

WEALTH

WEALTH

A BRIEF EXPLANATION OF THE
CAUSES OF ECONOMIC WELFARE

BY

EDWIN CANNAN

EMERITUS PROFESSOR OF POLITICAL ECONOMY IN THE
UNIVERSITY OF LONDON

THIRD EDITION



P. S. KING & STAPLES LIMITED

A Staples Press Company

FOURTEEN GREAT SMITH STREET

WESTMINSTER

PRINTED IN GREAT BRITAIN

Published by
Taxation Publishing Company Limited, London
and Printed by
John Bale & Staples Limited, London
A Staples Press Company

PREFACE TO THE FIRST EDITION

THE really fundamental questions of economics are why all of us, taken together, are as well off—or as ill off, if that way of putting it be preferred—as we are, and why some of us are much better off and others much worse off than the average.

I am convinced that immense harm is done by the common assumption that the answers to these questions are so obvious and easy that no general treatment of them is necessary. We should not tolerate a person who professed to explain the inefficiency of some locomotive and to provide a remedy for it, if we knew that he had never studied mechanics and was quite ignorant of the construction and working of locomotives. The existing economic organization is a much more complicated and delicate piece of machinery than a locomotive, and yet, whenever some imperfection in the work done becomes particularly prominent, we are overwhelmed with suggestions about causes and remedies by persons who have not the smallest general

vi PREFACE TO THE FIRST EDITION

knowledge of the reasons why the machinery works at all. It often happens that a man of considerable eminence in his own profession, but without the smallest acquaintance with the fundamentals of economics, will make a suggestion which is precisely on a level with the proposition that the locomotive would be much more efficient if its weight were taken off the driving wheels so that they could revolve more easily. The editor of an important magazine accepts with joy the contribution in which he develops his idea, and the public feebly thinks there may be something in it, and is confirmed in this view by the fact that professional economists are as disinclined to publish a refutation of it as the Astronomer Royal is to answer the theorists who declare that the world is flat.

It is not refutation of ridiculous suggestions which is required, but their non-appearance in consequence of there being no possibility of their gaining acceptance in minds already occupied by a knowledge of the actual nature and working of the economic machine. When, therefore, I tire the reader with insistence on something which appears to him too obvious to need mention, I hope he will ask himself whether he does not know of some important propaganda, or of some opposition to some important reform, which is based on a doctrine incompatible with the acceptance of that which seems to him to be obvious. I

PREFACE TO THE FIRST EDITION vii

refrain from giving examples, because I would rather that all the various propagandists and their opponents should read the book than that some of them should be warned off it as dangerous to their faith.

Experienced teachers, in search, as usual, of the heaven-sent book to use in their classes, are not likely to complain of obviousness. They are much more likely to say that much of my matter is too difficult for beginners. But I doubt the policy of trying to teach beginners only what is easy. We must take things as they come, and if in economics, as in some other things, we find that the foundations are the most difficult part of the work, that is no reason for trying to build a superstructure without any foundations at all. I hope, therefore, that the book may be found useful by academic teachers and students as well as by readers who wish to improve their capacity for dealing with practical economic problems without attendance at lectures and classes. It has, at any rate, been evolved gradually out of the annual course of lectures which I have given for first-year students at the London School of Economics since 1898, during which period I do not think a year has passed without considerable changes in the matter or the arrangement of the exposition.

Having acute sympathy with those who dislike ponderous tomes, I have tried to keep the book as short as possible. A great deal

viii PREFACE TO THE FIRST EDITION

of the discussion of wages, profits, and rent which had some local importance a hundred years ago is now obsolete, and should be relegated to the works which deal with the history of theory. By omitting this and other obsolete matter, by excluding special subjects like currency and taxation, which are better considered in special treatises, and by forgoing detail and picturesque illustration, I have managed to make room for some very fundamental matters which are often ignored in general treatises of moderate length. I refer especially to the hereditary character of inequalities of income, the inferiority of women's earnings, and the differences in the wealth of different "countries" or "nations."

