatic, elastic, and responsive. This intricate system has been built and is maintained by the work of thousands of men, of keen but limited vision, each working within his own special sphere, each normally seeing and knowing only his own and the immediately adjacent territory. Since the rude shock of war broke this machine the world has been looking for the superman who made it and controlled it, for those who understood it both in its basic principles and its infinite detail, and could therefore refashion and remodel it to the new conditions. It has not found them. They do not exist."

The Growth of Control

On the whole the productive machine works smoothly. The loaves are forthcoming and in the right number, mainly

because men seek to make a profit. No conscious control of the economic machine exists. On the single farm or in the single factory we may find such conscious direction of human effort. In a great factory the efforts of many are guided towards a common end; and over a great part of the industrial world—in our own country, in the United States, in Germany—a common aim may join factory to factory, workshop to workshop, mine to mine. Some giant businesses, indeed, try to stretch backwards to the field or the forest or the mine whence they derive their raw materials. They try to stretch forward to those who will use, and pay for, the products made.

Control of a Whole Process

Read, for instance, this report of a great business: "We are producers of coals, we have got modern collieries, thoroughly equipped to take a full share in the prosperity which will come about when the horrid coal control finishes. Passing from coal, my friend, Mr Whitwell, is in charge of the next stage in the ladder, namely, pig-iron—bar-iron—leading on to steel works which we hope to acquire, and for which we are at present in very close negotiation. Then we pass on to our shipbuilding yard, where the steel will be readily absorbed, and I can say this truthfully, that at the present moment we are suffering in our output chiefly on account of the lack of raw material. It is very essential therefore that we should secure our own steel works with the least possible delay. Turning from the shipbuilding yard we pass on to ship-owning, and in carrying on and supporting our ship-owning we are building up a very large coal-exporting business and a timber-importing business. Mr Whitwell, at his iron works, requires our ships to bring back the iron-ore to keep his blast-furnaces going. We pass on to marine insurance and in this connection we are closely associated with Lloyd's. There is not a string that we are neglecting in this great aspiration of ours that we should be self-contained, and be able to carry on the business in such a way that in cycles of depression and prosperity it will give a constant, regular dividend to the shareholders, and secure their principal."

The Present Organisation

Let us study a little how industry is organised under our present arrangements. And first, when control is present—as it is in a single factory—who does control? It is the provider of capital. The one who stands to bear the risk of loss should have the chief voice in deciding how the business is to be run. We say that risk and control go together. The capitalist employer is the paymaster of society. He buys the workers' labour for wages. He hires another's capital for interest. He hires natural resources for rent. He controls the product of industry and hopes that from its price after his various outgoings a surplus of profit will remain to him. As a factory owner he raises the walls, instals the machinery, enlists and organises the workers, buys the materials, and directs the work. Or he pays others to do these things for him. And the source of the payment is the price he can get for the product he sells. From this price—after all his outgoings have been met—he trusts there will be something left, and this surplus is his profit.

The consumers by their preferences, made known through their willingness to pay a price, indicate what production should take place. The merchant—the middleman—interprets the consumers' wishes and he gives orders to the manufacturer, thereby determining what products shall be forthcoming. A good comparison is this:

“The dealers do the staff work; the producer is the regimental officer. They plan the campaign; he carries it out.” The price of butter goes up. Very well, say the merchants, here is a sure indication that more butter is wanted. More butter is sought. Under the incentive of the higher prices offered them, farmers divert their efforts from less profitable tasks and turn them to the making of butter. The middleman is the bridge between the grower and the maker, and between the maker and the customer. He enables the maker of machine products to give his whole attention to the business and to devote all his capital to his business.

That our present system of production, in which the

desire to make profits is trusted to supply an incentive to the production of the right things and in the right quantity does bring about abundance, is certain. It has some drawbacks though. These may be expressed in some such manner as this. Production takes place because people want to consume. But the consumer may not be served to his liking by the producer—he may not get the goods he wants. Moreover, if he has no money to give for the goods, he may well find himself neglected. So long as the price obtainable is the finger post for the trader, a rich man's whim will be more effective in inducing production than a poor man's pressing need.

The Opposing Tendencies

Under our private enterprise system we have constantly at work the dividing of the process of industry into smaller and smaller divisions. We have, also, the gathering of control into fewer and fewer hands. In division of labour we traced this process first, of separating industries so that men worked as smiths or wheelwrights or carpenters; and, second, of splitting these industries into separate operations, so that a man no longer makes a pair of shoes but does one of the hundred processes entailed in the making.

It is this division, this minute breaking up, that has brought about the main difference between old and new industry. This main difference is that workers, producing in mass and controlled by others, use machinery. The abundance that comes along with division of labour is largely due to this. It is not because the modern worker is cleverer or more fitted to his task than his predecessor. The craftsman of old, the wood carver or the metal worker, did not lack dexterity. Indeed their quickness of hand, their accuracy of eye, their intelligence and endurance were doubtless at least equal to those of the modern factory worker. But the worker of the Middle Ages had no potent and tireless engines to do his bidding. The machine now has taken over the workman's task. Man has become the attendant upon engines more powerful, more accurate and less tiring than himself.

Mass Production

Whenever many things of the same kind are wanted we have the incentive to produce in mass, and production in mass usually implies the handing over of more and more tasks to machinery. During the time of the Great War the tendency was greatly quickened. We needed enormous supplies of certain kinds, qualities and patterns of things—cloth, shells, and tins of bully beef. We had, therefore, a surprising impetus to the subdividing of employments. Expensive machines were devised for a single tiny operation, simply because the machines could now find plenty of work in turning out the articles in mass. In a modern boot factory you will find numbers of machines that imitate the movements of the human hand. The movements have been studied; they have been simplified by cutting out the unnecessary, and they have been taken over by inanimate steel structures. The machines are there because it is possible to supply them with enough work. Once a manufacturer is assured of a wide market he will eagerly seek to achieve the economies of large-scale production.

There may be obstacles to production on a large scale. Some consumers are delighted with handwork, but without mass production—machine production—the many could not enjoy gramophone records or cream crackers or cheap silk or penny newspapers. The skilled worker may object; for in a very natural way he looks upon the machine as his rival for a job rather than as an ally. He has ever before him the dismal thought that even his efficiency cannot prevent his being displaced by a machine if it is once seen that the instalment of the machine will pay. On the other hand, as is abundantly shown in progressive countries, where the worker has abundant capital at his service, there his payment is high.

However this may be, neither consumer nor worker can stand against the tendency to produce upon a larger and ever larger scale when there is a great market. Union of business units proceeds apace; while at the same time the processes become more minutely divided. When the controller of a business knows that a machine is available which,

if he can only sell its products, will lessen his costs, he strives so to extend his market that he is able to instal the machine. So we have that eager competition for markets which is a great feature of our days. In order to get the market we see astonishing amounts spent on advertising, we have such a lowering of prices that each yard of calico or pair of boots gives but a tiny profit; we have the eager competition of makers to put on the market goods that will attract more and more customers. In all manner of ways makers try to increase capital. For they know that in so doing they will lower costs. They will be able to organise more easily, and they will be able to put into operation more effectively the division of labour. They will, in short, be able to enjoy the economies belonging to large scale production.

EXERCISE

Read carefully the paragraph below, then explain why the price of a yard of cotton is affected by (1) a partial stoppage in the coal trade, (2) a partial failure of the cotton crop in the United States, (3) a lowering of the rate of interest, (4) an increase in the output of French mills.

“From the organisation of the great cotton industry we may readily understand that of other industries. The raw material is imported in bales, and the coal is raised from the pits. Powerful engines drive the machinery in the factories. Half a million operatives, men and women, boys and girls, attend to this machinery. The masters in their offices consider the price per pound which they have to give for the raw cotton, the rates of wages which they have agreed for with the Trade Unions, the dividends expected by the owners of the capital which has been invested in the mills, and the price which they must charge for the finished article. In fixing their sale prices the masters must have regard to the price at which the goods of their competitors are offered. The price of raw cotton is fixed on the Liverpool Exchange

and quoted in the Lancashire papers. The price of the finished goods is fixed on the Manchester Exchange. Wholesale dealers buy at Manchester for export, and for the supply of the retail shops at home. All these adjustments are made under the pressure of foreign competition."

LESSON TWELVE

THIS Lesson should help you to give clear answers to these questions

- 1 What are wages ?
- 2 What are the chief ways of paying wages ?
- 3 Whence do wages come ?
- 4 Why do wages differ in different occupations ?

THE REWARD OF LABOUR

Real Wage and Nominal Wage

We ought first of all to distinguish between real wage and nominal wage. The real wage is the important kind. It includes all that a workman gets for his service—not the money, but what the money will buy. But this is not all ; the real wage includes what may be more important than the money—the satisfaction from the work itself, the honour attached to it, the prospect held out by it.

The nominal wage is what an employer agrees to pay. We have chosen our work badly unless our real wage far exceeds this nominal wage. The nominal wage is but a part of the real wage, it ought to be a small part. Besides, a nominal wage, measured in many thousands of paper marks or Russian roubles, may stand for a real wage measured in very few loaves of bread and pounds of beef. The nominal wage is high ; the real wage is low.

The Choosing of an Occupation

When faced with a choice of occupations, it is the real wages we should chiefly consider. Examine this question a moment. For there is certainly no more important step in life than the choosing of one's vocation. It is no exaggeration to say that the happiness and well-being of the worker are largely dependent upon a wise choice at the outset of his career. Yet it is chance, not choice, that very often

decides the question. The first job that offers is accepted so long as it gives a present reward. And often there has been no consideration of where the job will lead, what prospects it holds out, how far it will satisfy a craving for a full life. From the point of view of waste alone, the attempting of an uncongenial task, the trying to adapt oneself to what neither mind nor muscle, neither temperament nor education is fitted, is deplorable

How shall we Choose ?

The question arises, though, how are boys and girls embarking on life's work to decide upon their occupation ? To some extent, but by no means altogether, by their own inclinations. The one chiefly concerned, the one to be made or marred, should certainly have a voice in the choosing. But we should note that hardly anything is more liable to error than an estimate of one's own capacity. Guidance must be sought ; and the guides themselves often have a hard task. For many admirable qualities show themselves only when the practical difficulties of life stimulate powers to full exertions. Among the many riddles of existence, not the least is the fact that often the beginner, who promised so well, fails to answer expectations, and that the awkward learner becomes one of the experts in the work.

What then are the considerations that should weigh when we balance the advantages of alternative occupations ? Some are obvious. Such are pay, social position, place wherein our working hours are passed, people with whom we are brought into contact, and the like. It needs no more than a mention of these things to obtain agreement upon them. Other things being equal, far better live in Bournemouth than in Wigan. Better serve a man of genial disposition than a confirmed grumbler. Better work at an occupation that people honour than at one they despise. There are other less obvious considerations. An occupation where one is quickly at a stay, an occupation that has no long vistas where progress is possible, may be very necessary. But none the less such a blind alley occupation is numbing to mind and feelings.

The salary we shall command is perhaps the first question

we ask But whether the occupation will give us a keener interest in life is more important "An aim in life is the only fortune worth the finding," writes Stevenson

Work is a Good not an Ill

But, wisely as we may choose our paths, we must not imagine that we are exempt from the penalty of Adam. Work—drudgery itself—is incident to all occupations Little prepared as we are to recognise the fact at the time, hard work is good for us all It adds a savour to the fine things of life we enjoy It does this not only by reason of the contrast afforded to our hours of ease, but also by reason of a sense of duty adequately done We have benefited from the difficulties we have faced and overcome.

We need not pity the hard worker. We should pity him when his toil has no alleviation, when knowledge and understanding wherewith to impart interest to the work are lacking To be placed in a post where there is little to do and no incentive to strive has been a disaster to many. The rugged task, the work that calls for strenuous exertion of mind and body, makes the world a better place for men to live in More than that, it makes the worker a better and happier man

The Payment of Wages

The method of paying wages is a matter of concern to both master and man. Shall the wage be so much an hour, or so much a yard? Shall the wage be a fixed one, or shall it vary with the price obtained from the product? The question is not simply one of book-keeping The manner in which the wage is assessed may have an effect on both the worker's power to work and also upon his will to work. Consider the matter a while

Economy of High Wages

"The wages of labour," wrote Adam Smith, "are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives." There is truth in the expression, "The Economy of high wages." High wages and efficient production are

usually mutual cause and effect. The better tended an engine is—fed with the best fuel and cleaner oil, the causes of friction more carefully removed—the greater its efficiency. There is some analogy between the worker and the machine. Efficiency gains good wages, the good employer gains by his goodness.

Time Wages and Piece Wages

In regard to method of payment, "Time Wage or Piece Wage" is the great question at issue. Of these, the first is the matter of importance to the workman, the second to the employer. To the workman it seems that his interest lies in earning as much as possible in the shortest time. The employer's interest lies in obtaining as large an output as possible at the least expense.

We may say that the workman sells an amount of his time. One writer goes so far as to say that he "barter[s] part of his life in order to make a living." What the employer buys, however, is not so much time, but so much efficiency.

The worker measures his services by the time he spends multiplied by the intensity of his work. The employer measures the services he buys by what they perform. The worker sells time, the employer buys output, and, worth for worth, the worker who can do twice the amount is paid at least twice the wage.

When Each Method is Applicable

In regard to this choice of method two considerations are obvious. If the workman is paid by the time he takes, he may be trusted to do his work as well as he knows how. For no workman cares to turn out slovenly or defective work. In that event, the employer has to see to the quantity only. If, however, the workman is paid according to his output, he may possibly have a strong incentive to sacrifice quality to quantity. The employer, then, has to see to the quality. In the first case, supervision is needed to see that the work is being done; in the second, supervision is needed to see that the work is well done.

When expensive plant is being operated by the workman, it is clearly in the interest of the employer to have it worked

at its full capacity. In order, therefore, to bring out the best efforts of the workmen, he will pay a premium on efficiency. That is to say, he will pay at a higher than ordinary piece-rate any work in excess of a specified amount. For, of course, the efficient worker who makes the same factory's space and plant, and power serve for twice as much production as the inefficient one is worth more than twice the wages. And, provided that he does not overstrain himself, this "gain-sharing" is of value to the workman also. There is a pleasure in doing skilled work quite apart from the monetary reward of work. To a good worker no hardship is so grievous as that of being prevented from exercising his trade. To prevent him, as is, unhappily, sometimes done, from doing his best at it, is grievous, too.

Where Piece-Wage is Inapplicable

Of course, piece payment is applicable only in work where the product is definite and simple, so that it can easily be inspected—where the output is so many yards of cloth, or tons of rail or of coal. It is quite out of place when the work is done in conjunction with a number of other workmen.

Piece-payment is also inapplicable when the point of supreme importance is the quality of the work, when a man must be given every incentive to produce work of the highest grade. The man that makes an aeroplane could not be put upon piece-work. For a pilot's life may depend upon his good work. He is paid by time. His output is left to his own conscience and the foreman's urging.

Fixing of Rates

It is in the United States that the fixing of wages in accordance with output has been pushed to greatest lengths. What is called "industrial management" has there become a science. One writer describes, for instance, what happens in a great packing factory where cattle by the thousands are killed each week.

"It would be difficult to find another industry where division has been so ingeniously and microscopically worked out. The animal has been surveyed and laid off like a map,

and the men have been classified in over thirty specialties and twenty rates of pay from sixteen cents to fifty cents an hour. The fifty-cent man is restricted to using the knife on the most delicate parts, or to using the axe in splitting the backbone, and where a less skilled man can be slipped in at eighteen cents, 18½ cents, and so on, a place is made for him and an occupation mapped out. In working on the hide alone there are nine posts at different rates of pay. A twenty-cent man pulls off the tail. A 22½-cent man pounds off another part where good leather is not found, and the knife of the forty-cent man cuts a different texture and has a different feel from that of the fifty-cent man. Skill has become specialised to fit the anatomy."

Sliding Scale

The "sliding scale" method is an application of payment by piece. When this is in operation, payment is not only according to the output but also according to the price of the output in the market. The sliding scale embodies the idea that wages come from the product of industry.

That price should rule wages is perfectly satisfactory from the employers' point of view. He is almost saved from labour troubles through the continuance of a long contract arranged on a satisfactory scheme for settling wages. He has, indeed, to share the advantages of a rising market with his workmen. On the other hand, the workmen share the burdens of a falling market, thus relieving him of much of the risk inseparable from employing. The workman gets what he is worth; and the estimate of the worth is the judgment not of the employer but of the customer.

The drawback from the worker's point of view, is that the scale may slide so low that his efforts do not enable him to realise a decent livelihood. How much an industry can pay is always relevant to the wage. We cannot get a quart out of a pint bottle. An industry can only pay a limited wage; and what that wage shall be neither worker nor employer can dictate. The poultry farmer cannot fix the price of his eggs, nor yet can the buyer. It is the interaction between those wishing to get money for eggs supplied, and those willing to give money for eggs demanded, that does it

The price at which calico can be sold determines in like manner how much wages can be paid

Of course, we may argue, and we can support our argument by quoting examples, that giving more real wages to the workers means more, not less, profit. The employer's self-interest teaches him that the provision of a light, well-aired, well-warmed workroom, of a canteen where a hot midday meal may be had, of medical attendance so that minor accidents may be dealt with at once—all these so increase output and diminish loss that he gains by the outlay. Nor is it otherwise when the actual wages paid are ample to maintain the worker in efficiency, and to enable him to bring up children who also will be efficient. Clearly, though, there are limits to this process : an employer cannot go on raising wages merely because he hopes the added wages will be earned by greater output

Differences of Wages

A famous chapter in the "Wealth of Nations" examines the causes of differences in wages. The successful barrister makes more in a year than twenty farm labourers make in their lives. What can explain the enormous difference? You will enjoy a few paragraphs from the chapter.

Adam Smith indeed assumes that the movement of the workers from ill-paid employments to well-paid ones is easy. This was certainly not so in his day; it is not so now, though transport facilities are multiplied among us, and knowledge of where the best wages are obtainable is widespread. It takes much to make a man leave England and go to Canada or the United States. We still say that the mobility of labour is imperfect.

If we could make the mobility of labour perfect, if a man could without difficulty and without delay transport himself where his services command most reward, what Adam Smith says would be true. The net advantages of all occupations would be the same. For, as he says: "If there was any employment evidently either more or less advantageous than the rest so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level

of other employments. The differences in the money wages arise because, first, there are differences in the employments. Second, things are not left to follow their natural course.

“The five following are the principal circumstances which, so far as I have been able to observe, make up for a small pecuniary gain in some employments, and counter-balance a great one in others :

“First, the agreeableness, or disagreeableness, of the employments themselves.

“Second, the easiness and cheapness, or the difficulty and expense of learning them.

“Third, the constancy or inconstancy of employment in them.

“Fourth, the small or great trust which must be reposed in the workmen.

“Fifth, the probability or improbability of success in them.

“First, the wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment. Honour makes a great part of the reward of all honourable professions. In point of pecuniary gain, all things considered, they are generally under-recompensed, as I shall endeavour to show by and by. Disgrace has the contrary effect. The trade of a butcher is a brutal and an odious business ; but it is in most places more profitable than the greater part of common trades. The most detestable of all employments—that of the public executioner—is, in proportion to the quantity of work done, better paid than any common trade whatever.

“Secondly, the wages of labour vary with the easiness and cheapness, or the difficulty and expense, of learning the business.

“When any expensive machine is erected, it is expected that the extraordinary work to be performed by it before it is worn out, will replace the capital laid out upon it, with at least the ordinary profits. A man educated at the expense of much labour and time to any of those employments which require extraordinary dexterity and skill may be compared to one of those expensive machines. The work which he learns to perform must be expected to

recompense him over and above the usual wages of common labour sufficiently to replace to him the whole expense of his education, with at least the ordinary profits of an equally valuable capital. It must do this, too, in a reasonable time, regard being had to the very uncertain duration of human life, in the same manner as to the more certain duration of the machine

“Thirdly, the wages of labour in different occupations vary with the constancy or inconstancy of employment.

“Employment is much more constant in some trades than in others. In the greater part of manufacturers a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any. What he earns, therefore, while he is employed, must not only maintain him while he is idle, but give him some compensation for those anxious and desponding moments, which the thought of so precarious a situation must sometimes occasion

“Fourthly, the wages of labour vary according to the small or great trust which must be reposed in the workmen.

“The wages of goldsmiths and jewellers are everywhere superior to those of many other workmen not only of equal, but of much superior ingenuity, on account of the precious materials with which they are entrusted

“We trust our health to the physician, our fortune and sometimes our life and reputation to the lawyer and attorney. Such confidence could not be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in society which so important a trust requires. The long time and the great expense which must be laid out in their education, when combined with this circumstance, necessarily enhance still further the price of their labour”

Fifthly, the wages of labour in different employments vary according to the probability or improbability of success in them.

“The probability that any particular person shall ever be qualified for the employment to which he is educated, is very different in different occupations. In the greater part of mechanic trades success is almost certain; but it is very uncertain in the liberal professions. Apprentice your son to a shoemaker, there is little doubt of his learning to make a pair of shoes; but send him to study the law, and it is at least twenty to one if ever he makes such proficiency as will enable him to live by the business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty. The counsellor at law, who perhaps, at near forty years of age, begins to make something by his profession ought to receive the reward, not only of his own so tedious and expensive education, but also that of more than twenty others who are never likely to make anything by it. How extravagant soever the fees of counsellors at law may sometimes appear, their real rate of reward is never equal to this.

“Compute in any particular place what is likely to be annually gained, and what is likely to be annually spent, by all the different workmen in any common trade, such as that of a shoemaker or weaver, and you will find that the former sum will generally exceed the latter. But make the same computation with regard to all the counsellors and students of law in all the different inns-of-court, and you will find that their annual gains bear but a very small proportion to their annual expense, even though you rate the former as high, and the latter as low, as well as can be done. The lottery of the law, therefore, is very far from being a perfectly fair lottery; and that, as well as many other liberal and honourable professions, are, in point of pecuniary gain, evidently under-recompensed.”

Besides, when artificial aids to the increase of workers are effective, wages may be deplorably low. As that great writer goes on to say:

“In professions in which there are no benefices, such as law and physic, if an equal proportion of people were educated at the public expense, the competition would soon

be so great as to sink very much their pecuniary reward. It might then not be worth any man's while to educate his son to either of those professions at his own expense. They would be entirely abandoned to such as had been educated by those public charities, whose numbers and necessities would oblige them in general to content themselves with a very miserable recompense, to the entire degradation of the now respectable professions of law and physic.

