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# THE COST OF LIVING

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# The Cost of Living

## CHAPTER I

### INTRODUCTORY

*Costs and Earnings.*—Wages, Earnings, Salaries and Cost of Living have in practice a real connection, and this contributes to the complexity of the problem. For wages and earnings are not only the means by which living is provided and its costs met, but are usually much the largest component in those costs. Further, Cost of Living and Cost of Labour have each a wide and a narrow meaning. Labour covers not only the manual working classes, but the salaried workers and the managerial staffs. Its cost, therefore, is a matter not merely of wages, but of salaries and some profits. The Cost of Living, again, is not the standard of a single class, but one varying between different classes, and between groups within them. The standards of the professional classes, the artisans, the unskilled labourers, all differ.

*Cost of Labour.*—‘Cost of Labour,’ wrote John Stuart Mill, ‘is, in mathematical language, a function of three variables,’ and he pointed out

that what labour brings to the worker, and what it costs to the employer, are quite distinct things. Of the three variables, the first consists of the necessities and comforts consumed by the worker, which compose his standard of living, and the second is the money price of these things, the two together determining the money cost of labour. The third element is the efficiency of labour, which is determined by the capacity of all those who contribute to production, whether by manual labour, brain-work, or management. Cost of Living, after allowing for other shares in production—Capital, Land and the State—will depend on the combination of the three elements in Cost of Labour, and these will react upon each other. The real wages of the workman may be high, but their cost may be low, simply because much is produced in return, or the reverse may be the case. Thus cost of living will be high or low as the cost of labour varies.

*Some Definitions: Labour.*—Labour has been defined as 'the economic work of man whether with the hand or the head' (Marshall), or as 'any exertion of mind or body undergone partly or wholly with a view to some other good than the pleasure to be derived directly from it' (Jevons). Thus labour is concerned with the 'production and exchange of those material things which sustain and enrich life,' to which must be added non-material services. Economically, labour is generally

(but not invariably) work for a money payment. In this sense labour may be regarded as falling into three classes: first, the manual workers, who are paid usually by the hour, day or week, and are commonly, but too narrowly, termed the working-classes; secondly, the salaried classes engaged in administrative or technical work, paid usually by the year, quarter or month; and thirdly, management or enterprise, comprising those responsible for the organisation and risks of a business. Their remuneration tends to vary with its success and its risks, and is denominated profits. In Joint Stock Companies, the management is largely in the hands of a salaried staff, and the risks are borne by the ordinary shareholders who receive the profits. A study of Cost of Living has to take account of the efficiency of all these.

*Money Wages.*—Wages are usually thought of as the money, with or without extra payments in kind or by way of privileges, which is paid to the workman for his work. Thus money wages may be defined as the amount of money plus the money equivalent of allowances in kind which come to the worker in a given period. They are, in short, what the worker has to spend, and represent the resources in cash which come to him as the result of a full normal period of work. But the well-being of a workman depends not only on what he has, but upon what he can buy with it, in the way of



necessaries and comforts, and this introduces other considerations.

*Real Wages.*—Thus the goods and services which the worker commands constitute his real wages or salary, and depend not only on his money wages but on the value of money. The cost of maintaining a given standard of living fluctuates with the level of prices, and thus arises the distinction between real and money wages. The amount of money coming to a man may increase, but the amount of goods and services which he can purchase with it may decrease, and vice versa. In short, real wages are determined by the purchasing power of money wages. But to any class of worker what is important is not the value of money generally, but its value in those things which he himself buys, or, in other words, on his Cost of Living. Variations in the Cost of Living are not necessarily the same for every class. Different classes purchase commodities in different proportions, and, therefore, changes in the value of money will not necessarily affect all alike.

*'Net Advantages.'*—Secondly, calculations of earnings in different occupations must take account of any other incidental payments or any expenses attaching to them. 'Wages in a given trade,' wrote Marshall, 'are measured not so much by its weekly earnings as by its net advantages.' Individual trades and professions have often either special

expenses or additional forms of income. Thus expenditure may be required in respect of tools, standard of dress, travelling, postage, and so on, which have all to be deducted from earnings before the real income can be calculated. The labourer as a rule needs no tools of his own. The bricklayer requires only a few, whilst the joiner has to provide and maintain an expensive kit. The clerk or traveller has to dress up to a certain standard, and has a 'position to keep up,' which costs him more than the joiner's tools. Indeed, one important cause of difference in earnings is the much greater trade expenses of the salaried classes. Again, the labourer and artisan often live near their work<sup>1</sup>; the clerk has to travel to and from it every day. These were called by Marshall the 'Outgoings' of a trade, and to be set against them are its 'Incomings.' Such are houses at a nominal rent or payments in kind in agriculture, coal at pithead prices in coal mining, free clothing and cheap travelling in railway service, holidays with pay in this and in most salaried employments, payment during sickness, etc., etc. Thus what has to be considered is not the actual wages of an occupation, but its 'net advantages' or 'net income.'

*Earnings.*—So far, income has been considered on the basis of a full week's work; but the amount

<sup>1</sup> An important exception is provided by building-trade workmen in large towns who often travel considerable distances to different jobs:

of actual earnings is even more important. The bank clerk or railway servant may have security of employment, whereas the engineer is liable to unemployment during trade depressions, the joiner or plumber suffers in addition from seasonal slackness, the outdoor workers in the building industry may be stopped at any time (even in a busy season or trade boom) by wet weather, and the work of many dock labourers is always irregular. Hence the same weekly rates of wages may mean very different actual earnings in different trades, and the relation of wages to Cost of Living is seriously affected by the regularity or otherwise of employment. Further, earnings may be reduced by short-time or increased by overtime and opportunities for spare-time earnings. Shopkeepers, again, are often affected by changes in purchasing power caused by fluctuations in trade. Thus, the earnings of labour in a trade may be said to consist of the money wage or salary, plus additional payments in money or kind and less necessary trade expenses, plus additions through overtime and minus losses due to unemployment or short-time. Real earnings, like real wages, represent their purchasing power over the necessities and comforts of life.

*Social Income.*—A complete calculation must take account of sources of enjoyment or subsistence provided freely, or at less than cost, by State or Municipalities. Political economists generally

exclude from individual wealth collective goods and services, enjoyed in common by members of the community, and, so far as they are in fact common to all, they are rightly excluded. But where, in practice, their enjoyment is limited to particular classes, they have an important bearing on questions of cost of living, especially if such public provision is increasing or diminishing. The working man's son, for instance, may be freely educated, whilst the business man's son goes to an expensive school. Thus the latter's net income is reduced by so much of the cost of his children's schooling as corresponds to the value of a free education,<sup>1</sup> and his costs are increased by his share of the rates and taxes which provide for elementary education. A similar test can be applied to other social services, such as Health and Unemployment Insurance and Old Age Pensions.

*Efficiency and Output.*—The third of Mill's variables, efficiency, determines the sources from which earnings are drawn. 'The produce of labour,' wrote Adam Smith, 'constitutes the natural recompense or wages of labour.' In other words, wages, salaries and profits all will depend upon output, which in turn depends upon efficiency. Output may be defined as the net addition made by labour to the raw produce of the earth, and varies with the amount

<sup>1</sup> The remainder represents payment for a superior educational or social service.

and quality of the work and the success of workers and management alike in avoiding waste. Efficiency, or Productivity, therefore, depends both on the level of skill required for particular trades and on the extent to which the workers are successful in attaining that skill. Again, efficiency also requires that the management shall secure that manual and brain workers are employed to the best advantage, and that all the agents in production are so combined as to obtain the biggest results.

*Cost of Living and the National Dividend.*—Thus Cost of Living depends not only upon the payment and productivity of labour but on the general conditions which control the National Dividend. Adam Smith's view that produce of labour constitutes its wages expresses, so far as it goes, a fundamental truth. Wages and Cost of Living both depend upon produce. Real wages cannot exceed what is produced. Cost of Living depends on the quantity, quality and price of the necessaries and comforts of life. If the amount of goods of all kinds is large, there will be much to divide, the standard of living will be high, and the value of money or the general level of prices will probably be low. But the statement does not cover the whole ground, for wages and salaries are not the only elements concerned.

*The National Dividend: How it is Produced.*—The National Dividend results from the co-operation

of all factors in production, and may be defined as the total output of goods and services, which results from their efforts over a given period. As, however, a year is usually taken as the most convenient unit of measurement, it thus represents the total annual real income of a country. To the production of this income the following elements contribute :

(a) *Land or Natural Agents*, consisting not merely of the surface of the earth but of all those gifts—mines, fisheries, water power, etc.—which nature contributes for the use of man. They are rewarded by rents, royalties and the like.

(b) *Capital*, which may be defined as those products of his own past labour by which man is assisted in production. It may be either fixed or specialised capital, such as buildings, plant and machinery, or floating and circulating capital used for payment of wages and day-to-day expenses of production, or available for transfer from one industry to another. Capital is rewarded by interest, which is partly a more or less uniform payment for its productive services and for the waiting of the capitalist, and partly a fluctuating payment to compensate for its risks. These are illustrated by the difference in the rates on gilt-edged securities, like Consols and War Loan, and on debentures in concerns in which risk to invested capital is involved.

Bt

(c) *Management and Enterprise* cover the part in production of the employer or manager, who carries out the organisation of the work, brings together the other factors in production, and undertakes the general risks of the business, as distinct from those run by the capitalist.<sup>1</sup> As he advances the other expenses of production, he is sometimes called the 'residuary legatee' of industry. For out of the total return he pays rents, interest on borrowed capital, salaries and wages (though labour also has often high risks of unemployment), and replacement and renewal of materials and fixed capital, and is himself paid by whatever residue there may be. Profits, therefore, normally combine two elements. In part they are a reward or 'rent' of ability of the employer or manager, since this ability determines the total output and the surplus available for profits; partly they are a reward for risk, since as management or enterprise must depend on the leavings after the other agents in production have been paid, the return must, in the long run, be above the average to compensate for the risks.

(d) <i>Manual Labour</i> ;	} Paid by salaries and wages and dealt with above.
(e) <i>Brain Work</i> .	

(f) *The State*.—The State and the Local Authorities are fairly held to constitute an agent in

<sup>1</sup> For the position in Joint Stock Companies see above, p. 3.

production and to be entitled to a share in distribution. By the protection of life and property and the enforcement of contracts they make production possible. By education, health and sanitary work and other public services they promote efficiency. Hence part of the product is attributable to their activities. Their share, in the form of taxes and rates, comes out of the National Dividend, and so is subtracted from the amount available for the other agents in production. As, however, unlike them, the State takes its share, indirectly, by taxation of their earnings, this share becomes an element in Cost of Living, and raises important questions of taxable capacity and of efficiency and economy in expenditure.

*The National Dividend : How it is Determined.*—The Produce Theory of Adam Smith, therefore, must be extended. The National Dividend results from the co-operation of all factors in production ; it depends not only on their individual supply and capacity, but on their proper combination in production ; and the dividend will be greater or less, according as the different factors are in suitable proportion to each other and are efficiently co-ordinated. Consequently the return to each factor depends not only upon its own efficiency, but upon the efficiency of all the others. What each can get, therefore, will be determined by the total produce ;



and its actual share by what it contributes to the whole, and by its power in bargaining to secure that to which it is entitled.

*Cost of Living and the National Dividend.*—Hence there is an essential connection between Cost of Living and Output. Wages, Salaries, Interest, etc., are all limited by the total National Dividend. For while it is possible to raise any or all 'money' incomes, this will only mean increased real incomes, if there is more to divide. Without this, increased incomes will be balanced by a rise in Cost of Living through increased prices, and, in a country like Britain, which depends so largely on the export trade, the losses are likely to exceed the gains, since increased prices will render our industries less capable of selling abroad, and so will eventually reduce the National Dividend.

## CHAPTER II

### THE COST OF LIVING—WHAT IT MEANS

*Cost and Standard of Living.*—A discussion of 'Cost of Living' necessitates a grasp of its relation to the 'Standard of Living.' The latter is really used in two senses, actual and ideal. The actual Standard of Living of any class represents the supply of necessities and comforts to which it has become accustomed and is, in fact, obtaining. Such a standard is, normally, what will maintain it in physical health and reasonable efficiency, relatively to its work; but this will not necessarily be so. For at any time the existing Standard of Living of a class may or may not be adequate. Thus each class has a certain standard, which it seeks to maintain or improve; and for purposes of comparison actual standards have to be taken. But the idea behind the standard is also to some extent an ideal. Each class has a general desire to improve its position, and sometimes a definite idea of a reasonable and just basis for its mode of life, as a goal to be aimed at. Hence there is a continual struggle to raise the actual standard towards this ideal, and the two thus tend to merge into each

other. Here, again, there is a direct connection between efficiency and standard of living. Efficiency is not likely to be attained without a standard adequate to the needs of an occupation, though, as the sweated industries have shown, the dependence of efficiency upon physical sustenance is no complete protection of standards of living. Normally, therefore, Cost of Living means the actual money cost of the prevailing standards, and is thus a Standard of Living estimated in money. For instance, the cost of keeping up the working-class standard of July 1914 showed increases of 176 per cent. in November 1919, and 74 per cent. in September 1925: or, in other words, £1 of July 1914 was only worth about 7s. 3d. in November 1920 and about 11s. 6d. in September 1925 for the purchase of the things which make up the working-class standard. Now, as Cost of Living represents the money price of a standard of any class, the relation to efficiency is much the same as with real and money wages. In other words, unless output is increased sufficiently to permit of an improved standard, increased money earnings will be balanced by increased prices.

*Existence, Living and Luxury.*—Cost of Living is thus the cost of satisfying human wants, and is measured by the means available for the purpose. Human wants are variously classified. First, there are those primary wants necessary for existence,

such as food, clothing, housing and fuel, or for the maintenance of actual physical health. Secondly, there are the requirements of full bodily and mental efficiency, including a modicum of comfort or luxury and some facilities for mental culture. Beyond this can be distinguished an ascending scale of wants, for culture, luxury, extravagance, display. At the outset there is the distinction between existence, living and luxury, between what is necessary actually to maintain life, what is needed to provide, in the sense of the ancients, 'the good life,' and what is required to enable Dives to 'fare sumptuously every day.' The first comprises the bare minimum to keep body and soul together, prevent physical deterioration and maintain the population. The second implies a sufficiency not merely for existence but to give opportunities for development and a reasonable share of the comforts and enjoyments of life, and corresponds with Marshall's 'standard for efficiency.' 'A more careful analysis has brought into prominence the distinction between the necessaries for efficiency and the necessaries for existence, and has made it evident that there is, for each rank of industry . . . a more or less clearly defined income that is necessary for merely sustaining its members, while there is another and larger income which is necessary for keeping it in full efficiency. . . . The income of any class . . . is below its necessary level when any increase in

their income would produce a more than proportional increase in their efficiency.<sup>1</sup> Luxury standards cannot strictly be regarded as necessary, however desirable a large and widely distributed supply of the good things of life may be, but they enter into the question of inherited standards, which is referred to below.

*Classes and Standards.*—Marshall's reference to 'ranks of industry' emphasises the fact that standards vary from class to class. Different types of work demand different levels of skill and different degrees of strain and intensity; and thus the higher the skill the better the standard of comfort required. More is asked of the skilled man than the unskilled, of the brain-worker than the skilled manual-worker, and hence more must be given to them if they are to give of their best. Secondly, the importance of merely conventional standards must not be overlooked. Accustomed standards become a part of life, and the lowering of a high standard may by breach of established habit cause more distress than the continuance of lower standards adequate to accustomed needs. Thus the needs of efficiency require widely differing standards to exist, and the phrase 'a position to keep up' is not the empty thing that is sometimes supposed.

<sup>1</sup> *Principles of Economics*, fourth edition, 1898, pp. 137-8.

<sup>2</sup> Besides differences of skill and brain, there are others resulting from great strength (e.g. navvies, riveters), great discomfort, or great physical risks.

The object of social change is the increase of human well-being, and sudden drastic redistribution, as with the Great War's creation of the New Poor, may cause more unhappiness than it removes. Moreover, such higher standards need not necessarily constitute a deduction from the total of necessities and comforts which would otherwise be available. Ability of a higher order increases production beyond what it otherwise would have been, and so creates its own special reward, and still leaves an increased surplus for general distribution. Incomes amounting to more than their owners can spend are a great means of maintaining and increasing industrial capital. Even purely conventional standards are to some extent a source of increased production by stimulating to greater exertion in order to obtain them. Men produce in order to consume, and therefore the consumption of luxuries is itself a cause of increased production.

*Standards of Production.*—Nevertheless the real justification for variety of standards and rewards must not be pushed too far. For the question remains whether any particular standard is excessive or deficient in relation to what is given in return or to the total national dividend. Adam Smith defined the object of Economics as to 'provide a plentiful revenue (i.e. subsistence) for the people, or rather to enable them to provide it for themselves'; and the evils of too drastic change do not

invalidate the just claim of every class to a reasonable standard. Moreover, the degree and intensity of wants vary. They are usually most intense in their early stages, and so are greatest in the first unit of a thing which a person possesses or purchases, whilst as the amount possessed grows the utility decreases. Certain things, again, which are essential to life and health satisfy very urgent wants and are said to have a high total utility. Now this idea of diminishing utility applies also to money. Its value to the individual tends to diminish as its quantity increases. The man with a small income must spend it on necessities, or on the purchase of other things in small amounts when their utility is greatest. The man with a larger income can satisfy more numerous wants, and has some surplus for comforts and luxuries, which becomes very large in the case of the wealthy man. At one end of the scale urgent wants are unsatisfied or partially satisfied, at the other even trifling wants are fully provided for. This, at first sight, suggests drastic levelling of incomes. But a man's wants grow with his income, and what formerly were not serious wants become second nature. The luxuries of one class are the necessities of another. Nevertheless, the 'luxury' wants are in themselves less than those served by comforts, and they in turn than those which are necessities. This fact should always be borne in mind when inadequate standards are

found in certain classes, and the choice is between leaving them as they are or lowering standards which are high. Two aims must be borne in mind : to provide a reasonable life for all through a standard of necessities and comforts that shall not be one of mere existence, and to avoid such sudden, or even gradual, destruction of established standards as will be fruitful of distress. The problem, indeed, is only partly one of distribution, for it can also be handled by so maximising production as to make the largest possible supply of necessities and comforts available for all.

*Rent of Ability and Savings.*—Again, ability deserves its reward, great ability its high reward ; but it can be argued that the actual rewards are too high, or out of proportion to services rendered, or subtract unduly from sustenance available for the mass of the people. Similarly the services of very big incomes in providing industrial capital have a limit. For the progress of industry accumulation is necessary ; for its healthy continuance a good general level of consumption and spending. The ideal therefore is a balance of saving and spending. Excessive saving may help to produce temporary over-production ; and thus undue concentration of wealth in a few hands may be a contributory cause of industrial fluctuation. But theories which regard this as the one sole fundamental cause seem to be based on inadequate



analysis of the system of distribution, and fail to allow sufficiently for the many incomes of moderate size.

*'A Position to Keep Up.'*—Again the idea of 'a position to keep up' must be neither depreciated nor over-estimated. Much additional income, indeed, represents provision for the better standards required by certain occupations to enable the higher grades of workers to make the best of their work. But this idea also can be carried too far. The position kept up, if in one sense a necessity, adds greatly to the pleasures and amenities of life. Certain posts involve the expense of a public school and university education, and it is claimed that their remuneration must give full recompense for this; but the education itself is a great source of pleasure and enjoyment, and this expense will normally far exceed the costs of the professional training pure and simple. Again, 'a position to keep up' is sometimes used to justify a very high standard of pure luxury and enjoyment.

*Earnings and Standards of Living.*—Accustomed wage-levels are largely the products of the standards of different classes. Wages and earnings are the means whereby these standards are maintained, and each class tends to stand out for that rate which will enable its standard to be kept up. Thus standards and costs affect wages and salaries. The workmen embody this in trade union rates, which

have often the sanction not only of trade unionists, but of general, working-class public opinion. Thus minimum and standard rates are not strictly the creation of trade unionism, though enforced and made general and effective by it. Often, indeed, there will be some particular wage below which the competent workman will not be willing to go, whether or not he is a trade unionist, though this unwillingness may be temporarily removed during severe unemployment by the desire to get back to work. The same is true of the salaries of the managerial and professional classes, though these may not react as rapidly as wages to changes in Cost of Living, owing to the greater margin for economies possessed by the more highly paid grades of labour. Nevertheless, these standards are based generally on their accustomed needs, and influence the ideals that they keep in view. Thus, allowing for some differences, salaries, like wages, tend to vary with the fluctuations in cost of living.

*Reflex Action of Earnings and Costs.*—Wage and salary rates, moreover, are themselves an important cause of changes in costs. They often form a predominant element in the total, both directly and as an important factor in the price of materials and transport charges. Changes in Cost of Labour, therefore, are quickly reflected in Cost of Living, and have wide reactions on individual

industries. A man's own wage has often little direct effect on his own cost of living. These costs, apart from other elements, are made up of a great variety of small contributions to the wages of many others. Hence an increase or decrease in one important industry will be diffused over many, directly and indirectly. This leads to the problem of the sheltered trades. If railway wages, for instance, are unduly high, not only is the cost of travelling increased, but that of conveying goods and materials, which adds to the cost of manufactured products, and these in their turn affect other costs in an ever-widening circle.

*Primary and Secondary Poverty.*—In order to illustrate the various components which go to make up Cost of Living, it seems worth while to examine briefly Mr. Seebohm Rowntree's distinction<sup>1</sup> between primary and secondary poverty. He divided those living in poverty as follows :

(i) *Primary Poverty* : families whose total earnings<sup>a</sup> are insufficient to obtain the minimum necessary for the maintenance of merely physical efficiency.

(ii) *Secondary Poverty* : families whose total earnings would be adequate for the maintenance of

<sup>1</sup> *Poverty : A Study of Town Life*, chapter iv. (cheap edition, revised, Longmans, Green & Co., 1922, price 3s. 6d.). The whole book is well worth studying in connection with Cost of Living.

<sup>a</sup> Calculated with allowance for unemployment, short-time and overtime.

merely physical efficiency, were it not that some portion of them is absorbed by other expenditure either useful or wasteful.