1914

PREFACE TO THE THIRD EDITION

IN deference to a widespread opinion that the closeness of the printing and the absence of breaks made the book "difficult to find your way about in," the type of this edition has been changed and the chapters have been divided into sections.

Most of the introductory chapter, on the subject-matter of economics, has been omitted, because it was found too difficult for beginners, and I hope to deal with it better in a future work. On the other hand, I have expanded the two pages on Money into a short chapter which I hope will not prevent students from seeking further information in my *Money* and elsewhere.

I have endeavoured in Chapter I, § 4, to throw a little more light on the principle of avoidance of unnecessary labour, and I have tried at the end of Chapter III to clear up some difficulties in the conception of an optimum or best possible population.

Many unimportant alterations in casual allusions and examples have been made neces-

x PREFACE TO THE THIRD EDITION

sary by the effects of the War, especially the great decline in the purchasing power of money.

Chapter I in the present edition includes the whole of the old Chapter II and what is left of Chapter I. The old Chapters III, IV and V are renumbered II, III and IV. Chapter V is the new chapter on Money. The numeration of the remaining chapters is unaltered except that the old Chapter XIV, "The Wealth of Nations," now appears as Chapter XIV, "Trade between Countries," and Chapter XV, "The Wealth of the Inhabitants of different Territories."

1928

CONTENTS

CHAP.	PAGE
I THE FUNDAMENTAL CONDITIONS OF WEALTH	1
II CO-OPERATION, OR COMBINATION AND DIVISION OF LABOUR	27
III POPULATION	40
IV THE SOCIAL ORDER	63
V. MONEY	88
VI THE CONTROLLING POWER OF DEMAND	100
VII THE CONTROL OF PROVISION FOR THE FUTURE	122
VIII CONTINUOUS POWER TO DEMAND, OR INCOME	143
IX THE CLASSIFICATION OF INCOMES	168
X THE DIVISION OF INCOME BETWEEN OWNERS AND WORKERS	179
XI INCOMES FROM OWNERSHIP OF PROPERTY	189
XII INCOMES FROM WORK	196
XIII THE RELATION BETWEEN INDIVIDUAL INCOME AND INDIVIDUAL WEALTH	218
XIV TRADE BETWEEN COUNTRIES	234
XV THE WEALTH OF THE INHABITANTS OF DIFFERENT TERRITORIES	263
INDEX	288

INDEX

- Abraham, 41
 Absentee owners, 239-41,
 265, 273
 Adam, 5, 34
 Ages of a population, 25-6
 Agreeableness of an occupa-
 tion, 203, 226-7
 Agricultural labour, produc-
 tiveness of, 40-62; earn-
 ings of, 200-1
 Allowances and income, 167
 America, 29, 46-7, 88, 175,
 190-1
 Appreciation of investments,
 194-5
 Arithmetical ratio of in-
 crease of food, 45-8
 Armed peace, 79
 Astor inheritance, 191
 Australia, 88, 190

 Bacon, 3
 Bagehot, 17
 Balance of trade, 234-43,
 268, 277
 Banks, 95-9
 Barter, 89
 Bequest, 149-59, 191
 Berkeley, 264
 Bimetallism, 92-3
 Bombay, 31
 Brazil, 29
 Broddingnag, 18

 Bullion theory of national
 wealth, 235
 Buying and selling, 88-9

 Canals, 86
 Capital, 20-2, 39, 103-7,
 171-8
 Capitalist, 106
 Carnegie, 164, 274
 Carolina, South, 31
 Carriage, cost of, in inter-
 national trade, 235-9
 Ceylon, 29
 Chaos, 64
 Cheques, 99
 Children, 67-9, 107, 191-2,
 216-17
 China, 263
 Churches, 208-9
 Classes in distribution, 168
 Climate, 280-1
 Clothes, stock of, 144
 Coins, 90-5
 Colbertism, 170
 Combination of labour, 26
 Conceit, 202-3
 Constant returns, 59
 Consumer, 100, 106
 Convertibility, 97
 Co-operation, 27-39, 76-7;
 of States, 80-1
 Copyrights, 142
 Corn-law controversy, 50