“The unprosperous race of men commonly called men of letters are pretty much in the situation which lawyers and physicians probably would be in upon the foregoing supposition. In every part of Europe, the greater part of them have been educated for the Church, but have been hindered by different reasons from entering into holy orders. They have generally, therefore, been educated at the public expense, and their numbers are everywhere so great as commonly to reduce the price of their labour to a very paltry recompense.

“Before the invention of the art of printing, the only employment by which a man of letters could make anything by his talents was that of a public or private teacher, or by communicating to other people the curious and useful knowledge which he had acquired himself; and this is still, surely, a more honourable, a more useful, and in general even a more profitable employment than that other of writing for a bookseller, to which the art of printing has given occasion.”

EXERCISE A

Below are a few sentences from a statement by Mr Ford, the great Detroit manufacturer. Study them and use them to help you to answer these questions. What is meant by the “economy of high wages?” Why does the progressive employer prefer highly paid workmen to poorly paid workmen?

“High wages and lower prices mean greater buying power—more customers. There can be no true prosperity

until the worker upon an ordinary commodity can buy what he makes. If an employer does not share prosperity with those who make him prosperous, then pretty soon there will be no prosperity to share. That is the reason we think it is good business always to raise wages and never to lower them. We like to have plenty of customers. The right wage is not the least sum an employer can steadily pay. That is where his ingenuity comes in. You simply cannot make a thing cheaply and sell with cheap men. You have to get good men in order to keep the cost of production down. Back in 1916 we raised our wage, and it was on the day we made the raise that our business really started, because on that day we did two things: (1) we created a lot of customers for our cars, and (2) we began to find so many ways to save that soon we were able to start our programme of price reduction."

EXERCISE B

Here is what a great economist said about the report of the Coal Commission. Read it carefully, and then explain why he thought that wages paid in the mining industry could not but fall.

"Whether we like it or not, it is an economic law that where marginal real reward being paid in an industry exceeds the marginal net product, that industry is out of equilibrium, and must be contracted. In other words, if at that point where it is least worth while to continue contributing towards the general output, the contribution of a unit of effort is such as will exchange for x goods, and the unit demands for its upkeep or reward $x + y$ goods, the supply must either be contracted until the price given for the last unit is $x + y$ goods, or the reward demanded must diminish to x , or, perhaps, both contraction of supply and lessened reward can proceed together and meet at $x + \frac{1}{2}y$ (That means meeting the emergency by some further unemployment and shutting down, and by some reduction in wages acting together. But meet they must; and this fact is at last being recognised.)

EXERCISE C

Study carefully the passage below, and then write answers to these questions

(a) What other elements, besides his money earnings, enter into the real wages of the fisherman ?

(b) What other services, besides the provision of fish, does the fisherman render to his country ?

“ In nearly every little bay or cove or valley around the coasts of England and Wales, where a few cottages are built and a boat or two can be hauled up on the beach or moored, with a moderate amount of protection from winds and surf, behind some rocks or a rough sea wall, a few fisherman are to be found. These men lead a rough and precarious life, working at irregular hours, dependent on wind and tide for a chance to earn a living, and sometimes bound ashore for weeks on end without earning anything, and without occupation save that of watching the weather for an opportunity to get to sea. But the life has solid advantages and attractions. The inshore fisherman, if he grumbles a good deal, and with cause, at the chanciness of his earnings, and the discomfort of his calling, values intensely his independence—the fact that he is his own master, can come and go as he pleases (weather permitting) and can count upon an occasional spell of high earnings. Nationally speaking, the inshore fisherman should be perpetuated at all costs, for he comes nearer than any other type of man to embodying those qualities of grit and self-reliance which we all agree to be the greatest of national assets—so great that we cannot afford to let commercialism extinguish them, for we should thus weaken the race, and this is true not only of the inshore fisheries, but of the whole Fishing Industry.

“ Before the war, a few men of insight pointed out that the British Fisheries provide a sea-going force which could easily be mobilised. They claimed that the Fisheries’ potentialities in providing food and sea-defence entitled them to the amplest recognition and the strong support of the State, as an industry vital to the nation. But Governments turned a deaf ear; official parsimony, political neglect,

local prejudice, and public lethargy barred the way to broad-minded administration and intelligent development. Even the fact that the British sea-fishing industry was the greatest, the best manned and equipped in the world, did not arouse the pride or stir the imagination of the nation. The public saw the fishmonger's slab, but it did not see the fisherman toiling in the North Sea fleets or facing wind and sea in the open boats of Cornwall.

“ Even to-day, when the necessity of the British Fishing Industry to the national life has been tested and proved by the war, few have a just conception of its magnitude, of the complex machinery it employs, of its essential place in England's well-being. When meat is scarce and dear, the public and the newspapers demand cheap fish. But they do not realise the truth of the old saying that ‘ getting fish means the lives of men ’ Admiral Jellicoe flashed another aspect of the truth on us in a phrase at Hull, February 8, 1918, when he said: ‘ The Grand Fleet could not exist without the trawlers.’ Even this is a statement which many have read, but few comprehended ”

LESSON THIRTEEN

THIS Lesson should help you to form clear ideas about these facts

- 1 That Wages are fixed by Contract.
- 2 That Strikes are caused by inability to Contract
- 3 That Strikes are attended by grievous loss on both sides

BARGAINING ABOUT WAGES

Wages Result from Contracts

In a society where freedom of contract exists, wages are determined as the result of a bargain. There will accordingly arise every now and then efforts to make a better bargain. Every worker will try to get from society as much as he can. Society, on the other hand, wants the services for little. The employer, who is the paymaster of Society, will give for those services no more than his interests show to be desirable. Each of us, as a worker, wants a high wage for his services. Each of us, as a spender of that wage, wants prices—which are payments for the services of others—to be low. We want to get much for doing little. Society wants to give little for much work.

The workers have something to sell—their labour. The employers have control of capital enabling them to buy labour. The sellers may refuse to accept a proffered price—may refuse to accept the wages offered. The buyers may be unable or reluctant to offer more. Then the difficulty in making the wage bargain may result in a temporary stoppage of wage, in a strike or a lock-out.

The Process of Bargaining

Every seller, you see, has a minimum price below which he is determined not to go. More than this minimum he hopes to get—less he will not take. A farmer growing

potatoes might determine that if he cannot get more than £12 a ton for the potatoes, they might as well rot in the ground. The buyer, on the other hand, has a maximum price. The Covent Garden merchant may think that he would be prepared, if pushed, to pay £14 a ton for the potatoes. He hopes to get what he wants for less than this maximum. Beyond it, however, he will not go—for the total utility he can get from the thing does not exceed £14.

The seller's minimum may, in some conditions, be more than the buyer's maximum. Then it is that no bargain can be struck. One or the other or both must change before business results. The "higgling of the market" continues. Workers fail to find customers for the one thing they have to sell, for the services they can render to industry. Employers find that their desire for efficient services can be satisfied only by paying more than they are able, or at all events prepared, to pay. When no business between worker and employer results, we have either a strike or a lock-out. A strike is a refusal by workers to continue work except upon terms that their employers, temporarily or permanently, are unable or unwilling to give. A lock-out differs from a strike only in this, that the employers take the initiative. The employers proffer certain terms to the workers, and the workers will not or cannot accept the terms. The employers thereupon close their works. In a strike the workers give notice; in a lock-out the employers give notice. There is no real difference between the two, however. Both strikes and lock-outs are "instances of the eternal conflicts out of which life is made up, between the effort of every man to get the most he can for his services and that of society, disguised under the name of capital, to get his services for the least possible return."

The Direct Loss from Strikes

In no other business transaction, though, are the waiting, the "higgling of the market," attended by so serious loss. If I withdraw beef or potatoes from the market, I do not altogether destroy the value of them. But the time during which the worker has been idle has for ever passed. Labour is more perishable than cut-flowers. The worker's labour

value during a time of idleness has not been lessened merely—it has been quite destroyed “The mill cannot grind with the water that has passed ”

The controller of capital, the employer, suffers also, and, perhaps, as disastrously For his capital is kept in existence not by hoarding, but by perpetual renewing, by being employed His losses from an enforced stoppage may be greater than those of the workers, though perhaps less obvious And, whichever side wins, both sides lose To a far greater extent than in other contests, a great victory is little less of a disaster than a great defeat On neither side is the ultimate gain likely to be an ample compensation for the temporary loss Especially is this so when both parties to the conflict are organised and equipped so as to do the greatest possible harm to one another.

Suppose that by striking for six weeks the men forced the masters to concede an increase of 10 per cent—two shillings in the £—in wages Suppose, too—but it does not always happen—that the industry can afford the increase, and that the rise will not mean employment for some at a high wage and idleness for others at no wage It will need sixty weeks at the increased pay before the wages lost during the six weeks are made up There has been the distaste that the industrious man feels for idleness which is not leisure he has wasted time, and he knows the sound advice, “You value life, then do not waste time, which is the stuff of life ” There has been doubt and fear about the result There has been dread that the industry might leave the district

Further, the two shillings' increase is not worth so much as two shillings during the six lean weeks would have been. During the time of dearth the two shillings could have served for urgent needs, would have meant more food for wife and children In the time of prosperity the two shillings means only an addition of comforts and conveniences, not of necessities

The Employer's Loss

It is the same from the employer's point of view. He may beat down the workers' wages, or increase their hours, or speed up their work. During the period, though, of idleness,

his capital has been earning nothing. His machinery has been rusting out quite as quickly as it wears out. He is very likely paying interest on borrowed capital which is unemployed. His rivals are taking his customers, so that the goodwill he has laboriously built up is vanishing. He may be losing the best of his staff; so that on the resumption of work he finds added difficulties. Public opinion, too, looks upon him as the oppressor; and everyone feels public disapproval.

The Weaker Bargainer ?

It is commonly assumed that in bargaining about wages the worker is the weaker bargainer. The employer, we are told, has a reserve force; he can afford to wait. The employer is a professional buyer of labour; and, like other professional buyers, he knows his market. The worker, on the other hand, must utilise his time now or never. He cannot afford to wait. Such was the old reasoning; and, before the days of organised labour, it was correct enough.

It is hardly so nowadays, however it was in the past. By means of his Trade Union the worker is enabled to bargain through leaders who know the market, and, by means of this same Union, the strike weapon is much more effective. In these days of eager competition, not alone from trade rivals at home, but from rivals abroad, the employer who waits finds that he no longer has command of the market which will enable him to employ his capital profitably. He seeks to avoid the danger of a loss of market by accumulating stocks. During the period of cessation of work he may, accordingly, get some gain from the sale of stocks at an advanced price. When the period of restriction continues, however, his customers get their orders supplied elsewhere; and he cannot, as the individual worker can, remove his undertaking without much loss.

In these days, too, when the Workers' Unions have their "war-chests," and when they so readily assure to themselves public sympathy and support, the advantages are not at all on the side of the employers.

Indirect Ill-Effects of Strikes

Worse than any other evil effects of strikes, more harmful, because it is for the most part unseen and unuttered, is the ill-will generated in the relation between masters and men. This ill-will must tell greatly against what is so desirable—against willing co-operation.

A strike undermines the basis of a free government, a feeling of sympathy between governed and governors. For one almost certain accompaniment of a strike is the presence of extra police or soldiers. Laws are obeyed through force instead of being obeyed because the will and conscience of the people approve of the regulations. The feeling is produced that subjects are distinct from government; so that, in place of mutual goodwill, class hatred prevails. The desirable attitude between masters and men is that of co-workers in production. Instead, we have only the grudging service of one to another.

Strikes and Trade Unions

In the minds of many, strikes are the peculiar work of Trade Unions. This idea is very likely wrong. The stronger and better unions are an influence for stability. Their great funds give them some of the feelings produced by the holding of property, and induce a wish to avoid conflicts that would deplete their chests. They are reluctant to push matters to extremes. Besides, the leaders are usually men of experience, too cautious to make or to resist demands without carefully measuring the consequences of a possible conflict. They know well enough when to seize favourable conditions in order to improve the lot of the workmen. They know, too, when it is desirable to give way to demands on the other side.

A Strike may be Artificial

True, the possession of a weapon of war may sometimes lead to its use, to a desire to show one's strength, even merely to advertise the Union. Under such conditions a strike may occur which otherwise would not have occurred. Here is an illuminating account from the "History of Trade

Unionism," a book written by Mr. and Mrs. Webb, able advocates of the cause of the worker. It shows how a strike may be engineered :—

"A new branch of the Union is started by an energetic Unionist. Within the next three months the Branch Secretary finds all that glitters is not gold. At least half of those who joined at the beginning have lapsed, and, at times, the branch looks like collapsing altogether ; but by dint of much hard work, persuasion, and, perhaps, the formation of friendships, it is kept together until a time of prosperity for the trade arrives.

"This is the Secretary's opportunity to make or break his lodge ; and, being a wise man, he takes it. He puts a resolution on the agenda paper for the next lodge meeting in favour of an advance of wages, or a reduction of hours, or both. The next meeting carries the motion unanimously, and it at once becomes the talk of the whole trade in the town. Men flock down and join the club in order to assist and participate in the proposed improvements. Then the Secretary appeals to the General Executive for permission to ask for the advance. They consider the matter seriously, and want to know what proportion of the men in the town are members, and how long they have been so ; what are the feelings of the non-unionists towards the proposed movement, and whether there is any local fund to support non-unionists who come out, or buy off tramps and strangers who come to the town during the probable strike.

"All these questions being more or less satisfactorily answered, permission to seek the improvement is at length given ; and now comes the Secretary's first taste of ' powder ' in an official capacity. Negotiations with the employers break off, the men ' down tools,' on the Saturday the notices expire, and the strike is begun. Then follows a period of intense excitement and hard work for the men's officials. The employers advertise in all directions for men at ' good wages ' to take ' steady employment,' and counter advertisements are inserted giving notice of the strike. All the streets are closely picketed by men, who take it in turn to do duty in twos and threes outside a factory or workshop for

so many hours each day ; pickets are sent to meet all trains, and, by dint of promises, bribes, and appeals to their 'manliness,' and 'brotherhood,' workmen, who have been attracted to the town by the employers' advertisements, are induced to depart. Perhaps a few 'blacks' may escape their vigilance and get into some shop. Every time they come out they are followed and urged to abandon their dirty calling and join their fellows in the good work. Some give way, and their fares are at once paid to the place whence they came. Subscription boxes and sheets are sent out to raise the funds necessary for the extra expenses, which must not be taken from the society's funds. If the strike drags on for many weeks, delegates go from town to town addressing meetings of trade unions and trade councils, soliciting aid, and usually succeed in getting a good deal more than their own expenses, the surplus being remitted to the lodge. There are the non-unionists who have come out on strike to be supported, 'blacks' to bribe and send away, printing and delivering of bills and placards to be paid for, and numerous other subsidiary expenses to be met, all of which must be defrayed from the local fund "

Such strikes are rare though. The great unions are now responsible bodies prepared to make contracts with the employers as well as to resist the employers. The evils of conflicts between capital and labour, between those whose interests are common, prompt the search for substitutes for strikes.

Substitutes for Strikes

Some of these we may mention. Conciliation Boards, permanent joint committees of men and masters, strive by free discussion to settle disputes as they arise. The number of these Conciliation Boards known to the Board of Trade is continually increasing, so that now, in 1926, they cover over two millions of workpeople. Such discussions must throw light on the question of dispute, must therefore prevent unjust demands on either side. They bring out the fact that both parties are interested in the success of the trade ; they bring out, that is to say, the harmony as well as the conflict of interests. They teach mutual respect and good-

will ; and they make clear the chances of success or failure if conflict should occur.

The Whitley Commission reported in favour of setting up national, divisional, and shop councils of employers and employed in various trades. Whitley Councils now, therefore, exist in many trades and promise well. Including the workers under the Railway Act, who work under what is practically a Whitley Council, there are perhaps four million workers under these councils.

The submitting of a dispute to a third party to whose decision men and masters bind themselves to agree is more difficult to procure than conciliation. For each party to the dispute resigns his freedom of action. And when each believes he has an irreducible minimum, such resignation of freedom is not possible. Besides, Arbitration emphasises too strongly the antagonism of interests. In a Conciliation Board, the parties seek to persuade each other, and in order to do so try to get the goodwill of their colleagues on the board. In Arbitration, however, the parties contend as advocates of opposing claims before a third party ; and they naturally put their cases as strongly as possible.

Compulsory Arbitration exists in countries like New Zealand ; and there it has done good work. In that country, however, a strong idea of responsibility exists in the unions ; and these have enough property to make them hesitate to refuse an arbitrator's decision, and so incur the rather large fine imposed. In other countries the results might be less good, for a decision can always be enforced against employers if they refuse to accept it, but a decision cannot be enforced against an individual worker. He is probably one from whom damages could not be obtained. Compulsory Arbitration would in such circumstances be one-sided. Profit sharing is perhaps a more ambitious attempt to remove friction between masters and men. The men become—to a limited extent, true—their own employers ; and they are, therefore, able to look at matters from the employer's point of view.

EXERCISE A

Read carefully this little article from *The Times*. Then show how "Works' Councils," of elected workers and employers, tend to put into industry the new spirit that is suggested.

A Legacy of Woe

"No serious student of economics holds that industrial strife is solely due to perversity and greed on the part of the workers. Employers in the past have been very much to blame for making the extra earnings of piece-workers an excuse for reducing rates. Such reduction has had the natural but disastrous result of setting the workers against piece-work, and this stupid and unjust policy has recoiled on the heads of the employers. But it is absolutely futile to allow the injustice of a past generation to become the obsession of to-day. What masters and men alike must work for is a better spirit to animate all who are mutually engaged in creating wealth. Goodwill and hearty co-operation are of inestimable value, and, if means could be found to inspire the workers with a desire to do their best in the interest of the trade in which they work, and to inspire all employers with a desire to share with their employees on a fair basis the rewards of success in industry, most of the social problems with which this country is faced would disappear. Industry to-day is cursed by the legacy of suspicion, mistrust, and ill-will engendered in less enlightened days when few employers recognised their duty to the fellow-men whom they employed. It is for the present generation to get rid of the heritage of evil by the exercise of courage, patience, justice, and faith. Confidence is a flower of slow growth, which can be destroyed by one false step."

EXERCISE B

The power to inflict harm upon one another and to destroy has grown as rapidly as the power to help one another and to produce. An interesting comparison is this :

“ War has acquired a new and dreadful meaning in the twentieth century. It has become possible, as never before in the world's history, to concentrate the resources of a country, human and material, in the single task of wielding organised force. Warlike equipment has become more complex, expensive and destructive. But the essential changes are rather the improvements in transport and in finance. Mechanical transport by rail, road and sea makes it possible to assemble and feed and supply far greater numbers. The modern organisation of investment markets and money markets, national and international, enables a Government to get into its hands a far greater command over the available stock and output of wealth than ever before. Thereby it can set free all the more men from productive occupations for military service.

“ Napoleon in 1812 controlled all Continental Europe except Russia and a part of the Spanish Peninsula, and far the greater part was under his direct rule. The man-power which it was possible for him to distil from these vast dominions provided him with an army of only 500,000 men. By the time he reached his enemy at Borodino he had 120,000 with him. That was the limit of the real fighting force that all Western Europe could put before Moscow in the days when armies travelled on their feet and were supplied by horse transport. The material harm war could do in those conditions, great though it was, was limited.

“ Nowadays every civilised nation has the power to exhaust its resources in war, and there is no certainty that a decision will be reached short of absolute exhaustion. Europe was desperately near that stage in 1918. Everyone expects that the destructive power and exhausting power of war will grow greater and greater.”

Show that the same reasoning applies to that kind of civil strife we call a strike, that here too the conflict may last until exhaustion is at hand for both parties.

LESSON FOURTEEN

THIS Lesson should help you to form clear ideas about these facts

- 1 "Profits" is a term needing careful use.
2. "Profits" may usually be analysed into three elements Interest, Wages of Superintendence, Premium for Risk.
- 3 Profits are an incentive to the increase of Capital, and therefore to Progress

PROFITS, THE REWARD OF ENTERPRISE

Dealings in the market are what we study in economics, and, unluckily, most words of the market-place have no precise meaning. They are not like the carefully formed terms in chemistry or physics, terms that can mean one thing only. A great difficulty in our study arises from this fact: we are obliged to use words that mean one thing now, something else later on. Such a word is "profits." In our reasoning about "profits" we must first carefully settle what we are to understand by the term.

"Profits," a Word of Variable Meaning

The butcher, for example, speaks of his "profits"; the farmer pays income-tax in proportion to his "profits." Probably "earnings" would be a better term in both cases. For the butcher does much work like that for which he pays wages. he cuts the joints, weighs them, calculates their prices, just as his assistants do. He does much, too, like that for which he pays his branch manager a salary. he controls and directs and organises. So with the farmer. If you can distinguish him from his men in the harvest field it is only by reason of his greater energy and the more anxious concern shown in his face about the weather. The farmer earns wages as a worker and salary as a manager. Besides,

in our country at all events, the farmer may pay less rent for his land than his landlord, if he chose, could exact. The landlord, in effect, gives this unexact part of the rent to the farmer. Into what is roughly called the farmer's "profits" there enters also, when this happens, an element of rent.

Profits and Wages

"Profits" and "wages" are easily confused. Read this paragraph. It is from "The Wealth of Nations": "Apothecaries' profit is become a bye-word, denoting something uncommonly extravagant. This great apparent profit, however, is frequently no more than the reasonable wages of labour. The skill of an apothecary is a much nicer and more delicate matter than that of any artificer whatever; and the trust which is reposed in him is of much greater importance. He is the physician of the poor in all cases, and of the rich when the distress or danger is not very great. His reward, therefore, ought to be suitable to his skill and his trust, and it arises generally from the price at which he sells his drugs. But the whole drugs which the best employed apothecary, in a large market town, will sell in a year, may not perhaps cost him above thirty or forty pounds. Though he should sell them, therefore, for three or four hundred or at a thousand per cent. profit, this may frequently be no more than the reasonable wages of his labour charged, in the only way in which he can charge them, upon the price of his drugs. The greater part of the apparent profit is real wages disguised in the garb of profit."

"Profits" Analysed

In most instances we may distinguish three separate elements in what are called profits. They are:

- (1) Interest on capital.
- (2) A premium for risk.
- (3) Wages of superintendence.

A business man who lives by his profits, probably ventures some capital of his own. From this capital he could, if he wished, derive an income without running the least risk:

he could buy government securities and get an assured yearly income. A man venturing his capital would, as a reasonable being, expect more than this amount, more than this "pure interest," as it is called.