Mr. Rowntree is careful to point out that 'expenditure may be, in the truest sense of the word, useful, which is not necessary for the maintenance of merely physical efficiency.' This standard is made to cover food, housing, clothing, fuel, light, etc.; and on a pre-war calculation gave a physical minimum of 21s. 8d. per week for a family of five (man, wife and three children), the amounts ranging from 7s. per week for a single person to 37s. 4d. per week for a family of ten. As the estimates were based on prices at about 1900, they would probably have been 10 per cent. higher in the immediate pre-war years. The calculations are made on family earnings, and therefore often represent more than the earnings of the head of the household. In fact, prior to the war, many families did apparently maintain actual labouring efficiency on lower earnings, though possibly at a severe ultimate expense either to the workers themselves or to the growing generations. But 'this estimate allows nothing whatever for travelling, recreation or luxuries of any kind: it would suffice only for the bare necessities of merely physical efficiency in times of health.' It will be noted that Cost of Living

<sup>1</sup> The standard, being based on conditions in York, a town of moderate size, is probably above that of country areas, but below that of large cities, and particularly London.

varies from time to time in a family according to the number of dependent children. No allowance, moreover, is made for waste or exceptional emergencies; and it is assumed that all the income is spent on essentials. Some lack of economy, indeed, is almost inevitable in the domestic arrangements of the very poor; and the standards are therefore calculated not on ideal, but on actual, methods of spending.

*Another Estimate of Cost of Living.*—This estimate of a physical minimum may be compared with the average of working-class expenditure, from the well-to-do to the poorest, on which the Ministry of Labour Cost of Living Index is based. The items composing the Index are similar to, but somewhat more extensive than, those of the Rowntree minimum, and represent actual expenditure in 1904 and 1914.<sup>1</sup> The *Labour Gazette* points that by the cost of maintaining the pre-war working-class standard of living 'is meant the average standard actually prevailing in working-class families just before the war, irrespective of whether the standard was adequate or not' (*Labour Gazette*, February 1921, pp. 69-72). In the original enquiry, in 1904, the average wage worked out at 36s. 10d. per week, or 70 per cent. above the Rowntree minimum for a family of five, and the expenditure on food alone was 22s. 6d. per

<sup>1</sup> The Index is dealt with in detail in chapter III.

week, as compared with 12s. 9d. in Mr. Rowntree's calculations.

*The Family and Cost of Living.*—The size of the family is important, since costs must vary with the number of persons to be maintained. Wages and earnings, on the other hand, are based primarily on the efforts and capacity of the wage-earner, though with some reference to the needs of an average family. Women's wages, however, apart from questions of lower skill or output, are usually calculated on a lower basis than those of men. This is partly on the doubtful assumption of lower physical needs, and partly on another one, approximately but not entirely correct, that a man's wage has to maintain a family, and a woman's wage only to maintain herself. Women's rates are further affected in some trades by 'pocket money' earners, who are partly maintained by their parents. Thus in relation to the family standards tend to vary and earnings to be relatively constant. The standard rate, indeed, is generally based on a combination of the efficiency of the worker and the needs of an average family (usually taken as man, wife and three dependent children). The wage, therefore, will be less than sufficient for the presumed standard where the family is larger, and more than adequate where it is smaller. Where, therefore, the standard is at or near the physical efficiency limit,

the larger family falls temporarily into 'secondary' or 'primary' poverty, whilst single men and families of 2, 3 or 4 are for the time well above them. Indeed, Mr. Rowntree argued that many working-men enjoy comparative affluence in early manhood, fall into positive poverty as children come, and gradually recover as these reach manhood and begin to earn. On these grounds taxation is lessened for the family man under the principle of ability to pay, and serious thinkers are beginning to examine, and some of them to advocate, the family allowance system.

*Components in Cost of Living.*—Mr. Rowntree's standard of bare physical efficiency comprises the following elements: food (including non-alcoholic beverages), rent, clothing, fuel, light and household sundries, like soap. The dietary appears to make no allowance for alcohol or tobacco. Further, 'this diet does not contain any fresh meat and is thus less generous than the Local Government Board would require for able-bodied paupers in workhouses. My aim throughout has been to select a standard diet which gives adequate nutrition at the lowest practicable cost.' The expenditure on household sundries and light is limited to 10*s.* per week for a family of 5; and regarding other necessities, Mr. Rowntree writes: 'Enquiries . . . were usually answered by some such remark as, "If we have to buy anything extra, such as pots or pans, we have

to spend less on food, that's all." <sup>1</sup> The Cost of Living Index necessarily covers a wider range of goods, divided into five classes: food (including non-alcoholic beverages), rent, clothing, fuel and light, and other items. The chief additions to the Rowntree minimum appear to be fresh meat, fruit, tobacco, newspapers, fares and domestic utensils. The range and quality of the goods is also extended, and the amounts spent on them are appreciably increased. There are still, however, some important omissions. Holidays and recreation, with the exception of fares, are not provided for; no account is taken of payments to trade unions or friendly societies, health and unemployment insurance, life insurance, burial clubs, etc., or of household furniture (as distinct from utensils). The omission in some cases may be due to statistical difficulties. That of beer and spirits and of amusements is probably justified as not part of necessary expenditure, whether for life or efficiency. The surplus of wages over costs in the calculations of the Index amounted to about 1s. per week, and hardly seems sufficient to provide for the excluded items. The proportions of income spent on rent were slightly lower than in the Rowntree estimate for a family of five, and on food and other items somewhat higher.

*Professional Standards.*—The increase of standards with increasing income shows a general rise in

<sup>1</sup> Rowntree, *Poverty*, pp. 137-8, 141.



expenditure on all items, but a less than proportionate one in necessities. Cost of food, for instance, takes a smaller place, even when allowance is made for expenditure on luxury foods and drinks. But there are important expenses which do not enter to the same extent into working-class provision, because provided freely (primary education) or at a lower cost (health insurance) by the State, or because they are required for the higher technical or other standards of various employments,<sup>1</sup> or because of the costs of conventional standards. Such expenses include education, insurance, medical attendance (for incomes beyond the health insurance limits), and greater provision for study and literature, so far as they are not provided for by free libraries. Direct taxation, which falls mainly on the higher incomes, is also important, and its connection with Cost of Living is discussed in chapter vii. Further variations in standards are partly conventional and partly due to development of wants with the increase in means of satisfying them. Thus with travelling expenses, the tendency to live farther from the centre of a big town is incurred partly for the sake of lower rent charges, which are consequently decreased both at the centre and at the circumference. There is, further, an element of conventional necessity, and more open

<sup>1</sup> Allowance must be made in the artisan class for technical school fees, books, instruments, etc.

and healthier surroundings may be needed for the efficiency of the brain-worker. Again, 'efficiency' standards may require expenditure by those engaged on important administrative or technical work on first-class railway travelling or motor vehicles. Travelling for recreation or holidays, which is not of a purely luxury character, may be justified on grounds of efficiency, though here again the conventional element enters.

*Marshall on 'Conventional Necessaries'*—In this connection Marshall's estimate of actual and conventional necessities of different classes may be of interest :

'For the sake of giving definiteness to the ideas, it may be well to venture on estimates of necessities, rough and random as they must be. Perhaps, at present prices, the strict necessities for an average agricultural family are covered by an average of 15s. or 18s. a week, the conventional necessities by about 5s. more. For the unskilled labourer in the towns a few shillings must be added to the strict necessities. For the family of the skilled workman living in the towns we may take 25s. or 30s. for strict necessities, and 10s. for conventional necessities. For a man whose brain has to undergo great continuous strain the strict necessities are perhaps £200 or £250 a year, if he is a bachelor ;

but more than twice as much if he has an expensive family to educate. His conventional necessities depend on the nature of his calling.<sup>1</sup>

These estimates were made at the close of the last century, and require considerable increases to bring them up to existing price-levels.

*Luxuries and Amusements.*—There remains expenditure on two headings, hitherto omitted, on luxuries (pure and simple) and amusements (as distinct from holidays and recreation). Such expenditure, on the most liberal interpretation of 'efficiency' and conventional standards, hardly comes within necessary costs. It should therefore be excluded. Two facts must be borne in mind. Some standards, those, namely, of the very rich (industrious or idle), are generally luxurious. Every class has its luxuries, great or small, so far as it enjoys resources above those required to maintain its normal standards. Such luxuries, and with them many amusements, cannot be regarded as directly necessary to efficiency, though they may contribute indirectly by giving spice and variety to life and stimulating production to provide the means of enjoying them. Nor is such expenditure undesirable in itself. As John Mill argued of 'unproductive consumption,' it is 'the measure of a

<sup>1</sup> *Principles of Economics*, fourth edition, 1898, p. 140 (footnote).

nation's means of enjoyment and of its power of accomplishing all purposes not productive.' But, not being strictly necessary, such expenditure can be contracted to some extent, and increasingly as income increases, to meet public needs or adjust living to changes in national production. When necessity calls, the artisan may be asked for some sacrifice of the luxuries of his class—beer, spirits, cinemas, music halls, and 'also rans'—the professional classes for more, and the wealthier classes for more still; and such should be progressive, since the surplus available for luxuries increases far more than in proportion to the growth of income. Moreover, what is important is the general character of the expenditure, and the real needs which it serves. 'What is to be regretted,' continued Mill, 'is the prodigious inequality with which this surplus (i.e. over necessary consumption) is distributed, the little worth of the objects to which the greater part of it is devoted, and the large share which falls to the lot of persons who render no equivalent service in return,' a view which may be compared with the Prime Minister's recent reference to 'flaunting extravagance.' Where, therefore, the whole scale of living is luxurious there is an ample margin for contraction,<sup>1</sup> especially as it covers many wants low in the scale of values. Thus two conclusions

<sup>1</sup> Compare Marshall's illustration of the dish of green peas in March, 'costing perhaps 10s., and of the value of 4d. under the head of necessities.'

emerge: that all luxury expenditure provides margins for saving and economy in almost every class,<sup>1</sup> and that all whose general expenditure is lavish have a big margin to meet increased social charges or to reduce costs.

*Standards and Sacrifices.*—Apart from luxury expenditure, the capacity for sacrifices and economies varies from class to class; and the argument from the higher needs of some classes must not be pressed too far. The brain-worker's wants may, indeed, be greater than those of the manual worker, but the fact remains that these additional wants are less urgent than the physical necessities of the unskilled labourer or the 'efficiency' needs of the artisan, and that therefore a given reduction of income means a lesser sacrifice. Drastic reductions of higher standards, indeed, cause serious hardships. But, nevertheless, these higher standards have greater means for economising without trenching seriously on necessities. These possibilities fall mainly under three headings: first, the greater margin of luxury expenditure, already referred to; secondly, the larger opportunities for direct economies and avoidance of waste; and, thirdly, indirect economies made possible by the use of substitutes.

*Substitution: its Meaning.*—'Substitution' may

<sup>1</sup> As, in fact, the working classes pay through the very heavy increases in the beer and spirit duties and the entertainment tax.

be defined as the process of finding and using alternative means of satisfying wants. Substitutes are alternative goods, one or other of which can be used to satisfy the same want, at the choice of the user, like tea, coffee and cocoa as breakfast beverages, or tube, motor bus and tram as means of conveyance. The actual choice is a matter partly of individual taste and partly of price. The existence of substitutes is a great protection to the consumer ; and much industrial progress consists of invention and development of improved substitutes for existing articles. Substitutes fall into two main classes : substitutes of choice and substitutes of necessity. The former, such as the instances just quoted, or the alternatives of electricity and gas, consist of substitutes which are equally as desirable as the things which they replace, and are available at an equivalent, or even at a lower, price. When this latter takes place, it involves a direct fall in Cost of Living, since something equally desirable can be obtained at lower cost. The second type of substitute is adopted owing to shortage of articles normally consumed, increase in costs of production or poverty in the purchasers. It is an alternative for the original article in that it can serve the same purpose, but not so well, as in substitution of margarine for butter, of inferior for superior cuts of meat, or of ready-made clothes for suits made to order. Such substitution involves real loss, and, if

carried out to an appreciable extent, a decline in the Standards of Living. Such losses, indeed, may be justified as, for instance, to 'win the war,' or pay one's share of its cost, but that does not alter the fact that the standard is reduced. Such reductions, however, involve smaller sacrifices than a decreased consumption of those necessities for which no substitutes are available, and allow greater margins for economies in the higher incomes.

*Substitution, Economies and War Costs.*—Since 1914 the latter type of substitution has been mainly in question. War and immediate post-war conditions tended to reduce opportunities for substitutions of choice below the normal. Restricted supplies and rising prices made resort to less desirable alternatives essential; and the possibility of substitution and direct economies tended to vary with the size of the income. Those already using the cheapest available articles, or who are near the physical minimum, as are many unskilled labourers, have few or no opportunities for substitution or economies. A striking illustration of this is provided by the Irish potato famine of 1845-6. 'In the southern and western provinces a large proportion of the population lived on the potato and the potato alone,'<sup>1</sup> and, no cheaper substitute being available, its failure meant actual starvation. During the war a similar tendency was at work. Direct

<sup>1</sup> Justin McCarthy. *History of Our Own Times*.

economies and substitutions were largely practised by the well-to-do, which became less possible with the descent in the social scale, though the returns of the Sumner Committee suggest that some substitution was possible in the artisan classes without seriously reducing the nutritive value of their diets. Some economies tended to make things more difficult for the lower grades of wage-earners. When the well-to-do took to using inferior qualities of food, the demand was expanded and stimulated further their rise in price. Thus the cheaper cuts of meat rose more than the dearer, for which substitution tended to restrict the demand. A reverse tendency has shown itself since the fall in prices.

*Taxation and Cost of Living.*—This subject is treated separately in chapter vii. Its increase must clearly influence the standards of those affected. That of indirect taxes<sup>1</sup> and of the local rates is largely covered by the Cost of Living Index as forming part of the prices of taxed commodities and of rents. Direct taxes are an additional burden, and, whilst rightly regarded as a special incident of war costs, they undoubtedly add a large load to the higher incomes, to be set against greater opportunities for economies and substitution.

*Costs in Relation to Spending.*—It is argued that the cost of maintaining given standards could be reduced, without real loss, by wiser spending.

<sup>1</sup> Not entirely, because beer and spirits are not included.



Resources may be laid out on expensive articles for show or enjoyment, to the neglect of real necessities, as where sweets and cakes are preferred to solid food, or dinner is sacrificed to visit the cinema. The consequent ill effects suggest too low a standard, but are really the results of misspending, except so far as some measure of amusement and enjoyment should form part of any standard. Such misspending is specially marked with those whose employment is casual and irregular, since the continual variation of earnings makes foresight, and even regular spending of income, very difficult, if not impossible. Thus an average income, which would be adequate if it were regular, proves quite inadequate in these circumstances. Such facts emphasise the need for increased production, or improved distribution, to enable every class to provide for conventional needs without sacrificing real necessities. Secondly, limitations of knowledge or of the domestic facilities available in working-class homes prevent the fullest use being made of income. Ideal standards, showing that particular classes can live on less than in fact they do, are easily prepared, and, if wisely arranged, can help to make money go further. The average housewife (and not only among the poorer working classes) often fails to make the best use of her resources, through wastefulness, lack of knowledge and so on, though, owing to their smaller resources, working-class

families suffer most from this. Such failures are increased by the conservatism of many housewives (strongly commented on by Mr. Rowntree), which causes them to reject, on slight grounds, cheaper alternatives for existing purchases, and even to reject them merely because they are cheap.<sup>1</sup> Further, working-class, and the poorer middle-class, housewives cannot buy on a large scale, since they have neither the means to do so nor the storage facilities. Mr. Rowntree quotes a York coal merchant that 'the working classes, partly because they buy their coal by the bag and partly because they buy a wasteful coal, which burns up quickly, pay as a rule a price for their coal higher by 25 per cent. than those who buy their coal by the ton.' Thus economical use of resources implies greater facilities for cooking, washing, etc., than at present exist within the limits of a couple of rooms or even a five-roomed house. Suggested schemes to feed a family on 6d. per head per day (or for other economies) normally involve elaborate and expensive apparatus, which only the well-to-do possess.

*Conclusion.*—In short, standards and costs must in the first instance be taken as the actual, not the ideal. It may be true that people generally could live on less, or live better on what they have, by

<sup>1</sup> This point is also referred to by the Linlithgow Committee, e.g. *Report on Meat, Poultry and Eggs*, pp. 141, 149. 'The demand for prime joints . . . persists even among the poorest elements.' 'Meat traders should endeavour to popularise those cuts which are now in poor demand.'

satisfying various criteria ; but in practice men can only come up to the level of their means, capacities and prejudices. It is only possible to build upon foundations that exist. Existing standards must await the time and means of raising them. But work towards improvement is one means of betterment. Waste exists ; and its elimination, with truer husbanding of resources, will do much to raise the Standard of Living and lower its costs.

## CHAPTER III

### THE COST OF LIVING—HOW IT IS MEASURED. INDEX NUMBERS

*Type of Comparison Required.*—The measurement and comparison of Cost of Living at different times involves calculation of a number of items differing in amount and importance ; and thus the estimate, even for a single class, is a complicated one. Many commodities compose even the minimum of physical necessities, and their amounts and prices differ. Some are consumed regularly from day to day, others are purchased only at intervals ; whilst the goods most largely consumed may be lowest in price. For it has been rightly said that nature provides necessities of life in greatest profusion, and that competition has further developed and increased their supplies. Thus, a labourer's family may consume much more bread than meat, but the price of meat is much higher than that of bread. The calculation, therefore, must allow for both amount and price. Moreover, articles vary in quality, and further allowance is required for this. It is thus necessary to get suitable commodities, properly adjusted in price and amounts, and of typical

qualities. The Cost of Living, therefore, is based upon a series of prices; and some means are required to express this figure shortly. A total sum could be so used, such as the average of 22s. 6d. per week spent on food by working-class families, which forms the basis of the Cost of Living Index Number; but such figures, whilst giving actual costs at a particular time, are not very suitable for comparisons. For this purpose a system of percentage calculations is better adapted, in the form of what are known as Index Numbers.

*Index Numbers: their meaning.*—The Index Number is described by Professor Edgeworth<sup>1</sup> as being utilised for the purpose of indicating changes in the value of money, though it is also used in connection with other subjects, like output and wages. But its main object is to measure alterations in the value of money or in money costs, and especially those which cannot readily be estimated directly because of the variety of the items to be taken into account. Index Numbers thus provide a 'common denominator of values' for money itself. The Economic (or Exchange) Value of a commodity has been defined as its general purchasing power (J. S. Mill, *Principles*) or the amount of other things for which it will exchange. But this

<sup>1</sup> Article in *Dictionary of Political Economy*, *passim*. An admirable description of their working in somewhat fuller detail will be found in chapter ix. of Professor Bowley's *Elements of Statistics*. For an exhaustive and detailed treatment, reference may be made to Professor Irving Fisher's *The Making of Index Numbers*.

can only be expressed through some common measure of value. Price, therefore, is the money value of a commodity and represents its general purchasing power. But money itself (see chapter iv) may vary in value, and means are required to show its fluctuations. Index Numbers, therefore, serve the purpose of expressing briefly the movements in the value of money, and in general prices as distinct from those of particular articles. Professor Edgeworth adds that an Index Number is 'constructed by combining several items, each of which is a ratio between the price of a certain article at a particular date and at the base standard (i.e. the period specially chosen for purposes of comparison), and usually represented by the figure of 100.' Such an Index can be applied both to general ideas, like Cost of Living, and to particular commodities.

*Index Numbers: how composed.*—In composing an Index Number a base (or unit of value) must first be obtained. The object is to represent a fair average of those things which the Index represents. Thus the articles selected should be in universal consumption and relatively steady in price and output. In the Cost of Living Index, for instance, fruits and vegetables (except potatoes) are omitted because of their marked fluctuations in price. Definite quantities of each item, and of a definite quality, are taken, these being adjusted to the purpose of the Index. The Cost of Living Index

deals with working-class consumption, and the qualities are those of grades of goods usually consumed by the working classes, whilst the Board of Trade Index of Wholesale Prices covers a wider range of qualities. Having chosen articles and qualities, it is necessary to settle their quantities, or relative proportions, to each other. This process is known as weighting, or giving each article a place in the Index according to its actual importance, by a combination of the amount consumed with the price, and adjusting matters accordingly. The difference between an ordinary (or unweighted) and a weighted average of prices is that the former is the simple average of the prices of a number of things, whilst the latter takes account of amounts consumed. In the Cost of Living Index, for instance, the average expenditure on bread, beef, sugar and cheese was estimated at 2s. 6 $\frac{3}{4}$ d., 2s. 5 $\frac{1}{2}$ d., 11 $\frac{3}{4}$ d. and 6 $\frac{1}{2}$ d. per week in 1904, and they were given weights of 50, 48, 19, and 10 respectively. The effect of this is shown by the fact that between July 1914 and March 1920 the increase in the prices of these four articles was 121 per cent. on a weighted and 149 per cent. on an unweighted average,<sup>1</sup> whilst for all the articles of food included in the calculation of the Index, the increases were 133 per cent. (weighted) and 139 per cent. (unweighted). In

<sup>1</sup> These results were due to the smaller average increases in the more heavily weighted articles, viz., bread 63 per cent., beef 114 per cent., sugar 290 per cent., cheese 130 per cent.

short, weighting gives each article an influence in proportion to its total consumption. Bread, for instance, showed an average expenditure of about  $2\frac{1}{2}$  times that on sugar, on which nearly twice as much was spent as on cheese. Again, in the Wholesale Price Index, cotton has double the weight of wool, and coal rather more than double that of pig iron.<sup>1</sup> Sometimes the influence of weighting is not very great, and as a rule the difference between the weighted and unweighted average decreases as the number of articles included increases. Still, as the just-quoted case of food shows, this difference is far from negligible, and emphasises the importance of proper use and adjustment of weights. Professor Edgeworth lays down the following rules for composing an Index Number :

(a) Selected commodities should be actual articles of consumption rather than materials or implements of production.

(b) Retail, not wholesale, prices should be utilised.

(c) Prices should be weighted to obtain a fair standard, various methods of weighting being practicable.

