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The Theory of the  
COST-PRICE SYSTEM

By

Arnold J. W. Keppel

WITH AN INTRODUCTION BY

J. A. HOBSON

*"Of wretched mortals, lo!  
the soul is gain."*

*—Hesiod*

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**TO MY PARENTS**

**I**

**DEDICATE THIS BOOK  
AS A MEAGRE EXAMPLE  
OF MY INDUSTRY**

## INTRODUCTION

THE last few years have been prolific in books and pamphlets dealing with the price-system in its purely monetary aspects. The net result has been to impress many thoughtful minds with the conviction that a remedy for all, or nearly all, our economic troubles could be found in a skilful manipulation of money and credit. Thus attention has been drawn away from the deeper and more disturbing scrutiny into the foundations of the economic system needed for the comprehension of price phenomena. Most devotees of Economics, believing that their science is "well and truly laid" in a sound basis of law and principle, are scornful and impatient of outside thinkers, however well meaning, who claim to test afresh the validity of their accepted foundations. Yet it ought to be apparent that the conditions under which economic studies have grown into a "science" make such thorough overhauling from time to time an intellectual and moral necessity. For Economics, as an instrument of thought, has suffered from two awkward disadvantages. It has been compelled to draw its terminology and primary concepts from the loose language and thought of the market and the workshop, so that most of its common terms, such as wealth, value, cost, capital, profit, rent, are shifty and obscure. Again, the material handled, the economic processes, are so charged with conflicting interests and passions as to make it very difficult to study in the "dry light" which science desiderates. Moreover, the processes themselves shift so

rapidly that the most accurate analysis of one age loses much of its virtue in the next.

Fresh thinking is, therefore, continually required, and the more fruitful thinking is commonly done by those not immersed in business life. There, as elsewhere, the skilled spectator sees most of the game. For business is the largest section of the game of life, and its science is a programme of its rules. Now not all business men and not all consumers have been satisfied with the rules of the game. The injustice, inhumanity, and irrationality of much that goes on in the economic world have often been denounced and exposed, sometimes with a violence that has defeated its end. But the general body, alike of business men and economists, have combined to regard the system as substantially sound, and conformable to good morals so far as human nature and the circumstances of the game permit. There are deficiencies that can be remedied, but no fundamental changes are required!

Mr. Keppel's original analysis of the economic process is a powerful corrective of this complacency. No writer in recent times has brought a more compact and relentless logic, or more audacity and independence of view, to the task he here undertakes. It takes courage to tap once more the old familiar Crusoe economy, from which Mr. Keppel takes his start. But he completely justifies this method of approach. For Crusoe is himself an integral economic system; hunter, farmer, fisher, carpenter, tailor, etc., his multiple personality divides itself in labour, and satisfies its several needs by planned and accurate adjustments of time and energy which express *in petto* almost all the essential processes of organized industrial society. Only in one essential does

the Crusoe economy differ from an economy of dissociated personalities. There is no external process of exchange for distribution of the product. But there are several other important economic terms and concepts which do not emerge at the Crusoe level, such as rent, interest, profits. For all these arise from taking advantage of natural or contrived scarcities in land, tools, or other factors of production, and Crusoe has no temptation to extract gains from scarcities.

If a completely successful socialist community could be established and maintained, it would be simply a large-scale multiple Crusoe. Nobody would take rent because he tilled a better piece of land than his neighbour. No interest would be necessary, for the enlarged or improved plant and other capital would be got by setting enough labour to make it for the common use. If goods were sold it would be at prices which covered expenses of production and distribution, with no addition for profit.

Now Mr. Keppel does not profess to plan a complete socialist society along these lines. What he urges here is a reconstruction of the economic system based upon the exchange of all goods and services at cost-price. The value of his work depends upon the validity of his interpretation of "cost," and the feasibility of running by co-operative consent an economic system in which prices should incorporate no element of rent, interest, and profit.