The greater the risk, the greater should be his expectation of profit. The excess of the interest he expects over the pure interest he could get from a safe investment we may call "premium for risk." The total premium for risk made by all men in a particular business should at least equal the total losses over the same period in that business. In a perfectly fair lottery the losses of the losers should be shared among the winners. In like manner, premium for risk should amount to the whole of the capital lost, not only by those who still continue in the business, but also by the greater number who, since their capital has altogether gone, are no longer able to control industry.

We are probably justified in saying that this premium, as a rule, falls short of a reasoned estimate. Business men are usually inclined to take too sanguine a view of their chances of success, and the premiums against risk of failure are low. In some very risky undertakings the few big successes may attract more than the small losses repel. Then it is that the premium is nothing at all. Very likely, investors as a whole put more money into gold mines than the lucky ones ever get out of them.

Wages of Superintendence

The wages of superintendence are a recompense for the skill and assiduity of the profit-making employers. But we must give a very elastic meaning to this term "wages of superintendence." At times it is hard to suppose that the astonishing gains sometimes made in trade are due to the superior skill and energy of the trader, so that, for instance, his work is ever so much more serviceable to society than the work of a teacher, or a doctor, or a skilled engineer.

It may be, indeed, that competition between employers is very keen, and that, therefore, wages of superintendence are low. The employer may be getting less for his work than he could command as a salaried manager for another. He makes up the balance by the pleasure he gets from working

for himself and not for an employer. Perhaps, on the whole, society does in this way get its employing done very cheaply.

For we would notice that this element in profits, the wages of superintendence, would not be eliminated under whatever kind of organisation we lived. Organisers of industry would be wanted, even though all the means of production were in the hands of the State. There would still be wanted men with skill to plan and direct, and with foresight to know what the market wanted.

It would be necessary to appoint salaried officials, and their work would be definite enough. They would be required to manage the business so as to obtain the best results, so as to supply the material wanted, and so as to arrange for the disposal of output of the industry. We cannot be certain that the salaries of these officials would be less than the wages of superintendence now received by capitalist employers. And the change, certainly, would mean the withdrawal of the incentive given by working for one's own profit. It would make the leisurely processes which seem to be inseparable from Government undertakings, incident to all business. Profits mean progress. It is possibly true on the whole that the measure of profits is the measure of benefit to the society.

Earnings of a Joint Stock Company

Perhaps, we can best show the nature of profits by considering how the earnings of a Joint-Stock Company—the typical unit of industry or trade in these days—are shared. The workers obtain their wages, the suppliers of materials are paid their prices. The wages of superintendence, the payment for managing and organising, constitute the salaries of the managers and the fees of the directors.

Two classes of people who have transferred capital to the company take what is left. One of these classes consists of the debenture-holders who have lent money to the company upon security. The payment to them is only a little more than "pure interest." It is a little more because, however much security is available, more risk attaches to a loan to a company than to a loan to the government. Still, the possibility of loss of capital is remote; it is well-nigh negligible, for instance, in the case of a great railway

company The debenture-holders are content to have a low rate of interest with security, rather than a high rate with risk

The other class who have supplied capital is made up of the ordinary shareholders, the part-owners of the company, who hope to obtain more than this interest paid to the debenture-holders They look for a premium for risk In the hope of a high interest on their investment, they run the danger of low interest or no interest at all We can illustrate the division in this way .

Wages	Earnings of a Joint-Stock Company.
Salaries	
Rent	
Interest on Debentures	
Profits (the variable element)	

Profits Reward Enterprise

Profits are the reward of enterprise, a payment for taking risks But who are the people who can take these business risks ? They are such people as have capital, their own or another's, wherewith to face the risk. For the risk may be realised In that event, the capital owner and he who controlled it make no more profits by its use The risk-taker has either lost his own capital, or has lost the confidence of those who trusted him with theirs. Yet, on the whole, capital increases ; and this is a good thing. We in this country are convinced that the one effective way of ensuring a constant growth of capital is to let its owners use it as they

will. We are willing to let them make what profits they can and, if they choose, use these profits as fresh capital.

Do Profits Tend to Equality ?

It is at times asserted that profits tend to be equal over the whole business community ; it is even said that the equality to which profits tend is zero. Through the competition of capital profits are reduced to nothing. What are called profits, it is asserted, are no more than reasonable wages paid to one who superintends—who directs and controls the industry. For if profits were being made, which were above what are being made in the rest of the business world, capital would flow to the favoured industry or trade. The added competition would lessen the reward reaped.

This is a hard doctrine to believe, and is, perhaps, due to the wish of economists to round off their arguments nicely. It is similar to the teaching—which we can hardly say is borne out in practice—that the net advantages of all occupations are the same ; so that, taking everything into account, the wages of the farm-labourer and the barrister are equal. Profits may certainly seem to persist at a higher rate in one trade than outside the trade. Yet, new-comers do not enter it.

The reason is fairly clear. For trading-profits arise as a product of two factors. The difference between the buying and selling price is one factor ; the turnover is the other. It is this second factor that means most to a trader. A trader is quite happy with small profit if only he can turn his stock over speedily. “ Small profits, quick returns ” is his cry ; and he spends lavishly on all means of increasing the speed with which he can turn over his capital. The new-comer can hardly obtain accurate knowledge about the conditions of the trade ; he would be obliged to risk a great deal of capital in order to get much of the business that is going. For, he would have to fight against the fact that people are inclined to go on dealing with their old suppliers : these are known, and the new-comers are not yet tested, nor are their goods. It needs strong reasons to break an old connection.

He would, for instance, be a bold man that would venture

into the field against Messrs Coates and think to make his fortune by selling sewing-cotton. He might think that the profits of this firm were more than the skill and energy of the directors deserved. He could, therefore, he thinks, make cotton, cut his prices, and still make a big profit. But, then, would not the established firm cut theirs and keep their custom? They could well afford to do so, for the important factor—the turnover—would be so very much greater for them than for the new-comer. The established firm, secure in its goodwill, might long continue undisturbed to make big profits.

EXERCISE

The profits of a firm depend very largely upon the amount of its business as compared with its capital. Below is a statement by Messrs Cadbury Bros, Ltd. Study the statement. Then explain clearly the method adopted for improving "goodwill." What do you think of the method? Can you suggest other ways of increasing business?

Give full explanations of these terms in the statement *goodwill, seller's market, exploiting a seller's market, boom, the Firm's competitive powers, an assumed block of shares*

"The steady prosperity of Bournville, that continues in a remarkable way in even the difficult times through which we are now passing, is due to the general efficiency with which all the many ramifications of the business are conducted, but also, in no small degree, to the goodwill with which the Firm is regarded by the purchasers of its products.

"'Goodwill' is a somewhat wide term, and is the result of many factors. It is created partly by judicious advertising, and partly by a far-sighted price policy that does not exploit a 'seller's market' during a boom. It also largely owes its existence to the steady maintenance of high standards—especially in our case in the matters of purity, utmost care in manufacture, close adherence to recipes and processes, as well as scrupulous cleanliness.

“It is particularly in connection with this reputation for appearance, quality, and purity that the term ‘goodwill’ is here used, for the reason that this reputation can be maintained and increased here only by the fullest co-operation between the Management and the Factory Staff. The elaborate machinery of the former can only work smoothly and effectively with the whole-hearted assistance of the latter.

“The present scheme is, to a certain extent, a recognition of this assistance, which has always been a conspicuous feature in the carrying on of these Works.

“To understand the grounds of the scheme, this line of reasoning must be further developed.

“‘Goodwill’ is not an asset that has been achieved in a moment. It has been acquired by a process, which has been going on for two generations, of steadily pursuing undeviating standards. From this it follows that credit must first go to those who have been responsible for the Firm’s products in the past. The work of the moment in this matter similarly affects less the immediate present than the future position of the business as time goes on.

“Therefore, the scheme, being based on the principle of sharing a prosperity, chiefly due to the existence of a world-wide reputation, which in turn is largely the result of years of concerted and co-operative effort, length of employment is an important factor, and finds its place in the proposals.

“As the details of the scheme explain, the sums at its disposal are to be equivalent to what would have been the dividends on an assumed block of shares ranking equally in all respects with those held by the ordinary shareholders of the Company.

“It is intended that, in fixing the prices at which the Firm’s goods can be sold, the monies distributed under this scheme shall not be taken into account. In other words, these monies will be regarded as an allocation of profits—just as dividends are—and the Firm’s competitive powers, to which we all attach great importance, will not be lessened in any way by the scheme. In this way the scheme will not work in any way to the prejudice of the consumer.”

LESSON FIFTEEN

THIS Lesson should help you to form clear ideas about

- 1 The nature of interest
- 2 The elements entering into interest
3. The source of interest.
- 4 The necessity of interest.

INTEREST

Suppose that I have much spare money at my disposal. I have then what is called purchasing power : I have command over the things in the market. And suppose that by means of my purchasing power I build a factory or buy a machine, then I increase my power to produce wealth. But instead of using the factory or the machine myself, I may let it to one who will pay me for the use of it. He will rent my factory or hire my machine.

Suppose, though, instead of the roundabout way of building the factory and letting it, I hand over to another the money with which to build it. The payment—or interest—I get for the use of this money is as much justified as the rent is. It is a payment that the borrower is willing to pay, and which I need have no scruples in accepting. We could indeed imagine a state when more factories had been built than could find hirers ; so that I might even have to pay another to keep my property in good condition. So, though it is hard to do so, we could imagine more people anxious to have their savings kept for them than there were people anxious to use those savings. I might be called upon to pay in order to have my purchasing power preserved intact.

Interest due to Excess of Borrowers

With us—with all the societies of man we know—more property rights, however, more claims on society, are

sought after than are to be had without payment. To most of us money here and now is more to be desired than money a year hence or in Japan. The future is uncertain. "A bird in the hand is worth two in the bush"; and money down is preferred to money some day hence.

The stream of savings is limited in volume. It is like the irrigation canal that the paternal Indian Government sends to the cultivators of the thirsty soil. The peasant could, he knows, use much more than his meagre allowance of water. Being rationed, he uses the supply so that it gives to him the greater benefit. He uses more on the field that responds well to the care lavished upon it. He uses less on the field that responds less eagerly. If he could only have a supply without stint this latter field, too, would get an ample allowance. But the water is scarce in relation to his wants; he would willingly go to much trouble in order to get more.

In like manner the owners of capital are in a position of vantage. They can, for their consent to be deprived for a while of their claims upon society, exact a payment. They let another have their property. But the property will be wholly restored later on, and in the meantime the lenders have a compensation in the form of interest payments. It is by reason of the competition of borrowers that they receive this reward for their waiting, for their abstaining from present enjoyment of their property. This payment is interest.

"Pure Interest" and Premium for Risk

It is "pure interest" if the security for the property in others' hands is perfect; if, humanly speaking, there is no possibility of the loss of the principal. An investment in Consols is probably the best example of such a perfect security. The yield on Consols, the amount of interest I get annually on a hundred pounds' worth, is pure interest. At any time I can calculate the rate of pure interest by calculating this yield; thus if $2\frac{1}{2}$ per cent. Consols are quoted at £50, then the rate of pure interest is 5.

If the risk of loss is not negligible, the rate to be obtained for a loan of capital will be greater by at least the amount

of premium needed to cover the risk. That is to say, a compensation for risk will be added to a reward for waiting. If we may use the old terms under which interest payments were justified, there will be not only a payment for *lucrum cessans*, for the 'cessation of gain,' but a further payment for *periculum sortis*, the 'peril of chance.'

Interest Dependent on Borrower's Demands

Such is interest from the lender's point of view. From the borrower's point of view interest is what he is compelled to pay in order to have control over the property of others. He offers interest because he believes he has skill enough to earn it, and the amount he is prepared to offer depends upon his estimate of his ability. If he believes he can earn 10 per cent by the added capital he will be glad enough to pay 6 or 7 or even 9 per cent for the loan. For at the highest rate itself he makes a profit through his borrowing

In earlier days the Church forbade the exaction of interest —of usury, as it was called in condemnation. The exaction was the grinding of the faces of the poor debtors, it was worse than theft. The position was understandable when the loan was made to one so troubled to get purchasing power that he was willing to offer even exorbitant rates of interest. It has little application in regard to business borrowing. There is no hardship to a business man, whether trader or maker, in paying 6 per cent for command of more capital. He, indeed, thinks himself happy to be able to get such command when he knows he will be able to make 10 or 12 per cent by its use. True, there is much lending even yet for present consumption. The money-lender seems to flourish among us. The bulk of lending is, however, for productive purposes. It is made to men who know quite well how to protect their own interests.

Capital Earns Interest by being Skillfully Used

Capital can yield an income, of course, only through the skill with which it is managed. It cannot yield an income of itself. Interest comes because the active employers of capital can get the capital they want, from those who

prefer passive acceptance of moderate gains, only by offering to pay for it. And the one sufficient reason for interest payment is that without it the demand for loans would exceed the supply of loans.

Interest payment may not be necessary to ensure savings. It is necessary to distribute them, to determine who shall use those savings. Many schemes clamour for capital, only such schemes as will give ample returns within a limited time can obtain it. However much we wish to make it so, the loan of capital could hardly be free; for in even the wealthiest country savings are not unlimited.

Credit should be free, says one. The reason why it cannot be is clear. Here is the Frenchman's reply to the contention: "I give notice that henceforth I play the part of a borrower. That part will be all gain to me. I shall borrow free of charge a fine house on the Boulevards, carefully selected furniture, and fifty thousand into the bargain. Doubtless my example will be infectious. There will be plenty of borrowers in the world; and, provided there is no lack of lenders, we shall all lead a merry life."

Substitutes for Interest

Before the Church's ban upon the receiving of interest was removed, the growth of trade and industry had given rise to many ways of dodging the prohibition. Borrowing on mortgage was one. The borrower would promise to repay the loan. He would also make a grant of his land or property to the lender. The unexpressed understanding was that the borrower should still retain his land and that his grant of it should take effect only if the loan were not repaid. And the borrower paid a rent for the land; and this rent was, of course, a kind of interest on the loan.

The Necessity of Interest

Interest would remain even though capitalists were away. Suppose the savings of a society were not under control of individuals but in the hands of the whole society. The savings are State controlled. Even then the people would wish to have a means of allocating these savings. Applied in this way the savings would mean an immediate good to

a few ; applied in that way it would mean a greater good in the future to many. How are we to decide between the two claims ? The measuring rod of interest would be one such way. By considering what interest would be offered by those anxious to employ the savings, we have a guide far more reliable than vague notions about this social benefit and the next.

Differences in Rates of Interest

There are, we know, striking differences in the rates of interest at different times and in different places. These differences are instances of the operations of demand and supply. When my wish to provide for the future grows stronger I am content with little interest if only I can rely upon having my savings when I want them. If there is a reasonable expectation that those who save will enjoy, interest is low.

One man, again, may differ greatly from another in his power to anticipate future wants. The first may see clearly the times to come. He may, it is sometimes expressed, have the telescopic faculty strongly developed. To such a man the difference between the purchasing power he can exercise now and the purchasing power he can exercise a year hence well-nigh disappears. He will save though he gets only a very small reward for his savings. The other man may be so wrapped up in the present that the future calls for no effort from him. He dismisses to-morrow with the thought, "To-morrow I may be myself with yesterday's ten thousand years." It would need much interest payment to cause such a man to save. Both circumstances and temperament may change, however, so that what seems a reasonable rate of interest this year may seem quite inadequate next. Faced by the choice of a hundred to-day and a hundred and five a year hence, I may choose the first when my need for money is urgent, when my confidence in the future is shaken, when the value of money jumps about so quickly that I decide to spend it while I may get a substantial amount of goods for it. Even without outside causes it may be that my outlook on the future is differently coloured to-day from what it was yesterday.

Nations, like men, differ in their willingness to save. The difference depends on matters that are clear as well as upon matters that are obscure. Where the future is uncertain, where it is doubtful whether the saver will be allowed to enjoy the fruits of his savings, there will be little encouragement to save. What reason can one have to save marks or roubles or kronen when a year hence they may have lost half their buying power? Interest must be very high to induce people to postpone the present enjoyment in such a case. The man who has earned will enjoy his earning while he knows he can. Capital with its benefits will be dissipated. On the other hand, where a stable state of society exists, where obligations are honoured, where we know that Government will neither filch one's savings nor allow another to filch them, there people are content to save with small interest payments.

Benefit of Savings

Modern production, you see, is not from hand to mouth. It is not a plucking of fruit in order to eat it. Waiting as well as working is wanted. Here is a great ship that has taken a year to build and which will not justify the outlay upon it until many another year has passed. During the period of waiting the workers have been paid and the materials bought. Nothing is coming in at the moment. It is capital—the saving of former labour—that enables the waiting to be made; and the payment for the waiting is interest.

EXERCISE

A, B, and C, each invests £100. At the end of a year A gets £4, B £8, C £15, as a return upon their investments. How do you account for their getting any return at all, and for the differences in the returns?

Suppose the three investments were Consols, oil-shares, and railway stock, in what order of preference would you allot them?

LESSON SIXTEEN

THIS Lesson should help you to have clear ideas about these facts :

1. Money enables services to be exchanged
2. Money makes barter into buying and selling
3. Money serves as a pledge or surety.

MONEY AS THE MACHINERY OF EXCHANGE

Service for Service

We exchange our services for the service of others. Yes ! But how can we serve the Hindu who helps to make tea available for us, and the New Zealand farmer whose mutton we enjoy , how Madame Melba, who has recorded her songs that we may reproduce them times without number ; how Mr Galsworthy, whose tale delights us so much ? None of these folk know us None feels in need of our services. They do not want the ship we are working upon nor the machinery ; nor do they profit directly from our work as civil-servants, or teachers, or doctors

True it is that we and our services are alike unknown to, and unappreciated by, all of them. But they do know our gold, and want it Our services are rewarded by a bit of gold in exchange, or a claim to a bit of gold. This gold (or the claim to it) is wanted all over the world, and commands the services of men whom we shall never see, but with whom we are linked in a community of mutual services

Barter ; Goods for Goods

Exchange may certainly be direct. We may barter calico for corn. But how shall we find the corn-grower who wants our calico ? And how shall the amount of corn to be given for the yard of calico be determined upon ? Money, enabling us to split the exchange into two operations, removes the difficulty. We sell the calico for money , with

the money we buy corn. This third commodity, money, frees the man with money from the problem of finding who wants calico and has corn. Though a man does not want my calico, he always wants my money.

In early times, when man did not co-operate by way of trade, there was no money, nor perhaps any great need for it. Even then, however, there must have been what is called "a propensity to truck, barter, and exchange one thing for another." There was no intermediate commodity—no money. Exchange was barter, a changing of goods for goods. We still have barter among us. It is barter when one gardener exchanges plants with a brother-gardener, or when a football club exchanges a goal-keeper for a goal-scorer. Goods buy goods; so that, buying and selling are a single operation.

Money is Indispensable

Barter is quite inapplicable to our developed state of society, where everyone is a merchant continuously exchanging his service to obtain the things he needs. In barter, so tedious as it is, no division of employments, with all its advantages for production, could have arisen. The man with a surplus might readily have found one willing to take this surplus; yet, if that one could give in exchange nothing but what the other was already well provided with, exchange could not take place.

As soon as people realised the advantages of specialisation in one work, everyone would wish to have at his command some article that all wanted—for which he could always and everywhere find a buyer.

By exchanging his own commodity for this commodity, in general desire, he is able, when he wishes, to get the special commodity he wants. Money thus seems to be not one thing but things in general; and it is, perhaps, because of this that people attach an even too great importance to money. The holder of money has the means of getting the one thing for which in the end he will give the money; he appears to himself though, and to others, to have all those things that he might buy. The money is not really more valuable than the good thing it buys. It only seems to be;

so that a boy is better pleased with a ten-shilling note that he may spend at his discretion than with some present which costs ten shillings.

Importance of Money

Money is important though ; for it enables the consumer to exercise his purchasing-power at his option. Without money, without a medium of exchange, the persons whose wants are reciprocal could seldom help one another. The hatter needing bread will starve before he meets the baker needing a new hat. But, of course, as you will say, the hatter and the baker followed—they could not precede—the invention of money. Specialisation is itself due to ease of exchange—due that is, to money.

Organised Barter

Whenever there has been exchange, some way of judging the exchange-value of the goods exchanged must have been thought out. Here, for instance, is a paragraph from the account of the Hudson Bay Company

“For very many years after its foundation the sole concern of the Hudson Bay Company was with the fur trade. It established trading-posts on the shores of the Hudson Bay, to which the natives brought their furs, in exchange for which they received hatchets, guns, kettles, blankets, and other goods. The trade was carried on by means of what might be called a temporary currency. The trader would determine the value of the furs and give the Indian the proper number of sticks, old coins, or other tokens, each representing one, or a specified number, of skins, of ‘made beaver,’ which was the basis of their temporary currency. The Indian would then look round the company’s store and choose things he wanted, hand over the requisite number of tokens and, when he had thus disposed of the whole value of his furs, would depart with his new possessions.”

In barter itself, each party gains in utility : each parts with what he wants less, so as to get what he wants more. There are evident drawbacks, however. In bartering, we have the difficult task : (1) we must find some one who has

what we want; (2) we must find some one who is more anxious to get our article than to keep his own. In barter we are obliged to buy and to sell at the same time. When we cut the knot that binds the buying and selling together, the difficulty disappears. In other words, when we can sell our article for something generally acceptable, and with this buy the article we want, we have passed from barter to sale. Besides, where there is no money as a ready means of comparison, there will be an advantage taken by the bargainer with greater skill, better knowledge, more ability to wait.

The drawbacks of barter as compared with sale seem so obvious to us that we can hardly imagine people without some medium of exchange. Yet, men exist who are still at the barter stage: "A Dyak," writes Mr. Brooke, in "Ten Years in Sarawak," "has no conception of the use of a circulating medium. He may be seen wandering in the Bazaar with a ball of beeswax in his hand for days together, because he can't find anybody willing to take it for the exact article he requires. This article may not be more than a tenth of the value of the beeswax, but he would not sell it for money, and then buy what he wants. From the first, he had the particular article in his mind's eye, and worked for the identical ball of beeswax with which, and nothing else, to purchase it."

Kinds of Money

This money—this third commodity, serving as an intermediate step in exchange, and enabling relative values to be measured—is no fixed thing. Possibly, the first standard of value was an ox. Cattle was the chief property, and the cause of other property, in pastoral times; and we can therefore understand why, in several languages, the name of money is the same as that of cattle.