These rules appear to have special reference to retail prices, as the second, and, to a certain extent,

<sup>1</sup> For the detailed composition of this Index, see Appendix I.



the first, are inapplicable to Wholesale Prices. Finally, a standard once fixed should remain unchanged for a considerable period, unless there is definite change in standards of consumption or the needs of consumers.<sup>1</sup> For, to secure a good standard of comparison, an uniform basis is essential.

*Index Numbers : the Base Period.*—A definite year or period is chosen to provide the base, the figure for this being taken as 100, and those for any other period being calculated in comparison with this. Thus, in the Board of Trade's Index of Wholesale Prices, 1900 was, until recently, the base year, and its prices were taken as 100. Those of 1905 were represented by 97.6 ; of 1915 by 143 ; and of 1919 by 296.3. In the last few years 1913 has been taken as the basis (=100). Thus, to calculate the percentage increase or decrease in any year, the base-year figure of 100 must be subtracted from that for the year. The most common base period for index numbers is one year, 1900 being usually adopted for English official statistics prior to the war. An alternative method is to take a period of years. Thus, the *Economist* Index Number is based on five years, originally 1846-50, and at the present time 1901-5. The Sauerbeck Index is based on a ten-year period (1867-77). These longer periods tend to give a better average and avoid the special

<sup>1</sup> It is argued in some quarters that for these reasons the present Cost of Living Index, which was based originally partly on the conditions of 1904, needs to be recalculated.

circumstances of particular years. 1900, for instance, was not in every way suitable, for it marked the culmination of a cycle of increases in prices, profits and wages, and some of its figures in certain cases, such as coal miners' wages,<sup>1</sup> were abnormal in character. The base of the present Cost of Living Index is a single month—July 1914—in regard to which the objections to a single year would seem to be accentuated. The object was to show the position in the immediate pre-war period, and the prices of July 1914 were not specially abnormal.<sup>2</sup>

*Points and Percentages.*—The rise and fall of Index Numbers may be expressed either as a percentage or as so many points. The percentage is calculated in the ordinary way by reference to the base figure of 100. But where numbers are being compared which are above or below the base figure it is simpler to give the number of points or units of the total figure. Thus the Index figure for Cost of Living rose from 146 in 1916 to 176 in 1917, which is said to represent a rise of 30 points. The percentage change is less than the rise in points where the figures are over 100 (about 21 per cent. in the case quoted) and more where they are under 100. Thus a fall of 6 points in Wholesale Prices between 1894 (94) and 1896 (88) represented a decrease of about 7 per cent.

<sup>1</sup> Owing to the special conditions of the South African War.

<sup>2</sup> Prices in the early months of 1914 had fallen back somewhat from the boom figures of 1913.

*Examples of Index Numbers.*—Index Numbers are now put to various uses, but are chiefly utilised to measure prices. Thus the *Economist's* Index Number of average prices of 22 articles of general consumption, when based on 1846–50, showed the trend of prices since the years which saw the removal of the Corn Laws. The Sauerbeck Index, again, covers about 60 articles of general consumption at the average prices of 1867–77. It is divided into two main sections—Food and Raw Materials—and also gives figures for particular articles. The Sauerbeck Index is a good illustration of the use of a term of years, for the base period covers both the great rise which accompanied the Franco-German war and the beginning of the subsequent fall. Other important Index Numbers are that of Jevons in the past and those of Professor Bowley and Mr. G. H. Wood in the present day. To some of them reference is made later.

*British Official Index Numbers: Wages.*—Official Index Numbers in this country cover a fair range, notably those of the Board of Trade and Ministry of Labour.<sup>1</sup> Before the war the Board of Trade *Abstracts of Labour Statistics*<sup>2</sup> contained Index Numbers of Wages in the chief groups of industries,

<sup>1</sup> Some Ministry of Labour statistics were taken over by it from the Board of Trade.

<sup>2</sup> This admirable publication has not been issued since the *Eighteenth Abstract*, Cd. 7733, 1915; but much of the information which it contained is still published in other publications of the Board and Ministry.

of Wholesale Prices, and of Retail Prices in London. The Wage Index, based on 1900, extended back to about 1875-80. It included five of the chief industries of the country, but covered only parts of them, namely: Coal Mining (hewers); Building Trades (bricklayers, carpenters and masons); Engineering (fitters, turners, ironfounders and pattern-makers); Textile Trades (cotton-spinners and weavers, linen and jute operatives); and Agriculture (cash wages of ordinary labourers on 115 farms in England and Wales). Two general Indices were given, one including, and the other excluding, Agriculture. The averages are unweighted, except for the weighting of miners' wages according to the importance of the various districts, but, apart from the lower wage rates prevailing in agriculture, conditions were probably sufficiently similar to render this a matter of indifference, and the effect of including or excluding agriculture was found to be small.<sup>1</sup> The omission of labourers' wages is perhaps more important, but probably before the war their changes were similar to those which took place in the skilled men's rates in these industries. The monthly returns of actual changes in wages, published in the *Labour Gazette*, are wider. They cover all Industry, Mining and Transport, but

<sup>1</sup> For 1901-10, for instance, the Index averaged 98.95, including, and 98.28 excluding, agriculture, a difference of only 0.68. Other figures suggest that the increase of agricultural wages may have been greater in Great Britain as a whole than in England and Wales.

exclude Agricultural workers. They appear to provide a fair, though not complete, survey of the wage-earning class as a whole. The question, however, arises, especially in regard to the pre-war returns, as to the position of the classes omitted. Subsidiary investigations before the war tended to show a wage movement in the excluded industries similar to those covered by the official Index. 'In a few cases, such as railway service, wages appear to have lagged behind the general movement; in domestic service, on the other hand, they have probably risen more rapidly. The wages of the casual workers, such as dock labourers, etc., are higher to-day than fifty years ago, but no investigation has been made to show whether the rise is anything like equivalent to the upward movement of general wages.'<sup>1</sup> On the whole, the available returns, particularly since the war, appear to give a fair picture of the general tendencies of wages, but there are certain qualifications which must be borne in mind in considering their present, and, still more, their pre-war trend. In connection with this subject, reference may be made to Professor Bowley's admirable Index of changes in real wages since 1850, which includes an allowance for unemployment. The Third Fiscal Blue Book<sup>2</sup> has also

<sup>1</sup> W. T. Layton, *An Introduction to the Study of Prices* (1920 edition), Appendix F, p. 183.

<sup>2</sup> *British and Foreign Trade and Industry*, Cd. 4954 (1909), p. 223. Table 104.

an unemployment Index based on Trade Union percentages.

*Wholesale Prices: the Board of Trade Index.*—The movements of Wholesale Prices form the basis of those of Retail Prices and therefore of Cost of Living. The Board of Trade Index (1873-1920) is based on price movements of 47 principal articles. These are mostly materials, for the reason that many consumable products have so many varieties, and their prices are subject to such frequent small changes that their fluctuations are difficult to measure. The 47 articles<sup>1</sup> are divided into four groups, namely: Coal and Metals (Group I); Textiles (Raw Materials) (Group II); Food, Drink and Tobacco (Group III); and Miscellaneous Articles (Group IV); Group III being further subdivided into four sub-groups. There are Index Numbers for each article, and a careful system of weights is applied in calculating the Index Numbers for sub-groups, groups and the whole 47 articles covered. In one or two instances two or more things are combined as one article, e.g. butter and margarine, and bacon, pork and ham. A table giving fuller details of the Index will be found in Appendix I. Taking the Index as a whole, the Food, Drink and Tobacco group is given a weight equal to 65.2 per cent. of the total, and Food of 63.5 per

<sup>1</sup> Since 1920, the revised Index has covered 150 items, including some manufactured goods. A smaller weight is assigned to food.

cent., compared with 60 per cent. in the Cost of Living Index. The range of articles covered is wide, an important omission, owing to their price fluctuations, being fruit and vegetables (except potatoes). Home prices only are given for beef and mutton and import prices only for bacon and cheese.

*Cost of Living: Pre-War Figures.*—Apart from certain special enquiries, like that of the Board of Trade in 1904, pre-war official returns include such statistics as :

(i) Retail food and coal prices in London since about 1890 ; and

(ii) Changes in retail prices of food, rent and coal in London and the chief towns of the United Kingdom (Board of Trade Cost of Living Enquiry, 1912, Cd. 6955).

These are a valuable guide to pre-war conditions, as they are based on similar information to the present figure. The London food figures are a weighted average of 23 articles of common consumption, including 12 of the 14 in the Ministry of Labour Food Index, butter and margarine being omitted. These 12 have a combined weight of 315 in the London figures, and the other eleven together one of 45 only.<sup>1</sup> The most important omission, fruit and vegetables (except potatoes), does not appear

<sup>1</sup> These articles (weights in brackets) were: pork (15), rice (3), tapioca (1), oatmeal (5), coffee (2), cocoa (4), jams (4), treacle (2), marmalade (4), currants (3), raisins (2).

in either list. The London increase in Retail Food Prices over 1904 was 12.1 per cent. in 1913 and 14.1 per cent. for the whole of 1914; but allowing for the war months, the increase in 1914 prior to the war was probably about 11.0, that is if there was a similar set-back with retail as with wholesale prices. Between 1904 and 1913 coal prices rose over 14 per cent., whilst rents showed at most a slight increase—a fall in London being balanced by increases elsewhere. A rough weighting of various returns, including those of the 1912 Cost of Living Report, seems to indicate approximately that between 1904 and 1914 there was an increase of about 10 per cent. in Cost of Living, which in these returns covered only food, rent and coal. If the comparison is made between 1900 and 1914 the increase was perhaps about 2 per cent. more. The Ministry of Labour believed that increases in Wages and Food Prices practically balanced between 1904 and 1914, and thus wages appear since 1900 to have lagged somewhat behind food prices, and to a lesser degree behind Cost of Living. It will be noted that components of Cost of Living differed somewhat before and after 1914.

*Cost of Living since 1914: the Ministry of Labour Index Number.*—Working-Class Cost of Living is now measured in some detail by the Index Number of the Ministry of Labour. This covers a considerable variety of articles of working-class consumption.



The base period is July 1914. Prices and expenditure are calculated partly on those of 1904, adjusted subsequently to the levels prevailing in July 1914. The Food Index is based on a Board of Trade Enquiry of 1904, which collected and examined 1,944 working-class budgets. As with Wholesale Prices, there are now separate Indices for each main group, and in the case of food, fuel and light, for individual articles. The composition and working of the Index is fully explained in the *Labour Gazette* for February 1921 (pp. 69-72), but, in view of its importance, it deserves a rather detailed examination. The following points may be noted :

(i) The Index attempts to get at actual working-class expenditure in the necessaries and small comforts of existence, i.e. on the basis of a standard of living (rather than of mere physical existence).

(ii) Covering a wide range of working-class incomes, it represents their average expenditure and does not distinguish between the position of different sections (e.g. skilled men, labourers, etc.) : it is based on *urban* expenditure.

(iii) It covers the chief articles of consumption, and omits a number of small articles which do not, in fact, appreciably affect the result.

(iv) It is a weighted average, calculated on proportions spent on the different groups of

which the Cost of Living is composed, with allowance, e.g. in the case of food, for expenditure on certain articles omitted in calculating price variations for reasons given under (iii).

(v) It aims merely at showing actual expenditure and its changes, and does not profess to say whether the standard of 1914 was or was not adequate.

(vi) It assumes the maintenance of the same standards as in 1914, and makes no allowance for changes.

The Index is thus based on an average standard. So far, therefore, as working-class expenditure varies with income, changes in Cost of Living will not necessarily affect equally different sections of the working-class. The Ministry of Labour have pointed out how, at different times, some commodities have risen more than others. Thus, in March 1920, 'beef prices have little more than doubled, whilst granulated sugar is nearly four times the pre-war price'; or again, 'bread, margarine and tea have risen less than the average.' There may, therefore, be a difference in the experience of poor and well-to-do working-class families, if, as is probable, the former spend more in proportion than the latter on bread, tea, etc. Again, food prices at that date had risen more than general Cost of Living, and the proportion of income spent

on food tends to increase as its amount decreases.

*Cost of Living Index : its Divisions.*—The statistics cover five main groups—(i) food, (ii) rent, (iii) clothing, (iv) fuel and light, and (v) other items—which may each be briefly considered. The weights are based on the proportion spent on each group of an average wage of 36s. 10d. per week in 1904.

(i) *Food.*—The original index is based on the actual expenditure in 1,044 urban working-class budgets on 14 chief articles of food, weighted in proportion to their relative importance. On these the average expenditure in 1904 was 17s. 1½d. per week, whilst the total expenditure on food, after allowing for articles omitted for various reasons, was estimated at 22s. 6d. per week, or about three-fifths of the total wage. Food is, therefore, given a weight of 60 per cent. of the total in calculating Cost of Living. The Ministry point out that, owing to 'almost equal increases on the average in prices and wages' between 1904 and 1914, the cost of food would account for a very similar proportion of the wage in either year. Of the articles omitted, the most important are fruit and vegetables (except potatoes), whose inclusion is impracticable owing to 'the wide variations in quality, the "seasonal" variations in supply, and the consequent impossibility of obtaining continuous and comparable records of

prices.' As regards the other omissions, 'the inclusion of a number of articles of relatively minor importance would not materially affect the average percentage increase . . . they form a relatively small proportion of total working-class expenditure, and some have increased in price more, and others less, than the average.'<sup>1</sup> To secure current retail prices of these articles, information is obtained from all towns with a population of over 50,000 in 1911, and from 540 smaller towns and villages in the United Kingdom, or 620 in all. Returns are made altogether by about 5,500 representative retailers, with a working-class trade, including Co-operative Societies, large 'multiple' firms, and private shopkeepers, some of whom have a number of shops.<sup>2</sup> The system of weighting is not applied to the prices of individual articles, which are simply averaged for each town, and, for the whole United Kingdom, the mean of the average prices of large and small towns is taken.

(ii) *Rent (Including Rates)*.—The information is based on rents of 'unfurnished dwelling-houses of the type usually occupied by working-class families.' Up to March 1920, the Rent Restriction Acts practically limited increase in such rents

<sup>1</sup> *Labour Gazette*, February 1921, pp. 69-72. The figures for these are included in the higher total of 225. 6d.

<sup>2</sup> During the prevalence of control this information was supplemented by prices fixed in Food Control Orders.

to the equivalent of the rise in rates, and the information was concerned primarily with the latter. It was based on returns from the Town Clerks of 100 of the principal towns. Subsequent changes in the Acts have necessitated further enquiries as to rents. The averages only represent a general figure, London rents being considerably higher, and those of some towns appreciably lower.

(iii) *Clothing*.—The information covers both articles of clothing and materials, as in some cases sufficiently accurate information could be secured only for the latter. Usually, and, where they are made up at home, always, prices of materials adequately represent movements in prices of finished articles. But, where prices are altering rapidly, and changes in materials will not be fully reflected in those of finished articles, allowance is made, e.g. with an increase, 'for the fact that the cost of making-up has not advanced similarly.' The range covered is wide, including men's suits and overcoats, woollen and cotton materials for women's outer garments, woollen and cotton underclothing and hosiery and materials for making them, and boots. The prices are those of grades normally purchased by the working-classes. The statistics are collected from representative retailers and dealers in all large towns. The arithmetical (*not* the weighted) average is

used, but, owing to the great variety of prices and qualities, a somewhat more detailed method of calculation is necessary. The wide range of quotations and many influences, like variations in size of retailers' stocks at the opening of the war, have increased the difficulty of measuring price changes and render the measurement only an approximation to the true figure.

(iv) *Fuel and Light*.—The components of the group are coal, gas, oil, candles and matches. The prices are calculated from monthly returns by retailers and correspondents in 26 to 30 large towns, supplemented at intervals by wider enquiries. The prices of each article are computed on an arithmetical average, and they are given weights according to their relative importance.<sup>1</sup>

(v) *Other Items*.—This group comprises: (a) soap and soda; (b) domestic ironmongery, brushware and pottery; (c) tobacco and cigarettes; (d) fares; (e) newspapers. (c), (d) and (e) are omitted from Mr. Rowntree's calculation. Prices of sub-groups (a) and (b) are computed from returns from 20 to 30 principal towns, and those of the rest from 'public announcements' supplemented, where necessary, by special enquiries. The returns for different articles are roughly weighted to get average prices for the group.

<sup>1</sup> Weekly pre-war expenditure was about 1s. 6d. to 2s. (coal), 9d. to 1s. (gas), and 3d. on the other items.

The results represent only an approximation, but 'the importance of these items is small, relatively to the total family expenditure, and the precise amount of increase is not a matter of substantial importance.' Furniture and repairs are not included, possibly from difficulty in calculating price changes.

*Cost of Living: Group Weights and Distribution of Income.*—The various Groups are carefully weighted according to their relative importance. Food, for the reason already given, had the same weight in 1914 as in 1904. The weights for the various Groups in 1914 were: Food  $7\frac{1}{2}$  (60 per cent.); Rent (including Rates) 2 (16 per cent.); Clothing  $1\frac{1}{2}$  (12 per cent.); Fuel and Light 1 (8 per cent.); and Other Items  $\frac{1}{2}$  (4 per cent.), with a total weight of  $12\frac{1}{2}$ . This distribution of income is similar to that of Mr. Rowntree's Physical Efficiency Minimum, the proportions spent on Food, Clothing and Other Items being higher, and on Rent and Fuel lower. The Cost of Living figures seem to leave a surplus of about 1s. per week, to cover excluded items, including insurance. Probably Mr. Rowntree's efficiency test accounts for his smaller proportion on food. Normally, the lower the income, the higher the proportions spent on this. Thus the Sumner Committee<sup>1</sup> calculated that these proportions were 54.8, 56.2 and 56.7 per cent. respectively for skilled,

<sup>1</sup> Cd. 8980.

semi-skilled and unskilled labourers' budgets in July 1914, and 60.5, 63.4 and 64.9 per cent. in June 1918. Again, Mr. Rowntree found that the poorest class of workers in York, with 18s. a week or less, spent 73.5 per cent. of their incomes on food and 22.3 per cent. on rent.

*Cost of Living Index: Limitations.*—The Index has been criticised from so many directions as to constitute evidence of its substantial accuracy. Some criticisms are based on grounds of general policy, such as inclusion or exclusion from the calculation of increased taxation, or the failure to allow for reduction in consumption, or the forced use of cheaper substitutes, owing to high prices and short supplies. These, however, are scarcely valid criticisms. The Index rightly aims at showing changes in the cost of keeping up a particular standard of living. Reduced consumption and substitution may be desirable things, as, for instance, a proper contribution of the classes concerned towards war burdens.<sup>1</sup> But this is a question of policy, not statistics, and, in fact, these criticisms are really evidence that the Index has the merit of consistently comparing like with like. Nevertheless, it is subject to various qualifications :

(i) It is an average of a number of separate standards, and, even so, is only an approximation.

<sup>1</sup> This, however, will not apply to 'substitution of choice' where an equal or superior substitute is available.



(ii) It does not cover all the items in the ordinary standard of living, even of the working-classes, though the Ministry contend, probably with justice, that the inclusion of expenditure omitted would not seriously affect the general results: a possible exception to this is provided by Insurance (see p. 119), expenditure upon which appears to have varied little between 1914 and 1918.

(iii) It does not allow for local variations, which may be appreciable, e.g., notably in rents.

(iv) It is based on urban experience and may not adequately represent rural conditions.

(v) It gives an average for all families, and does not show the effect of price changes on families of different size. For instance, the greater rise in the prices of milk during at least a considerable part of the war and post-war period as compared, for instance, with bread, tea and margarine, would involve a more than average rise in the cost of living for families with young children.

(vi) The Index cannot show the different effects of price changes on the standards of particular sections of the working-classes, and still less these effects on the costs of other sections of the community, though the information on which it is based may indicate general tendencies.

These limitations of the functions of the Cost of Living Index are to some extent inevitable. The

question of improvement and revisions, moreover, is complicated by the fact that stability in the Index is a prime essential. As money measures the values of individual commodities, so the Index measures the value of money. In either case a fixed and definite standard, so that people may know exactly what it is and upon what it is based, and have the necessary confidence in it, is of more importance than theoretical exactness.

*Possible Improvements.*—The possibility of development of the Index to show, for instance, the main differences in price movements as they affect different localities or classes of the community is worth considering. Even here, however, with many wage rates based largely upon the Index, a variety of sectional and local figures might well create much confusion and difficulty. Again, the course of social and industrial progress tends to change the cost of living by changing either the needs to be satisfied or the cost of satisfying them; and this will apply to the 20 years since the basis of the present Index was first calculated. The fall in the Birth Rate since 1904 probably means a reduction in the size of the average family, and therefore in the relative cost<sup>1</sup> of maintaining the average standard of 1904 or 1914.<sup>2</sup> Direct decreases in

<sup>1</sup> i.e. allowing for general increase in prices.

<sup>2</sup> Cf. *Has Poverty Diminished?* By Professor A. L. Bowley and Miss M. H. Hogg: 'Over 11 per cent. of the families contained four or more dependent children in 1913, less than 8 per cent. in 1924: 22 per cent. contained three or more in 1913, less than 17 per cent. in 1924.'

costs, brought about by industrial progress, are, indeed, reflected in Cost of Living ; but where they take the form of cheaper and better substitutes this may not be so ; and there may be a real decrease in the cost of maintaining particular standards that is not reflected in the Index. Thus smaller average families and developments of ' substitutes of choice ' may constitute a case for revision of the Index. At present, however, as suggested by the Ministry of Labour evidence before the Coal Commission, things are probably still somewhat abnormal, and revision is undesirable pending full re-establishment of ordinary conditions.<sup>1</sup>

*The Lag of Retail Prices.*—The connection between Retail and Wholesale Index Numbers is important, since the movements of the latter form the basis for changes in the former, and further retail prices tend to follow wholesale only after an interval. This is due to delay in disposing of stocks, previously purchased, to time taken by retail conditions, e.g. wages, to adjust themselves, and to the fact that elements in retail prices may not change so much or so soon as wholesale. There is often an additional lag of wages behind prices (see also chapter iv). Thus between 1900 and 1914 rising prices were followed only after an interval by wages : and recently some retail prices have not, for various

<sup>1</sup> For Labour criticisms of the Index and the Ministry's reply to them, see *Labour Gazette*, August, 1921, p. 392, and September 1921, pp. 452-5.

reasons, fallen to correspond with wholesale. The lag of retail prices seems most marked where changes are rapid. The following Table illustrates the working of this tendency in regard to food prices between 1900 and 1913 :

## INDEX

Year	Retail Food Prices (London)	Wholesale Food Prices (United Kingdom)
1900 ..	100.0	100.0
1905 ..	102.8	101.2
1910 ..	109.4	109.2
1911 ..	109.4	111.6
1912 ..	114.5	119.9
1913 ..	114.8	117.7

Thus, between 1900 and 1905 wholesale food prices rose rather less rapidly than retail, whilst when the general rate of increase quickened, retail prices nearly lost the lead between 1905 and 1910. From 1905, indeed, the lag really began, slowly up to 1910 and rapidly in 1911 and 1912, whilst in 1913, when wholesale prices fell, retail continued to rise.