- Cotton manufacture, 252
 Country, 76-7; wealth of a, 263-87
 County, wealth of a, 269-78
 Crusoe, 5
 Currency, 88-99; depreciation of, 98, 195
 Custom, 81-3
 Customs duties and nationality, 265-7

 Death duties, 131-3, 230
 Debasement, 91
 Demand, 100-21; of institutions, 120-1
 Depreciation, provision for, 152-3; of currencies, 98, 195
 Dexterity, 36-8
 Diamonds, value of, 107
 Diminishing returns, 48-62, 200-1
 Distribution of income, 167, 179-217
 Division of labour, 27-39
 Domestic service, 100
 Double standard, 92
 Durham, 269-78
 Dwelling-places, property in, 70-1, 73

 Economics, 1-5
Economistes, 170
 Eden, 41
 Education, 36-8, 159, 194, 204-5, 208
 Efficiency, 196-7, 270-1, 279-80
 Elasticity of demand, 117-20, 183-4
 Emigration, 274-5, 285-7
 Employers, 101, 103, 105-6
 Employment and protection, 245-9

 Entrepreneur, 105-6
 Eve, 5, 34

 Family, 67-9
 Family income, 220-2
 Fat woman, 178
 Fees, 172
 Final utility, 107-13
 Fiscal policy, 234-62
 Foreign investments, 77, 239-41
 Foreign trade, 76-7, 234-62
 Foreigner, taxation of the, 80, 254-60, 278
 France, depreciation of currency in, 91; tobacco monopoly, 163
 Fraud, 148-9
 Free Trade, 244
 Furniture, 144
 Future, 13-16, 122-42

 Gain; chance of, 201-3
 Game, 73-5
 Gasworks, 86
 Geometrical ratio of increase of population, 45
 Germany, depreciation of currency in, 98
 Gifts, 150-1, 192-3
 Gladstone, 64, 131
 Godwin, William, 45
 Goldsmiths, 95
 Greek opinion on population, 42
 Grosvenor inheritance, 191
 Groupal property, 74

 Harvest, value of the, 108-10
 Health, 25
 Hereditary inequality, 189-93, 207-10

- Herefordshire, 269-78
 Highways, 83-6
 Houses, 144
- Immigration, 274-5, 285-7
 Improvements, 7-10, 18-22;
 of land, 176-7
 Income, 143-67; definition
 of, 160; classification of,
 168-78; aggregate, 179-
 80; division between prop-
 erty and labour, 179-88;
 between owners of prop-
 erty, 189-95; between
 workers, 196-217; the
 relation between, and
 wealth, 218-33
 Inconvertible notes, 97-8
 Increasing returns, 55-9
 India, 239, 263
 Individual, 67
 Industry, differences of,
 196-7
 Infant industry, 251-2
 Inheritance, 149; inequal-
 ity of, 189-93, 207-10;
 taxes on, 192
 Institutions, demand of,
 120-1; income of, 161-5
 Interest, 13-16, 101-2, 127-
 9, 134-42, 176
 International trade, 75-7,
 234-62
 Invention, 7-8, 60, 137-9,
 186
- Jamaica, 29
 Jersey, 29
 Jevons, W. S., 110-11
 Judgment, 10-16, 22-5,
 225-6
 Jupiter, 64
- King, Gregory, 108
 Knowledge, 7-8, 19-20, 38,
 122-5, 137-9
- Labour, not an evil, 10-12,
 22-3; not creative of
 value, 198
 Laissez-faire, 82, 249-50
 Lancashire, 31
 Land, property in, 71-6;
 improvements of, 175-7
 Landlords, 102
 Lewinski, Jan St., 74
 Life-annuity, 157-8, 160
 Lilliput, 18
 Loans, kinds of, 101-2
 Localization of industry, 28-
 34
 London, 283
 Lot, 41
 Lottery, 202
- Mahommed, 3
 Malthus, T. R., 45-8, 50-1,
 57
 Management, earnings of,
 174-6
 Marginal expenditure, 113-
 14
 Marginal utility, 107-13
 Marshall, A., 117, 177
 Mercantile system, 243
 Migration, 247, 274-5
 Mill, J. S., 17, 54-5, 251, 287
 Mint, 95
 Money, 88-99
 Morgan, Pierpont, 186, 191
- Nations, 78, 264; wealth of,
 263-87
 Natural qualities, 5-7, 17-18
 Netherlands, 283
 New countries, 285