Many commodities other than cattle, have, in various countries and at different times, served as a means of comparing things exchanged, and as the tangible security during the exchange. Gold and silver, the precious metals, at a very early period in the world's history, became looked upon as the fit means of exchange. Everyone was happy

to amass a store of these in exchange for his goods or services. Decay was not to be feared, nor was a loss of buying-power to be dreaded. Moreover, the device of coining made things much easier, to avoid the trouble of weighing and of testing precious metals some public authority—by issuing coin—certified both weight and quality.

The Work of Money

Money confers a right, the right to demand from others. "The pounds a person receives are not his income. They are a sort of tokens or orders which he can present for payment at any shop he pleases, and which entitle him to receive a certain value of any commodity that he makes choice of." Money is the option-bearer, it gives power not over one thing, but over one of many things.

Money allows its holder to take his real income—the goods and the services that he requires from other men—at the time and in the manner that suit him best. Money is a certificate that what claims a man has upon society will be honoured. Anything that is acceptable among men is such a certificate, is money. It may serve no useful purpose of life. But if a man accepts it without question, it is quite suitable as money. For the essence of money is *acceptability*. So far as hesitation comes into the taker's mind, to that extent money loses its essence. Only when perfectly acceptable is money current. Only then can it run with ease and speed among people enabling them to help one another.

Our Money

Our money is gold or a claim to gold. It may be :

- (1) A token of gold, like our shillings and pence
- (2) A representative of gold, like our treasury note
- (3) A promise to pay gold, like our bank note.
- (4) An order to pay gold, like our cheque.

Gold as a standard of value has many recommendations :

- (1) It seems to be desired by well-nigh everyone
- (2) It may be divided and re-united without loss of value.

- (3) It carries great value in small bulk.
- (4) It may be easily recognised because of its colour, its weight, and its capacity to take delicate designs.
- (5) It seems less liable than most other things to changes in value.

From the point of view of a measure of value, this last property is perhaps the most important one. To measure value in wheat would mean a rapid change in values. A bountiful harvest one year would make the value of a bushel of wheat go down, so that it would exchange for less of other things; a niggardly harvest next year would raise the value and make the bushel of wheat command more of other things. With gold, however, the natural output is an exceedingly small proportion of the total amount in the hands of men. There is a fairly constant supply; there is a demand, too, that varies little. The labour of extracting gold does not seem to be appreciably lessened as time goes on; nor does the desire for gold diminish among men

EXERCISE

Money is a means of comparing two values just as a yard is a means of comparing two lengths. We know that things equal to the same thing are equal to one another. When, therefore, we know that a cow costs £30, and ten sheep also £30, we are able to compare the value of a cow with that of a sheep.

Moreover, the means of comparison becomes also a means of exchange. It is not the fact that every commodity is offered in the market for every other. It is offered in exchange for money—for the commodity serving as a standard by which to measure.

By adding your own illustrations of the service done by money, expand the little passage above.

LESSON SEVENTEEN

THIS Lesson should help you to form clear ideas about these facts .

1. Our Currency is Convenient for its Purpose.
2. Our present system—of coin and paper money—is the result of gradual adaptation to the needs of trade.
3. We have a Gold Standard of Value
4. Silver and Bronze and Paper Currency are subsidiary to Gold , and all signify a right to a Weight of Gold.

OUR MONEY SYSTEM

Coining a Function of State

With us, as with most countries, coining is a public work. It has, indeed, long been a State monopoly. The State feels itself bound to regulate currency, even if it does not provide it. At a very early period in our history the State was called upon to provide good measures for lengths and for weights. Bargaining was much easier when reliable measures were used, and quarrels were much less likely to arise. For the same reasons—to help trade and to prevent trickery—the State is called upon to provide a good measure of value. No doubt arose when the State guaranteed the weight and quality of the metal that entered into the coin. This guarantee—expressed by the shape and size and design of the coins—caused the coins to be accepted without the least demur. The acceptor had no fear that (when he himself wished to spend them to satisfy his wants) they would be rejected. Nor should a profit be expected from the provision of coinage any more than a profit should be expected from the administration of justice. Any expense that the provision of this great public convenience entails is properly borne by the public. Both these rules are acknowledged

among us ; and our money system, framed to meet the practical needs of trade, is an excellent one.

The Unit of Currency

The basis of our system is gold ; every coin, every piece of paper money, can be interpreted in gold. This is so even though no gold coin is at the moment issued, nor is a gold coin often passed in buying and selling. At one point the representative of gold can be turned into gold · at this point, we say, there is a parity between paper and the gold it represents. That there is, even at a single point, this parity between paper and gold, is enough to establish the gold standard. This point is defined in the Gold Standard Act of 1925. This Act, signalling our return to the Gold Standard after the temporary relinquishment since 1914, decrees that gold can be obtained from the Bank of England. The one restriction is—a restriction due to the need for following the movements of the gold and to obviate a great number of operations—that at least 400 ounces shall be bought at a time. The relevant passage from the Act is this : “The Bank of England shall be bound to sell to any person who makes a demand at the head office of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of £3 17s. 10½*d* per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.” That is to say, since fine gold is (£3 17s. 10½*d*. × $\frac{1}{11}$) or £4 5s an ounce troy, the minimum amount of gold that can be bought is £1,700 worth.

The 1925 Act modifies in two other ways the previous regulations in regard to gold. Even during the war years, when the outflow of gold from the Bank of England was greatly feared, the holder of a Currency Note or of a Bank of England Note could demand payment of the note in gold coin. The power to exact such payment was, true, of little practical effect. For the note had to be presented at the head office of the Bank ; and the gold coin could neither be exported nor melted for jewellers' work. The inquisitive people who, wishing to test whether the notes were really

convertible into gold, obtained sovereigns and half-sovereigns from the Bank, were probably shadowed by a detective. They could do no more with the sovereign than with the pound note, and the sovereign very likely quickly returned to the Bank. The empty privilege is now taken away: "The section of the Currency and Bank Notes Act, 1914 (which provides that the holder of a currency note shall be entitled to obtain payment for the note at its face value in gold coin), shall cease to have effect"

The second modification takes away another privilege that appears very rarely to have been used. The Coinage Act of 1870 entitled any person to bring gold to the Mint and have it tested, coined, and delivered to him as sovereigns and half-sovereigns. Nor was any charge to be made for the work done at the Mint. The weight of sovereigns delivered must equal the weight of standard gold handed in. In practice anyone who wished to have his gold turned into legal money simply sold it to the Bank of England—which was obliged to buy it at the minimum price of £3 17s 9d. per ounce troy of Standard gold (a little less you note, than the Mint Price of £3 17s 10½d). Thus, the holder of gold can still do, so that the following section of the 1925 Act simply makes the general practice the universal one. "Section eight of the Coinage Act, 1870 (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him) shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect"

Our pound is the unit of measurement of value, and the coin representing the pound contains a fixed weight of gold. This coin is the sovereign. The rest of our currency serves for the convenience of the many transactions of daily life, to pay for a bus ride, for a cup of coffee, a tie, a visit to a football match. And the question that arises is—How far have we a good currency system? How far is our system adapted for the constant exchanges that form part of our economic life?

Convenient Currency

Well, if we are to exchange our goods and services readily and smoothly, the coins must be such as we accept readily

and without friction. We must, therefore, be able to recognise them easily. We must be certain of their weight and quality. We must be confident that others will, without hesitation, take them from us in return for the services we seek. The coins should, therefore, be difficult to counterfeit or to pillage of any of their metal. The various devices of the Mint, the indenting and the raising of the edges, the beauty and fullness of the designs on our coins, are not mainly to produce a handsome coin. They are largely so that successful imitation may be laborious and costly.

The sizes, shapes, and weights of the coins should be convenient for handling and for carrying in the pocket. In this relation we may perhaps think that the crown-piece and the double-florin are too large, and the threepenny-piece too small. The circular disc appears to be the most convenient form. It is certainly better than square pieces or cubes, with their sharp corners; though these, too, have been used.

The relative values of the coins should permit of ready division and of the giving of change. Our present divisions are, in practice, quite convenient, though many would welcome a decimal system—a division into tenths and hundredths. But in practice people do not buy tenths of anything; they buy halves and quarters.

Evolution of Currency.

It has taken a long time to evolve our present system of currency. The stages in the evolution may roughly be put as four. First, there was a currency in which one or more metals served as the intermediate commodity by means of which exchanges were effected. The commodities were exchanged for a *weight* of the metals. Our pound—like the French livre and the Hebrew shekel—was at the outset an actual weight. Twenty-four grains of wheat balanced a silver penny; 240 silver pennies balanced a silver pound. Second, uniform pieces were made of one or more metals and these pieces passed by counting, by *tale*: the metal was coined in order to facilitate its exchange. Third, there was a settlement, tacit or expressed, of the relation between one metal and another. It was, for instance, decided among us

that one ounce of gold should be regarded as equal in value to $15\frac{1}{2}$ ounces of silver. There was, that is, a *tarification* of moneys. Fourth, as men grew more accustomed to trust one another, the tangible pledge afforded by the precious metal became unnecessary. Men were content with simple promises to fulfil obligations; and money came very largely to be paper. Yet this latest development itself is linked with the earliest. Our paper is a promise to give, or an order to pay, or a certificate entitling one to, a definite weight of gold.

Features of Our System

In our system, gold alone is legal tender to any amount. That is, gold alone can free a person from debt, no matter how much the debt is. Gold is the basis of the currency and the standard of value.

Our money of account is the pound sterling, represented by a gold coin called a sovereign, or by a note. Even when prices are expressed in shillings and pence, the meaning attached to these prices is so many twentieths and two-hundred-and-fortieths of a pound. The gold sovereign, upon which our whole currency is based, is a definite weight of pure gold with a little alloy.

Weight of Sovereign

The coinage law decrees that 40 lb. troy of gold shall be turned into 1869 sovereigns. The proportion of pure gold in standard gold is 22 against 2 of alloy. It will be seen therefore that one ounce of standard gold is equivalent to $\text{£}3\frac{14}{160}$. This alone is what is meant by the statement that the Mint price of gold is $\text{£}3\ 17s. 10\frac{1}{2}d.$ an ounce.

The Mint price is simply an awkward way of defining the weight of a sovereign; so that a full sovereign is a little over a quarter of an ounce (123·27447 grains).

The United States method of fixing the amount of gold in their coin appears the more sensible. To fix the weight of a gold dollar there, it is decreed that for every 23·22 grains of gold delivered to the Assay Offices there shall be delivered one dollar or one dollar bill. The five-dollar piece (or half-eagle) contains, therefore, 116·10 grains of fine gold—or a little more than is contained in a sovereign.

The idea underlying our gold standard currency is this : there shall be no difference in value between coined gold and the same weight of uncoined gold. The Treasury Note owes the whole of its value to the decree of the State that it shall be a legal means of freeing from debt ; the gold sovereign owes none of its value to the State's decree. Gold valued for export or for the melting-pot is exactly of the same value as the coin gold. The hammering of a sovereign into a shapeless piece of gold has no effect upon its value. In other words, the sovereign derives no part of its value from its being coined gold. By its imprint upon the gold coins the State does no more than guarantee their weight and their quality. The value of 40 lb. weight of sovereigns is the same as 40 lb. weight of gold destined to be turned into watch-cases, or rings, or bracelets.

Silver and Bronze Currency

It is otherwise with the silver and bronze currency. There the State guarantees its value. In other words, the value depends upon the will, the fiat of the Government. It is at times called " fiat money," because its value is thus dependent upon the decree of the State. The weight and quality are not material ; either may change without affecting the value in the issuing country. Indeed, in 1920, the amount of silver in the shilling was so changed. But yet the shilling, though nowadays half nickel, is a twentieth of a sovereign ; it has the same value as when it was nearly all silver. Its value when transported beyond the seas has dropped ; for the legal tender privilege does not accompany the shilling into France. Its value in Britain remains constant. A sovereign contains a sovereign's worth of gold ; a shilling contains usually much less than a shilling's worth of silver. In order to preserve the gold standard it is clearly necessary to restrict the coinage of silver and bronze. The State, therefore, reserves to itself the coinage and issues the token coins in accordance with the demands of the bankers, who themselves interpret the requirements of the public. The State incurs expense when it coins gold ; the State makes a profit when it coins silver or bronze.

Token Coins

These token coins—signifying value rather than embodying value—are made for the convenience of the people. They retain their value only by an artificial scarcity. Restriction, therefore, is needed. The power to release from debt, however great, belongs to gold alone. Silver is legal tender only to the extent of 40 shillings. Bronze is legal tender to the extent of a shilling. A sovereign is current so long as its weight does not fall below $122\frac{1}{2}$ grains; a silver coin so long as the impressions upon it are recognisable. Token coins are like bank-notes in this: the material of which they are made does not matter at all. What does matter is the amount of reliance we can place upon the implied promise contained in them. The gold sovereign enables us to have at our option an amount of the things offered for sale, an amount not indeed fixed but not in ordinary times greatly variable. The gold has command over this amount whether we regard it as a coin current among us, or as a piece of gold as eagerly desired in Paris as in London. Can we be certain that our shilling will command a twentieth part of this amount? If we can, then—whether the token is printed on paper or on silver or on nickel—the shilling is a satisfactory token. And, provided that effective precautions are taken against the coming of unauthorised shillings and half-crowns, no one is robbed by the issue of these tokens.

EXERCISE A

From these figures show that the metal in a shilling is worth about 3*d.* :

- 5½ shillings weigh one ounce ;
- 50 per cent. of the shilling is silver, 50 per cent. nickel ;
- Silver costs 30*d.* an ounce ;
- Nickel costs 1*d.* an ounce.

EXERCISE B

Nuggets of gold have been unearthed containing as much as 100 pounds troy of fine gold. If the owner of such a nugget brought it to London, how could he turn it into ready money, and how much ready money would be credited to him ?

LESSON EIGHTEEN

THIS Lesson should help you to form clear ideas about

1. What the money market is.
2. How important credit is
- 3 The real nature of exchange.

THE MARKET FOR MONEY

Meaning of "Market"

People speak of the "money market" and of the "price of money." These are curious terms. Let us make quite clear to ourselves what they mean.

A market consists of buyers and sellers among whom prices are settled by competition. Sellers wish to dispose of their goods. Buyers wish to get the goods. The wish to get rid of the goods is curbed, however, by the counter-acting wish to get as much for them as possible. The wish to get the goods is curbed by the wish to get them at as little sacrifice as possible.

A perfect market is one where the price of the same thing is the same throughout. In such a market there are so many buyers and sellers, all so keenly alive to their own interests, and all so well acquainted with market conditions, that sellers are obliged to accept the uniform price and buyers are constrained to give it. Such a perfect market may extend but a little way. Strawberries in Kent, for instance, may greatly differ in price from strawberries of the same quality in the West End. That is to say, there is not one market but many markets for strawberries.

A "World Market"

Of some things there are keen sellers everywhere whose competition tends to keep prices low; and there are keen buyers everywhere whose competition tends to keep prices high. Wheat is one of these things. The wish of growers

in the Punjab to sell their crop prevents the farmer of Canada from getting for his wheat as high a price as he would like. The fact that buyers in the United States want wheat prevents our getting it as cheaply as we should like. The wheat market, we sometimes say, is a world market. If we allow for costs of transport the price of wheat in one place cannot persist much above the price in another. For other goods the market is restricted. Because domestic service is exceedingly dear in the United States that is no reason why it should not be exceedingly cheap in China. The "market" for domestic labour is a local one, not a world market.

The Money Market

The money market is similar to the wheat market in this, that it is a world market. But what is bought and sold in the money market? The thing that is bought and sold is *buying power* or *capital*. The sellers are those who have command over capital. The buyers are those who can use capital in their productive undertakings. The sellers want to use their buying power to the best advantage; and they are alert and intelligent enough to find out where this best advantage lies. The buyers want to have command over buying power on the most favourable terms, and they make it their business to find out where those favourable terms can be obtained.

"Price of Money"

Money, when we speak of the money market, means credit. It means the right to draw cheques that will be honoured by a banker. That is to say, the commodity of the money market is no material thing. It is the product of thought, of confidence; it is, therefore, liable to be destroyed by thought, by distrust. The buyers in the market wish to have the control over credit; since the credit gives control over capital. The sellers in the market have control over credit; and are willing at a price to transfer their privilege. This price is the rate of interest.

Importance of Credit

In our present system of economic life, in which all employments are minutely subdivided, in which all concerned

in production depend for their income on the price of the commodity, it is of the greatest importance that the commodity should speedily reach one who will make a return for it in other commodities or services. There must be speed of exchange. We can put this in another way: one condition of prosperity is that people should co-operate freely and speedily. A man who makes the eighteenth part of a pin cannot live on the product of his labour until exchange takes place. If that exchange is long delayed, he will starve. The man who in a year makes the one-thousandth part of a great ship cannot wait until the commodity is exchanged for others. He must exchange his service for present purchasing power.

Money (credit facilities), by making exchanges easy, enables the subdivision of employment to be carried out. By furnishing advances it enables work to be done that demands long periods for its accomplishment.

The Banker's Services

Unless we had our banking organisation, the few who had sufficient capital to undertake lengthy contracts would be enabled to charge very heavy sums for the services of their capital. The money market prevents the large capitalists from enjoying a monopoly. It enables a man who can use capital to obtain it at a reasonable rate. In our own country a business man has this very great advantage that no undertaking of his, if it is seen to be profitable, need languish for lack of capital. The capital that is wanted for a long period he obtains, by means of the money market, from such as have capital to invest. The capital that he wants for the current operations of his business he obtains from his banker. The banker, you note, acts as a kind of reservoir. Into the reservoirs flow the savings of those that have earned more than they spend. From the reservoirs flow the credits—the streams of capital—that enable energetic and enterprising men to produce more abundantly.

Another service the banker performs. He hastens the exchange of goods and so enables us the more effectively to help one another. Unless means are forthcoming for getting

our goods into the hands of those who need them there will be a stagnation of business. There will be what is called a "glut." There is to be sure not more than would be consumed ; but there is more than, in the state of the money market, can get into the hands of the consumers. It should, perhaps, be described as an under-supply of money rather than as an over-supply of commodities. Banker's money, the credit the banker creates, cures the shortage.

Goods Buy Goods

Commodities themselves are the market for commodities. But it is only through money that the commodities meet. The cottons of Manchester are, through the medium of money, exchanged for the tea of India or the silk of China or the rubber of Africa. In industries there is a partnership ; and without great violence of reasoning we can suppose each member of the partnership pooling his receipts with the banker. And as those receipts become larger there is the greater command over the products of the other partners in the economic machinery. No large industry can be depressed without injury to other industries. Each industry in its prosperity buys and consumes the productions of most other industries. We have a system in which everyone is dependent upon the labour of everyone else ; so that the loss of one spreads and multiplies through all.

The means which a person possesses of paying for the productions of other people consists of the goods he himself possesses. If, though, a deficiency of credit occurs, the goods cannot be exchanged for goods. It is then that we have a fall of prices and a mass of goods unsold, a glut, we say, of commodities. Makers are left with stocks. Merchants, short of purchasing power, cannot obtain the goods they want. They are unwilling to give credit to retailers ; so that ultimately the consumer is unable to supply his wants. The manufacturer works short time. The consumers have less money to lay out with the retailers.

The defect, you see, is not in the supply of goods, but in the supply of means of exchange. For, in order that capital and labour should be fully employed, these conditions are necessary : first, there must be little difficulty for men of

enterprise and courage to obtain the control of capital ; second, there must be a speedy passage of goods from the producer to the consumer. When, as with us, credit is good, these conditions are realised. Men are able to get the advances they require on easy terms ; and a sanguine spirit among dealers leads to mutual confidence. The time taken by the commodity to reach its consumer is thereby shortened. The more rapidly trade moves, the more wealth is produced, and the less wealth is consumed in the process.

An Illustration

Mr. Hawtrey, in his book on "Currency and Credit," gives us a good illustration of how the banker helps trade and industry.

"A service rendered," he says, "creates a debt from the person to whom the product belongs to the person who renders the service. An umbrella-maker might pay wages by creating a debt from himself to his workmen, but, in order that his workmen may *spend* their wages, the liability must be transferred to other shoulders than those of the umbrella-maker, for he can sell them nothing but umbrellas.

"The solution of this difficulty is to be found in the intervention of some one who *deals in debts*. The umbrella-maker can sell to this '*dealer in debts*' the debts due to him for the umbrellas he has sold, and in return the '*dealer of debts*' can take on himself the liability for the umbrella maker's debts to his workmen. If every creditor assigned his rights so against his debtors to the dealers in debts, the setting off of debts against one another would be enormously facilitated. A dealer in debts or credits is a *Banker*."

EXERCISE

Below is a paragraph from *The Times* of May 21, 1926. Study it carefully, then write short answers to these questions :

1. Why is the investing of capital a good thing for India ?
2. What are "Government Securities" ?

3. What is a "lakh of rupees" ?
4. How much in pounds is it worth-at present ? (Consult your daily paper for the rate of exchange.)

"The strength of India securities, which has been one of the features on the Stock Exchange lately, is due mainly to buying from India. Well-placed observers are becoming more and more impressed with the potentialities of the country as a supplier of capital—first, for her own needs, and secondly, for external investment. There are signs that the Indian is at last abandoning the back garden as a bank in favour of the more modern system of banking and investment. A wealthy Arab recently converted a hoard of 10 lakhs of rupees into Government of India securities. This is not an isolated instance, for the replacing of hoarded rupees by investments is reported to be fairly widespread. Incidentally, there is a steady conversion of rupee hoards into gold or note hoards. The return of hoards of silver rupees into circulation is partly responsible for the unnatural ease in the money market and the weakening of the exchange. The monetary ease yesterday led the Imperial Bank of India to reduce its rate from 6 to 5 per cent. The development of the banking and investment habit in India, even though it is only in its very early stages, is an event of the first importance, for it means the mobilising of her capital in a way that cannot fail to stimulate and fructify the sources of production."

LESSON NINETEEN

THIS Lesson should help you to form clear ideas about :

1. The work of the Bank of England.
2. The founding of the Bank.
3. The raising of State loans by the Bank.

THE BANK OF ENGLAND

The Five Big Banks

The Bank of England does less business than any of the "Big Five" that dominate our banking system. These five—Lloyds, Midland, Barclays, Westminster, National Provincial—indeed, cover the country with a net-work of branches. Yet the Bank of England remains the centre around which the whole banking system is built. These great banks themselves depend upon the Bank of England. Just as every business man has his bank, so the outside banker has his; and his bank is the Bank of England. The "big five," and all the other members of the Bankers' Clearing House, have their credits at the Bank of England; and at the Clearing House, accounts among the banks are adjusted by means of operations upon these Bank of England credits.