*Middle-Class Cost of Living: the Civil Service Bonus.*—Middle-class cost of living has not yet been the subject of definite statistical calculations. Bonuses and other increases, therefore, are not

usually based on definite figures, but on rough estimates, affected by supply and demand, 'charging what the traffic will bear' and like considerations. With the salaries, up to about £500 or £600 a year, a 50 per cent. increase was apparently not uncommon at one time. The most valuable figures are, perhaps, those of the Civil Service Cost of Living Bonus, which was based on definite enquiry into the conditions of the service. An award published May 1920, and applied as from March 1st, 1920, fixed the following rates of bonus on salaries up to £500 a year on the basis of the 130 per cent. increase in working-class Cost of Living at that date :

(i) On the first 35s. per week (£91 5s. per annum) of all pre-war salaries, 130 per cent.

(ii) On the amount of all pre-war salaries between £91 5s. and £200 per annum, 60 per cent.

(iii) On the amount of all pre-war salaries between £200 to £500 a year, 45 per cent.

For every rise or fall of a full 5 points in Cost of Living, the bonus was to increase or decrease by  $\frac{1}{4}$  ( $\frac{1}{4}$ ). The bonus is calculated on the Cost of Living of the preceding six months.

*Working of the Scale.*—This gave, in practice, a sliding scale of bonus roughly varying with the income. For working-class rates of pay the bonus equalled the increased cost, and the rate decreased

as the salaries increased. Thus, the bonus was 95 per cent. of the increase in Cost of Living at a pre-war salary of £100 a year, about two-thirds of it at £200, about half at £400, and somewhat less than half at £500. A continuance of this scale would give bonus of a little over two-fifths of the rise in Cost of Living at £900 a year. On the figures for the previous six months, the bonus for the summer of 1925 would be on the basis of an 80 per cent. increase in Cost of Living; and the scale of bonus up to £500 a year would range from 80 to 33 per cent. of the salary. The scales appear to be based on the principle that above a certain point essential expenditure ceases, and, owing to greater facilities for substitution and economy, the real increase in Cost of Living is less with the higher incomes.

As already suggested, there seems some evidence to support these assumptions.

## CHAPTER IV

### PRICES AND COSTS

*Meaning of Value and Price.*—Value has various meanings in ordinary life and in Economics. Thus Adam Smith distinguished between Value in Use and Value in Exchange, out of which Jevons and Marshall developed the ideas of Total and Marginal Utility. The Austrian School, and in this country writers like Smart, worked out the idea of Subjective Value—the capacity of a good to satisfy a human want or purpose, which cannot be satisfied except by that particular good—as distinct from objective Exchange Value or power in exchange. As it is in this latter sense that the term Value is generally used in Economics, it seems best to adopt it as the definition, and to say, with J. S. Mill, that ‘the Exchange Value of a thing is its general power of purchasing, the command which its possession gives over purchasable commodities in general.’<sup>1</sup> Thus Value is a relative term, and represents the quantity of other things for which a commodity or service will exchange. Such power in exchange can only be measured, as length and weight are measured,

<sup>1</sup> *Principles of Political Economy*, book III., chapter I.

by reference to a definite standard, with which values of all articles may be compared. This common standard is provided by Money, and 'the value of a thing in relation to money, the quantity of money for which it will exchange,'<sup>1</sup> is termed its Price. Price, therefore, is value estimated in money, and in this sense there is no such thing as price of money, which would simply be the value of money estimated in money. But there is such a thing as the value of money, and we can talk not only of the value of commodities estimated in money, but the value of money estimated in commodities.

*Particular Prices and Values.*—Particular prices represent the value of individual commodities, and tend to adjust themselves to general changes in price. 'Relative prices,' it is said, 'are adjusted to relative values.' With a general change some commodities rise (or fall) at first more rapidly than others. But prices of individual articles depend on their values relatively to each other. Hence commodities which in such circumstances rise (or fall) less than others are relatively under- (or over-) valued, and consequently are relatively cheap (or dear). The normal results of demand and supply follow, and, unless causes have been at work permanently to alter relative values, prices of individual commodities will before long be adjusted to their normal values, and will bear the same

<sup>1</sup> *Ibid.*



proportion to each other that they did before the general change. As, however, the elasticity of demand and supply varies more for some commodities than for others, there are certain readjustments after every big change.

*General Prices.*—General Prices mean the sum or average of prices as a whole. 'The phrase, "general level of prices,"' says Mr. W. T. Layton, 'expresses the relation between the value of commodities and the article chosen as the standard of value.' The instrument of measurement is the Index Number, which serves to express both the value of things in general in money and of money in things in general. An increase in the Index means a general rise in prices of commodities and a fall in the value of money, since more of it has to be given for commodities. Similarly a decrease in the Index means a fall in prices and a rise in the value of money. In fact, estimates of general prices do not involve calculation of those of all commodities and services as in strict theory they should. So elaborate a calculation is impossible, at least with present knowledge. Some commodities, as already explained,<sup>1</sup> can safely be omitted without seriously affecting the general results. Thus at present estimates of General Prices are confined to a limited number of important articles and services, both in official and unofficial index numbers. In particular,

<sup>1</sup> See pp. 52-5.

services—in the wider sense of functions distinct from the actual manufacture of material commodities—are little represented.

*Changes in Price-Levels.*—Over a sufficiently long period individual fluctuations in prices of a representative series of important commodities tend to balance each other. Some may rise, others fall, so that their total value remains stable, and, apart from alterations in the value of money, changes are likely to be small. Therefore, any change in the price level (or index number) can be safely attributed to a change in the purchasing power of money. Such a change may be brought about either by a general increase or decrease in the supply or cost of production of commodities, or by an increase or decrease in the quantity of money. In fact, such a change need not affect all the items on either side, provided that it is sufficiently wide to upset the established relation between money and commodities. Thus an appreciable rise or fall of a few important commodities may alter the average price-level. This, in fact, is an exception to the general rule of the stability of commodity values over long periods. A similar result may follow a change in credit without alteration in the output of gold.

*Influences Affecting Production.*—Causes leading to general increase or decrease in Costs of Production tend to alter the price-level. Discovery of new

plants, opening of new sources of supply and developments in transport have played a big part in increasing the value of money, by 'calling in a New World to redress the balance of the Old.' Changes in productive and commercial processes, inventions, improvements in organisation, increased output, removal of restrictions on work and efficiency, better education, better health, all play their part. Reforms, which at first sight seem liable to raise costs, may have the reverse effect. Increased wages, leading to higher standards of living and healthier populations, have often increased efficiency. The experience of Factory Acts, the recent work of the Health of Munition Workers Committee and the Industrial Fatigue Research Board have shown that in various employments certain ranges of hours produce maximum output. Health and Unemployment Insurance, providing sustenance during sickness and unemployment and more security for livelihood, are likely to benefit increasingly the health and efficiency of the workers. Other causes are at work to increase costs. War, with its destruction of life and capital, interruption of transport facilities, failure of capital to carry out improvements, canniness by the workers, industrial unrest and excessive taxation, contribute to this. Many benefits of high wages and reduced hours are nullified if full scope be not allowed for the greater efficiency to which they can lead; and low wages, casual labour

and insecurity of employment reduce output and raise costs, by producing both physical deterioration and mental hopelessness.

*Currency and Credit Influences.*—The Quantity Theory argues that 'the value of money varies with its quantity.' Much ingenuity is spent in discussing whether paper money and credit instruments are money or merely substitutes for money. What is of real importance is the relation between money and the work which it has to do. With so many transactions to be performed, and with a particular level of prices, a certain amount of purchasing power is required, allowing for rapidity of circulation. Money may change hands few or many times in a given period, as may commodities. Thus the real relation is between the total number of transactions or exchanges, and the total quantity of money. If the work to be done increases more quickly than the quantity of money, the value of money rises and prices fall; and conversely, if the quantity of money rises the more rapidly. Whether paper money and credit are regarded as money or as money substitutes, the effect is the same. In the one case their efficient increase (inflation) or decrease (deflation) increases or decreases the quantity of money. In the other, their increase economises the use of money by taking over part of its work, whilst credit deflation increases the work of the currency and raises its value. In short,

it is the total purchasing power (metal, paper and credit) that determines the value of money.

*Monetary Influence and Prices.*—The influence of money and credit on prices takes various forms :

(i) There are direct changes, due to increase or decrease in the output of the mines. These, owing to the durability of the metals and the large stocks in existence, have little immediate effect, but, if continued for a sufficient time, appreciably influence the quantity of money.

(ii) Changes in monetary policy affecting use of the metals are important. The establishment of gold monometallism in place of bimetallism in Germany and the United States, and the closing of the mints of the Latin Union<sup>1</sup> to silver in the 'seventies largely assisted the rise in the value of money in the last quarter of the nineteenth century.

(iii) The bank-note, prior to 1844, and the cheque have done much to economise gold, their influence being largely exerted to meet the increasing demands of trade, without a corresponding expansion of metallic currency.

(iv) Banking policy has an important bearing on price-levels; in this country in particular the alterations in the bank rate, when effective, contract and expand credit.

<sup>1</sup> A bimetallic union, mainly of Latin nations, comprising France, Italy, Belgium, Switzerland and Greece.

(v) Paper currency issues are important. Over-issue has frequently caused a fall in the value of money—to practically nothing in cases like the Assignats of the French Revolution, the Russian rouble and the German mark; to a fraction of its face value, as with the franc at present, and to a lesser extent with the British treasury note, the American greenbacks and the British Bank Restriction of 1797-1819.

(vi) Over-issues of credit have similar results, as illustrated by the effects of Government borrowing during and immediately after the war, and by the subsequent deflation.

*Results of Falling and Rising Prices.*—Complete stability in the value of money is difficult to secure, even under a Gold Standard, especially when account is taken of influences which raise the value of money by lowering costs of production. As things are, Gold, and any monetary systems based on a Gold Standard, whilst liable to slow changes over considerable periods, are normally free from severe fluctuations. Systems not based on Gold (or on a bimetallic system) have generally proved subject to large and often violent fluctuations. Even with the most careful handling, as during the Bank Restriction, fluctuations have been greater than under a Gold Standard. Such fluctuations are normally bad; but where they are slow and gradual certain advantages and disadvantages

accompany either a rise or fall in general prices. On this matter economic opinion has been divided. Some economists have regarded a gradual rise in prices—a slow inflation, in fact—as possessing many advantages from the productive standpoint. J. R. McCulloch even argued that ‘a slowly progressive depreciation of money is a result eminently to be desired.’ Many other economists—and notably Marshall—have insisted rather upon the importance of the consumer, and the advantage of a slowly falling price-level, thus emphasising the conditions affecting Cost of Living.

*Benefits of a Slow Rise.*—The favourable effects of this may be summarised as follows :

(i) The burden of more fixed charges on industry, rents, debenture interest, etc., is reduced, because, whilst prices fall, they remain constant, at least for a time.

(ii) The ‘lag’ of wages behind prices temporarily reduces cost of labour.

(iii) Machinery and materials are bought at a lower level of prices and their products sold at a higher level.

(iv) Where the rise is due to increased mining output larger quantities of gold reach the banks, increasing their reserves and cheapening credit.

(v) The psychological influence is favourable; rising prices suggest increased profits and stimulate production.

(vi) Increased output leads to an increased scale of production and lower costs, an advantage which may prove permanent when more temporary influences disappear, with adjustment of wages, interest, etc., to the new conditions.

Thus, when they are due to natural and not artificial causes, it is claimed that slowly rising prices stimulate industry, whilst with falling prices most of the foregoing causes have an opposite effect and increase its burdens.

*Disadvantages of Slowly Rising Prices.*—Such a rise, it is argued, favours the manufacturer and the ordinary shareholder, at the expense of a general increase in the Cost of Living in excess of money incomes, and so the increased product will be badly distributed. The rise in wages will not balance increasing costs, especially at first, and until things have time to adjust themselves; whilst with slowly falling prices a benefit to the workers accrues from the 'lag' in the fall of wages. Against this, the supporters of the first view maintain that rising prices will bring better employment and more overtime, so that real earnings will be increased, in spite of the wage 'lag,' and that sooner or later wages will be adjusted to the price-level. Moreover, increased production means a greater total product, which, with adequate organisation of the work-people, should ultimately cause wages to increase more than Cost of Living. The question, indeed, is



largely one of fact, one side arguing that the gain outweighs the loss, the other that a temporary loss in real wages is certain and the subsequent gain problematical. The position of the salaried classes seems to be similar to that of the manual-workers. Some of them are less well organised, but the higher grades of brain-workers often possess something of a monopoly value. The small shopkeeper class, however, may not be able to adjust their charges sufficiently to balance their increased costs. They lose by any decrease, and benefit by any increase, in working-class purchasing power. The chief burden of rising prices, however, falls on the fixed incomes, both of the professional classes—clergymen, doctors, civil servants, the Universities and the teaching profession—and the persons who are living on rents or interest. A rise in prices, therefore, tends to benefit producers of commodities at the expense of producers of 'services.' Professional incomes tend to respond slowly to changes in cost of living, and they gain from a fall, since increases in their incomes, once they are obtained, tend to be permanent. Those living on rents or interest lose most heavily, suffering both by the fall in the value of money and the reduced capital value of their investments.

*The Lesson of Past Experience.*—So many disturbing causes are at work that the available information must be used cautiously, and, between the

two views, past experience is not conclusive. Thus the third quarter of the nineteenth century was on the whole one of rising, and the fourth one of falling, prices. But the former period was a period of continuous advance in production, with increasing employment, and the latter, except in its closing years, saw much industrial depression. Money wages, therefore, rose rapidly in the former period and very little in the latter, until the commencement of a new rise in prices in its closing years. Over the whole the difference in the rate of increase of real wages was slight, even when allowance is made for the better and more regular employment of the earlier period<sup>1</sup>; but this is partly due to the rapid increase in the last few years of the century under the influence of the new rise in prices. The experience of 1850-75, however, was not repeated after 1900, when rising prices were accompanied by a fall in real wages. The facts emphasise that the vitally necessary thing is national production, rather than the rate of exchange. A larger output of the necessaries and comforts of life at higher prices is better than a smaller output at a lower level, provided always that the increase is fairly distributed. It must be borne in mind, however, that the benefits of such a rise in prices will not occur when the rise originates in increased costs

<sup>1</sup> See, for instance, the admirable table on the period from 1850-1910 on p. 184 of Mr. Layton's *Introduction to the Study of Prices*.

of production or diminished sources of supply. Under such circumstances rising costs of production mean greater efforts for the same results. Hence such a rise in prices is bad, and a fall brought about by lower costs is good, though such cheapness may be too dearly purchased, as, for instance, by sweated labour.

*Rapidly Rising or Fluctuating Prices.*—Considerations in favour of a slowly rising price-level cease to apply to a large and rapid increase, especially if accompanied by fluctuations, and the unfavourable arguments are enormously strengthened. An intolerable burden is inflicted on fixed incomes, leading to degradation of social standards; and this may take place over a wider area, owing to a pronounced wage 'lag.' The effects on classes close to the physical minimum are particularly grave. The rise in prices seriously injures thrift and foresight in spending earnings, and this may be accentuated by fluctuations. Such changes, moreover, if due to manipulations of credit or paper currency, injure a nation's credit, which is specially serious to a country so largely dependent on foreign trade as is Great Britain. There may, indeed, be a temporary stimulus to trade, but this is unsound and is seldom lasting. An extreme illustration is afforded by Germany after the war, when at one time the fall in the mark was so rapid that transactions undertaken at a handsome profit would not,

by the time payment was made, yield sufficient even to replace raw materials. Such results cannot in practice occur with gold, owing to its durability and the very large stocks in existence, and the biggest mining boom can only affect prices gradually and to a limited extent.<sup>1</sup> This practical prohibition of violent fluctuations in value is one great advantage of a Gold or a Gold Exchange Standard.

*The Importance of Stability.*—In conclusion violent fluctuations in the value of money are always injurious. As between a gradual rise or fall in prices strong arguments can be put forward on both sides. But, apart from a rise in the value of money due to increased efficiency, lowered costs or extended supplies, any fluctuation tends to lead to a feeling of insecurity and to produce changes in purchasing power and readjustments between classes or sections of the community which benefit some at the expense of others. Whilst, therefore, there is a case for a slow rise as against a slow fall, or vice versa, all arguments favour stability against either. Stability, indeed, which would prevent decreased costs from taking effect in reduced prices is not desirable; but it is of great importance to secure it so far as it concerns the precious metals and the currency generally. The difficulty is that in the past Government manipulation has almost

<sup>1</sup> The nearest approach to a very rapid fall in the value of the precious metals is to be found in the events of the sixteenth century.

invariably led to tampering with the coinage. All, and not only recent, monetary history is a warning that unsound monetary policy is a fruitful source of evil—productive of lower standards of living through increased costs—for at least large sections of the community. Nevertheless, the difficulties may not be insuperable. Any proposals,<sup>1</sup> therefore, on practical lines for promoting stability in the monetary system, without providing opportunities for Government to interfere with its working, will be well worth careful consideration.

<sup>1</sup> There are, for instance, those of Professor Irving Fisher;

## CHAPTER V

### COST AND STANDARDS OF LIVING, 1350-1914

*Past History of Cost of Living: Early Days.*—A brief sketch of the history of Cost of Living and earnings from the fourteenth century may be of interest. Early information, based on the price of wheat and the wages of carpenters and agricultural labourers, suggests that between 1300 and 1450 a real rise took place in the standard of living, particularly after the Black Death (1349).<sup>1</sup> Adam Smith estimated the price of the quarter of corn in England in 1350 at the equivalent of about 20s. of our present money, or a little above the lowest level reached by wheat in the closing years of the nineteenth century.\* The Standard of Living reached its highest level about 1440; and Professor Meredith argues that real wages, measured in corn, were higher between 1440 and 1490 than at any time till the second half of the nineteenth century, but it is doubtful if this applies to Cost of Living generally.

<sup>1</sup> See *Outlines of the Economic History of England*, by H. O. Meredith (App. I., pp. 349-53, and charts reproduced from Dr. Steffen's *History of the English Wage-Earners*).

\* See L. L. Price, *Money and its Relation to Prices*, chap. III, which is much used in what follows.

*The Sixteenth Century.*—The sixteenth century was a period of rising prices, rising costs, falling real wages and unemployment due to the disbandment of baronial retinues and the enclosures for sheep-farming. This evil was much reduced later in the century by the growth of the woollen manufactures, the revival of tillage and the social legislation of Elizabeth. The rise in prices in England is attributable to two causes, the debasement of the coinage by Henry VIII and his successors and the opening-up of the silver-mines of Mexico and Peru. Real wages declined seriously during the century. Adam Smith argued that before 1570 the silver of the New World did not appreciably affect prices, and that the value of silver continued to rise till in 1570 the price of a quarter of corn was equivalent only to about 10s. of our present money. Consequently the fall in real wages and the rise in prices prior to this date can be attributed only to the debasement of the coinage,<sup>1</sup> whilst the big rise in real wages early in the reign of Elizabeth appears to be attributable to the recoinage. After 1570, however, the influx of the new silver took effect. A rapid rise of world prices followed, and by 1640 the quarter of corn cost from 30s. to 40s. of our present money. From 1570 to the close of the sixteenth century there was a considerable fall in

<sup>1</sup> The silver penny, which in 1509 weighed 12 grains, had by 1552-3 been reduced to 8 grains.

real wages, though there were compensating circumstances. The spread of domestic industries in country districts considerably increased family earnings, and the improvement of housing and furniture, due to the growth of manufactures, perhaps more than balanced the increased cost of food. Employment also improved: and the legislation of Elizabeth, like the Statute of Artificers and the Poor Law, helped to raise still further the Standard of Living. Only such a view seems consistent with the general idea of the prosperity of Elizabeth's reign.

1600 to 1764.—Prices were highest in the first part of the seventeenth century, and from 1621 to 1626 corn averaged 39s. per quarter. Owing to a rise in money wages, there was only a slight decline in the Standard of Living in agriculture, and real wages of urban workers in 1650 were but slightly below the level of 1600. Then for about 100 years Standard of Living and real wages tended to rise. Corn prices declined somewhat, and, according to Adam Smith, averaged 32s. per quarter from 1700 to 1764, compared with 39s. from 1621 to 1626. Money wages rose considerably till nearly the end of the seventeenth century, especially with artisans, which attests the slowly growing importance of manufacturing industries. The increase in real wages was smaller, and there was a general set-back



at the end of the century, attributable to the exceptionally heavy expense of the French War (1689-97) and to a series of bad harvests, which also contributed to the fall of agricultural wages. From 1700 to 1750 money wages tended to fall rather than rise, but the Standard of Living improved, owing to a steady fall in prices, especially during the administration of Walpole. The period was thus one of comparative prosperity, and the causes tending to improvement of living, in matters other than food, which existed in the sixteenth century, probably continued between 1600 and 1750.

*The Industrial Revolution and the Great Wars.*— Half-way through the eighteenth century the tide began to turn. Some writers put the commencement of the great rise in prices at about 1740. Various causes contributed to this, such as the series of great wars and the very rapid growth of population, the enclosures and the rush to the towns, which led to a shortage of agricultural labour. After 1797 the rise was influenced by currency causes, in the shape of the Bank Restriction or Suspension of Cash Payments by the Bank of England. Meanwhile, money wages did not keep pace with prices, though in many industries they rose rapidly after 1760. The standard of living reached its lowest point during the wars of the French Revolution and Napoleon. Its decline was specially

marked in trades in which women and children were displacing men. Agricultural wages in particular were also influenced by Poor Law allowances, especially after 1800. Sir George Evelyn estimated that the prices of agricultural produce generally in 1795 were between 400 and 500 per cent. above those of 1550, as compared with the estimate already quoted of about 220 per cent. between 1700 and 1764, but his estimate has been severely criticised.