Mr. Keppel does not rush his fences or evade them. He takes them in his logical stride. Though his reasoning is not involved, it is close, and demands concentration in his readers. It is often as bare and stark as anything in Ricardo or Jevons, and he is dealing with the sort of



problem they essayed to solve. It would be absurd here to attempt to summarize the course of his argument. It must suffice to say that his constructive work begins, as it should, with the fundamental distinction between that portion of the product required to provide the maintenance of labour and the "surplus" which should pass in due proportion into capital, or "costs of growth," and into "costs of improvement in the standard of living." If the arrangements for production and for marketing were such as properly to apply the surplus, all would go well. But if, owing to the abuse of bargaining power possessed by strongly entrenched business interests, artificial scarcities can be contrived so as to sell goods above their cost-price, the surplus is diverted from its right uses and passes as profits into hands that have no "right" to it, and therefore cannot put it to its best use, either for productive purposes or for consumption. A rightly ordered society would secrete capital as Crusoe did, putting it to such purposes as would keep it fully productive. There would be no idle capital or unemployed labour, and the standard of living would be secure for all upon a level that would satisfy all human needs, not for a small section but for whole populations.

Mr. Keppel argues that such reforms can be achieved without any hard and fast bureaucratic government, though government, in the sense of organized co-operation of the beneficiaries, is, of course, essential. Some readers who accept his analysis of the iniquity and waste of the current system may boggle at his attributing to all sorts and conditions of men the good will and reasonability required for so fruitful and effective a co-operation. But if, as appears to be the case, the era of competition is already giving place to an era of

combination, which threatens to take away from the consuming public the costly safeguards for cheapness and efficiency which the older economists claimed for competition, the necessity of new social controls becomes apparent. Such controls to be effective undoubtedly make calls upon the sense of social service which to many seem excessive. But have we a right to assume that human nature is so static, in composition and play of motives, that it must fail to operate new economic institutions that are manifestly in closer accord with justice and humanity than the obsolescent institutions, improvised so hastily to meet the requirements of a transition period of competitive capitalism, and already proved by experience to be no longer satisfactory in their working? If the scramble for personal gain has in the past appeared as an enlightened selfishness justified by the social fruits it bore, this appearance is no longer maintained. Those who accept the rigorous exposure of the moral and practical vices of a profit-seeking economy, which Mr. Keppel presents, will surely pause before accepting the conclusion that a saner form of economic government than the existing is impossible because human nature is not good enough or wise enough to seek the way of economic salvation.

J. A. HOBSON

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## INSPIRATION

*"Nor, with all his eagerness for practical improvement, did he disdain theoretical inquiry. He could not, it is true, endure the hard, unemotional attitude, which some economists seemed to him to have adopted. They appeared to talk of matters involving suffering, if not death, to human beings, as if they were only specimens of the correctness of a theory. They seemed to regard the enactment of human dramas, concerned with the joys and the sorrows of men, from the standpoint of cool, critical spectators. If a man was thrown out of employment by a freak of fashion, they spoke glibly of the mobility of labour. If a woman or child was overworked in a factory, they complacently argued that such a course of action would in the end injure the employer, and he would not continue to pursue it. But Toynbee's nature was intensely sympathetic. He knew and felt that men, women, and children had passions and feelings, sympathies and antipathies, and that they could not with advantage be discussed like bales of wool, to be carried hither and thither, wherever they could earn a penny more."*—L. L. PRICE.

*"It is possible in this world to know the price of everything and the value of nothing."*—DEAN INGE.

*"As a matter of fact, the different kinds of values, moral and other, are connected in all sorts of ways. For example, that which is the object of a moral valuation, say, sincerity, can be estimated from the point of view of an intellectual or artistic or economic interest. Conversely, that which is the object of a hedonistic or aesthetic or any other valuation, say, riches, art, learning, can be estimated also as a good of moral order. Hence arise complex problems of conciliation."*—T. WHITTAKER.

*"Both the emotional imagination and the practical interest move in the region of values, and the rational treatment of value, and in particular the relation of value to reality, has always been a part of the philosophic problem."*—L. T. HOBHOUSE.

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