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AN ECONOMIC INTERPRETATION OF INVESTMENT

BY

J. A. HOBSON, M.A.,

Author of "The Economics of Distribution," "The Social Problem," "International Trade," "Canada To-day," "The Industrial System," &c. . . .

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PREFACE.

The object of these chapters, some of which were published in the "Financial Review of Reviews" during the autumn of 1910, is to present a study of the art of investment upon its industrial, rather than its financial, side, that is to say, to consider it in relation to the productive energy it develops, directs, organises, and utilises. For while it is evident that investments cannot normally fulfil any of their financial functions, as repositories of savings, instruments for enhancing capital-values, and for earning dividends, without doing actual work, investors do not, as a rule, trouble themselves sufficiently to understand what the work is, and how it is performed.

This insufficient attention to the industrial side of financial investments is a source of error and of actual danger to the art of investment. For it leads to excesses and defects of expectation which could be corrected by closer consideration of the industrial facts and forces upon which the values of financial securities in the long run rest.

PREFACE

The art of finance, divorced from the solid facts of business life, is apt to trust too much to the rule of chance or the miraculous.

In a brief sketch of the origin of joint-stock enterprise, I have endeavoured to trace its rise and growth for the actual needs of modern manufacture and commerce under the pressure of the mechanical and other technical improvements of the productive arts, commonly summarised under the term Industrial Revolution. Investment is thus realised as the process of the distribution of productive energy over an ever-widening area of activity, the movement of capital which it primarily effects being accompanied by a corresponding flow of business ability and labour-power, to co-operate with concrete capital in the production of wealth.

After a short study of the machinery by which this distribution of industrial power is effected, and the chief modes of waste to which it is exposed, I proceed to a consideration of the extent to which the various countries of the earth are engaged in forwarding this process, as lenders or as borrowers, and the economic forces which determine their financial conduct.

The most striking phenomenon of modern economic life is the rapidly-growing internationalisation of capital in its operation through Joint-Stock Companies and governmental investments. Important political implications can be traced

PREFACE

to this growth of extra-national ownership, by which, for example, a number of British citizens possess and operate a great part of the productive capital in Argentina. The larger processes underlying these modern tendencies of finance are the economic standardisation and co-operation of the civilised world, as the material basis of civilisation is extended to the more backward countries, first, through railways and other modes of communication, then through developmental processes applied to mining, city structures, and agriculture, lastly through the fuller industrial life of manufactures and trade.

In a final chapter of a more speculative kind, the probable future of the general process of investment is discussed in the light of modern economic and social movements.

J. A. HOBSON.

May, 1911.

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