*The Nineteenth Century: General Influences*<sup>1</sup>.—With the nineteenth century more information is available in regard to prices, wages and Cost of Living. This enables the working of different causes to be more readily distinguished; but, as Mr. L. L. Price points out, earlier conditions were simpler, and 'we have not, therefore, to strain our vision to detect the "secular" movement of prices due to variations in the supplies of the precious metals, beneath the fluctuations occasioned at more frequent intervals by expanding and contracting credit.' Fortunately figures for general prices are available for the whole century, and Mr. W. T. Layton<sup>2</sup> gives a valuable table based on the index

<sup>1</sup> The following summary is based largely on Mr. W. T. Layton's *Introduction to the Study of Prices*, the statistics of Dr. Bowley and Mr. L. L. Price's *Money and its Relation to Prices*.

<sup>2</sup> *Introduction to the Study of Prices* (1920 edition). App. A, Table II., p. 150. See also Table I., p. 148, for wheat prices since 1801, and the Table on p. 184 for Wages and Retail Prices since 1850. Frequent use is made of these tables later in the chapter.

numbers of Jevons and Sauerbeck, with 1900 as the base year, for the years since 1850.

*First Quarter, 1801-25:—(a) Prices.*—The considerable rise in prices in the second half of the eighteenth century culminated between 1800 and 1813. At first, thanks to the wise policy of the Bank of England, the Bank Restriction had relatively little effect, but by 1810 the Bullion Committee found evidence of a decided depreciation of the bank-note, in a market price of gold of £4 10s. per ounce compared with the mint price of £3 17s. 10½d., and in the fall in foreign exchanges. After 1815 the cessation of war demands for currency might have further affected the position but for stronger influences operating in the opposite direction. Prices therefore began to fall. In 1816 the Gold Standard was formally adopted in the form of a composite legal tender system, with silver and copper token coinages; but the coinage of silver had, in fact, been suspended since 1798. In 1819 Peel passed the Bill for the Resumption of Cash Payments. Fears were expressed that the consequent contraction of currency, accompanied by deflation and a rise in the value of gold, would seriously affect markets accustomed to inflated prices, thus anticipating the recent controversies between inflationists and deflationists. As a matter of fact, a big trade boom took place between 1820

and 1824, and the convertible note issues of the Bank of England and the country banks were extended. This eventually led to over-issue, and a sharp rise of prices, followed by a serious commercial crisis in 1825. Mr. Layton's index figures of general prices give an average of 208 for 1801-5, and 235 for 1806-10, and 154 in 1821-5. Wheat prices were well over 100s. per quarter in several years, reaching 126s. 6d. in 1812, but they were as low as 53s. 4d. in 1823. Thus the period eventually showed a decided fall in Cost of Living.

1801-25: (b) *Wages*.—The course of real wages during this period is less easy to calculate. Money wages on the whole appear to have declined considerably under the influence of the Industrial Revolution, especially in trades like the textiles, where the introduction of machinery and the displacement of men by women and children were specially felt. Where these influences were less marked money wages were steadier. In agriculture the fall was serious up to about 1815. The total effect on real wages is therefore difficult to calculate. Probably there was a slight improvement in agriculture over 1800, a year of very high prices,<sup>1</sup> whilst in industry some trades seem to have enjoyed a definite increase in real wages,<sup>2</sup> from the

<sup>1</sup> General prices were higher only in 1808, 1809 and 1811.

<sup>2</sup> Dr. Steffen's chart showed a definite increase in the case of carpenters.

combination of steady money rates with falling prices, which those severely hit by the Industrial Revolution do not appear to have shared. Moreover, unemployment during this period was probably very severe, owing to the substitution of machinery for hand labour. As, therefore, there had been a great fall in real wages before 1800, the distressed conditions of many workpeople probably remained substantially unabated.

*Second Quarter, 1826-50 : (a) General Influences.*— This period marked the real beginning of the improvement in conditions of labour, owing to various causes. Recovery from the Napoleonic Wars became more complete, the beneficial effects of the Industrial Revolution asserted themselves, its immediate evils began to decrease, and railway construction created an increasingly large demand for labour. Moreover, definite reforms were improving the conditions of the working classes. The reform of the Customs Tariff was commenced by Huskisson between 1823 and 1827, and followed by Peel's very comprehensive revision between 1842 and 1845 and the repeal of the Corn Laws in 1846. In 1833 came the first really effective Factory Act, followed by more comprehensive measures in 1844 and 1847, whilst in 1842 the Coal Mines Act prohibited the employment of women and children underground. Between 1833 and 1848 considerable

progress in the public health was achieved, culminating in the Act of 1848. Moreover, beginnings were made towards establishing equal bargaining power for the workers. In 1824-5 the iniquitous Combination Acts were repealed, and a partial, but inadequate, legalisation granted to the trade unions. After a period of violent agitation in the 'thirties, the big national societies, depending on reason and negotiation, and with their admirable system of friendly benefits, began to establish themselves, and in 1851 the Amalgamated Society of Engineers was formed. Finally the Poor Law Amendment Act of 1834 removed the terribly demoralising system of relief which had grown up, and, at the cost of immediate suffering, did much to improve the self-respect, and so indirectly the bargaining power, of the working-classes.

1826-50: (b) *Prices and Wages*.—The period, moreover, was one of falling prices. The small output of gold, the imperfect development of credit and the check to it at the collapse of 1825 meant that for some years currency failed to expand with the development of trade. Thus the figure of general prices fell from an average of 154 in 1821-5 to 131 in 1831-5, whilst wheat averaged only 39s. 4d. per quarter in 1835, a figure not again recorded till 1884. A further development of credit by means of Bank-notes culminated in the crisis of 1838-9,

the general price-level in the latter year exceeding 150 for the last time during the nineteenth century. The formation of the London and Westminster Bank in 1833 is sometimes taken to mark the real beginnings of the development of the cheque as a credit instrument; whilst the crisis of 1838 led to the Bank Charter Act of 1844, which practically confined the issuing of notes to the Bank of England, and allowed their issue only against an equal reserve of gold, except for a fiduciary issue against securities of about £14,000,000 (now nearly £20,000,000).<sup>1</sup> This measure would have largely destroyed the elasticity of the currency, and its expansion to meet the increased demands of industry, but for the subsequent increase in the world output of gold and the growing use of the cheque. Nevertheless, thanks to the continued increase in trade, assisted by Peel's removal of Customs duties on raw materials, there was a further fall in prices, and for 1846-50 the index of general prices averaged 116, or 25 per cent. below the average of 1821-5. The fall in food prices, however, was only about 17 per cent. Indeed, in the year after the repeal of the Corn Laws the average price (69s. 9d.) was, except for 1839, the largest since 1819. This was due to the effects of the Irish potato famine and the bad corn harvests of 1846. Meanwhile, money wages remained steady,

<sup>1</sup> The fiduciary issue of Bank of England notes must not be confused with the uncovered issue of currency (Treasury) notes.

after a slight decline in the opening years of the period, whilst in its closing years they were beginning to rise. The result was a slow rise in real wages, though, with the smaller decline in food prices, this increase may have been less than the course of general prices suggests.

*Third Quarter, 1851-75: (a) General.*—A change now took place. There was a rapid rise all round, but wages on the whole decidedly outstripped Cost of Living. The quarter is taken for purposes of convenience, but the period of the rise is about a year earlier. The index of general prices was lowest (107) in 1849 and 1850, and highest in 1874 (148), whilst 1875 (136) saw the beginning of decline. From 1850 far more complete figures of wages are available.

1851-75: (b) *Prices.*—The index figure for 1871-5 averaged 138, compared with 116 for 1846-50, or a rise of about 18 per cent. as against the previous fall of 25 per cent. The rise in food prices, however, was smaller. Wheat, for instance, increased only 6 per cent. between 1846-50 and 1871-5, and other foods benefited by Gladstone's reductions in the Customs Tariff. Wheat prices were high during the Crimean War, but were unusually low in the later part of the American Civil War, when general prices were affected by the cotton famine. The chief influences at work were those of Gold Output and Credit. Owing to the Australian and Californian



gold discoveries, world output increased sevenfold between 1846 and 1853, and continued very large subsequently, thereby increasing considerably the use of gold, both in currencies and bank reserves. Credit on a cheque basis was also largely increased, being stimulated by augmented bank reserves and the development of limited liability. The rise in prices was temporarily checked by big commercial crises in 1857 and 1866, and much accelerated by the Franco-German War. That the increase was not much greater was due to the very great expansion of trade and industry, which did much to limit the rise, especially between 1860 and 1870. Various influences contributed to this expansion, such as the increased output of gold itself, the complete removal of taxes on raw materials, transport developments in general, and the effects of previous railway building in particular. Elsewhere industry was hampered by wars, and the era of Free Trade policy in Europe proved highly beneficial. Moreover, improved wages and conditions of labour increased efficiency and output, and, for perhaps the first time since the Industrial Revolution, the idea of the 'economy of high wages' began to be acted upon. The able policy of the trade unions was also important, though their complete legislative emancipation between 1871 and 1876 did not take effect till the following period.

1851-75: (c) *Retail Prices*.—From 1850 retail

prices become available. With them the rise during the period is less marked, and suggests that improvements in transport and in other directions were influencing retail prices more than wholesale. Retail prices, however, seem to have been specially affected in the early part of the period by the Crimean War and the Indian Mutiny. These retail price figures are used subsequently for calculating the movements of real wages.

1851-75: (b) *Wages*.—The conditions already considered produced an increasingly rapid augmentation of money wages, with a considerable rise in real wages. Up to 1860 money wages rose little more than prices, and for a few years prices outstripped wages, especially if allowance is made for unemployment. But after 1860 there is a definite advance. The period from 1852 to 1870 is summarised by Dr. Bowley as 'nominal wages rising fast, prices rising, real wages rising considerably.' The actual increase in real wages over 1851-5 was 14 per cent. in 1866-70 and 28 per cent. in 1871-5, or 30 per cent. if allowance is made for the very low level of unemployment. Professor Bowley summarises the years 1870-3 as 'nominal (money) wages rising very fast, prices and real wages rising fast.' Money wages and prices had fallen somewhat by 1875. Real wages continued to rise till 1876, but, if allowance is made for unemployment, the position was more favourable a year or two earlier.

*Fourth Quarter, 1876-1900* (a) *General*.—There succeeded a very marked and very rapid fall in prices amounting to over 45 per cent. between the highest point (148 in 1873), and the lowest (80 in 1896), in which year the fall culminated. A recovery began in the closing years of the century. The fall in food prices was probably at least equally marked. In retail prices the decline was somewhat smaller, with a maximum range from 137 in 1873 to 93 in 1896 (about 32 per cent.). These figures again suggest a 'lag' in retail prices, especially as their recovery between 1896 and 1900 was slower than with wholesale prices. Money wages dropped appreciably at the beginning of the period. They did not recover the level of 1873-5 till 1889, and then, after a check from 1892-5, advanced rapidly till 1900. Real wages rose steadily after 1880. Dr. Bowley distinguishes the following periods:—

Year	Money Wages	Prices	Real Wages
1873-9 ..	Falling Fast	Falling Fast	Nearly Stationary
1879-87 ..	Nearly Stationary	Falling	Rising
1887-92 ..	Rising ..	Rising and Falling	Rising
1892-7 ..	Nearly Stationary	Falling ..	Rising
1897-1900	Rising Fast	Rising ..	Rising

Between 1873 and 1879 real wages practically maintained the level of the previous boom.

1876-1900: *Gold and Prices.*—The character of the period was largely the result of the coincidence of a decreased supply of gold with a big increase in the demand. Between 1876 and 1895 the world output was considerably smaller in quantity than in the preceding twenty-five years, and between 1879 and 1888 was as much as 15 per cent. below the average of 1866-75. Later, indeed, a big increase took place. The output of 1892 was the highest since 1866, that of 1894 was the largest on record, but was exceeded in 1895; and the increase steadily continued till 1899. The increased output, however, did not have an immediate effect. Moreover, whilst output was decreasing, expanding industry and trade increased the demand for money and made a rise in its value inevitable. This was further affected by the prevalent currency policy and notably by the adoption by the United States and Germany of a system of gold monometallism and the closing of the mints of the Latin Union (see p. 72) to silver.

1876-1900: *Credit and Prices.*—If other conditions had remained unchanged the fall in prices would probably have been far greater than it actually was. The fall, however, was checked by the great development of credit during these years, which, by economising money, restricted its rise

in value and maintained prices. In particular the period was one of the most active in joint stock banking. A notable feature was the coincidence of low prices and low interest, the latter being evidenced by the great rise in gilt-edged stocks, with  $2\frac{1}{2}$  per cent. Consols. as high as 112 just before the Boer War. Thus a shortage of coin was accompanied by ample supplies of capital, and the latter is sometimes regarded as an important contributory cause of the subsequent growth of trusts and cartels.<sup>1</sup> The effects described in the last chapter appeared also to come into operation. Until the turn of the tide in the closing years of the century there was severe industrial stagnation and a high level of unemployment, whilst the fall in prices contributed largely to the great agricultural depression.

*The Twentieth Century Before the War.*—By 1900 the tide had already turned. The increased world output of gold continued, after some set-backs during the Boer War, and by 1909 was over 50 per cent. above the record figure of 1899. Indeed, the average annual output, which had been £24,500,000 in 1876–95, was £58,000,000 in 1896–1905, and £84,800,000 in 1906–10. Meanwhile, wholesale prices, which had been rising slowly, increased sharply in 1900 under the influence of the Boer War, and fell in the subsequent trade depression,

<sup>1</sup> See D. H. Macgregor, *Industrial Combinations*, p. 124 (1906 edition).

rose again above the 1900 level, and continued to rise till 1913, after which came a set-back in the pre-war months of 1914. Retail prices after 1900 rose steadily, the increase up to 1910 being greater than with wholesale prices, but subsequently the normal 'lag' of retail prices reasserted itself. In 1913 wholesale prices were about 17 per cent. and retail about 15 per cent. higher than in 1900. Here, again, was exhibited the tendency of slowly rising prices towards an industrial expansion, which was world-wide.

1900-14: *Rising Prices—Mitigating Circumstances.*  
—In spite of the destruction of capital in the South African War, the gold increase was accompanied by, and was in part the cause of, further extensions of credit, since it led to an expansion of bank reserves. The result of the enlarged output, therefore, was a measure of gold inflation, which prior to the war was moderate in spite of the increased production, and is indicated by the increases in prices. The limited extent of the rise was largely due to the big industrial expansion, and to the fact that the chief industrial nations took the opportunity to strengthen their gold reserves. India again absorbed much of the increased output. Attempts to increase the amount of gold in circulation did not, apparently, meet with great success, but in other respects India has been a great absorber of

gold, its demand for hoarding purposes being stated to be practically unlimited.

1900-14: *Wages and Employment*.—This period in Great Britain showed, on the whole, a decline in real wages. In 1910 money wages were still practically at the level of 1900, and in the boom of 1907 were only slightly above it. Real wages, therefore, between 1901 and 1910 were not only below both the figures in 1900 and the average for 1896-1900, but, when allowance is made for the fact that employment was appreciably less good than in the preceding decade, the decline in real wages compared with 1896-1900 amounted to 4 per cent. in 1901-5 and 6 per cent. in 1906-10.<sup>1</sup> Subsequently, in the big trade boom which culminated in 1913 some, but not quite all, of the lost ground had been regained. Thus the Great War opened with Cost of Living higher and the Standard of Living and real wages slightly lower than at the beginning of the century.

<sup>1</sup> The trade union percentage averaged 5.05 in 1901-10 and 4.4 in 1891-1900; but two depressions and one boom fell in 1901-10, and two booms and one depression in 1891-1900.

## CHAPTER VI

### THE GREAT WAR AND AFTER, 1914-25

*Conditions in July 1914.*—When the war broke out, prices and cost of living had been rising for some years owing to increased gold output, assisted by the big trade boom which culminated in 1913. There was some reaction in the pre-war months of 1914, but, except for 1912 or 1913, wholesale prices were higher than in any year since 1884, and food prices than in any since 1894. The experience of previous booms suggested that the decline was only temporary. Probably, therefore, the increased gold output would have continued to raise prices in the years following 1914. Thus, war influences were superimposed on an existing tendency to increasing prices. It seems safe to suggest, therefore, that of the increases since 1914 in Wholesale Prices and Cost of Living, a small part, possibly about 10 per cent., is due to pre-war tendencies, the rise due to the war being thus reduced in the last few years to about 45 or 50 per cent. in wholesale prices, and about 65 per cent. in Cost of Living. Moreover, in view of the growing strength of trade unions prior to the war, as illustrated by the



all-grades movement on the railways, part of any increases that can be attributed to higher wages or reduced hours might have come in any circumstances.

**AVERAGE PERCENTAGE INCREASES IN COST OF LIVING OVER JULY 1914, AND IN WHOLESALE PRICES OVER JAN.-JULY, 1914 FOR WAR MONTHS OF 1914, AND EACH YEAR FROM 1915-1925 INCLUSIVE.**  
(N.B.—Increases given to nearest 1 per cent.)

Year	Cost of Living <sup>1</sup>			Wholesale Prices	
	Food	Other Items	All Items	Food	All Articles included
1914 .. (war months)	13	Not available		14	8
1915 .. ..	31	12	23	34	27
1916 .. ..	60	26	46	65	64
1917 .. ..	98	43	76	114	114
1918 .. ..	115	84	103	126	135
1919 .. ..	119	109	115	143	161
1920 .. ..	156	138	149	165	200
1921 .. ..	129	120	126	104	92
1922 .. ..	76	93	83	61	55
1923 .. ..	69	81	74	51	55
1924 .. ..	70	82	75	62	62
1925 .. ..	71	82	76	65	56

*The Character of the War Period, 1914-25.*—With the war, industrial, monetary and political causes combined strongly to increase prices. This increase, culminating in the great upward movement of 1920, and followed by the decline of 1921 and

<sup>1</sup> Percentages calculated on figures for first of each month.

1922, has left working-class Cost of Living about 75 per cent., and wholesale prices about 60 per cent. above the pre-war level. The preceding table gives the average increase for each year since 1914 in Cost of Living and in wholesale prices. The two Tables of Food Prices, it will be noted, confirm the idea of the 'lag' of retail prices behind wholesale. So long as prices were rising, the increase in the former was less than in the latter; but subsequently the fall in retail prices has been less than with wholesale.

Annual averages often conceal the presence of certain movements within a year. Thus, after the Armistice, the closing weeks of 1919 saw some drop in prices, which remained below the level of October-November 1918 for most of 1919, though, owing to the increases during the former year, the figures for each month in 1919 were above those of 1918, except that food prices were lower from March to November. The increases shown in the table are, to a small extent, due to increased indirect taxation. This is estimated by the Ministry of Labour to have been equivalent to 5 per cent. of pre-war prices in 1916, reaching 7 per cent. in 1918, but falling to 6 per cent. and 5 per cent. respectively in 1919 and 1922, and 2 per cent. after the Budget of 1924. Thus, to eliminate the effects of increased taxation, the figures for Cost of Living as a whole must be reduced by from 2 to 7 per cent. A further

allowance must be made if it is desired to eliminate also the effects of increased rates.

*Phases of the Period : (i) The War.*—The war and post-war years fall into three main periods. First, the War Period (August 1914 to November 1918) was one of almost continually rising prices. These practically overrode normal seasonal influences, which cause food prices in particular to be higher in winter than in summer, and in these years there is little sign of their operation. The few decreases between one month and another were mostly due to changes in Government policy, notably the introduction of the Bread Subsidy in September 1917, which caused a drop of 9 points in food prices and 5 in Cost of Living during that month. Otherwise the increase continued steadily throughout the war, reaching its highest level for the time being (Cost of Living, 120–125 per cent. : Food, 133 per cent.) just before the Armistice.

(ii) *The Post-war Boom.*—This extended from the Armistice till nearly the close of 1920, falling into two parts. Up to the late autumn of 1919 there was the period of change from war to peace conditions, with prices tending to fall on the whole. This resulted from decrease in war expenditure,<sup>1</sup> improved supplies, more shipping, and freedom

<sup>1</sup> War expenditure by no means ceased with the war. Apart from Debt Charges and War Pensions, the pay and maintenance of the Army continued during demobilisation.

from the submarine menace. Later the Post-war Boom proper saw Cost of Living rise from 125 per cent., and Food from 133 per cent. above July 1914, in November 1919, to maxima of 176 per cent. and 191 per cent. respectively a year later; and the increase of over 50 points in a year was more rapid than at any previous period. The year 1920 closed at slightly lower levels of 165 per cent. and 172 per cent. above July 1914.

(iii) *Deflation and Depression, 1921.*—There followed, with the policy of Deflation, the period of Depression, which still continues. 1921 saw a very rapid fall; and by the beginning of December Cost of Living was less than 100 per cent. above July 1914 for the first time since May 1918, and on January 1st, 1922, was only 92 per cent. above it. This fall of 73 points in the year was thus more rapid even than the big rise in 1920 had been. The causes of the fall included general depression in trade and industry, limitation of the currency note issue, and deliberate restriction of credit by a high Bank Rate, which had reached 7 per cent. before the close of 1920. A heavy fall in wages estimated by the Ministry of Labour at £6,000,000 per week, exclusive of reductions in agriculture and certain other employments, accelerated the movement. The decrease in food prices was even more marked, and on January 1st, 1921, they were only 85 per cent. above July 1914, the lowest figure

recorded since 1916. Since November 1921, the increase in food prices over July 1914 has been below that of Cost of Living. The reasons for this seem to be the smaller elements of labour and manufacturing costs in the case of foods, and the less durable character of many foodstuffs, which reduces the influence of previous purchases in retarding the fall. In addition, rents, the biggest element in Cost of Living after food, were rising under the influence of the Rent Restrictions Act of 1920, while other prices were falling. During 1921, for instance, the increase in working-class rents rose from 42 to 55 per cent. above the pre-war level.