In our banking system a central institution is a necessity. There must be a bank where bankers can adjust their accounts. There must be a bank to control note issues. There must be a bank to keep the gold reserve, upon which our currency system rests. The Bank of England fulfils all these functions. There must be a bank to give the lead in time of disturbance. The leadership of the Bank of England in all banking affairs has lasted over two centuries, and has become traditional. The Bank has justified its lead by the traditions and action of its management, by the boldness with which it has coped with dangers, and by its public spirit.

War Work of the Bank

The Bank's work in the Great War illustrates this. It could not have more eagerly co-operated with the Government if it really had been a Government department. Consider a few points. When war broke out the likelihood of panic was recognised, and the need therefore to stop the outflow of gold. The Government, guided by the Bank, acted promptly. The declaration of war was on the August Bank Holiday. The banking holiday was extended for two days, in order to allow public excitement to abate, and to allow for the arrangement of what was called a moratorium—whereby debtors could postpone payments for a while. The sudden shock, due to the outbreak of a war that many had dreaded but never really expected, made people lose their faith in the ordinary way of meeting debts. It was necessary, therefore, to devise, without delay, a substitute for the paper promises that might no longer be accepted as cancelling debts. At once the Bank issued currency notes in place of gold; and it undertook to discount paper which in ordinary times would never have been presented to the Bank. The paper—ordinary Bills of Exchange bearing names little known to the public—would, in less disturbed times, have served well enough to discharge debts between business men. They could not do so when confidence in them had been shaken. The commercial paper, through the discount facilities afforded by the Bank, became in this way changed into Bank of England Notes or Treasury Notes. They became changed, that is, into paper that none could refuse to accept as a good discharge of debts however great.

Another important service of the Bank was the obtaining from the public the war loans that the Government was at once constrained to seek. This was of course a service familiar to the Bank; the Bank indeed began as a result of a Government loan. What was not familiar was the extraordinary amount of the loans. Another interesting and responsible duty was the collecting and the forwarding to the United States of "Dollar Securities." To meet the claim of the United States against the advances made and the munitions supplied, we had little gold and few

commercial commodities. It became necessary therefore to export valuables of a kind that bankers were eager to get. These were Stock Exchange Securities. They were called in by the Government, and they were examined, packed, and shipped by the Bank. Many consignments of these—millions of pounds in value—crossed the Atlantic without mishap during the most dangerous period of submarine activity.

The Founding of the Bank

You will learn later that the Bank of England is of the greatest importance to foreign countries as well as to us. We do well then to understand something about this the most famous bank of the world. Here is the pompous official account of its foundation.

In 1694, by Act of Parliament, and letters patent authorised thereby, the subscribers and contributors to a Government loan of £1,200,000, their heirs, successors, and assigns, were constituted a body corporate and politic by the name of the Governor and Company of the Bank of England with perpetual succession and a common seal. The annual sum of £100,000, charged on the Government revenues, was appropriated to the benefit of such corporation, being 8 per cent on the amount subscribed and £4,000 a year for management.

The notes of the Bank of England were to be exempt from all stamp duty

Divested of its elaborate legal dress the account comes to this the Government was in sore straits for money; in order to get money, the Government granted a charter to a company formed to make profit in the lately discovered way of lending paper promises to pay.

The Occasion of the Founding

There was then a natural disinclination to lend, even to the Government. For there had recently occurred a gross breach of public faith. The London goldsmiths had advanced money to the Government of Charles the Second; and they expected, as was the custom, to be repaid with interest as the taxes came in. About thirteen hundred

thousand pounds had been in this way entrusted to the honour of the State ; for then the King was the State tax-collector and the State paymaster. He paid his cook and his soldiers from the one fund.

On a sudden, it was announced that it was not convenient to pay the principal, and that the lenders must content themselves with interest. As a result the lenders were unable to meet their own engagements, just as a business man would be now, if he were suddenly told that his debtors could not pay. For he depends upon cheques coming in for his ability to send cheques out. The dismay and the distress were great, and many great merchants became bankrupt.

An Assurance to Lenders

With the founding of the Bank of England, the public became assured that the State would meet its obligations. Here is a little of Macaulay's account :

" Another million was needed to bring the revenue for the year 1694 up to a level with the expenditure. Montague had a plan ready. He succeeded, not only in supplying the wants of the State for twelve months, but in creating a great institution, which, after the lapse of more than a century and a half, continues to flourish.

" In the reign of William, old men were still living who could remember the days when there was not a single banking house in the City of London. So late as the time of the Restoration every trader had his own strong box in his own house, and, when an acceptance was presented to him, told down the crowns and Caroluses on his own counter.

" But the increase of wealth had produced its natural effects, the sub-division of labour.

" Before the end of the reign of Charles the Second, a new mode of paying and receiving money had come into fashion among the merchants of the capital. A class of agents arose, whose office was to keep the cash of the commercial houses. This new branch of the business naturally fell into the hands of the goldsmiths, who were accustomed to traffic largely in the precious metals, and who had vaults in which great masses of bullion could lie secure from fire

and robbers. It was at the shops of the goldsmiths of Lombard Street that all the payments in coin were made. Other traders gave and received nothing but paper.

Raising a State Loan

“The new system saved both labour and money. Two clerks, seated in one counting-house, did what, under the old system, must have been done by twenty clerks in twenty different establishments. A goldsmith's note might be transferred ten times in a morning; and thus a hundred guineas, locked in his safe close to the Exchange, did what formerly would have required a thousand guineas, dispersed through many tills, some in Austin Friars, and some in Tower Street.

“It was then at least as difficult to raise a million at 8 per cent as it would be now to raise thirty millions at 4 per cent. It had been supposed that contributions would drop in very slowly, and a considerable time had therefore been allowed by the Act. This indulgence was not needed. So popular was the new investment that on the day on which the books were opened three hundred thousand pounds were subscribed: three hundred thousand more were subscribed during the next forty-eight hours, and, in ten days, to the delight of all the friends of the Government, it was announced that the list was full. The whole sum which the Corporation was bound to lend to the State was paid into the Exchequer before the first instalment was due. The Great Seal was put to the Charter, and the Bank of England commenced its operations in the house of the Company of Grocers.

“From the Bank of England, the Government of the day became able to borrow whenever necessity of borrowing presented itself.

“In old times, when the Treasury was empty, when the taxes came in slowly, and when the pay of the soldiers and sailors was in arrear, it had been necessary for the Chancellor of the Exchequer to go, hat in hand, up and down Cheapside and Cornhill, attended by the Lord Mayor and the Aldermen and to make up a sum by borrowing a hundred pounds from this hosier and two hundred from that ironmonger.

Those times were over. The Government, instead of laboriously scooping up supplies from numerous petty sources, could now draw whatever it required from an immense reservoir, which all those petty sources kept replenished."

EXERCISE

Give some explanation why the Bank of England is so important in the money market of London, and of the world.

Consider in this connection these quotations :

1. "The mutual liabilities of customers of one and the same bank can be settled in the books of that bank. But where the customers of one bank settle with the customers of another there will in general be a net balance due one way or the other. To complete the settlement the balance must be paid by the bank from whose customers it is due to the other bank. The process by which such inter-bank balances are settled is called 'Clearing'; where the banks are suitably organised their agents meet together daily and set off the balances due to and from each bank, so that each needs to make or receive a single net payment. This single net payment may have to be made in money, but, if there is a central bank, which acts as the banker of all the other banks, these latter can pay one another by drawing from the balances they keep with the central bank."

(Hawtrey, "The Economic Problem.")

2. "There arises a tendency to prefer bills drawn upon well-known London banks or other great London firms, whose credit is known all over the world, and *ceteris paribus*, such bills will command a readier acceptance in the exchange market. Persons having to draw bills will get a better price if they can draw upon London, which they can do by opening an account with a London firm, and arranging that remittances due to them shall be deposited to their credit in London. It comes to pass that a merchant in

America, Australia, or India, will prefer to receive money in London rather than anywhere else. Everyone wishing to remit money can then do so in the form of a bill upon the holders of these funds in London, and the fund will be recruited from time to time by similar bills received and transmitted to London for collection.

“This tendency to the centralisation of financial business in London is much promoted by the fact that the largest mass of cheap loanable capital exists there. Moreover, the great foreign trade of England, reaching into every quarter of the globe, and the many distant colonies and dependencies which naturally have financial relations with the capital of the empire tend to give London a unique position. It must almost inevitably follow that transfers of money will be more and more made through London. Just as this city is the link of connection between each English country banker and each other one, so it may, and probably will by degrees, become the link between the most distant parts of the world. But the greater becomes the profitable burden of financial business thrown upon Lombard Street and Threadneedle Street, the more it behoves us to take care that our currency system is maintained upon the soundest possible basis.”

(Jevons, “Money.”)

LESSON TWENTY

THIS Lesson should help you to form clear ideas about :

1. The Nature of International Trade.
2. How Trade brings greater Abundance.
3. How Trade brings about a Territorial Division of Labour.
4. What it is that impels International Trade.

TRADE BETWEEN NATIONS

The Hare and the Tortoise

The Great War in its last stages resolved itself into a race between the tortoise and the hare—between the plough and the submarine. We struggled to extend the lands under the plough so that food enough might be available. The enemy sought to cut off supplies by the submarine attacks against our shipping ; and the supplies from abroad became woefully short. In the contest the tortoise won, as it did in the fable. But we had many anxious moments ; for, in an unexampled measure, we had come to depend on overseas trade for our supplies.

Supplies from Abroad

In ordinary times we have the whole trading of the world at our call. A scanty harvest in the Argentine only means a diversion of our grain ships to Canada or to the States or to Russia. And all through the year the wheat harvest is in progress somewhere or other. A scanty harvest all over the globe very rarely occurs. The deficiency in one spot is generally balanced by abundance in another. Without our having to make arrangements, therefore, and solely by the efforts of traders to make profits, we are assured of a steady and cheap supply.

This steady and cheap stream we get upon two conditions. The first condition is that the paths of the sea are kept

open. The sea is in a special sense a very necessary part of our Empire. Every ship may be looked upon as a floating island belonging to the country under the flag of which she sails, and the merchant fleet that we have as a result of our trade surpasses that of every other country. We have many more of these floating pieces of Empire to look after than any other nation of ancient or of modern times.

Fed in the Factory

We have sought and found prosperity by trade; but we have thereby given up the stability of land. Till a century and a half ago our concern was that we should have a bountiful instead of a niggardly harvest. Our great concern now is that trade should be brisk, and that our merchant vessels carrying on this trade should follow their business unmolested. The weighty question we have to settle in this respect is whether our fleet is powerful enough to command the seas so as to give security to trade upon the water. We may put it that our need to keep up a navy equal to all calls upon it is our insurance premium against loss of prosperity. That the paths of the sea shall be safe is one condition of our well-being.

We get Goods for Goods

The second condition is that we make goods or perform services for which other people are willing to pay. The food for our people and the raw materials for our factories are not sent here out of charity or as a tribute from subject peoples. We have not a single tributary state, and foreigners are not so foolishly generous as to send us something for nothing.

Payments—very great payments, too—are indeed due to some among us from other lands. Dividends, we say, are earned by investments abroad. Things that might have been used here—steel-rails, locomotives, machinery—have been sent abroad. Services that might have been rendered here—services of workers and of organisers—have been exercised abroad, so that other countries might be better off. A great original outlay is compensated by annual payments from the increased production of the country

where the capital has been invested. But this also is exchange. Present enjoyment is traded against future hopes and expectations.

Making a Foreign Loan

When the original loan is made, it is as though we import—we bring into the country a piece of paper whereby someone abroad, maybe even a Government abroad, acknowledges himself to be our debtor. In return for this acknowledgment, we transfer to the borrower our claims upon the things that can be bought. We transfer to him some of the purchasing power we have. It may well be that the borrower exercises this purchasing power in buying from our own merchants. If he does, then the things we export—the railway material, the woollen cloth, the boots, the warships—will be visible enough. They will help to swell the figures relating to our exports. The import itself, the paper acknowledgment of indebtedness, will not come under this notice of the Board of Trade Officers—it will not help to swell the figures of our imports. It will remain invisible.

When, on the other hand, we make our annual claim on our debtor abroad, or when that debtor pays off his debt, it is as though we export. We send abroad coupons cut from the paper we bought with our original loan; and these coupons enable us to claim part of the harvests that ripened in the country to which the loan was made. Or we sell the paper representing the principal sum, and again are entitled to a share of what the lands beyond the seas have produced.

Trade Brings Abundance

The supplies we need come as the result of trade—trade that includes these investments abroad. We are, therefore, keenly concerned that the output of our factories and workshops should find ready sale, and that we should still keep the power of doing for other people the services for which at present they eagerly seek. Our work must be good, our services intelligent.

What, in effect, is this trade upon which our very existence as a nation depends? It is a division of employments

among peoples One country, by its soil, its climate, and its position, will be far more fitted for the production of a thing than a second country is France can grow in the open air the grapes that we grow here only in forcing houses at a very great expense. In the yards of the Clyde and the Tyne our ship-builders can still make vessels better and cheaper than the rest of the world can.

It is clearly to the advantage of both France and England that exchange takes place. From France will come the wine and silk and the artistic goods peculiarly her own. From our own country will go the iron and steel goods in which we are supreme, or the cottons and woollens in which we are also among the first.

Territorial Division of Labour

It is trade that enables things to be produced in those places where their production requires less spending of labour and time The trader it is who organises the producing powers of the world. What are called "good" times occur when there is little delay in getting things from the producer to the consumer. And this is the trader's work

Commerce—trade among nations—is an extension of division of labour to countries As division of labour makes a factory more efficient in weaving calico or spinning silk, so commerce makes the world a more effective machine for the production of what men want. Just as the power of exchanging enabled men to have special callings, so commerce has resulted in what is known as the localisation of industries. A certain region, from natural or artificial fitness, becomes a special home of a trade, and will produce for the world's markets. It has been, for example, estimated that one out of every three people in the world wear some garment made of cotton from a Lancashire mill.

As with individuals so with the districts in which the individuals live. It is an advantage to specialise; for thereby the amount of wealth is greatly multiplied. This specialising and producing does not, however, mean limiting of consumption. On the contrary, it is into those places that have special industries that a flood of various products pour.

Benefits of International Trade

Trade among nations enables us to obtain what we could not procure in our own country. The beverages that we should certainly miss, tea, coffee, and cocoa ; the spices of which we are so fond ; the costly furs that most of us can admire only in the shop windows ; the silks, and satins, and fine feathers that add so much to the beauty of dress—all these have reached us by long land and sea journeys. The little luxuries of life—tobacco, and chocolates, and scents and fruits—are here as the result of trade among nations

In the dress of a fine lady the four quarters of the globe meet. Polar snows have been braved to bring the fur, tropic heats have been borne that the lady may have muslin, and ivory, and delicate straw plaitings. The pearl-divers on the Queenstown coast, the dusky Kafirs in the mines of Kimberley, the gold-miners in the sweltering desert of Australia, have all laboured to provide her with the means of dazzling and astonishing.

Trade among nations does more, however, than provide us with otherwise unattainable goods. It enables us to obtain, on far easier terms from abroad, goods that can quite well be produced at home. Our farmers are able to grow wheat ; and, not so very long ago, we brought none at all into the country. Now, four out of five of the loaves we eat are baked from flour made from wheat that ripened on the wide prairies round Winnipeg or Chicago, on the rich soils of Eastern Europe, on the great plains of the Argentine, in the Indus valley, and on the fertile fringe of Australia.

Before this trade developed the return for our labour was so many bushels of wheat. The return now is a greater number of bushels of wheat for the same labour exerted in factory or workshop. The main impulse to foreign trade is not that one country can supply what another has not. This, indeed, is important enough. Our dinner-table would be poorly furnished were it not for foreign trade.

The Impulse to International Trade

The motive power is, however, usually the difference in comparative costs. It is quite possible that, either because

the gifts of nature are distributed unevenly, or because labour is reluctant to travel far in search of those regions where its efforts would be more profitable, one country as compared with another is a worse producer of many things. Yet if the inferiority is less pronounced in one thing than in another, trade will still be possible and profitable.

We in these islands may be able to produce beet sugar at less expense of effort than the West Indian can produce cane sugar. We certainly can produce steel knives better. England has, perhaps, a superiority of 100 per cent. in steel, and, let us suppose, of 50 per cent. in sugar. Very well then, let England produce the steel and Jamaica the sugar. We shall get more sugar by making steel than by growing sugar beet, the people of Jamaica will get more steel by growing sugar than by erecting a steel mill. We then have economic progress, for in each country the relation of effort to satisfaction will be less.

Trade is a mode of cheapening production, and the consumer in the end gets the benefit of this cheapening. Between different countries, owing to distance, diversity of language, of law and of customs, owing also to force of habit, profits and wages may long continue different. In spite, that is, of the international movement of capital and labour, there are still remarkable differences in comparative cost. This difference is the main motive to international trade.

EXERCISE

Here are instructions given in Queen Elizabeth's reign by a merchant to his agent who is about to travel to Turkey in search of business. Study them and show what bearing the instructions have upon our international trade to-day.

“Although English wool is undeniably the best, if foreign nations turn their wools, inferior to ours, into truer and more excellent made cloth, and shall dye the same in truer, surer, and more excellent and more delectable colours, then shall they sell and make ample vent on their cloths, when the

English cloth of better wool shall rest unsold, to the spoil of the merchant, of the clothier, and of the breeder of the wool, and to the turning to bag and wallet of the infinite number of the poor people employed in the clothing in several degrees of labour here in England.

“On arrival in Turkey the factor shall send home unto his realm certain pieces of shred, to be brought to the Dyers Hall, there to be showed, partly to remove out of their heads the too great opinion they have conceived of their own cunning, and partly to move them for shame to endeavour to learn more knowledge, to the honour of their country of England and to the universal benefit of the realm.

“If any cloth, not made in this country, is found to have a good sale in Turkey, some samples should be sent home . . . and in England we are in our clothing trade to frame ourselves according to the desires of foreign nations, be it that they desire thick or thin, broad or narrow, long or short, white or black.”

LESSON TWENTY-ONE

THIS Lesson should help you to form clear ideas about :

1. What the Foreign Exchanges are.
2. How a debt due to a resident abroad is usually settled
- 3 What the function of the banker in international indebtedness is.

FOREIGN EXCHANGES

Par of Exchange

Money is a commodity or the representative of a commodity. The commodity is nearly always gold, the representative—whether note or bill—gives a right to gold. Money is either gold, or a right to call for gold. The unit of money—in our country and in others—is a fixed weight of gold. If therefore we know the weight laid down in the coinage laws, we can easily compare the currencies of two different countries. We can, in other words, calculate what the rate of exchange would be if nothing occurred to upset it. We can reckon how many pounds in London we should have to pay in order to have a thousand francs in Paris or a thousand dollars in New York.

We know, for instance, that the sovereign—which represents our pound—contains 113 grains of fine gold. If I could take this weight of pure gold to the Mint I should get a sovereign for it. We know, too, that by the United States law the dollar is equal to 23·22 grains of fine gold. I deposit this amount at an Assay Office, and I am credited with a dollar. A simple sum in Arithmetic, therefore—a division of 113 by 23·22—establishes the fact that the exchange value of a pound is 4·86 dollars. This we call the Mint Par of Exchange.

Goods Buy Goods

We say that one country exchanges its goods for the goods of another country. This is a loose way of speaking, though it is true enough in the end. Trade is barter, is an exchange of goods for goods, but it is barter made scientific through the use of money. A country pays for what it gets by what it gives; it gives in order to get more. What is it though that we have to give? In the long run, since we have no gold mines, the goods we obtain are paid for by other goods or by services—not by money. In the end the imports we get are paid for by the exports we give, whether those exports consist of visible bales of cotton goods or the invisible services of a banker. No country can continue to pay more than she sells on pain of becoming bankrupt. No country would continue to give more than she received on pain of being called foolish. There is a balance of trade, or rather it should be called a balance of indebtedness. The debts owed by one nation in the long run are balanced by the debts owed to that nation.

Payments may be due to the dwellers in our country as interest on investments abroad, as remittances of earnings in the service of foreign nations, as repayment of debt, as drafts drawn by foreigners touring the country for business or for pleasure, as commission paid to bankers and insurance offices. Either by sending them goods or by rendering them services we impose obligations upon peoples abroad. In return peoples abroad impose obligations upon us. They send us goods, they keep us and entertain us when we travel abroad. On the whole the obligations we confer balance the obligations we incur.

Money is the Intermediary

As in home trade, however, the intermediate step is through money. The butcher, even though his wife deals with his customer, the draper, does not barter his mutton for muslin. He sells it at a price. Yet it may well be that the cheque paid to the draper for muslin may be set off against the cheque paid to the butcher for mutton. So, too, he that sells steel rails to Brazil does not seek payment in

Brazilian rubber or sugar or coffee. He sells for money, and the coffee that really pays for the rails may never come to this country at all. Even if rubber does come here it is bought for money. The exporter of rails is hardly likely to be also an importer of rubber. Yet, again, through the intermediate step of money and the banking system, the rubber may be made to pay for the rails.

A Trade Transaction

Let us make this process quite clear. What is this money with which an Englishman buys, and for which he sells, goods abroad? It is credit abroad—credit measured in gold. Money may be needed for small retail transactions, but it is not used in large transactions. The Brazilian does not welcome our treasury notes for his rubber, nor even our gold sovereigns. He wants a means of release from debt in his own country, and our pounds are not legal tender in Brazil. Quite true, his banker would give him a credit for the treasury notes and would eagerly enough buy the gold sovereigns. And this credit, now expressed as milreis not as pounds, is ready purchasing power.

But the Brazilian exporter can obtain this purchasing power, at his banker's, much more conveniently through a Bill of Exchange. What he wants to buy, at home or abroad, is thereby paid for by the rubber he has sold. The Bill of Exchange, when it has been accepted by his English customer, is a certified claim upon a weight of gold. It is this claim that makes the international currency. It may be stated as pounds or francs or marks. It is the weight of gold, to which all these are referred, that matters.