- Newton, Isaac, 59
 Notes, bank and other, 95-8

 Occupations, choice of, 68-9,
 107; earnings of different,
 197-210; in relation to
 national earnings, 282-4
 Old countries, 285
 Optimum population, 59-62
 Organization, 63-87
 Ornament, 108
 Owners and workers, in-
 comes of, 180

 Panama Canal, 283
 Paper money, 95-8, 195
 Patents, 142
 Penny, 91
 Pensions, 150-1
 Physiocrats, 170
 Police, 79
 Poor-law, 87
 Population, 26, 40-62, 69,
 247-8; and interest, 137;
 and Protection, 245-8
 Pound sterling, 91
 Prescription, 70-1
 Present and future, 13-16,
 24-5, 122-42
 Price, Bonamy, 64
 Prices, 100-21
 Primogeniture, 191
 Profit, 103, 106, 127-8, 152,
 168-78
 Progressive taxes, 166, 192,
 228, 230
 Property, 67, 69-77, 83-5;
 and labour, 180-8; in-
 comes from, 151-8, 189-
 95; of absentees, 239-41;
 and national wealth, 272-
 4, 284-5
 Protection, 51, 243-54

 Providence, 13-16, 24-5,
 130, 133

 Quasi-rent, 177
 Quesnay, François, 170

 Racial qualities, 279-82
 Railways, 84-6, 138
 Rainy day, saving for, 126-7
 Rand, the, 29
 Rates, 221
 Religion, 17
 Rent, 102, 128-9, 168-78
 Repose, 12
 Ricardo, David, 51, 58, 176-7
 Risk, 103
 Roads, 83-6
 Robbery, 148
 Rothschilds, 191
 Royalties, 155-7, 172

 Salaries, 172
 Saturn, 64
 Saving, 8-10, 13-16, 24-5,
 122-42, 193-5, 222-3
 Scotland, depreciation of
 currency, 91
 Seager, Henry Rogers, 190
 Selling and buying, 88-9
 Services, 144, 147, 218-19;
 international, 239
 Sewers, 86
 Shakespeare, 3
 Siamese Twins, 177
 Silver coins, 93-5
 Smith, Adam, 169-76, 200,
 204, 243, 264
 Standard coin, 94
 States, 67, 77-87, 89, 121,
 131-2, 161-5, 208-9
 Stock, 103-4, 176
 Stomach, 200
 Subsidiary coins, 94

- Subscriptions, 221
 Suez Canal, 161, 164, 283

Tableau économique, 170
 Tale, coins accepted by, 90
 Taxes, 131-2, 161-5, 254-60
 Telegraph, 86
 Telephone, 86, 215
 Tenerife, 29
 Territorial division of labour,
 34
 Territory, 71-4, 77-8, 164-5,
 263-87
 Time, limitation of, 11, 22-3
 Token coins, 94
 Tom Thumb, 177
 Trade union, 210
 Training, cost of, 204-10
 Tribute, 241-2
 Turgot, A. R. J., 49, 56
 Typewriter, 215

 Undertaker, 175-6

 Unemployed, 66
 United States, 190, 283
 Utility, 107-21, 227-31

 Value, 107-21, 182
 Vanderbilt, 190-1
 Virginia, 42

 Wages, 158, 168-78, 180-2,
 196-217
 Waitresses, 215
 Wallace, Robert, 43-5
 Wants, 100-21, 223-5
 War, 42-3, 79
 Warwick the Kingmaker,
 186
 Water, value of, 107
 Waterworks, 86
 Wealth, 1; of inhabitants of
 territories, 263-87
 West, Sir Edward, 51-2, 58
 William the Conqueror, 191
 Women's earnings, 210-17