(iv) *Deflation and Depression, 1922-5.*—The decrease continued, but much more slowly, in 1922. The lowering of the Bank Rate—from 5 per cent. at the end of 1921 to 3 per cent. in July 1922—tended to check deflation, in spite of further reductions in the currency note issue. Wages were reduced by over £4,000,000 per week in 1922 but the reduction had definitely slackened by the end of the year. Since then the price-level has been relatively stable, and no marked change in either direction has been reported. The reduction in the uncovered currency note circulation has continued ; but trade, especially during the Ruhr occupation, has been somewhat better than at the height of the depression in 1921-2. There has been a slight recovery in wages,

increases of £554,000 per week in 1924, rather more than balancing decreases of £317,000 per week in 1923 and £79,000 per week in 1925.<sup>1</sup> In fact Cost of Living fell a little in 1923, and rose slightly in 1924, in spite of reductions in indirect taxation, equivalent to about 3 per cent. of the pre-war Cost of Living. The slight tendency to rise continued into 1925; but there are now signs of a decline, and in November, December and January, Cost of Living was 4 or 5 points lower than in the corresponding months of 1924-5. The return to a Gold Standard and the operations of the Food Council appear to have contributed to this result. For the last 3 years Cost of Living has been about 75 per cent. and food a little over 70 per cent. above the pre-war level.

*Seasonal Fluctuations.*—Reference must be made to seasonal fluctuations in Cost of Living within the year. These are due mainly to agricultural seasons and general climatic influences. As already indicated their influence was eliminated or concealed during the war and in 1920 and 1921; but in recent years more normal conditions have prevailed. The following Table gives average increases in prices over July 1914 in each month for the last three years (1923-5).

The seasonal curve in Food Prices and Cost of

<sup>1</sup> These figures are exclusive of Agriculture, the inclusion of which would have turned the decrease for 1925 into a slight increase.

## THE COST OF LIVING

1st of each month	Food Prices	Other Items	All Cost of Living
January .. ..	76	81	78
February .. ..	75	82½	78
March .. ..	74	84	78
April .. ..	68	83	74
May .. ..	64	81½	71
June .. ..	62	82	70
July .. ..	64	81½	71
August .. ..	64	79	72
September ..	68	80½	73
October .. ..	72	82	76
November ..	76	78½	77
December ..	77	81	78
Average for year	70	81	75

Living is almost uniform, prices being highest in winter, and falling to a minimum in June. The curve for Other Items is irregular, and suggests doubts whether there is any real seasonal fluctuation, except with individual items like Coal. Indeed, the variations from month to month seem mainly the chance results of more general movements of prices. Rents, for instance, remained at about 47 per cent. above pre-war level from July 1923 to September 1925, nor does there appear to be any seasonal movement in Clothing, except possibly for a slight cheapening in the late summer. The food seasons appear to be due to considerable variations in a limited number of articles. No marked seasonal fluctuation is noticeable in bread, flour, meat,

bacon, tea or margarine. The greatest variation within the year is found with milk, butter, cheese and eggs, and, to a lesser degree, fish. The cheapest season is usually from May or June till August; but with eggs, which show the biggest changes, it comes from April till July. Potatoes fluctuate considerably in price between different years, but show usually a rise in the summer with the substitution of the new for the old crops, and a fall later. These seasonal movements in a limited number of articles are sufficient to make a difference of about 8 points in Cost of Living and 15 in food prices in the course of the year.

*Influences Affecting Prices.*—Rising prices are an inevitable result of war, and the Napoleonic Wars offer in this respect parallels to recent conditions. There was in both a big rise in prices, and there was a similar controversy over currency and credit a hundred years ago in relation to the Bank Restriction and the Resumption of Cash Payments. Probably, the inflation of a century ago was smaller than that of recent years, and the rise of prices during the Napoleonic Wars was to a much greater extent due to influences affecting production and to the very rapid growth of population. There are similar parallels with earlier wars.

*War Influences : General.*—The working of Supply and Demand illustrates the interaction of financial and industrial causes. War reduces the supply of



commodities and services more than it reduces the demand for them, which in the aggregate may be increased rather than diminished. The consumption of a military population, when all forms are taken into account, is probably greater than that of a corresponding civilian population. This is partially balanced by economies and substitution on the part of the latter ; but the aggregate effective demand, especially under the conditions of high earnings prevailing during much of the late war, is appreciably greater. Consequently, when war needs have been satisfied, there is a high level of purchasing power but a low supply of goods to purchase.

*Financial Influences :* (i) *Currency.*—Financial influences show the Quantity Theory of Money (see chapter iv) at work. Monetary influences will not raise prices unless the supply of cash is effectively increased. War, in its immediate effects, creates increased demands for currency and credit, to offset any increase in purchasing power. This was one cause of the relatively slow depreciation of the Bank Note after 1797. In fact, the increases in currency and credit during the late war outran the demands for more cash. Introduced originally to meet the emergency caused by the outbreak of war and the rush for gold the Treasury Note soon, became a regular part of the British Currency System. By August 1915, the uncovered issue

(i.e. the excess of notes over the gold held in reserve) was roughly £18,000,000, rising in August 1917 to £140,000,000,<sup>1</sup> and by 1919 to a maximum of £320,600,000, from which figure it had fallen by 1924 to £248,000,000. Meanwhile the Currency Note had become practically inconvertible owing to prohibitions on melting and export. These figures may be contrasted with the pre-war position with a Fiduciary Issue of Bank of England Notes of about £19,000,000 and an equal gold reserve against any other issues. Against the increase in Currency Notes, however, must be set the practical withdrawal of gold from internal circulation.

(ii) *Credit*.—'The most marked feature of British war finance,' said a report of the British Association, 'was a variety of forms of borrowing, coupled with repeated extensions of Bank Credit, when receipts from taxation and loans from the public were insufficient to meet public expenditure.' During the war, this expansion was due mainly to Government borrowings. The post-war boom, which saw the most rapid rise in Cost of Living, was further stimulated by expansion of industrial credit. There were very large increases in the floating debt, using this term in the sense of borrowings for short periods, which had continually to be renewed. This floating debt was composed mainly of short-term Treasury

<sup>1</sup> *Industry and Finance*: The British Association (edited by A. W. Kirkcaldy), 1918, p. 205.

Bills and of Ways and Means Advances from the Bank of England, and the amount of the two together more than once exceeded £1,300,000,000. Such borrowings tend to lower Government credit, and so increased the taxpayers' burdens. Moreover they did much to cause inflation, as, it has been argued, did large subscriptions by the Banks to Government Loans, notably in 1914, 1915 and 1919. In each case the credits created were drawn upon by the Government to pay contractors and other creditors. These paid the cheques received into the Joint Stock Banks, thus increasing deposits, and the latter in turn increased their balances with the Bank of England. High authorities have estimated, for instance, that the Banks' subscriptions of £200,000,000 to a single loan led to an increase in deposits of £100,000,000. Similar effects were produced both during and after the war by issues of Treasury Bills and by Ways and Means Advances. The Joint Stock Banks normally regard a credit with the Bank of England as equivalent to cash. Thus, these Government borrowings eventually increased the reserves of the Joint Stock Banks and so provided the means for further extensions of credit. These results were accentuated during the post-war boom by expansion of industrial credits.

(iii) *Cost of Living*.—Thus the operations of Currency and Credit combined powerfully to increase

**Cost of Living.** Their relative importance has been much disputed, but that both exerted an influence is hardly doubtful. These facts illustrate the immense effect of unsound monetary policy, and reinforce the experience of the Napoleonic Wars that resort to inconvertible paper, however gradual and carefully regulated, is bound to lead eventually to inflation. The policy in each case may have been unavoidable, but its results remain.

(iv) *Taxation.*—The general influence of taxation on Cost of Living is considered in chapter vii. Of immediate importance is the contention that taxation was not sufficiently increased during the war, especially in its earlier years. Between 1913 and 1920 expenditure was met by taxation to the extent of £2,300,000,000 (22.6 per cent. of the total), and debt contracted of £7,876,000,000. Between 1793 and 1816 taxation amounted to £250,000,000 (or 23 per cent. of the total) and the debt contracted to £846,000,000. This comparison between the two wars is by no means unfavourable; but some critics consider that taxation was not sufficiently increased during the Napoleonic Wars. In the Great War the policy of the earlier years is most open to criticism. Allowing for a pre-war Budget of about £200,000,000, taxation was only increased by some £25,000,000 (7½ per cent. of the war expenditure) in the eight war months of 1914-15, and by £135,000,000 (10 per cent. of war expenditure)

in 1915-16. The next three years showed marked improvement, the proportions rising to 19, 20 and 29 per cent. respectively. In 1918-19, indeed, the increase in revenue over pre-war Budgets was nearly £700,000,000 in all, or about £620,000,000 in tax revenue alone. It is argued, therefore, that, in the first two years the general enthusiasm would have allowed much bigger burdens to be willingly shouldered, whilst additional taxation would have checked inflation and the rise of prices. Restriction of civilian consumption would have reduced demand, and reduction of short-term borrowings and Bank Credits would have checked inflation. A report of the British Association, for instance, estimates that additional taxation of £1,000,000,000 would have rendered unnecessary debt of double that amount, and by keeping down prices would have checked the rise in Cost of Living. The report urges various considerations on the other side. Too large and rapid increases, by hindering the adaptation of industry to the new conditions, might have reduced ultimate taxable capacity. The principle of 'ability to pay' is difficult to maintain in war-time, and undue burdens might have been imposed, in particular on classes with fixed incomes. Similarly, the great demand and shortage of supplies would have enabled manufacturers and producers, as apparently happened with the E.P.D., to shift much of the burden of direct taxation to the consumer.

*Labour Costs.*—Various other influences affected costs. The supply of labour was very much reduced. The enormous demands of the Armies turned producers into unproductive consumers, and war casualties permanently reduced the labour supply. In some respects, owing to the hardships involved, the maintenance of men on Service, particularly in food, is more costly than in peace-time, though in other respects there may be saving. Munitions and other war work caused a further very large loss of labour for normal production, the total running into millions. When all allowances are made, therefore, for workpeople, women especially, not previously employed, and for transfer from such occupations as domestic service, the loss to industry as a whole was very large. Moreover, withdrawals of the younger and stronger men and full employment of less efficient workers reduced efficiency, increased costs, and lowered output; and some casual workers were at first hardly capable of full-time employment. In many trades, training for industry was much reduced, whilst skilled men were disabled from following their previous employments. These losses have been partially made good by the training for skilled work of over 95,000 disabled men, including some former unskilled labourers, and the completion under the Government Scheme of nearly 45,000 interrupted apprenticeships, whilst many others are known to have been completed independently.

*General Production Costs.*—Many circumstances were causing increases. The military occupation of various districts, and, later, the Bolshevik Revolution in Russia, reduced seriously the agricultural areas of the world; and serious reductions in live stock were brought about by lack of feeding-stuffs and other causes. Agricultural and other kinds of raw produce were much affected by the shipping shortage and submarine warfare, whilst the cost of imports was further increased by heavy freights and insurance. Some transport charges increased, on the whole, less than the average. Thus, on the railways the 50 per cent. increase in passenger fares did not come into force in Great Britain till January 1917, the general increase never exceeded 75 per cent., and this later advance has since been removed. Goods rates were kept down by arrangements between the Government and the Companies, and were not placed on a more economic basis till the beginning of 1920.

*Output and Wages.*—The general cost of labour depends on wages and efficiency. On the latter the war produced some opposing tendencies. Withdrawals of many of the best and strongest workers, employment of weak or inefficient substitutes, and the introduction of much raw and inexperienced labour inevitably reduced output. Bad organisation, shortage of transport in munitions areas, and unwise extension of hours of labour aggravated the

difficulty by causing overstrain and irregularity. At one period, also, there was, for various reasons, considerable loss of working time, avoidable or otherwise. On the other side were the war-wave of patriotic feeling and the general determination to assist. Reports of inspectors of coal-mines, for instance, emphasised the success with which difficulties were overcome, and the coal output per head was surprisingly well maintained. As the war progressed, the general reorganisation of labour and production produced many improvements in plant and machinery and much economy of labour. The removal of difficulties over dilution and trade union regulations allowed much increase of output, and specialisation of labour was greatly extended. Piece-work was very largely increased, along with a general speeding-up of labour. The introduction to industry of middle-class workers, animated primarily by patriotic motives, had an admirable influence. Moreover, improvements in conditions of labour made for efficiency. Hours of work, under the influence of the Health of Munitions' Workers Committee, were adjusted nearer and nearer to the level most favourable to maximum output; and canteens, rest-rooms and protective clothing improved not only the standard of living of the workers, but the quality and quantity of their work.

*War Wages.*—The common idea that the war led



immediately to very large increases in civilian wages must be accepted with caution, at least as regards its earlier years. Some trades obtained large increases, but in others, like the textile, pottery and building industries, wages failed for a long time to keep pace with cost of living. Indeed, if rates of wages alone are considered, there was probably a wage 'lag' for much of the period of the war. The arrangements for employment of dilutees on skilled men's work caused very large increases in unskilled men's and women's wages in the munitions industries, often in unfair proportion to those of skilled tool-setters. More generally, earnings increased more rapidly than wage-rates. Whilst weekly or hourly rates were rising by comparatively moderate amounts, substitution of piece- for time-work, speeding-up, overtime and the practical disappearance of unemployment enabled very big earnings to be secured. Towards the close of the war, indeed, large advances in wage-rates became general, and then and after its termination the increases were very marked. On the whole, however, they were largest in the case of unskilled workers, since classes nearest the minimum of subsistence could least afford a reduction in their standards.

*Cost of Living as Affecting Different Classes.*—Some sections of the salaried and employing classes largely increased their incomes during the war,

but others did not enjoy these opportunities, their incomes failing to increase in proportion to cost of living. Thus, they had to meet increased costs with a smaller increase in resources than was enjoyed by the classes below them. In one respect this affected the latter unfavourably, through encouraging in the middle classes a tendency to substitute inferior for superior qualities of particular articles, for such substitution increased the demand for the cheaper grades and tended to raise their price more than the average. Thus, foreign beef and mutton and the cheaper cuts generally rose more than the home-killed during, and for some time after, the war, though the greater rise in foreign meat was partially attributable to shipping difficulties. Thus, the increase in food prices was possibly aggravated somewhat for the well-to-do working-class by middle-class economies. Their effect on the less well-to-do working-class was apparently less. Indeed, some staple necessities of the very poor rose by appreciably less than the normal. The increase in the case of bread has generally been below the average since 1917, and for the period of the bread subsidy (September 1917 to April 1920) very much below it. The advance in tea, margarine, cheese and, on the whole, potatoes,<sup>1</sup> has also been less than the average. Thus, except for fish and bacon, the most

<sup>1</sup> Except in parts of 1916 and 1917, owing to the short harvest of 1916.

important articles in, the budgets of the very poor have increased less than cost of living as a whole, so that their relative position compared with the skilled workers has probably been better than the figures would suggest.<sup>1</sup>

*Food Control and Food Rationing.*—The general effect of Government control was to keep down direct cost of living for all classes, sometimes at the taxpayers' expense, and, on the whole, to benefit a class in inverse proportion to its income. For Government activities were mainly directed to those necessities of life which absorb an increasing proportion of expenditure as income decreases. The result was to benefit the poorest classes most. Prices were kept down in part directly by fixing of maximum prices, reducing them in the case of the Bread and Coal Subsidies below cost level. The price of bread, for instance, was reduced to about 55 per cent. above pre-war level in September 1917, and maintained at this figure for 2½ years. Control also contributed to prevent exploitation of food shortage at the consumers' expense. Rationing, again, not only ensured a fair share of supplies to all, but prevented competition for limited supplies from still further driving up prices. Government action also tended, by such arrangements as the Iron and Steel Subsidies, to keep down prices of semi-manufactured materials of industry. De-control,

<sup>1</sup> See also the conclusions of the Sumner Committee below, p. 127.

indeed, appears to have contributed to the upward movement in 1920. So far as the subsidies were concerned, such a rise was inevitable, but similar results seem to have followed in some unsubsidised trades, till things had found their level. In one or two instances the control had to be temporarily reimposed owing to the undue charges that were being made.

*Costs and Standards in 1918: the Sumner Report.*  
—In 1918 the Government appointed a Committee, under the chairmanship of Lord Sumner, to examine the actual war increase in working-class cost of living and any compensating circumstances which needed to be set against this.<sup>1</sup> The Committee reported, shortly before the Armistice, on the basis of the conditions of June 1918, when Cost of Living was just double the pre-war figure and food prices had increased by 108 per cent. The expenditure dealt with by the enquiry is generally comparable with that of the Cost of Living Index, with the not unimportant addition of expenditure on Insurance.<sup>2</sup> This was reckoned at an average of 3s. per week before the war, and at much the same figure in 1918, whilst it has since been increased by additions to the rates of contribution, especially for Unemployment Insurance and Widows' Pensions. Its inclusion in 1918 by the Sumner Committee made a

<sup>1</sup> Cd. 8980.

<sup>2</sup> Including trade union subscriptions, Health and Unemployment Insurance contributions, payments to life insurance, etc.

difference of about 5 points in the figures, and suggests that the Cost of Living increases were to that extent too high, though the difference has subsequently been reduced by the increased contributions. Whilst the items in the two calculations are otherwise the same, the methods of calculation differ. The Cost of Living Index aims at calculating changes in cost of maintaining the same standard at different periods. The Sumner Committee preferred to compare the actual expenditure in July 1914 and June 1918. 'If wages or salaries,' they wrote, 'were raised in exact proportion to the Retail Price (i.e. Cost of Living) Index Number of the Ministry of Labour . . . it would still be impossible for the whole population to obtain similar commodities in unchanged quantities.' Such a comparison of actual expenditure is interesting as showing how household budgets were adapted to war exigencies, and to what extent economies were possible. The Report does not, except for the matter of Insurance, suggest that the Cost of Living Index has exaggerated the increase, nor did the Committee itself so argue.

*The Sumner Report and Cost of Living.*—The general increase in costs in June 1918 was put at about 74 per cent. above July 1914, the increases being 67 per cent., 75 per cent. and 81 per cent., for the families of skilled, semi-skilled and unskilled men respectively; whilst, excluding insurance, the general increase was about 79 per cent. compared

with 100 per cent. in the Cost of Living Index. With food, the average increase was calculated as a maximum of 90 per cent., which may have been somewhat lower, or about 85 per cent.,  $97\frac{1}{2}$  per cent. and 108 per cent. respectively for skilled, semi-skilled and unskilled families. The Cost of Living increase was 108 per cent. This shows a relative gain for the unskilled. The diet of the skilled was found to be slightly inferior in nourishing power to the pre-war dietary, and that of the unskilled slightly superior, owing to an increased consumption of bacon. The figures further suggest that the pre-war diet of the skilled worker showed appreciable opportunities for substitution, without reducing the actual physical nourishment, that of the semi-skilled worker some possibility, and that of the unskilled comparatively little.

*The Summer Report and Earnings.*—The Committee's interesting account of the compensating circumstances to be set against increased costs may be worth summarising :

(i) Employment of members of working-class families not previously occupied, with increased contributions by young persons to the family exchequer.

(ii) Practical disappearance of unemployment and short-time, and increased overtime, though the benefit of this last is reduced by increased

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cost of food and disorganisation of the household.

(iii) Little loss of time in the factory in waiting for work, allowing full advantage to be taken of opportunities on piece-work.

(iv) Opportunities for greater earnings on repetition work and specialised machinery, and by up-grading of youths and unskilled men to better work than they would normally do.

(v) Increased earnings due to patriotic stimulation of effort.

(vi) Saving of expense by free provision of uniforms, overalls and protective clothing, and provision of canteens and national kitchens, allowing better food values for a given expenditure.

(vii) Private liberality of employers to soldiers' wives.

Further, the Committee regarded the proceeds of allotments, which 'had helped to standardise the prices of garden produce,' rather as extra pay for extra effort, and excluded them from the calculation. Many of these advantages, indeed, were obviously of temporary duration.

*Working-Class Conditions at the Close of the War.*— Provided, therefore, that the rise in wage-rates corresponded roughly with that of Cost of Living, the position of the working-classes, and especially of the lower-skilled grades, would have been better in

1918 than before the war. In support of this, the Committee quoted important evidence, notably the improvement in the children's health, such as in London, where 'the proportion of children entering the schools in a poorly nourished condition was considerably less than in 1913'; the reduction by four-fifths in the provision of meals for necessitous children; increasing payments to boot clubs at least equivalent to the rise in prices; and the reduction in pauperism in July 1918 to two-thirds of the figures of 1914. Many of the middle classes, on the other hand, were faced at the close of the war with reduced resources relatively to cost of living, apart from much greater additions to the burdens of taxation.

*General Conditions after the War.*—By the close of the war, wage rates had largely overtaken the increase in costs and were still rising. Of the 'compensating circumstances' of the Sumner Committee, some, like the special earnings of war workers, came quickly to an end, though for a time they were partially replaced by the non-contributory Out-of-Work Donation.<sup>1</sup> The improvement in women's wages appears on the whole to have been maintained, at least in part, being assisted by the extension of the Trade Boards under the Act of 1918.

<sup>1</sup> Paid to civilians for about a year after the Armistice, and to ex-service men till the general contributory Unemployment Insurance system came into operation in November 1920.



The middle classes, on the other hand, stood to benefit eventually, both by decrease in direct taxation and by the fall in prices, for additions to income by way of bonus, etc., whilst not equalling the full extent of the rise, have not always fallen with the fall.