Credits Balance Debits

It comes to this. Every export we make, every service we render to someone abroad, means that a resident here has increased his credit abroad. He has, therefore, a claim on the stock of goods abroad, a claim reckoned in so much gold. Nearly always this claim will be measured by figures in a banker's books. These figures we may interpret if we like as weights of gold.

There is then power abroad of freeing from debt. If I

have a shilling in my pocket here and now I have power over whatever costs a shilling. Just so, if I have to my credit in New York a thousand dollars I have power over whatever costs a thousand dollars in New York. Is this power of use to anyone? Certainly it is of use to anyone who has incurred debts abroad. For every cask of Danish butter we buy, every payment we need to make for a stay in Switzerland, every loan to France, has put a resident here under an obligation. To cancel the obligation he must have credit abroad. Now, an export in visible form, as woollen cloth, or in invisible form as the service of an agent, nearly always means an increase in the credit standing abroad of a British bank. On the other hand, every import means that a British bank will be asked to meet a debit abroad. The export may go to one country, the import come from another; but that does not matter. In the end all these credits and debits balance up with one another. To effect this balance, however, one country may occasionally find it necessary even to export actual gold (bullion) to another.

Banker as Reservoir of Credit

Exports build up the supply of foreign credits; imports diminish it. Our banking system enables credits gained abroad, by our traders and others who live here, to be set off against the credit gained here, by traders and others who reside abroad. Let us, to make this clear, trace a transaction through, and let us select two places, London and Sydney, where debts are measured in the same unit—in pounds sterling.

A Sydney merchant sells a parcel of wool to a London buyer. He draws a Bill of Exchange on the buyer. He makes, that is, a written request to him to pay the price of the wool. The Sydney wool merchant signs the draft and after a while the London buyer will sign an acceptance upon it. He will write his name on the Bill and thereby signify that the debt is due and that he intends to pay it. The wool is shipped; and the captain of the ship gives the shipper a Bill of Lading, a document without which the wool will not be delivered from the vessel carrying it.

With this Bill of Exchange and the shipping documents the Sydney merchant interviews his banker, sells him the Bill of Exchange and hands over the Bill of Lading. The banker buys the Bill of Exchange long before it will be presented at London for acceptance, for he knows that the Sydney merchant is a sound man, himself well able, in the very unlikely event of the Bill not being paid when due, to meet the banker's claim. Besides, the banker has an additional security—he has the Bill of Lading.

After this transaction the seller of the wool has purchasing power where he wants it, in Sydney. The banker has bought valuable documents and these he sends to his London agent. The London agent tells the London buyer of the arrival of the documents. The buyer accepts the Bill of Exchange, obtains the Bill of Lading, and gets the wool.

The Sydney banker has now credit in London. He is, therefore, able to sell credit in London to any of his customers who need to pay for things bought from England. The banker when asked for credit will draw upon his London agent, will sell the draft to the Australian importer, who seeks this credit to pay for his English goods. The importer in Australia by sending the draft to the English seller cancels his debt for the motor car or whatever else he has bought. The English seller hands the draft to his own banker. The latter collects it, and the Australian export of wool has been balanced against the Australian import of motor cars. The Sydney seller of wool sells to the London buyer but is paid by the Sydney banker. The London buyer of wool buys from the Sydney seller, but pays the London branch of the Australian Bank. The Sydney importer of the motor cars pays the Sydney banker. The London exporter of the motor cars is paid by the London branch.

The Banker's Function

The two transactions will probably be unequal in amount. This does not affect the argument. The banker acts as a reservoir, regulating the supply of, and the demand for, foreign credit. When the demand for foreign credit is

greater than the supply available for the export of goods, then the banker himself sends out an export. He sends out gold, or more often a banking security, a paper denoting stocks and shares. When the demand for foreign credit is slack so that more traders are selling than buying, it is certain that some of this special commodity, this gold or banking security, will make a return journey.

When we get nearer reality and consider that a country has many customers abroad we do not alter the matter. It only means that we require to look upon the whole world beyond the narrow seas as incurring obligations to us (whereby we build up credit abroad) and imposing obligations on us (whereby our credit abroad is spent). The obligations incurred by Brazil may well be set off against the obligations conferred by the United States. From London a motor car goes to Santos. From Santos a consignment of coffee goes to New York. From New York a consignment of cotton goes to Liverpool. The New York seller draws on an English banker. The New York bank now has credit in London. Who wants the credit? Well, the Santos coffee-seller would welcome a draft on London, for he knows very well he can use it as purchasing power. A Bill on London is a kind of world's common currency. In fact, there is at hand the buyer of motor-cars who wants the draft in order to cancel his indebtedness to London. From the national point of view the cars pay for the cotton, the coffee for the cars, the cotton for the coffee.

EXERCISE

Show clearly how to find the par or exchange between two countries that have a different currency. According to the French Law one kilogramme of fine gold is made into 3444.44 francs. With one kilogramme of fine gold our mint coins 136.568 sovereigns.

From these facts, find the Mint par of Exchange between pounds and francs.

LESSON TWENTY-TWO

THIS Lesson should help you to form clear ideas about these facts

- 1 The State *must* perform some functions
- 2 The State *may* with benefit perform other functions.
- 3 The State should leave most functions to private enterprise

THE INTERVENTION OF THE STATE

How far should State Activities go ?

The State is the organisation of people for the common interest. Once contentions were many about how the State should be constituted. Should government be by one, or by the few, or by the many ? We have now, in our country at any rate, decided that the government by the many is the best. In our country we have a democracy where practically every adult has a voice in the Government. The contention now, therefore, is no longer in regard to the constitution of the State, it is in regard to how far State action should go.

In earlier times economists sought to limit State activities, for to them the failures of Government were far more evident than their successes. Government had interfered in many matters which they should have left alone. They had even thought it necessary to tell their subjects what to believe, what to wear, and what to eat. We have modern regulations, too, recalling these old directions. Quite recently the Greek Government has actually told ladies how long their dresses must be.

Restriction Advocated

The idea in the minds of the early writers on Economics was that every Government interference, unless dictated by an almost imperative necessity, must produce more evil

than good ; and that if you left things alone they would be better not only for the individual, but also for the whole society.

The famous writer of the "Wealth of Nations"—Adam Smith—went so far as to assert that leaving the individual to pursue his own good in his own way was the best thing for all concerned. He put it thus :

"Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view ; but the study of his own advantage, naturally or rather necessarily, leads him to prefer that employment which is most advantageous to the society."

The Individual's Interest not always that of the Society

Perhaps this was a rather too optimistic view. The individual interest of the burglar, for instance, consists in getting clear with his booty. Public good is hardly promoted thereby. The individual interest of the farmer with a good crop of potatoes would seem to be a failure of other farmers' crops. We cannot hold that the individual interest and the general interest coincide always. Generally they may. But when the two seem to be hostile to one another, it is only right that the State should interfere for the common good ; even though this interference does put a shackle on the individual in his pursuit of his own good.

The Limits of State Activity

To the early economists it appeared beyond dispute that the activity of the Government should be restricted to the protection of its subjects against the force of other independent states, and against force and fraud at home. In a famous paragraph Adam Smith, after showing the absurdity and the waste due to the meddling of the Government in matters of trade and industry, writes :

"All systems either of preference or of restraint being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord.

“ Every man, so long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his labour and his capital into competition with those of any other man or order of men. The Sovereign is completely discharged from a duty in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could be sufficient—the duty of superintending the industry of private people and of directing it towards the employments most suitable to the interests of the society

“ According to the system of natural liberty a sovereign has only three duties to attend to—three duties of great importance, indeed, but plain and intelligible to ordinary understandings. First, the duty of protecting the society from the invasion and violence of other independent societies. Secondly, the duty of protecting as far as possible every member of the society from injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice. And thirdly, the making and maintaining of certain public works and certain public institutions which it can never be for the interest of any individual or small number of individuals to erect and maintain, because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.”

Necessary Duties of the State

Some things the State, from its very nature, must do. Its first duty is the preservation of law and order, when force and fraud exist it must act, it cannot leave things alone. Therefore it is that we have armed forces; that we have the civil police; that we have courts both of criminal and civil justice. Other State activities are so generally performed that we may look upon them, too, as well nigh inevitable. Such are the provision of coins, and, if not the provision, at any rate the regulation of, paper money; the setting up of a uniform system of weights and measures; the postal services; and, in some countries, the control of the telegraph and telephone services.

Departure from "Laissez-faire"

We have in our country travelled far from the "let-alone" principle. We have come to recognise the need in many directions for the conscience of the community to supplement and sustain the sometimes weak conscience of the individual. The enduring interests of the whole society must, we think, be guarded against the passing interest of an individual.

In ever so many ways, we have, with general approval, substituted regulation for *laissez-faire*. This is the summary of Lord Morley: "We have to-day, a complete, minute, and voluminous code for the protection of labour. Buildings must be kept pure of effluvia. Dangerous machinery must be fenced. Children and young persons must not clean it while in motion. Their hours are not only limited, but fixed; continuous employment must not exceed a given number of hours, varying with the trade, but prescribed by the law in given cases. A statutable number of holidays is imposed. Special provisions are made for bakehouses, for lace-making, for collieries, and for a whole schedule of other special callings. For the due enforcement and vigilant supervision of this immense host of minute prescriptions, there is an immense host of inspectors, certifying surgeons, and other authorities, whose business it is to "speed and post o'er land and ocean" on sullen guardianship of every kind of labour, from that of the woman who plaits straw at her cottage door to the miner who descends into the bowels of the earth, and the seaman who conveys the fruit and materials of universal industry to and fro between the remotest parts of the globe."

Drawbacks Incident to State Action

Yet the big fact remains. In business matters State action should be as little as possible. For State action labours under heavy handicaps. State officials may be, usually are, eager to promote the general good; they may be chosen in ways that make it quite certain that only those of great ability become officials. From the nature of things, however, they cannot hold their own against private enterprise.

For consider what is bound to happen. The official spends public money. He is responsible to a Minister. The Minister is responsible to Parliament, and may be questioned in Parliament about anything done in his Department. The official, therefore, must keep records of the working of the Department in order that at any moment he may justify the action he has taken.

To be safe he must follow recognised rules. He cannot take the risk of following his own initiative. His work must be slow; and will tend to become formal and unvarying. The official who is most likely to win approval from his superiors would not be the one who is constantly suggesting new things. It would be the one who worked steadily on the well-trying lines so as to avoid criticism.

Business and "Red Tape"

In business, however, quick decisions are wanted. A chance postponed is often a chance lost. Ever so many business matters are carried out in a few minutes by word of mouth. Such transactions would be impossible to Government Departments with their masses of records and their leisurely and stately routine. No business which stands still can last, and we cannot give an official the same freedom as we can the manager of a private enterprise.

Since State enterprise moves on a vast scale, there must be general rules. We cannot allow a man to act on his own judgment. If an energetic manager and an energetic official have imagined an improvement at the same time, we can suppose that the first would have the thing put into operation long before the second had induced his superiors to think about it at all.

Summary

We may sum up the arguments for and against State action in this way.

The State

1. Can pay, and therefore command, the best talent.
2. Has at its command information not available for the ordinary trader.

3. Can act on the largest possible scale and with the greatest possible authority.
4. Can, through a system of competitive examination and through the vigilance of Parliament, possess an able, efficient, and uncorrupt Civil Service.

But

1. The heads of State Departments are often chosen not because they can effect most, but because they can please most. A great orator is not of necessity a skilful administrator or a far-seeing statesman.
2. State methods must be more rigid and more tedious than those of individuals seeking their own interest
3. With the best intentions the State may err ; and, since it acts on so large a scale, its errors are more harmful than those of individuals.
4. The State workers—whether selected by political friends or as a result of competitive examinations—are not always the best for their jobs. Because a man can get high marks in a mathematics paper, we cannot say with certainty that he will be a capable ruler of an Indian Province.

EXERCISE

Below are two paragraphs from a speech by Macaulay. Study them, and then explain what other things good for the society cannot be left to free competition.

“ ‘ If,’ they say, ‘ free competition is a good thing in trade, it must surely be a good thing in education. The supply of other commodities, of sugar, for example, is left to adjust itself to the demand ; and the consequence is, that we are better supplied with sugar than if the Government undertook to supply us. Why then should we doubt that the supply of instruction will, without the intervention of the Government, be found equal to the demand ? ’

“ Never was there a more false analogy. Whether a man

is well supplied with sugar is a matter which concerns himself alone. But whether he is well supplied with instruction is a matter which concerns his neighbours and the State. If he cannot afford to pay for sugar, he must go without sugar. But it is by no means fit that because he cannot afford to pay for education, he should go without education. Between the rich and their instructors there may, as Adam Smith says, be free trade. The supply of music masters and Italian masters may be left to adjust itself to the demand. But what is to become of the millions who are too poor to procure without assistance the services of a decent school-master ? ”

LESSON TWENTY-THREE

THIS Lesson should help you to give clear answers to these questions :

1. How does the State get its income ?
2. What are taxes ?
3. How does Parliament control the raising of taxes ?
4. How does Parliament control the spending of taxes ?

THE INCOME OF THE STATE

Growth of State Activity

There may be doubts about whether an increase in the activity of the State would be a good thing. Shall the State control the mines or the railways, as it does the Post Office ? Shall the provision of houses be left to the enterprise of people in search of profit, or shall the State—seeking not profit but service to the community—take the matter in hand ?

It is, all allow, desirable to encourage the copious use of water and soap ; for the cleanliness of one's fellows is a matter of concern to us all. When one person catches fever through being dirty, all are menaced. When avoidable dirt parades before us, we are justly incensed. The question is an acute one, therefore ; shall we supply water and wash-houses and medical attendance—vaccination, and so on—either free or at less than cost ? Besides, there are the “ octopus industries ”—those that spread their tentacles over a wide area. Such are undertakings for supplying gas, electricity, water. These involve use of public streets, they can hardly be other than monopolies in the area they serve. They seem to be peculiarly suitable for State, or Municipal, operation.

State Action is Expensive

About such questions there will be never-ending contentions. About one question in relation to State activity

there is no doubt whatever. State activity is expensive, and the State is obliged to earn a great income. "Earn," maybe is not quite the right word here. Some people will say that the State earns its income only in the same sense that the pirate or the robber chief does—by taking it. We shall keep the term, though; it may be defended.

The State must have an income, and, now that demands are increasing for extensions of the State's activity, we must reconcile ourselves to the fact that the income required is constantly growing. Less than a century ago the Government was bitterly attacked because it considered a revenue of £50,000,000 to be necessary. To-day it seems that we must try to find year by year about £800,000,000—half of it to pay interest on our huge war debt and to diminish its amount a little. In 1926 a determined effort by the Chancellor of the Exchequer to effect economies proved almost fruitless.

Sources of Income

Many centuries ago the income of the State was the personal income of the King. It was the revenue he obtained from the royal lands. This was the "ordinary" revenue, with which he paid his courtiers and his judges and his soldiers. It was only when some unusual need arose, when, for instance, he was waging war with one of his kingly competitors, that the people were asked to give an "extraordinary" revenue. The "Saladin tithe," "Scutage," "Ship-money," were all levies relating to the waging of war; they were "extraordinary" revenue. We still keep these old terms, "ordinary revenue," and "extraordinary revenue", though now what is called the ordinary revenue from Crown lands is merely a drop in the bucket compared with the extraordinary revenue from taxes. The taxes are the main source of the State's income.

What Taxes Are

These taxes are payments from the subject to the State. What distinguishes them from all other payments is the fact that they are compulsory. Whether we have agreed to pay or not, we must pay; so that the definition we may adopt

of a tax is this : *Taxes are compulsory payments for the public services, national or local.*

True, these last are called *rates*, but there is no real difference between our contribution to defray the Army expenses and our contribution towards defraying the expenses of the police. Certainly, too, some special class of people may be pointed to as benefiting more than others from the payment. We may, for instance, point to taxes for the Navy as an insurance premium against the loss of foreign trade. We may look upon the rate for the police in much the same way as we look at the payment to the night watchman or the payment for the burglar-proof safe. The library rate or the rate for sanitary purposes gives a definite benefit to the individual payer as well as to the whole community. But it is the public service, not the individual service, that is the primary object of tax. We spend much on education, and many profit exceedingly thereby. Yet it is the good not of these individuals that is sought, but the good of the State, which gains greatly as its subjects grow more enlightened.

Compulsory Character of Taxation

Because we can point out a return for the payment we make to the State, the payment does not cease to be a tax.

It may, of course, be said that the payments we make are voluntary ones in that not a penny of taxation is levied without the sanction of Parliament, and that Parliament is the mouthpiece of the people. This is quite true; among us there is no taxation without representation. We have come to rely upon general consent to give force to legal action, so that taxation itself is no longer "the art of so plucking the goose as to secure the greatest amount of feathers with the least amount of squealing." Our own representatives are those who assess what we must pay. But, however much we, by our representatives, agree to the payment, we cannot avoid it—it is a tax.

Parliament began with Taxation

Parliament in fact originated because the State was in need of revenue. When the King—who was once the State

—was in dire straits, he would send his officials to the county assemblies, and from these county assemblies the officials would obtain contributions towards the King's needs

As the King's needs grew, these periodical visits became productive of too little. The idea, therefore, arose to summon from the counties representatives who would come to Westminster to meet the King, and to learn about his needs. When the representatives assembled, some great official would explain how urgent the occasion was, and how the King, despite his best efforts, was obliged to ask for money. And, having wrought sufficiently upon the feelings of the representatives, the King's spokesman would ask for their generous contributions

Under the glamour of the court and in competition with their fellows from other counties the representatives would grant large sums. They would commit those they represented to the payment of far more than these people would be willing to pay. That is why, at first, Parliament was very unpopular. It was an instrument of taxation.

Disguising the Compulsion

Sometimes in our history, as you know, the compulsory character of taxation was disguised. Taxes have borne the gentle names of "gifts" or of "benevolences" granted in answer to the prayers of the Sovereign. Still, those deaf to the prayers ran some risk, and we may take it that very little good-will accompanied the benevolences granted. When the French Revolution occurred the French Revolutionary Government, considering that only slaves paid imposts, called the payments to the public services "contributions." But a contribution you cannot evade is still a tax, still compulsory, and the compulsory payments, agreed to at first, quickly become sources of irritation and of depression.

Taxation the Great Source

The great bulk of the money that the State wants comes nowadays from the taxes. Compare the yield of the various sources :

(1) About a halfpenny in the pound of the total revenue comes from the property of the State, from Crown lands and buildings. It is a long time since the King "lived of his own," paid the expenses of his judges, of his army, and of his navy, as well as of his household, from his income. In those old days subsidies from his subjects were the "extraordinary" revenue. To-day income other than this extraordinary revenue is very trifling.

(2) In emergencies the State, like a person who is for a time embarrassed, may borrow to raise an income. But, of course, this policy of borrowing cannot proceed indefinitely, for borrowing means the payment of interest at the time, and ultimate repayment. No individual can continue solvent when he borrows to meet expenditure that comes again and again. Nor can a State.

(3) A State—a local authority to an even greater extent—may actually earn part of its income. It may carry on industrial or trading functions which actually yield a profit, as it would seem our Post Office does, as too it appears the State railways do in Belgium, the State gaming houses at Monte Carlo, the Municipal race-course at Doncaster, and the Municipal pier at Portsmouth. In most instances, however, the earnings go but little way; and, when a tramway system needs other payments to supplement its earnings, the attempt to earn has resulted in an additional burden on the taxpayer or the ratepayer. Certainly, the additional burden may be justified, as it is with schools and libraries and, maybe, tramways. It comes then, however, within the scope of something provided by the State. Many dismal attempts to earn, suggest that the cumbrous machinery of the State is ill-adapted for commercial activities.

(4) In the case of our country the taxes are the chief sources of State revenue. What is still oddly called the "extraordinary" revenue is now the thing with which we are mainly concerned. The "ordinary" revenue has diminished till it has become negligible. The "extraordinary" has grown with the growing complexity of society, and with the keen sense of the need for reform in very many directions. We must, perhaps, look upon a rise in taxation with what equanimity we can summon up, as something

against which it is as vain to inveigh as against the fogs of November.

Control of Taxation

The compulsory character of taxation has not changed even though it is Parliament that controls both the raising and the spending of the taxes. We should, perhaps, understand some little of the method that Parliament adopts to make this control effective

In the raising of money the Treasury is the controlling factor. Its head—the Chancellor of the Exchequer—is responsible for the finance of the Government. He it is who settles—after, we may suppose, strenuous debate with his colleagues in the Cabinet—which of the demands for further expense shall go before the House of Commons. He it is, too, who decides which of the many prayers for remission of tax shall be answered. Most important of all he decides whether the taxes shall come chiefly from the direct payers, or from the indirect. Shall he make the income-tax payers, who are loud in their complaints, pay more? Or shall he raise the taxes on sugar and tea, and so add to the weight carried by those who, very largely because they do not know how they are burdened, bear the imposition silently?

In his Budget speech, made at the beginning of the financial year, he reviews the financial situation of the country. He examines its debt and says what steps he is taking to reduce that debt. He shows the need there is of money for the “spending departments.” So he comes to what all are eagerly awaiting, with hope of remission, with fear of greater burdens, he details how he proposes to raise the revenue required.

The Spending of Income

The department of the Government that safeguards the spending of money is the Exchequer. Though his name would suggest that he has, the Chancellor of the Exchequer has no control over the Exchequer. This department, the Exchequer, has one duty only; it has to see that public money is applied in accordance with the wishes of Parlia-

ment It has to see that money voted for one object is not diverted to a quite different object.

You remember that in times past this was frequently the case. Money granted to pay the King's judges went often enough to pay the King's wine bill. Money voted by Parliament for the upkeep of the Navy was diverted to gifts for the members of the court.

The Comptroller and Auditor-General, an official quite independent of the vote of Parliament for his salary, and appointed for life, is the head of the Exchequer Department. He is a modern officer of State, first appointed in 1866 because the directions of Parliament in regard to the spending of money were so often disobeyed. We are justified now in our statement that not a penny of the money can be raised without the consent of Parliament; and, what is as important, not a penny of the money can be spent without the authority of Parliament.

Amount to be Raised

Under the authority of Parliament the subject pays tax. The amount on the average is £40 a head; but, clearly, some of us have not £40 to pay, on others it would be a burden intolerable, by others again it would hardly be noticed. The important question arises therefore: in what ways should the revenue be raised? Which are the "best" taxes? In what proportion should the subjects of the State contribute to the expenses of the State? The next lesson will direct your thoughts to these questions

EXERCISE A

Read this passage carefully, then show how the money paid when a man brings silk into the country may reach the soldier at Aldershot.