*The Turn-over from War to Peace.*—The general tendencies of Cost of Living since the War have already been described and many of the war-time influences continued to operate. Some, indeed, ceased, more or less rapidly, whilst others exerted for a time even greater influence than before. Thus, labour supplies for normal work were considerably increased as soon as the turn-over from war to peace was completed, and the close of demobilisation established more normal conditions. The shipping position benefited by the cessation of the submarine menace and, after the considerable pressure caused by repatriation, became adequate to all demands and eventually excessive. Other transport facilities also improved. Moreover, during the transition, demand, though growing, was not at its full height, and these influences helped to keep prices from rising for the greater part of 1919. Again, though the effects were not immediate, food supplies improved, and, in certain cases, notably wheat, prices were reduced for some years much below the general level. 'The three cereal years, 1921-22 to 1923-24, were years of very low prices

of wheat. . . . Countries such as Great Britain and Ireland . . . were, during the three years in question, securing their wheat supplies at much lower prices relatively than before the War.<sup>1</sup>

*The Post-War Boom.*—The causes of this were largely the culmination of previous influences. Inflation reached its maximum. Decontrol, and in particular the withdrawal of the subsidies, assisted the increase in costs. Above all, many influences combined to stimulate a demand for which supplies were not available—demobilised officers and men with gratuities to spend, revival of the postponed civilian demands of the war period, wage increases, and attempts to make good industrial developments which had been held up by the war. Supplies, on the other hand, were short, notably in building materials, and production had not yet got into its stride. Taxation was still at a maximum, especially with the restoration of the rate of E.P.D. to 80 per cent. in 1920, after its reduction in 1919; and conditions generally, with demand exceeding supply, favoured the transfer of direct taxation from producer to consumer. ‘The outstanding feature of the boom of 1920 . . . is that it was not in any sense a boom of production but a boom of prices only.’<sup>2</sup>

<sup>1</sup> First Report of the Royal Commission on Food Prices, Cmd. 2390, p. 59.

<sup>2</sup> *Is Unemployment Inevitable?* By the Authors of *The Third Winter of Unemployment*, p. 13.

*Output and Wages.*—Fuller reference is required to cost of labour. In 1919 wages rose largely, and hours of labour were greatly reduced. Many important industries gained an eight-hour day, and the coal-miners the seven-hour day, without reduction of wage-rates previously paid for longer hours. Moreover, the first pre-war years saw a great decline in rate of output. 'The workers were working shorter hours and producing less per hour than previously.'<sup>1</sup> Thus, without a boom in production, there was a boom in work and wages. This was aggravated by the prevalence of strikes, especially the four-months' stoppage in the 'key industry' of iron-founding. The decreased output is attributable mainly to three causes :

(i) War weariness and relaxation of war strain made a period of slacking inevitable, and in many cases there was a big recovery after a year or two.

(ii) There is the universal tendency to take things more easily in times of boom when unemployment is not feared, whilst with a certain class of workmen high wages lead to slackness.

(iii) Some deliberate restriction of output was based on false economic ideas, which were strongly, but for the time unavailingly, repudiated by responsible leaders of Labour.

<sup>1</sup> *Is Unemployment Inevitable?* p. 13.

The net result was a serious increase in cost of labour, which made an important contribution to the big rise in prices.

*Cost of Labour and Trade Depression.*—Since depression set in, marked improvement has taken place. Output per hour has normally recovered at least the pre-war level, but often has increased sufficiently to balance the reduced hours, especially with piece-workers and in trades subject to foreign competition. 'Time-workers may have increased their output per hour to some extent, but they have not made good the reduction in hours. . . . There has been very much slower improvement in what have recently been described as the "sheltered trades." ' Mr. P. Horsfall, indeed, seems to find the improvement general in engineering. 'In spite of the reduction of the normal working week from 54 to 47 hours, there is little evidence at the present time of a reduction in output per man.' Similar conditions appear to exist in many trades, though in some cases less satisfactory conditions are found to prevail owing to the strong objections of the workmen to payment by results. Generally, however, decreased cost of labour, due to increased output and falling wages, has contributed largely to the reduced cost of living.

*Rents and Post-War Costs.*—The increase in rents

<sup>1</sup> *Is Unemployment Inevitable?* p. 72.

<sup>2</sup> 'The Engineering Trades' in *Is Unemployment Inevitable?* p. 281.

has also contributed to the post-war rise, in spite of the fact that this increase has been throughout, and is still, smaller than the average advance in Cost of Living. But prior to the Act of 1919, increases in rents were only permitted to balance increases of rates, or expenditure on structural alterations; and during the war these rate-increases were on the whole small, and probably did not exceed 5 per cent. at the end of 1918. In the case of lodgers, who were not similarly protected, the rise was probably greater, as the Sumner Committee suggested. In 1919, an advance of 10 per cent. on standard rents was allowed, which in 1920 was increased to 15 per cent., with an addition of 25 per cent. to cover repairs. After the war there was a big rise in rates, followed by a considerable fall in the last few years. Consequently, rents changed from a stationary to an increasing element in costs, whilst prices were rising, and subsequently remained stationary at a little below their highest level. From 10 per cent. above pre-war level in March 1920, and between 15 per cent. and 20 per cent.<sup>1</sup> just before the passing of the Rent Restriction Act of July 1920, the increase had advanced to 42 per cent. at the end of the year and to 55 per cent. concurrently with the great fall in general prices at the end of 1921. Subsequently, chiefly

<sup>1</sup> These figures omit extra charges, like premiums and compulsory purchase of furniture, which involved considerable practical increases in many, particularly middle-class, rents.

because of falling rates, this increase fell to 47 in July 1923 and remained at this figure till the autumn of 1925, when it rose to 48 per cent.<sup>1</sup>

*The Present Position.*—There appear at present to be prospects of some further reduction in cost of living below the figure of 75 per cent. above the pre-war level, round which it has been for the past three years. This may be partly associated with recent developments in the direction of food control. The Food Commission appointed at the end of 1924 (see chapter vii) besides drawing attention to matters connected with the bread, flour and meat trades, recommended the appointment of a Food Council, to investigate and report upon food prices in general and certain essential matters in particular. The Council, appointed in July, has already taken action in regard to bread, which led to a reduction of 10 points in its price (from 70 per cent. to 60 per cent. above pre-war), and in that of flour (from 71 per cent. to 61 per cent.) during October, which contributed to the fall of 4 points in Cost of Living in that month contrary to the normal seasonal tendency. These prices rose only slightly in November, but in December had practically recovered to the September level. The Council is at present dealing with questions of short weight,

<sup>1</sup> Rates account for about half the increase, when it was at its highest, and about two-fifths at the present time.

which may have important indirect influence on Cost of Living. Thus, such action, and the publicity resulting from the operations of the Food Council, may, with the rise in the value of money under the Gold Standard, and other general causes, set in motion a fresh tendency to reduction in Cost of Living. It may be noted that on January 1st 1926, the figure is 5 points lower than in January 1925.

*Working-Class Standards, 1914 and 1925.*—At first sight, with the failure of wages in the unsheltered trades to keep pace with Cost of Living, and well over one million unemployed, a serious reduction in working-class standards would seem to have taken place. But other evidence points to a definite improvement. Recent returns of imports appear to show, in contrast to raw materials and manufactured goods, an increase per head of the population in quantities of food, drink and tobacco. Unless balanced by decreased home production, this means larger consumption and improved standards for the nation as a whole. The greater rise in prices of home-killed meat confirms this view. This tendency can be only partially attributable to the normal effects of falling prices, since these are still above pre-war level. It suggests rather that improved standards among the working-classes themselves are creating increased demands for home-killed meat and so raising the price above

the average.<sup>1</sup> Moreover, other facts, like the fall in the death and infant mortality rates since 1914, and the improvement in the health of school children, support this view. Better standards, indeed, are not the sole, nor even perhaps the main, causes of these improvements, but these do appear to be inconsistent with a definite lowering of pre-war conditions.

*Improved Standards: the Reasons.*—If, in fact, earnings since 1914 have increased on the average by more than the cost of living, the reasons appear to be:

(i) Whilst wage-increases have varied, rising less than Cost of Living in unsheltered and more in sheltered trades, the average increase in all occupations has probably equalled or exceeded it.

(ii) The increase is, on the whole, greatest with the poorest workers, where families were most liable to suffer from under-nourishment: unskilled wages, for instance, have risen about in proportion to Cost of Living in unsheltered, and by considerably more in many sheltered, trades; whilst the sweated trades have benefited by the extension of Trade Boards.

<sup>1</sup> See the figures in *The Survey of Overseas Markets* by the Committee on Industry and Trade (chapter iv., Table ii., pp. 638-40), which show that in 1924 at any rate the importation per head of the population was decidedly greater than in 1913, after allowance for the increase in prices.



(iii) Piece-rates have often been adjusted to yield the same wage under the eight-hour day as previously in the longer week, and the evidence of increasing output on piece-work suggests advances of earnings above those of wage-rates.

(iv) The eight-hour day, one of the great advances made by Labour since the war, may also have contributed to improve earnings: for the shorter working-day will, in some cases, even during depression, give increased opportunities for overtime.

(v) Social provision has been generally improved as a result both of pre-war measures, like Health Insurance, and of war and post-war developments, such as Factory Welfare and extension of Unemployment Insurance, which deserves separate treatment.<sup>1</sup>

These results suggest definite improvement in spite of the prevalent unemployment, and this is partly accounted for by relative improvement among the poorest, with whom the incidence of disease and ill-health has been greatest.<sup>2</sup>

<sup>1</sup> Reference may also be made to improved standards of Poor Relief.  
<sup>2</sup> Cf. *Has Poverty Diminished?* by Professor A. L. Bowley and Miss M. H. Hogg: 'The proportion of families in which a man is normally earning, found to be in poverty, was in 1924 only one-fifth of the proportion in 1913, if full employment is assumed; whilst if the maximum effect of unemployment is reckoned, it is little over one-half.' A certain amount of this change is attributable to decrease in the size of families.

*Unemployment Insurance.*—Before the war the system was limited to a few important industries, including building, engineering, shipbuilding and construction of vehicles. It covered about 2,400,000 workpeople, and provided benefit of 7s. per week for a limited number of weeks in the year, with a limit of one week's benefit to every five weeks' contributions paid. The Acts have since been extended and now cover nearly 12,000,000 workpeople, and under them men draw 18s. and women 15s. per week during unemployment, with lower rates for juveniles under 18, and supplementary allowances for wives, children and other dependents. As the provisions of the Shaw Act of 1924 gave a statutory right to 'uncovenanted benefit,'<sup>1</sup> the payment, subject to provisions against abuse, is made practically for the duration of unemployment. The system thus provides during unemployment a reasonable sustenance which is at the same time well below normal wage-rates, and so contributes largely to maintain the homes of the unemployed and to keep them and their families in reasonable health and efficiency. This provision was secured by raising the rates of contribution for employers and workpeople from 2½d. to 10d. and 9d. per week respectively, which rates are now reduced to 8d. and 7d. Moreover,

<sup>1</sup> Modified under the Act of 1925 which made grant of such benefit dependent on the decision of the Minister of Labour.

some very high authorities, notably the 'Third Winter' group, argue that these results have been secured without undermining seriously willingness to work, or leading to serious abuse and malingering. The possibility, however, of high rates of benefit leading indirectly to undue maintenance of uneconomic wage-rates must also be taken into account. The present rates of benefit, taking their duration into account, represent an increase of about 200 per cent. for those who were already covered by the Acts before the war, whilst for the additional 10,000,000 workpeople they are practically a new thing. Against them must be set the additional contributions.

*Middle-Class Standards.*—Unlike those of the working-classes, middle-class, and especially professional, standards seem still to be below pre-war level, but they have undoubtedly improved as compared with the close of the war and the post-war boom. Their Cost of Living has also largely fallen. The standard rate of income tax is down from 6s. in the £ to 4s., and, thanks to various readjustments, the actual increase on pre-war figures is moderate for the lower incomes, and in particular for those of married men.<sup>1</sup> In some cases, moreover, during the rise in prices, fixed increases in salaries were given equivalent only to a small part of the

<sup>1</sup> See chapter vii, p. 146.

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rise, and these have not been subsequently reduced. Similarly, with owners of house property, the 15 per cent. increase in standard rents has not yet been altered.

## CHAPTER VII

### SOME SPECIAL PROBLEMS

#### I. RATES AND TAXES

*The Nature of Taxation.*—In relation to Cost of Living, taxation may be considered under three headings, direct and indirect taxation, paid to the central government, and local rates. A direct tax may be defined as one levied upon the very persons whom it is intended should pay it, and an indirect tax as levied upon one set of persons with the idea that they shall transfer it to others. Examples of the first are Income Tax and Death Duties; of the second, Customs and Excise. Now, indirect taxation and local rates enter directly into the cost of commodities and services which comprise Cost of Living and form part of the prices upon which the index is based. Direct taxation does not enter directly into such costs, though it may do so indirectly. 'A tax on income,' says Professor Seligman, 'is a tax on net profits, and net profits are not costs, but the surplus over cost; a tax on profits cannot reach the men who make no profit.' The question has therefore arisen as to the proper

allowance for war taxation in dealing with Cost of Living. It is sometimes argued that such increases constitute a special war burden, which should be borne in proportion by each class, and should not be allowed for in calculating increases in Cost of Living. When, for instance, the Civil Service bonus was under discussion it was strongly urged that increased income tax should not be taken into account in fixing it, as otherwise part of the Civil Servants' burden would be transferred to the general taxpayer. In fact, the calculation of the bonus in the way already described<sup>1</sup> took no account of increases in direct taxation, and no such transfer of burdens has in fact taken place. Similarly it is contended that advances in wages to meet increased Cost of Living should not cover so much of the increase as is due to indirect taxation, since otherwise the wage-earners will escape so much of their share of increased taxation as affects commodities contained in the Cost of Living Index. It must be remembered, however, that incomes nearest the physical minimum are least able to bear increases in taxation which trench upon the necessities of existence, and that working-class consumption is already subject to heavy taxation, notably in beer and spirits, which is not covered by the index. Nevertheless, the argument is generally a good one that in relation to the Cost of Living war taxation

<sup>1</sup> See chapter iii, pp. 64-5.

should be regarded as part of the general burden of the war. On the other hand, it is sometimes argued that direct taxation is, in fact, added to the cost of commodities, and that the exemption of co-operative societies' dividends from direct taxation frees them from a burden that enters into ordinary cost of production. Such arguments appear to overlook the nature of direct taxation, which, in fact, is levied not on the process of production, but on its results and subsequent to the sale of the products.

*Principles of British Finance.*—Among the guiding principles of British finance are those of equality of taxation and the balance of direct and indirect taxation, both of which are of vital importance in relation to Cost of Living. Equality of taxation aims at two objects: first, to secure equality of sacrifice by imposing on persons and classes equal burdens relatively to income, and secondly, under the principle of 'ability to pay,' to adjust taxation according to the obligations and responsibilities, as well as the incomes, of the taxpayers, distinguishing, for instance, between earned and unearned incomes and between married men and bachelors. The earlier economic writers often advocated a proportional income tax. Subsequently the principle of progressive taxation has been developed on the ground that, since the wants satisfied grow less urgent as income increases, the loss of a given

proportion of income involves a bigger sacrifice when the income is small than when it is large. Equality of sacrifice therefore requires that a heavier rate of tax be imposed on the higher incomes. At the same time, all classes should contribute according to their means, and therefore—subject to exemption of a minimum of physical necessities—some taxation should be levied on all. Thus equality is now secured by what, on the whole, is a steeply progressive rate of income tax and death duties. Family men are provided for by a higher limit of exemption from income tax and allowances in respect of children, and there is a lower rate of tax on earned incomes. The balance of direct and indirect taxation is used to secure contributions from those classes which are below the income-tax limit and escape direct taxation ; and many indirect taxes fall more heavily upon the smaller incomes. The old working principle used to be that direct and indirect taxation should each contribute roughly 50 per cent. of the revenue. The growth of progressive taxation, however, has altered these proportions. By 1914 they were more like three-fifths of direct taxation and two-fifths of indirect, and since the war have been nearer two-thirds and one-third respectively.

*Aims of British Finance.*—Thus the object has been to secure, as far as practicable, justice between different classes, and to ensure a distribution of the



burden of taxation according to the taxable capacity of different classes. It is important, therefore, that the incidence of taxation—by which is meant the persons on whom the actual burden of a tax falls—shall accord with the intentions of the taxing body. Progressive taxation only achieves its object if direct taxation is actually paid by the classes on whom it is imposed. For, if shifted on to prices, and so transferred to the general consumer, the effort to secure equality is defeated. It is undesirable, therefore, to encourage the idea that direct taxation is normally transferred, and, in fact, the probabilities point in the opposite direction.

*Who Pays the Income Tax?*—In this connection the Royal Commission on Food Prices is worth quoting. 'According to economic theory direct taxes, such as income tax and death duties, cannot be passed on to the consumer in the form of higher prices; but many men of affairs engaged in trade and industry hold that high taxation can in fact be passed on to the consumer, and does therefore lead to high prices.'<sup>1</sup> The Commission points out that psychological and other factors may practically modify the economic idea, and instance the view of Professor Seligman, that with rising markets, when conditions are favourable to the sellers, a high tax may cause increased prices, though they point out that the tax is rather the excuse for increased price

<sup>1</sup> Cmd. 2390, p. 10.

than its cause. This view has also been urged by a writer for the British Association in regard to war taxation, on the ground that shortage of supplies and demands for increased production enabled the producers to pass on direct taxation to the consumers ; and he argued that equality of taxation cannot be fully maintained in war-time. This argument implies, however, that such shifting of taxation is only likely in circumstances favourable to the producer. This is actually suggested by the Food Commission: 'Such conditions are usually only temporary, and are sooner or later succeeded by a buyers' market, when the advantage is on the side of the consumer and sellers are compelled to cut their prices without regard to the tax, in order to dispose of their accumulated stocks.'<sup>1</sup> With this may be compared the argument of the authors of *Is Unemployment Inevitable?* who include Dr. Bowley, Professor J. H. Jones, Mr. W. T. Layton and Mr. Seeböhm Rowntree. 'A system of indirect taxation cannot avoid influencing the character of consumption and production, but a direct system, based on the taxation of surpluses, can have very little direct effect on prices or on the volume of production, since the production continues to a point at which there is no profit.'

*Direct Taxation and Cost of Living.*—There are two ways in which heavy direct taxation can affect

<sup>1</sup> Cmd. 2390, p. 10.

the general consumer. It can influence Cost of Living indirectly by its effects on production. By reducing the money available for investment and causing a scarcity of capital, it leads indirectly to rising prices. Secondly, it will affect Cost of Living directly if it can in fact be transferred to prices. This view, as against that of the Food Commission and the economists just quoted, may be illustrated from part of a letter written to the writer. 'Just as the working man's determination to adhere to a certain standard of living affects costs, so the determination of other classes to retain a certain standard leads to their raising their charges in every direction, and this undoubtedly has its effect on the cost of living.' Now, there seem to be two directions in which this might happen. The absence of competition may enable taxation to be transferred to an even greater degree than is suggested, but under present conditions of world trade such transfer seems to a great extent impossible. In unsheltered trades, that is the exporting trades, and home trades which have to face foreign competition, the necessity of competing in a world market prevents the transfer. In sheltered trades, which do not have to face world competition, there are greater opportunities, especially with the growth of employers' combinations, but even with them there are important qualifications. In a large number of trades competition by the co-operative

societies can do much, as will be explained later, to check the rise in prices, and might do more. Moreover, in other directions, as with road transport, there is usually sufficient competition to prevent any big shifting of taxation. The second point depends on whether income tax is, in fact, paid out of profits, and therefore out of a surplus. This appears to be true largely of profits pure and simple, but salaries which are based upon comparatively fixed rates may give greater possibilities of transfer. Even here, however, the higher ranges of income are still in the nature of a surplus. But income tax is paid on many incomes which are based on relatively fixed standards for large classes. Where this is so determination to maintain the standards of living may cause some shifting of the tax, especially with a rate so high as seriously to reduce the resources of the persons concerned.

*Taxable Capacity.*—This may now be defined. The taxable capacity of a nation depends upon the national dividend or total output of goods and services by the community as a whole. It is increased by any influences which lead to greater output, like improved efficiency of capital and labour or the starting of new trades. It may be injured by causes which check the development of capital, of which high taxation is one, so that it may thus destroy its own sources. Secondly, taxable capacity will be limited by what public

opinion as a whole, and the opinions of taxpayers in particular, regard as reasonable limits of taxation. Beyond a certain point, moreover, increased taxation may so reduce the surplus left to the taxpayer that he ceases to exert himself in production.

*Effects of High Direct Taxation.*—These may take several forms as far as Cost of Living is concerned. By checking accumulation of capital they tend to raise it indirectly by reducing production and causing demand to exceed supply, with consequent increases in price. Secondly, psychological influences may actively check production, with similar results, and at the same time may cause some transfer of taxation through prices on to the consumer. Thirdly, classes of direct taxpayers with moderate standards of living, which they are determined to maintain, may, by reason of the comparative uniformity of their salaries and fees, be able to transfer part of their income tax to the consumer through increased charges. It is not to be assumed, because in theory, and usually in practice, direct taxation is not transferred, that, therefore, its level is of no importance to Cost of Living. A high rate that is felt to be burdensome is more likely to be transferred than a low rate. Subject, therefore, to considerations of social policy, the lower direct taxation can be the less is it likely to raise Cost of Living. Moreover, reductions in the burdens of taxation can be secured not only by economies,

which reduce its total, but by increases in production and efficiency, which reduce the burden of a given amount of taxation by spreading it over a wider area. For these will enable a lower rate of taxation to maintain the previous yield of a higher rate.

*Progressive Taxation and Cost of Living.*—A distinction must, however, be made between a high rate of taxation affecting all income-taxpayers and a progressive rate which is low on the smaller, high on the larger, and very high on the largest incomes. A high general rate affecting the marginal or average taxpayer is much more likely to be transferred to the consumer and add to Cost of Living than a progressive rate, which falls mainly on the high incomes. Thus, from the point of view of Cost of Living, a progressive rate is to be preferred to a higher general rate. The large incomes partake to a very great extent of the nature of a surplus. Consequently a progressive rate on such incomes is far less likely to be shifted than a heavy general rate on all incomes. Heavy progressive taxation may have bad results in checking accumulations of capital and the voluntary savings of the very rich. But, given a certain total of taxation, it is desirable that the system of progression should be maintained. The British income tax is, on the whole, highly progressive, especially as recent modifications have favoured the small taxpayer, notably in regard to the

married taxpayer in the changes introduced in 1920-1 on the recommendations of the Royal Commission, and to earned incomes under £2,000 a year in the increased allowance of one-sixth in place of one-tenth in the Budget of 1925. Thus, even with a standard rate of 4s. in the ~~£~~ the actual increases in the amounts paid by married men are still moderate up to about £500 or £600 a year, this tendency being less marked with single men. Some very small incomes actually pay rather less than before the war.<sup>1</sup> This comparatively small increase in the burden on the small incomes indeed seems to support the view that no great shifting of the tax to the consumer is likely. Thus the bad effects of heavy direct taxation on Cost of Living may be mainly indirect, in decreasing production, and even these may be less serious than is sometimes supposed.<sup>2</sup>

*Rates and Cost of Living.*—Detailed reference is not necessary to the incidence of indirect taxation, which is admittedly on the consumer, as, generally speaking, is the incidence of increased rates, but the latter may be worth somewhat fuller treatment. They tend to raise Cost of Living in three ways :

- (i) They are a direct addition to cost of house-room.