"The whole revenue of the nation is paid into the Bank of England to the 'account of His Majesty's Exchequer,' mainly through the Inland Revenue Office. That office is a

mere place for the receipt of taxes, it is a huge money-box into which day by day moneys paid on taxes are dropped, and whence such moneys are taken daily to the Bank. Not a penny can be withdrawn except under the authority of some Act of Parliament. In the Appropriation Act, Parliament fixes the amount to be spent in support of the Army. When the Treasury needs to draw the money in order to send to the various Paymasters, it must make a requisition to the Comptroller General. The latter must satisfy himself that he is justified by the Act of Parliament, under which the requisition is made, to grant the credit. The Bank of England pays out the sum demanded, and the paying officers obtain cheques which they turn into cash at the local banks."

EXERCISE B

It is sometimes suggested that a war should be paid for, either through a tax or through a levy on capital, by the generation that waged the war. For to burden posterity with the cost is unfair; posterity has no say in the matter, and the gain, if any, from military successes seldom lasts long. Read this vigorous account of how "National Debts" began. Then explain at length what you think about our present National Debt. Would it be wise to try to pay it off either by taxation or by subjecting people having over £10,000 to a levy?

"Up to times of comparatively modern and recent date, therefore, the idea of any persons, in a real national exigence, when perhaps national existence was at stake, offering to lend money to their country 'at interest' was deemed just as absurd as would be a child offering to lend its pocket-money to its father 'at interest,' when both were in danger of wanting a dinner! It was reserved for what is strangely termed 'an enlightened era,' to hatch this monstrous absurdity, which, until it was put into practice, would not have been deemed wicked but silly. Strange turn for matters to take at 'an enlightened era'; and stranger still, that such a notion should first take root in the skull

of a countryman of 'Grotius': but so it was. It was in the muddy and huckstering brain of a Dutchman, somewhere about the middle of the seventeenth century, that this pestilent scheme was engendered; and in the huckstering country of Holland was first presented to the eyes of the world the spectacle of a 'National Debt.' The 'Lernaeae Fens' engendered the 'Hydra'; and amidst the swamps of the 'Zuyder Zee' was generated this far worse than the fabled monster of the poets! After all, however, the soil is sufficiently worthy of the tree. The Dutch, though they have produced one or two great men, are a nation remarkable for low, peddling, greedy, and huckstering notions; but they have this excuse, that, being a small and weak state, they have been continually, by their position, compelled to make efforts beyond their strength; and this it was, no doubt, which first tempted them to plunge into that most preposterous and wicked system, of which I am now to give the detail. With a country almost naturally defenceless, engaged by position and religion in conflicts far beyond their real national strength, surrounded by strong and often hostile powers, the Dutch at length became so exhausted by the pressure of the taxes they paid, as to sacrifice before the shrine of mammon those liberties which they had preserved from ambition."

LESSON TWENTY-FOUR

WHAT you should find from this Lesson are answers to these questions :

- 1 What are the " best " taxes ?
- 2 What are " direct taxes " ?
- 3 What are " indirect taxes " ?
- 4 What are the merits and drawbacks of each kind ?
- 5 What is the meaning of " incidence of taxation " ?

THE " BEST " TAXES

The " Budget Speech "

When the Chancellor of the Exchequer is about to deliver the " Budget speech "—that speech in which he lets us into the secret of his national housekeeping, telling us what money he wants, and how he is going to get it, how, too, he is going to spend it—we may suppose that he considers proposals without number regarding taxes.

Some of these proposals come to him of themselves. They are, we say, spontaneous, his mind has hit upon them while he has been wondering how best to earn the State's livelihood, how to get the money the State must have. Others in abundance are suggested by those willing to make his task easier, or maybe willing to divert from themselves some of the taxation. Such questions as these are flung at him from the floor of the House of Commons: " Has the Chancellor of the Exchequer considered whether it would be advisable to take as a tax a percentage on all hotel and restaurant bills ? " " Has the Chancellor of the Exchequer considered whether he is now in a position to tax the winnings on bets ? " And the Chancellor of the Exchequer will always reply in some such terms as these: " I am anxiously surveying the whole question of taxation, and your proposals will receive my careful attention "

The Chancellor of the Exchequer's "Good Tax"

From his point of view he wants a tax to be productive of much revenue; to be one that will cause little resentment; to be one that cannot easily be dodged or evaded; to be one of which he can with some accuracy measure the yield. When, as very often happens, a tax cannot have all these desirable qualities, he is called upon to decide which desirable quality shall be given up.

He may, for instance, determine that—since the income-tax is productive, since it cannot easily be evaded, since it can be measured quite accurately—he must increase it, even though it should cause him to become one of the most unpopular members of the Government. He might decide that, though a tax on luxuries is desirable in theory, in practice it would be so difficult to assess, so expensive to collect, so easy to evade, that it must be given up.

As a practical economist he will study, too, how the elasticity of demand will affect taxes. If, for instance, he puts up the tax on tobacco, so that the rise in price causes very much less to be sold, he might find to his disgust and surprise that the yield of the higher tax is less than the yield of the lower one. Just as doubling the price of admission to a cup-tie may not always be a profitable plan, so doubling the tax on a commodity may actually mean less revenue for the State.

He will, too, be anxious that the tax should not be harsh toward the more conscientious part of the populace. If a tax can easily be evaded, it will be evaded by those who have little scruple about defrauding the revenue. On the other hand, the tax will be an additional burden upon the more conscientious of the people.

The Incentive to Evade Taxation

Every rise in tax, of course, gives an added incentive to evade it. When, for instance, the Death Duties were greatly raised, there were astounding numbers of transferences of property during the life-time of the owners. There would, for instance, be an opening in the bank of what is called a "joint-account,"—an account, that is,

in the name of two or more people, both or all of whom have power to draw cheques, and where the survivors are entitled to the whole amount. The father puts his money to the joint-account of himself and the son for whom he designs it. In this way, you see, the property passes, on the death of the person first owning it, without the slightest formality, and without the Exchequer reaping any of the Death Duties. So, too, if a too heavy duty be placed on goods imported, there is a strong temptation to smuggle. And the smuggler—and the tax-evader—are supported by public opinion.

The tax that the Chancellor of the Exchequer levies will, of course, be levied on some principle connected with ability to pay. It will not be an arbitrary one. Thus, he will not tax all red-headed men, nor all men over six feet high, for neither quality has any necessary connection with ability to pay.

Revenue the Primary Purpose : Other Purposes

We have considered taxation from the point of view of revenue. That should, doubtless, be its primary object. Whether it should also be its sole object is a matter of debate among us. Some say it should; but we, in practice, use the machinery of taxation for other purposes. A tax has been used, and is still vigorously advocated, as a means of redressing the inequalities in the distribution of income. A tax may be imposed on the rich classes in order to be spent on the poor. There is sometimes put forward the idea that there should be a twenty shillings in the pound income-tax on all salaries above a moderate amount, the revenue resulting being spent in purposes that are applicable to the good of the poorer classes—the disinherited, as they are at times called.

Among us, too, the tax has been used, and again is being advocated, as a means of protecting home industry. A tax is put on imported goods not so much with the idea of yielding revenue as of preventing the importation of these goods, and the advocates of the tax rejoice not in the greatness of the revenue from them, but in the smallness. The advocates of such a tax are best pleased when,

completely effecting its purpose, it brings nothing to the Exchequer.

Direct and Indirect Taxes

A direct tax is one which is paid by the person who is expected to bear the burden of the tax. He cannot shift that burden on to another's shoulders. We say that the incidence remains where the tax is levied. An indirect tax, however, is one which is paid by one person in the expectation that he will be enabled to pass it on to someone else.

Contrast, for instance, a direct tax like the fourpence a day licence to sell tobacco, and the indirect tax on beer. The tobacco retailer pays the licence directly to the Government, and he cannot avoid it. The tax on beer, however, is paid not by the beer-drinker, but by the brewer. Yet, though the beer-drinker does not pay the beer tax direct to the tax-collector, he knows, when he troubles to think about the matter, that the enhanced price of the beer is due to the passing on of the tax by the brewer.

The retailer pays the licence fee whether he sells much or little. He knows quite well what burden he bears. He knows, too, whether the partial monopoly he enjoys is worth what he pays; and, if he does not think it worth while, he can easily give up the licence. The beer-drinker does not pay for a general licence to drink. In some cases the licence would cost too much to be paid at once. It would, besides, be felt as grossly unfair. For he who took a glass only on Christmas Day would have to pay a licence just as he who spent much of his leisure in the ale-house. It might even cause an excessive thirst, since he who paid would want to get full value for his money.

The Economist's "Best Taxes"

A sensible Chancellor of the Exchequer, seeking those taxes that bring in most, and cause least discontent, will try to find those of which we can say :

1. This tax is equitable.
2. This tax is certain.
3. This tax is economical.
4. This tax is convenient.

By equity we mean justice—fairness between one taxpayer and another. A tax is equitable when each feels the same amount of inconvenience from his share in the payments as everyone else. All shoulders should bear burdens, the strongest shoulders the big burdens, the weakest the small ones. The State, making no distinction of persons in their claim upon it, ought, in like manner, to make no distinction in the sacrifices it calls for from these persons. It ought to distribute its burdens in such a way that no one, in order that the weight borne by another be lightened, is unfairly pressed. Each should contribute according to his ability.

Our income-tax has, bit by bit, been brought into something like harmony with this rule. Among us a person pays, roughly at any rate, not in proportion to what he has, but in proportion to what he can afford to spend. We have, for instance, at the lower end of the scale a free income. A man and his wife having an income of £250 are exempt from the payment of income-tax.

At the other end of the scale we have a super-tax—a tax at a higher rate than that paid on smaller incomes. Besides this, there are remissions in respect to children, and, in order that the practice of insurance may be encouraged, we allow the amounts paid for insurance to be deducted from the income that is assessed for tax.

With us our income-tax is not a proportionate tax, but a / progressive one. We have brought this about in spite of the fact that some theorists have said that to have a progressive income tax is a mild form of robbery. To tax the larger incomes at a higher percentage than the smaller is to lay a tax on industry and economy. It is to impose a penalty on people for having worked harder and saved more than their neighbours.

In spite of such complaints, it is quite certain that we shall extend this principle of progression, especially when we consider that with the present high rate of exemption, those who pay the direct taxes are in a great minority. We have among us come to something like this: those who vote the taxes do not pay them.

The progressive principle is operative in the Death Duties,

too. If a man dies possessed of £500, his inheritor pays nothing to the revenue. If he dies leaving £1,000,000, about a half of this goes to the State.

Income Tax is Equitable

If we could assess the income-tax fairly, it would be the best way of raising revenue ; for direct taxation, though certainly disagreeable, is bound to impel its payers to examine into its justice. The income-tax payers become active in matters of Government ; and the need for economy is impressed upon the Government.

When we pay a tax through the medium of the grocer or the wine merchant—when we are subjected, that is, to indirect taxation—we are more or less passive. We come to regard the tax on sugar or on tobacco as a part of its natural price, and there is no check upon the extravagance of the Government. When everyone knows how much he really pays, taxation is disliked. Such taxation might raise a demand for economy which could not be gainsaid. Against this advantage we must, of course, place the fact that, evasion of a tax would more frequently be attempted. Possibly, too, the paying of a direct tax is less convenient than the paying of an indirect one, since the direct tax cannot be collected in small portions according to the convenience of the payer. The indirect tax imposed—as for revenue purposes it must be—on articles in wide consumption—has certainly this drawback, that it falls more heavily on small than on large incomes. For a much larger proportion of the small income is spent on tea and sugar and tobacco than of the large income.

Certainty and Economy in Taxation

In regard to number two, a tax is certain when all who are called upon to pay it know exactly what they are to pay and when they are to pay it. There is nothing arbitrary about it.

A tax is economical when it is easy and cheap to collect, when it takes out of the pockets of the taxpayer very little more than goes to the revenue. In olden days, and in modern countries where the art of Government is back-

ward—in China and Mexico, for instance—the Government is lucky if it gets 50 per cent. of the tax that is levied on the taxpayer. Much of it is eaten up by the expenses of taxation.

The tax is convenient when its payment is made at a time convenient to the taxpayer. This, perhaps, applies to indirect taxes more than to direct ones; for the indirect tax need be paid only when a purchase is made, and, of course, it need not be paid at all.

Distribution of Taxes

In our revenue system roughly about half of the income comes from indirect taxes. These are kept because the State draws a great revenue from them without much grumbling, and because it is felt that many who are exempt from direct taxes should also contribute to the expense of the State. But we may perhaps anticipate that in process of time the direct tax will assume a greater importance.

Indirect Taxes

Consider these indirect taxes of which we spoke. They are mostly on commodities. A few taxes on goods consumed are, indeed, direct. The privilege of keeping a dog, the payment for the right to employ a manservant and to display armorial bearings, the licence to have a wireless installation—these are examples. They are paid by the persons who are meant to bear the burden entailed. Their incidence, we say, is not shifted.

Most taxes on goods consumed are, however, indirect; they are paid by one person in the expectation that he will be able to transfer the burden of them on to another's shoulders. The incidence of the tax does not remain where it is levied.

The tea importer, for instance, pays the tax on tea when it enters the country, or rather when he takes his chests of tea out of the bonded warehouse. The sacrifice involved in its payment is, however, shifted on to the consumer—perhaps with a little addition. The entertainment tax is paid by the entertainer, the theatre manager, or the cinema proprietor, but he includes the tax in the price he charges to the entertained.

Practical experience has made clear some guiding rules about indirect taxes. First, such taxes are not worth levying unless they can be made productive, for the cost of collection is great; and this cost and the indirect losses due to interference with the action of taxpayers may more than eat up the tax. For we must remember that other costs than the actual cost of collection are incurred. As much must be spent in preventing smuggling as in the actual collection of taxes on silk and tea and tobacco.

Perhaps we may neglect this rule about unproductive taxes when the revenue is not the only or the chief purpose of the tax. If, for instance, we raise the tax on beer and whiskey with a view to restraining the consumption of them, we must reckon the State action as part of the price we pay for the improvement.

Secondly, taxes should not be imposed that interfere greatly with the freedom of industry. Thirdly, taxes should not, except in very great emergencies, be imposed upon such commodities as deserve to be used more extensively. Duties, for instance, were once imposed upon candles and soap and paper. These were really obstacles to the consumption of light and cleanliness and knowledge.

Fourthly, because necessaries of life should be exempt from taxation, it appears that indirect taxes should, if possible, be levied upon luxuries. Perhaps there is a difficulty in deciding what a luxury is. One suit of clothes, for instance, is a necessity; would not a dozen be a luxury? Fifthly, the articles taxed should be few in number. This would avoid expense in collection and too great interference with industry and trade.

EXERCISE

At present the State obtains some millions of revenue from the tax on entertainments. Explain what the good features of this tax are. Do you see any reasons against such a tax?

LESSON TWENTY-FIVE

THIS Lesson should help you to answer the questions

- 1 What rules should guide Government Expenditure ?
- 2 Why is Economy so greatly needed ?
- 3 Why is Economy hard to obtain ?

THE SPENDING OF THE STATE

The Rule of Equity

We spent some time in discussing the great rule of taxation, that it should be just, so that none who paid the tax should have a real grievance and be able to point to another more favoured than himself. But the raising of the tax is not the only thing to be considered. Whether or not the tax conforms to the rule of equity depends very largely on how the tax is spent. We could imagine a tax levied solely upon one section of the people and yet an equitable tax. For it might be spent solely for the benefit of that one section. The tax would limit their private expenditure, but it would increase the public expenditure upon them. It then becomes a compulsory co-operation.

The users of motor cars are not unfairly dealt with in the heavy tax on their cars, for road maintenance is the main purpose of the tax. A needy Chancellor of the Exchequer may, now and again, be tempted to raid the road fund and use it for general purposes. In so far as he does, the tax becomes inequitable. In so far as it is applied to road making, the tax is fair enough. A tax might, indeed, be so levied as to limit the spending on things harmful and be applied to spending on things beneficial. A tax on beer or whiskey would limit private spending, probably to the advantage of the spenders. If the tax, used in collective spending, gave better education, provided better health facilities, provided open spaces for playing fields, it would

benefit the people who were deprived of their spending power. It would raise the bodily and mental efficiency of the people, and so be invested in human beings. It would prevent waste of the human capital of the country.

We are bound to admit, though, that little of our revenue goes in this way. The fifty millions spent on education, and the twenty-five millions on public health, amount to about nine per cent. of our expenditure. The contrast with the amount spent on war and preparation for war is great. About one hundred and fifty millions goes to the armed forces: and actually about half the total revenue is paid for National Debt services, the debt being incurred mainly as a result of war.

Some Payments Transfer Spending Power

We should, perhaps, note a distinction in regard to these payments. Some we can hardly expect to add to future wealth; some probably will. About three hundred and fifty millions must be paid as interest on debt. However great the will for economy there can be no saving here. We are bound to pay our debts, however these debts have been incurred. Yet the bulk of this payment may be merely transferred, not lost. It has not been dissipated in high explosives nor in feeding and maintaining men engaged in killing other men and in destroying property. The holders of war stock to whom interest goes obtain spending power at the expense of their fellow citizens.

The transferred spending power may very well, however, be used as capital. The effect then would be very different from the effect of the money if it were spent on warlike operations, on the bursting of shells and the blowing-up of ships. The transfer of money may indeed actually increase the flow of saving. It will do so if it is diverted from useless expenditure and is applied to productive undertakings.

State Expenditure has Limitations

A point that would seem at first sight to be overlooked is this: there is a limit to possible State expenditure. Doubtless the limit is not so clearly fixed as it is with your income

or mine. You cannot spend—at any rate for long—more than you have in your pocket, more than is given to you or earned by you. A man with an income of £1000 a year does not take a mansion in Park Lane, nor buy a yacht for summer cruises in the Mediterranean, nor keep his carriage. He cuts his coat according to his cloth. Some things, however much he wishes them, he cannot afford. He cannot say, as some people think the State can, “I want this thing and the other, therefore, my income must amount to so much.” In your spending and mine the point of departure is “How much income have I?”

In one sense it is true that the State can adjust its revenue to its estimated expenditure, it can decide what is to be done, and then proceed to get the money for doing it. For, since the State is sovereign, it may exact what money it pleases from its subjects.

Earning Capacity Limited

Yet the earning capacity of the State is not unbounded. Its subjects have no bottomless purse—no purse of Fortunatus that filled as fast as it was emptied. The national income is limited. Moreover, the State can take but a limited part of it. Every added penny on the income tax brings in less than the preceding one, increases the irritation against the Government, gives a more powerful temptation to evasion.

Some Requests must be Refused

There are countless appeals for State expenditure. The actor who wishes to play Hamlet, but who cannot draw a paying audience, clamours for a State theatre. The man who cannot make aviation pay clamours for a subsidy. Every spending department clamours for more funds: it would be an historic incident if some day or other the head of the Navy told the Chancellor of the Exchequer that the Admiralty could not spend the money allotted to it. If only the Public Health Department had command of enough funds, it would make this land of ours a health resort. If the Education Department had but to ask in order to have, we should have a wonderful system of education—fine

schools well equipped, University training for everyone able to profit by it, contented teachers.

Equal Dealing

There is another point which is as easy to see, as that necessary expenditure has its limits. You all agree as soon as the point is mentioned. When expense is incurred in one direction, justice requires similar expense wherever a similar case may be made out. Yet this point would seem not to be generally recognised. Just as we cannot have one law for rich and one for poor, so we cannot treat different sections differently. If the miners are to have a subsidy, why should not the agricultural labourers have one? Why should not all those whose industry does not afford them a "living wage" have one?

Economy is Difficult

Another reason why caution must be exercised in admitting expenditure is this. It is very easy to give, it is very hard to retract a gift once made. Economy is easy to preach. It is very hard to put into practice. For the people who would suffer by a curtailing of spending, complain loudly at the hint of economy; those anxious to save can hardly have so keen a personal interest in the matter. When a man who is strong-willed, who is as eager a fighter for the abstract cause of economy as others are for a concrete object of expenditure, is at the head of the Finance Department, much may be done. So it was while Mr. Gladstone was Chancellor of the Exchequer; there was then a "Turning labels on dispatch boxes in the interests of economy." We content ourselves in these days by instructions not to fill official inkwells, nor to leave steel pens in these inkwells.

One other reason why economy in Government expenditure should be practised is this. Spending on any particular object may annoy some among the subjects of the State; if I disapprove of the theatre and its accompaniments I am not likely to approve of a grant to maintain a State theatre. The fewer reasons for giving offence the better. Deep resentment may be felt at expenditure upon subjects

of which the taxpayer disapproves. This is not, you will readily see, a conclusive argument, it may well be that, though many heartily disapprove of expenditure for an object, yet the object may abundantly justify the expense. The curtailing of private expenditure on hurtful things, and the extending of public expenditure on beneficial things, is good for a society. If spending power is diverted from whiskey to education, from tobacco to public health, we may take it that society benefits.

Even in such a case we are not quite certain that this is so. About other objects of expenditure doubts may be very urgent. The man who looks to the League of Nations as the one hope of mankind, feels irritation when he knows that the money extracted from him is being spent very largely on new warships and new instruments of destruction. The man who likes a glass of beer when he feels inclined thinks it an injustice that his own rates and taxes are used to prevent his getting it.

The demands for expenditure will try to show that the taxpayer gets something for the tax he pays. Spending on public health, for instance, is urged. If I try to produce healthy conditions by myself I fail, unless my neighbours co-operate with me. The employment of taxes to keep away disease is a compulsory co-operation. We are all interested in the health of our fellows. When they are healthy there is a lessened risk of infection for us; there is a lessened number of those brought by sickness to poverty, and, therefore, a relief to poor rates. So it is that the expenditure is justified.

Easy to Advocate Expense : Hard to Achieve Economy

The advocate of expenditure has an easy case, too, when he advocates spending on poor relief. To relieve the poor and care for the sick is indeed taught by charity. Enlightened self-interest teaches the same lesson. It was when man realised that sick people were likely to become a charge to the ratepayer that they sought to prevent sickness. Disease causes poverty, poverty causes disease. Here is a vicious circle, and the National Insurance Act is an attempt to

break it. The Act provides medical service that is ample and everywhere available—one to which the wage-earner can freely resort. So far as may be the wage-earner is protected from disease, and if he should be incapacitated by sickness a money allowance renders needless the recourse to poor relief. True, both employer and employed contribute to the necessary funds. But the item of State expenditure, "Health, Housing, and Insurance" is over thirty-three millions.

The argument of the general good is so easy to use, that we can apply it to almost any expenditure. For any benefit to one's neighbours may have its effect upon us. We must, therefore, have some big guiding rule of economy, otherwise expenditure will mount until taxation is a crushing burden.

Sometimes considerations other than mere profit and loss arise. Then it is that the call for economy is more easily silenced. The contention, for example, that an industry, run by the State or by the local authority, does not pay is not looked upon as conclusive evidence against it, if that industry is a help to the community. The trams, let us say, do not afford enough to pay the tram workers. Never mind, say the advocates of expense, they pay indirectly by taking the workers away from the congested areas to healthier districts outside. Besides, Government, including local authorities, ought to set the example of paying high wages. "Easy with the work, generous with the pay" ought to be the motto of public authorities. The ratepayers ought to be glad to pay a subsidy to trams; for thereby they are helping to provide a public service directly or indirectly benefiting all of us.

Monopolies and State Activities

The question whether Government expenditure is justified is usually answered in the affirmative in regard to such enterprises as involve use of public roads, and such as supply a service likely to be used by all taxpayers. About five-sixths of the water supplies, over half the tramways and electricity supplies, and about a third of the gas undertakings in the country are controlled by local authorities. For these enterprises obviously tend to become monopolies.

We could hardly have two gas companies operating in the one area, there would not only be the loss through the duplicating of pipes, but also the intolerable nuisance of a double amount of interference with the streets. The argument, therefore, is that profits might as well be taken out in lower prices instead of letting private enterprises have a power to tax the community.

These octopus industries have, therefore, commended themselves as public enterprises because first, there is a difficulty in controlling what must almost necessarily be a monopoly, second, the supply of the services is similar to the supply of the services of good roads and healthy conditions, so that paying for the supply is wise even though compulsory co-operation; third, where a central body controls the great undertakings, we may hope for an economy of working. When one body controls, the streets should hardly be up one week for the laying of electric cables and the next for water pipes.

Even in such undertakings doubts, however, may arise. The doubts are more importunate when the Government runs a concert hall or a race-course, or is eager to take into its control the distribution of milk or of bread.

EXERCISE

It has been suggested that there should be free travelling facilities for all and that they should be paid for out of general taxation. Do you see any economic reasons against this suggestion, would it mean waste or saving? Do you see any reasons for adopting the suggestion?

Would this be an equitable way of spending funds contributed by all?

EXERCISES FOR REVISION

(1) What is meant by saying that " We don't know the value of water till the well runs dry " ? Has this any bearing on the law of diminishing utility ?

(2) Why should a rapid series of great inventions cause the rate of interest to rise ? Why would the rate be likely to fall as the inventions enabled bigger profits to be made ?

(3) What is meant by " The telescopic faculty " ? Would the man who wrote these lines be greatly moved by the fact that he could get interest for his money ?

" Come, fill the Cup, and in the Fire of Spring
The Winter Garment of Repentance fling :
The Bird of Time has but a little way
To fly—and Lo ! the Bird is on the Wing "

(4) Do you agree with this statement ?—" Every idea and every act that has for its purpose or as its result the increasing of man's work, is a loss to the society ; every idea and every act that has the result of sparing man's work is a gain." Are any harmed when labour-saving devices are put to work ?

(5) A Greek writer long ago said, " Each man, confining himself to one special job, finds that he gets more by working for others." Explain this fully.

(6) Economic wealth has three properties : (i) it is desired ; (ii) it is scarce in relation to the quantity desired ; (iii) it is transferable. Remembering this, say whether the following form a part of wealth :

- (a) A rare postage stamp. (b) An A.C.I.S. diploma.
(c) A transferable railway ticket. (d) A German 2,000,000 mark note. (e) The services of a night-watchman at a brewery. (f) A half-sovereign.
(g) The skill of a shop-walker.

(7) Show what is really meant by the statement that we are lending money to Australia. How will the imports

and exports be affected : (i) when the lending is being made , (ii) when interest payments are being made ?

(8) A proposal has been made to tax bicycles . Is this in your opinion a desirable way to raise revenue ? Give what reasons occur to you for the tax and against it

(9) Is a bank of real service to the trader and the manufacturer ? Explain how the banks can help production.

(10) For a long time the imports of goods into this country have largely exceeded in value the exports . Explain clearly how this is possible . Would you regard such an excess as a good or as a bad sign in relation to the prosperity of a country ?

(11) In most countries at the present time a heavy tax is imposed on alcoholic drinks . How would you defend such taxes ? They are not equitable : for the abstainer does not pay them . Does this fact condemn these taxes ?

(12) Now and again there are suggestions to make changes in our currency system . What ought we to consider when examining this suggestion ? Would, for instance, the decimal system be readily and smoothly adopted among us ?

(13) It is sometimes said that foreign investment takes money out of the country and leaves us poorer than if the money had been kept at home . What can you urge against this assertion ?

(14) Here is a lament made shortly after 1815 about the state of foreign trade . Why could our old customers not buy our goods then ? And how has the Great War brought about similar conditions to-day ?

“ No foreign barks in British ports are seen,
 Stuff'd to the water's edge with velveteen,
 Or bursting with big bales of bombazine ,
 No distant climes demand our corduroy,
 Unmatched habiliment for man and boy ,
 No fleets of fustian quit the British shore,
 The cloth-creating engines cease to roar,
 Still is that loom which breeched the world before.”

(15) When Parliament determined to adopt the Gold Standard in 1816, Sir Robert Peel introduced his proposal by asking “ What is a Pound ” ? Give a full answer to the

question What objections can you suggest against using as money in modern England (i) diamonds, (ii) oyster shells, (iii) silver coin alone; (iv) bits of stamped leather?

(16) Illustrate, by means of two diagrams, the difference between an elastic and an inelastic demand

(17) The advantages claimed for direct taxes are (i) They enable the principle of equity to be established, (ii) They are probably cheaper to collect, (iii) They conduce to economy; (iv) They are elastic. The drawbacks urged against them are (i) They prevent really desirable works being executed; (ii) They unduly penalise the more conscientious. Explain fully these advantages and drawbacks.

(18) The drawbacks urged against indirect taxes are (i) They tend to fall heaviest on small incomes, (ii) They are costly to collect; (iii) They are inequitable because not all forms of luxury are taxed, (iv) They tend to stifle the criticism of Government expenditure, (v) Their yield is a matter of chance. Explain exactly what is meant by these various objections

(19) When we consider upon whom the burden of a tax falls, we are considering the Incidence of Taxation. On whom will the incidence of taxation most likely fall in these taxes

(a) A tax on the increasing value of land (b) A tax on bicycles (c) A tax on imported tobacco. (d) A tax on bets

(20) To what extent does the welfare worker in a factory contribute to the production of wealth?

(21) We have learned that in production we have the factors of land (nature), labour, and capital. Show how these factors operate in a professional singer's performance.

(22) Explain how the law of supply and demand operates in fixing the earning of a newspaper boy.

(23) What is the source of capital? How do you distinguish between the various kinds of capital?

(24) What do you mean by the localisation of industry? Can you give any reasons why so many lawyers have their rooms near Chancery Lane; why so many doctors live in Harley Street; why the cotton manufacturers are in

South-east Lancashire, why the bankers are around Lombard Street ?

(25) What is meant by "international indebtedness" ? How does this differ from the "National debt" ?

(26) The old definition of capital is this. "Capital is that part of a man's stock from which he expects to derive an income" Adopting this definition, would it be correct to speak of the skill of a doctor as personal capital ?

(27) What is meant by saying that silver is legal tender in England to the amount of £2 ? To what extent are gold and copper legal tender ?

(28) "The act of production is not complete till the commodity is in the hands of the consumer" What is the meaning of this statement ? In the light of the statement, show that the invoice clerk is a partner in production. Was the manufacturer correct who, engaging an additional book-keeper, said "Another non-producer on the pay roll" ?

(29) We are told that in a perfect market only one price can be charged for similar commodities at the same time. Why is this ? How comes about the notorious fact that many shopkeepers charge different prices to different buyers of the same article ?

(30) There is, we learn, a balance of international indebtedness, the values of the exports and imports of a country must balance. If that is so, how is it that a gain accrues from international trading ?

(31) What is meant by looking at a question from the economic point of view ? From what other points of view could you look at a question ?

(32) "Everything which is produced is consumed ; both that which is saved, and that which is said to be spent—and the former quite as rapidly as the latter" Explain the exact meaning of this. Consider this paragraph in reference to the question "A man invests when he transfers so much purchasing power, which he might have spent on his personal pleasures, to some one else in return for the expectation of receiving, year by year in the future, and his heirs after him, a certain small quantity of purchasing power. The other party to the transaction will be, we may suppose, a business-man who enters into it because he sees the opportunity of

a promising industrial development, to undertake which he requires more purchasing power than he himself possesses. And because this transaction is entered into, a smaller number of us will shortly be engaged in making motor cars, or gramophones, and a larger number of us in making factories and machinery, which will later enhance the world's productive power.

(Henderson's "Supply and Demand.")

(33) Below is a statement given in evidence to a Royal Commission by the inventor of the steam hammer. Examine it, and then argue that the stoppage of an industry entails more ill than is compensated by the good suggested by the witness :

"I believe that, if there were a debtor and creditor account made up of strikes and lock-outs with the interests of society, up to a certain point they would be found to have been a benefit. Such has been the stimulus applied to ingenuity by the intolerable annoyance resulting from strikes and lock-outs, that it has developed more than anything those wonderful improvements in automaton machinery that produce you a window frame or the piston-rod of a steam-engine of such an accuracy as would make Euclid's mouth water to look at. These things are pouring in in quantities as the result of the stimulus given to ingenuity through the annoyance of strikes. It is not being coaxed on by some grand reward in the distance, but I think a kick from behind is sometimes as useful as a gentle leading forward in front."

Does not this question put the matter better ?

"Would any Board of Managers attempt to run a railway or start an electric-lighting plant, or operate a mill or factory, or send a liner to sea, with a mechanical equipment which was certain to break down periodically and lie in inevitable idleness until repairs could be patched up ? And yet that is almost an absolute analogy to the state of labour conditions throughout nearly the whole range of such enterprises."

34. Here is a quotation from an article by Gabriel Honotaux, a well-known foreign Minister of France. Examine it, and then write down half a dozen "economic laws" that, in spite of what M. Honotaux writes, we can depend upon with some confidence :

‘ ‘L'economique ’ si en faveur aujourd'hui n'embrasse, en somme que le matériel des choses humaines. Tout le moral lui échappe, et comment tabler sur des *certitudes* où le caprice de la vie n'entre pas en compte ? C'est comme si on jugeait de la flore des champs sur l'examen d'un herbier ’’

(“ Economics,” so much in favour to-day, is concerned only with the material element in human affairs. The moral element escapes it. And how can we rely on “ certitudes ” that take no account of the capricious element of life ? It is as if one were to judge of the flora of the fields from the examination of a botanical collection)

(35) Are these any drawbacks to the kind of life pictured below ? What prevents such a life from being available to the people of Britain ?

Happy the man whose wish and care
A few paternal acres bound,
Content to breathe his native air
In his own ground

Whose herds with milk, whose fields with bread,
Whose flocks supply him with attire,
Whose trees in summer yield him shade,
In winter fire

36 Recently a Regent Street jeweller sought to justify the high prices he charged by the high rent he had to pay. Is there any relationship between the rents paid for shops and the prices of the commodities sold ? Why are shopkeepers willing to pay the high rents asked for shops in Regent Street or Bond Street ?

37 A world shortage of wheat has caused the price of bread to rise greatly. Explain why you would from this expect the price of boots to go down

A keen demand for motor cars has developed among us. In what way is the price of pianos likely to be affected by this ?

38 Argue against the contention below. Try to show that on the contrary, there may be a saving in paying high wages.

“ A high level of wages in a country must necessarily

place its traders at a disadvantage in competing with the traders of other countries where the levels of wages are lower.”

39. The manner of sharing the wealth produced is not left quite without interference by the State. What are the chief ways in which the State alters the respective shares ?

SPECIMEN EXAMINATION PAPERS

ROYAL SOCIETY OF ARTS

Stage II.—Intermediate

ECONOMIC THEORY.

[THREE HOURS ALLOWED]

First and Second-class Certificates will be granted in this Stage.

SIX questions, and NOT MORE than SIX, to be answered. Candidates who aim at a First-class Certificate MUST select their SIX questions by taking THREE from Group A and THREE from Group B

A

1. Economic theory, or Economics, has been called the "science of business," and a leading economist has said that it is the "study of man's actions in the ordinary business of life" Show from your knowledge of the subject the reasons for such descriptions

2 "Labour, capital and organisation are all needed to produce wealth in the modern world of trade and industry." Account for this statement and show briefly the place taken by each of the three in the production of wealth.

3. Landlords receive rent for the use of land. How does economic theory explain the origin and growth of rent? Distinguish in your answer between the rent of agricultural land in the country and the rent of land used for buildings in towns.

4. "Wages are the price of labour." Develop this statement showing how, according to economic theory, wages are settled (a) generally in a country, (b) in some particular occupation.

5. Supply and demand are forces acting on the part of sellers and buyers to fix the prices of the goods they offer and purchase. Explain how these forces work in markets.

B.

6. Money is (a) a medium or tool or instrument of exchange, (b) a measure or standard of value. Illustrate these uses of money and point out the conditions of success or failure in either case. Refer, if you can, to actual practice.

7. It has been said that modern trade and industry could not have been developed in the past or be now conducted without the action of banks and the use of credit. Show how this is so.

8. Point out the way, or ways, in which the exchange of wealth aids *either* (a) its production, *or* (b) its distribution.

9. What do you know about any *three* of the following : (a) the law of increasing returns and production on a large scale, (b) the conception and the influence of cost or expenses of production, (c) the growth or decline of population, (d) the bank rate of discount, (e) the issue of paper money.

10. What, according to your opinion, should be the qualities of a good economist? Frame your answer with special reference to the bearing of economic theory upon practical fact.

SPECIMEN EXAMINATION PAPERS

ROYAL SOCIETY OF ARTS

Stage II.—Intermediate

ECONOMIC THEORY.

[THREE HOURS ALLOWED]

First and Second-class Certificates will be granted in this Stage.

SIX questions, and NOT MORE than SIX, to be answered. Candidates who aim at a First-class Certificate MUST select their SIX questions by taking THREE from Group A and THREE from Group B.

A

1. Economic theory, or Economics, has been called the "science of business," and a leading economist has said that it is the "study of man's actions in the ordinary business of life." Show from your knowledge of the subject the reasons for such descriptions

2. "Labour, capital and organisation are all needed to produce wealth in the modern world of trade and industry." Account for this statement and show briefly the place taken by each of the three in the production of wealth.

3. Landlords receive rent for the use of land. How does economic theory explain the origin and growth of rent? Distinguish in your answer between the rent of agricultural land in the country and the rent of land used for buildings in towns.

4 "Wages are the price of labour." Develop this statement showing how, according to economic theory, wages are settled (a) generally in a country, (b) in some particular occupation

and fall? Consider in your answer the circumstances of the present day in this country

8. "Bankers receive deposits and make advances" Explain how this is done, and consider whether it is desirable or practicable that the State should take the place in these matters now occupied by the joint-stock banks of the United Kingdom.

9. What does economic theory say about the place of (a) competition, (b) combinations, in modern trade and industry?

10. Explain any *three* of the following The gold standard, safeguarding industry, depreciated currency, fixed capital, unemployment insurance, old age pension, depression of trade, profiteering.

THE LONDON CHAMBER OF COMMERCE
(Incorporated)

ELEMENTS OF POLITICAL ECONOMY.

INSTRUCTIONS TO CANDIDATES.—*Not more than EIGHT questions to be attempted Candidates for the Teachers' Diploma must, in answering the EIGHT QUESTIONS, INCLUDE 13 AND 14.*

1 Give concise definitions of the following terms.—
Legal tender, token money, free mintage; pound sterling; mint price of gold.

2 Explain what you understand by “*credit*” and show the part it plays in modern business. How is it that the volume of credit varies?

3 How far is it true to say that the value of a commodity is determined by its cost of production? Illustrate your answer by reference to the production of (a) gold, (b) English meat, and (c) motor-cars.

4 The present-day system of industry and commerce gives special attention to organisation. Give a full account of the economic advantages derived from this.

5. Give as full an explanation as you can of the ways in which exchange (of goods or services) between two countries enriches both.

6. Discuss from the purely economic standpoint, how far a general shortening of the hours of labour in England affects her power of competing in the international market.

7 In the beginning, all trade was barter; then came money, highly-organised foreign trade tends to revert to barter? Explain these changes fully.

8. What economic causes affect the prices of goods? Discuss the probable changes in the future, in the prices of (a) horses, (b) motor-cars, (c) ivory, (d) wheat.

9. Examine fully the effects (both immediate and ultimate) upon the wages and conditions of labour, of the introduction of labour-saving machinery.

10. Write what you can concerning the following terms — Rent ; economic rent ; quasi-rent , rack-rent.

11. John Stuart Mill compared the relations of labour and capital to the action of the blades of a pair of scissors , others speak of the conflicts of labour and capital Explain these apparently conflicting views and state what you consider to be the economic relations of these two factors of production.

12. Discuss from the economic standpoint the advantages and disadvantages of “ mass-production.”

13. Show clearly how a knowledge of Political Economy can be of help to a teacher or a student, when dealing with such subjects as Commercial Geography and Commercial History.

14. Give from your studies and personal observations some examples of the ways in which you think economic principles have been a guide to the formation of commercial and social legislation.

CHARTERED INSTITUTE OF SECRETARIES

Intermediate Examination

Time allowed—2 hours

ECONOMICS.

[Candidates should attempt FIVE questions]

- 1 Specify and define the various kinds of capital distinguished by the economist
2. Compare the relative economic advantages and disadvantages of (a) large scale production and (b) small scale production
- 3 State the influences which lead to, and the advantages and disadvantages of the localisation of industries
4. Distinguish between prime costs and supplementary costs, and estimate the economic importance of this distinction
- 5 What characteristics distinguish labour from goods ?
- 6 Discuss the importance of “practicability” in relation to the consideration of a new tax
- 7 What do you understand by a commercial crisis ? Consider the causes which lead thereto
- 8 Distinguish between and explain economic rent arising from
 - (a) extensive cultivation,
 - (b) intensive cultivation,
 - (c) situation,
 - (d) scarcity
- 9 Write short notes on
 - (a) the silver standard,
 - (b) token coins,
 - (c) inconvertible notes,
 - (d) legal tender

INSTITUTE OF BANKERS

ECONOMICS

Part I

(Six questions to be answered)

(Time allowed Two hours and a-half)

1 —Distinguish between an economic force and an economic law Is it true to say that the laws of economics are immutable and eternal ?

2 —What do you mean by speculation ? What is the difference, if any, between speculation and gambling ?

3 —Examine the relation of urban site values to the prices of commodities sold in shops.

4 —What do you regard as the most satisfactory theory of wages ? To what extent does it explain the standard of salaries paid in the banking profession ?

5 —Describe briefly the part played by the Bank of England in the pre-war financial system of the United Kingdom.

6 —What is meant by Gresham's law ? What conditions must be satisfied before it can become operative ?

7 —It has recently been argued that the profits of the coal industry should be twice as high as the normal rate of profits for industry as a whole. Consider this statement, and state what is meant by profits.

8.—Examine the relation of wealth to welfare.

9 —Frame any economic question not already set, and answer it

INSTITUTE OF BANKERS

ECONOMICS.

Part II.

(Six questions and not more to be attempted)

(Time allowed . Two hours and a half)

1.—State precisely what is meant by *money*. Consider the following cases, and give reasons for excluding them from, or including them in, the money category (1) Unmined gold , (2) Gold bullion in a ship at sea ; (3) Gold bullion at the Bank of England , (4) Gold coin in reserve at the Bank of England , (5) A Bank of England Note when the amount of notes issued exceeds the limit of fiduciary issue

2 —“Take care of credit and legal tender currency will take care of itself ”

“ Take care of legal tender currency and credit will take care of itself ”

Expand the above quotations, and state whether the views can be reconciled

3 —Trace the influence of the speculator on prices

4.—Describe carefully the changes that have taken place since July, 1914, in the laws and regulations governing English legal tender currency.

5 —What exactly do you mean by “ over-valuation ” of a currency ? Is the new German mark over-valued ? In what way does over-valuation affect industry ?

6 —Gave a brief description of the monetary system of India.

7 —Investigate the connection, if any, between banking policy and cyclical fluctuations in trade

8 —Write a short essay on “ double taxation.”

9 —Discuss the view that taxation is an instrument for removing inequalities in the distribution of income.

10 —Frame any question on taxation not already set and answer it

ROYAL SOCIETY OF ARTS EXAMINATIONS

Stage III.—Advanced

ECONOMIC THEORY.

[THREE HOURS ALLOWED]

First and Second-class Certificates will be granted in this Stage. SIX questions, and NOT MORE than SIX, to be answered. Candidates who aim at a First-class Certificate MUST select their SIX questions by taking THREE from Group A and THREE from Group B.

A.

1. Economic Theory has been regarded and described as explaining the transactions of markets. Account for, and expand, this view of the subjects handled by economic theory.

2. Point out the place of the modern employer in the production of wealth, and show how profits are determined according to economic theorists.

3. "A living wage should be a first charge on the selling price of goods." Consider the justification of this plea, and show how far it does, and can, correspond to present conditions. Explain fully in your answer the definition of a "living wage" and the forces influencing the "selling price of goods."

4. "Rent represents the contribution of nature to the production of wealth." Is this correct? What does it imply? Explain in your answer the economic theory of rent.

5. Explain carefully the expressions: Cost of production, marginal utility, monopoly value, just price, profiteering, usury.

B.

6 Under what conditions should paper money be issued? Apply your answer to the present position, or to recent

conditions, in *two* of the following countries (a) England, (b) France, (c) Germany, (d) Russia, (e) the United States of America

7 Consider the relations of the foreign exchanges to international trade, and illustrate your answer by what has occurred during, and since, the recent Great War to the foreign exchanges of England, or some other country.

8 State what you know about the teaching of Adam Smith, and his criticisms of the Mercantilists. How far are they applicable now ?

9 Consider what is meant by the fairness or the goodness of a tax or a taxing system. How would you test the merits or demerits of a tax ? Refer to existing taxes in England.

10 Account for the industrial unrest of the present time. How may it be cured, or mitigated ?