<sup>1</sup> A married man with £300 a year and no children now pays 83s. 4d. compared with 86s. 3d. before the war.

<sup>2</sup> See, in particular, pp. 78-9 of *Is Unemployment Inevitable?*

(ii) Rates on manufacturing and business premises, being paid by all the proprietors, enter into the cost of production of commodities and services, and so add to Cost of Living.

(iii) As wages are often regulated by Cost of Living, increased rates, by increasing the prices of commodities, create demands for increased wages which again tend to raise Cost of Living.

Thus increased rates set up a vicious circle by increasing prices, which in turn lead to increased wages and a further rise in prices. The direct effect of rates on working-class house rents seems comparatively small. The Ministry of Labour estimated that when the increase in house-rents was highest (about 55 per cent. above pre-war), increased rates alone accounted for about 27 per cent., and that now their increase is equivalent to about 20 per cent. The weight given to rents and rates together in the index being one-sixth of the total, increased rates probably account at present for an increase of rather over 3 per cent. in working-class cost of living, though more possibly in the case of the middle and upper classes. Their incidence on manufacturing costs is probably heavier and more important, and in some industries may seriously increase both costs and unemployment.



## II. THE CO-OPERATIVE SOCIETIES

*Co-operatives and Prices.*—The man in the street is liable to ask two questions regarding Co-operative Societies. Hearing that their object is to eliminate profits, and that their 'dividends' escape direct taxation, he enquires first, why they are not able to sell at lower or even, in particular cases, at as low prices, as private enterprises; and secondly, why their profits are exempted from taxation. The present section will try to explain the general motives and effects of Co-operative Societies, and thus to answer these questions.

*Objects of Co-operative Societies.*—The aim of the Co-operative Societies is, by combination of consumers, to eliminate the middleman, and to produce and distribute articles which they require at lower prices than those for which they could otherwise be obtained. Of the various distinctions between types of Co-operative Society it is only necessary to refer to that between distributive societies, engaged in distributing directly to individual consumers—that is to say, to their individual members—and the wholesale societies, which produce for the distributive societies. 'The consumers' (distributive) societies,' says Mr. G. N. Barnes,<sup>1</sup> 'reckon their membership in terms of purchasing members. The wholesale societies . . . engage largely in production as well as in buying for them, and these also reckon

<sup>1</sup> *Industrial Conflict*, p. 14.

their membership in terms of enrolled purchasing societies.' The distributive societies are open to all consumers enrolled as members, who receive dividends from the societies in proportion to their purchases. Thus a share in Co-operative 'dividends' depends not on capital but on purchases. Some share capital is held by members of the societies, with an individual maximum limit of £200, which it is proposed to raise to £400. On share capital a fixed rate of 5 per cent. is paid, which does not vary with the success or otherwise of the concern. At the close of 1923 the societies had an aggregate membership of over 4,600,000, though, owing to certain members being enrolled in more than one group, the total of actual members may be put at about 4,500,000. Thus, with allowance for the families of co-operators, the societies probably cater for a total of perhaps 12,000,000 to 15,000,000 persons. The societies deal largely with food, but are also large producers and distributors of clothing, household utensils and other products.

*Co-operative Societies and Profits.*—Confusions in regard to Co-operative Societies are due largely to misunderstanding of their nature. 'Paradoxically,' says Mr. Barnes, 'profit is shared by abolishing it.' The distinction between co-operative and private enterprises is partly in their objects and partly in their methods of sharing results. 'Goods are not produced or stored on the chance of being sold at a

profit. They are produced for an assured demand from the co-operative consumer, and that demand is a pre-requisite of their production and distribution. They are produced and distributed for use and not for profit. The Co-operative Wholesale Society starts a factory only when it is assured of sufficient customers among the societies to keep it employed. It is not started to make a profit, and indeed the factory would function all the same if the goods were delivered to the societies at the bare cost of production. They are delivered at market prices as a matter of administrative convenience, and the overcharge or surplus is paid back at the end of each accounting period.<sup>1</sup> The object of the societies is to secure goods of good quality at cheaper prices, and what with the ordinary firm is net profit goes back to the individual members of the societies as 'dividend,' or 'discount.' Thus the effect, as Mr. Barnes suggests, is really the same. Either commodities are sold originally at cheaper rates or cheaper rates are secured through the subsequent discounts. It is estimated that in 1923 the average purchases of members amounted to about £36 a head, and, as 10 per cent. is a common dividend, this would amount to about £3 16s. per head.<sup>2</sup>

These facts explain how it is that, while the

<sup>1</sup> *Industrial Conflict*, p. 15.

<sup>2</sup> See Cmd. 2390, p. 83: '... The average net profit (of Co-operative butcheries), is almost exactly 10 per cent., which is of course returned to members in the form of dividends.'

co-operative system is said to stand for the negation of profit, their average results often compare very favourably with those of private trade, the profits of the Co-operatives being sometimes much larger. First these profits in fact are not profits at all, but 'dividends' on turnover, and represent reduction in prices to individual members.<sup>1</sup> Secondly, higher rates of profit are due partly to production for an assured market, often on a very large scale, and partly to elimination of ordinary profits and middlemen's charges, whilst these bigger gross profits also suggest greater efficiency of organisation. Thus, as regards baking, the Food Commission wrote that 'the Co-operative Societies, while selling bread of a quality which is claimed as being up to the average, at no more and in some cases less than the ruling price, were able to return about 2s. in the £ to members on purchases,'<sup>2</sup> and as regards butchering departments, that 'the favourable results shown by Co-operative Societies are significant. They show that, with proper efficiency, large profits can be made at prices no higher than those charged by any private shops.'<sup>3</sup>

*Co-operative Societies and Purchasers.*—Their influence on prices depends on policy. Where it

<sup>1</sup> Cf., for instance, the words of the Royal Commission on Income Tax (Cmd. 615, p. 121): '... These dividends on purchase are not a distribution of trading profit, but a return of part of the purchase price' (Sec. 556).

<sup>2</sup> Cmd. 2390, p. 42.

<sup>3</sup> Cmd. 2390, p. 83.

is the rule to attempt to keep prices below the normal level there is a direct influence in lowering prices. The alternative policy is to sell at prevailing prices and return the difference to members as 'dividends.' There are three reasons which lend themselves to this latter policy. First, there is the administrative convenience referred to by Mr. Barnes. Secondly, the members often prefer a high dividend to a low level of prices, especially where the accumulation of dividends can be utilised to provide for special occasions, like Christmas and holidays, or even as a form of thrift.<sup>1</sup> Thirdly, they may desire to limit the society's benefits to those who take their share in the work. Other individuals may be willing to take advantage of co-operative prices without enrolling as members or even sympathising with their aims. Members naturally feel that people who will not join a society should not enjoy its advantages. From the point of view of co-operators and their families, therefore, either method is likely to produce the same ultimate result; but the effect on general prices is greatest when a policy of low prices is adopted. Under the second policy the Co-operative Movement only influences general prices indirectly, by increasing competition and by stimulating private traders by the presence of an

<sup>1</sup> See Reservation to the *Report of the Royal Commission on Income Tax* (Cmd. 615, p. 163). 'In order to encourage thrift on the part of their members the Co-operative Societies prefer, instead of selling an article to them for 5s. (cost price plus expenses), to sell it to them for 6s. (current trade price) and to return 1s. later in the year.'

additional competitor. Thus a writer who described the societies as 'useful but costly,' wrote, 'Their value is not so much in reduction of prices as in driving the private trader to compete more keenly. In other words, they give the buyer an alternative, and so help to break the ring.'<sup>1</sup>

*Present Influence on Prices.*—The Food Commission held that in the baking industry the societies' influence was on the whole valuable in keeping down prices. 'We do not consider that the loss to the public from price-fixing arrangements in the baking trade is likely to be serious in those districts where the Co-operative Societies pursue an independent policy, directed towards keeping bread prices as low as possible.' Or again, 'It appears to be the case that Co-operative Societies do very often, owing to their refusal to act with the local master-bakers, keep down the price of bread to the benefit not only of their own members but also of their rivals' customers.'<sup>2</sup> The Commission specially refer to the Woolwich Royal Arsenal Co-operative Society's action in keeping bread at from  $\frac{1}{2}d.$  to  $1d.$  below the London Master Bakers' official prices. They point out, however, that these results are not universal, partly because the societies do not exist in all districts and partly from the adoption of a policy of high dividends. In the flour-milling industry,

<sup>1</sup> Alderman Tom Kirk (N.U.R.) in the *New Statesman*, Nov. 7th, 1925.

<sup>2</sup> Cmd. 2390, p. 28.

again, the Wholesale Societies are reported to aim at ensuring supplies of flour to Co-operative mills at the cheapest rates. The influence of the opposite policy is illustrated by reference to the meat trade. 'The competition brought about by the growth of Co-operative Societies' butchery departments is not so effective as it might otherwise be, owing to their general practice in most cases of making a net profit of about 10 per cent. and thus distributing a dividend of 2s. in the £. Evidence has been given that Co-operative Societies are of little assistance in keeping down prices, at any rate in those districts where a good dividend is more popular with the members than low prices.<sup>1</sup> Thus the evidence seems to show that the influence of the societies tends sometimes to lower prices, and in other cases at least does not raise them, with a net result, on the whole, of reducing prices and Cost of Living. The view is sometimes held, however, that 'the policy of attempting to stabilise prices at prevalent rates more often operates in the direction of delaying reductions in the cost of living than in the direction of preventing increases.'<sup>2</sup> But, when all allowance is made, the influence of the Co-operators appears on the whole to lead to some, though not an universal, reduction of prices. Finally, in regard to difficulties in enforcing the orders for the labelling of imported

<sup>1</sup> Cmd. 2390, p. 98.

<sup>2</sup> *Industrial Peace*, June 1925, p. 104.

meat, the Food Commission has written: 'The practice of selling (i.e. home and foreign meat) in different shops has, in fact, been adopted by a number of Scottish Co-operative Societies, and we think that this example might be followed with advantage by large multiple companies such as the Union Cold Storage Company.'<sup>1</sup>

*Co-operatives and Monopoly.*—The development of Co-operative Societies, in conjunction with that of large, multiple stores, is sometimes expected to assist the elimination of the private trader in favour of the big combine. It is argued that this is likely to follow from what is sometimes regarded as their privileged position in respect of taxation. There are three objections to this argument. It assumes a general tendency towards free competition and ignores the growth of employers' combinations. Secondly, whether their prices are or are not below the general level, the co-operators form an additional competitor, and in this way assist to keep down prices. Thirdly, the Co-operative Societies' position is different from that of the ordinary combination, because it is their interest to keep prices down, either directly or in the form of increased 'dividends' to their members. The more the societies adopt a policy of low prices the better will their general effects be, but in either event there does not appear to be the danger of monopoly that some people apprehend.

<sup>1</sup> Cmd. 2390, p. 99.



*Co-operators and Taxation.*—In dealing with questions of Income Tax three elements in the gross profits of Co-operative Societies must be distinguished. First, there is interest on borrowed capital, which, so far as members are concerned, is limited to a fixed rate of 5 per cent., which is taxed through the ordinary machinery, if the holder is liable to income tax.<sup>1</sup> Secondly, there are the amounts distributed as discount or dividend to members, and thirdly, those placed yearly to reserve to maintain and extend the business of the Societies. Now, it is argued that all three are forms of gross profit and should be made liable to tax; and it is sometimes maintained that this was recommended by the *Report of the Royal Commission on Income Tax* in 1920 as part of the general re-organisation of the Income Tax, which has since been carried out. This view, however, seems inconsistent with the following recommendation of the Commission :

' Any part of the net proceeds of a Distributive Co-operative Society which is not actually returned to members as "dividend" or "discount" is a profit chargeable to Income Tax (Sec. 550). . . . The Income derived from invested reserves,

<sup>1</sup> See, for instance, *Royal Commission on Income Tax*, p. 119 : ' As regards interest on share capital, each individual shareholder liable to income tax . . . is required to return the amount received . . . and he is then directly assessed.'

irrespective of the particular mode of investment, should be subject to tax (Sec. 554). . . . In effect a society should be treated exactly as a Limited Liability Company trading in similar circumstances and under similar conditions, and if our proposals are acted upon it will be necessary to amend the existing law, in so far as it confers special exemption on Co-operative Societies (Sec. 555). . . . There will probably be very little difference between the liability of Co-operative Societies under these proposals and under the existing legal position.' (Sec. 566.)<sup>1</sup>

Thus the Commission proposed to apply liability to tax to trading reserves, but not 'dividends,' and for this there is much to be said. Such reserves do not go directly into members' pockets, and it seems fair that, in regard to extensions and developments, the societies should be in the same position as their competitors.

*Income Tax and Co-operative Dividends.*—The position of dividends seems on a different footing, and the arguments for their continued exemption from taxation appear strong. They may be briefly summarised :

- (i) The dividends are not a profit at all, but a return to members on their purchases, which for

<sup>1</sup> Cmd. 615, pp. 118-22; *The Times*, March 18th, 1920;

various reasons is made in this way rather than in the form of lower selling prices.

(ii) The consequent addition to the revenue would probably be small: the incomes of most co-operators do not reach the income-tax limit, and most of the taxation deducted at the source would have to be repaid to them. This would involve great trouble and expense, both to members and to the Treasury; and the Treasury view is that the cost of dealing with claims would swallow up much of the revenue that might be secured. Moreover, the poorer members of the community might not understand the method of reclaiming, so that the tax might be unfairly taken from persons who were not liable to it.

(iii) The demand for taxation of Co-operative dividends assumes that income tax forms part of cost of production, which does not appear to be the fact, since it is a payment out of profits, and does not in normal circumstances add to costs of production. Indeed, the exemption of Co-operative 'dividends' may prove a valuable check on the shifting of income tax from producer to consumer.

In short, such taxation appears neither just in principle nor likely to produce much revenue. It might be accompanied by practical injustice, and in the process might deprive the consumer of

valuable protection, since tax-free competition of Co-operative Societies reduces the possible opportunities for shifting the burden of direct taxation.

### III. PROFITEERING AND COST OF LIVING

*Profits and Profiteering.*—The economic justification of profits is that they combine reward for the ability of the producer and compensation for undertaking the general risks of a business and removing them, to a great extent, from the other agents in production. 'The basis of profit,' says *Industrial Peace*, 'is to be found in the security of the workers.' For these services profit must be obtained in excess of the ordinary interest on debenture capital, and high profits are often justified by reasons of risk, ability and delayed returns. Thus, in a minority report to that of the Food Commission, Mr. T. H. Ryland said: 'If those people are to have their profit limited, they should also have their losses limited. . . . If the State interfered and did not guarantee the trader against losses, there would be a grave risk of diminished supplies, since the natural tendency of the trader would be to reduce his risk by restricting his activities.'<sup>1</sup> This fairly represents the matter on the assumption of free competition, whilst, since 1914, the war has created special risks and losses, which may well render legitimate many

<sup>1</sup> Cmd. 2390, p. 174.

high war and post-war profits. Under such circumstances, therefore, the claim to profits can be fairly admitted.

*Definition of Profiteering.*—The distinction between profit and profiteering appears to consist in utilising exceptional circumstances to extract undue returns from the consumer, though the difficulty of drawing exact lines of demarcation makes anti-profiteering measures difficult. It seems possible, however, to indicate the type of action in which profiteering consists as, for instance :

(i) Action which takes advantage of exceptional conditions, affecting seller as against buyer, to extract unduly large prices from the consumer ; an idea which may also be justly applied to certain post-war demands for high wages, accompanied by limited output.

(ii) Organisation comprising a monopoly or a combination of firms for the deliberate purpose of keeping up prices above a fair competitive level. On this matter the Food Commission said :

'It is an admitted fact that prices tend to fluctuate about the point at which there is no profit, or at which there is an actual loss to the least efficient or the least fortunate producer. This is only so, however, when unrestricted competition prevails. Immediately an arrangement is reached . . . for the fixing of a uniform price,

the tendency will be for the price to be fixed at a level which will give the least efficient producer a living and which may incidentally give the most efficient producer very substantial profits.<sup>1</sup>

Hence an unduly high price appears under such circumstances to constitute profiteering.

(iii) Cases where advantage has been taken of war conditions and war controls to maintain price-levels higher than are necessary for reasonable profit. Thus, Mr. Tom Kirk<sup>2</sup> (see above p. 153) wrote: 'Flat rates are a greater curse than blessing; indeed, it is from the flat-rate prices of the Ministry of Food that all the present trouble has arisen: the Ministry taught the retailers to combine, and it also showed them how much the public would stand without complaining.' And he said further that the 'City of London official fair prices' had caused meat prices to be raised in poorer districts above what had previously afforded a fair profit.

Such cases appear to be illustrations of concrete profiteering, and the question is largely one of fact whether they exist to an appreciable extent.

*Profiteering and Cost of Living.*—In considering how far profiteering definitely contributes to increase Cost of Living, account must be taken of the

<sup>1</sup> Cmd. 2390, p. 28.

<sup>2</sup> In the *New Statesman*, Nov. 7th, 1925:

disorganisation caused by war, which created many additional opportunities for it. Nevertheless, it is doubtful if profiteering is general. The influences, including foreign competition and that of the co-operatives, which restrict the shifting of direct taxation, likewise limit profiteering, though individual cases may be more numerous than in the past. The greatest opportunities appear to come from the growing tendency of employers to combine, with a comparatively large number of firms operating independently within the combination, as in the baking industry. The investigations of the Food Commission, so far as they have gone, are decidedly instructive. They suggest the probability that in particular trades, individual districts and individual shops profiteering may be appreciable. This may not affect seriously the general Cost of Living, but may do so for particular sections of the population or particular places, who suffer an additional burden beyond that falling on the whole community.

*Checks to Profiteering.*—The Food Commission emphasised the check to unduly high prices and profits, as in baking, arising in some cases from Co-operative Societies, to which reference has already been made (see p. 153). Apart from the Co-operators, however, there is the further possibility of competition by independent firms, which may hamper a combine in keeping up prices. Moreover, except with absolute necessities, fear of reducing

consumption, or encouraging use of substitutes, limits increase in price.

*The Food Commission and Bread-making.*—In connection with the baking industry the Commission found evidence of unduly high prices, and of attempts to stop independent action. They argued, for instance, that returns by the master-bakers underestimated the number of loaves produced per sack of flour, putting the figure at 92, whereas independent investigation by the Commission suggested 93 or 93½, and that master-bakers had over-estimated their costs in other directions. As a consequence of these differences 'there is an increase of the average net profit per sack as returned by the Association from 1s. 7½d. to about 4s. per sack, a figure which appears to us to be more consonant with the facts.'<sup>1</sup> More generally the Commission say that in certain cases 'it seems clear to us that the public may, and at times certainly do, pay a higher price for their bread than is justifiable.'<sup>2</sup> As regards deliberate action to prevent lowering of prices, the Commission referred to a case in South Wales. Here a firm of bakers was selling bread at a good profit at 1d. per 4-lb. loaf below the local price. On their refusal to raise their price the Local Association secured the withdrawal of local supplies of flour from the firm. This action was fortunately

<sup>1</sup> Cmd. 2390, p. 37.

<sup>2</sup> Cmd. 2390, p. 28.



unsuccessful.<sup>1</sup> More generally action has been taken in an attempt to secure the insertion in the National Sale Note—the recognised form of contract between millers and bakers—of a clause giving the miller the right to cancel a contract if the purchaser sold bread at a price showing less than a certain gross profit, though the Millers' Association definitely refused to accept the arrangement. 'We are of opinion,' wrote the Commission, 'that no clause restrictive of trade, such as that quoted above, should be permitted to be inserted in contracts for the supply of food-stuffs.'<sup>2</sup> The recent success of the Food Council in temporarily reducing the price of bread and flour seems to support the Commission's general views.

*Other Industries and Profiteering.*—Other available evidence supports the idea of partial and sporadic profiteering, to which reference has been made. The Linlithgow Committee,<sup>3</sup> which dealt with the distribution and price of agricultural produce, expressed the views that 'the spread between producers' and consumers' prices is unjustifiably wide,' and that 'individual traders and groups of

<sup>1</sup> Cmd. 2390, p. 28-30. 'Such a policy places a premium on inefficiency and destroys healthy competition,' and the case in question appears to have been by no means an isolated one (p. 29). Such action had previously been censured by the Linlithgow Committee as constituting 'coercive and dictatorial methods, which are not only reprehensible in themselves, but are clearly detrimental to the public interest.'

<sup>2</sup> Cmd. 2390, p. 31.

<sup>3</sup> Departmental Committee on Distribution and Prices of Agricultural Produce (Chairman, The Marquess of Linlithgow), *Interim and Final Reports*.

<sup>4</sup> *Final Report*, pp. 11 and 22.

traders are in some cases still making higher profits than are warranted by the service they perform,' and that 'such energy as the retailer displayed (i.e. since the war) was directed towards protective measures to maintain price margins rather than towards competition.' At the same time they repudiate any view of the general rapacity of the middleman. Again, as regards the meat trade, the Food Commission refer to hasty comparisons which suggest greater profits than have, in fact, been made. They point out, however, that, taken over a long period, meat-importing is profitable, that in 1924 excessive profits were made by some butchers, and that a veiled form of them sometimes prevails through misdescription of meat. 'The attention of the Food Council should be specially directed to the practice of substitution and false description in the sale of meat, to isolated cases of gross profiteering, and to possible abuses . . . in the system of regulating shipments of imported meat.'<sup>1</sup> In flour-milling, again, the Commission appear apprehensive of the future rather than the present. With continuance of the prevailing prosperity (March 1925), they wrote, 'the rate of profit in the industry might well become unreasonable,' and pointed out that price-fixing conferences in the industry may be utilised to prevent cutting of prices by individual millers.<sup>2</sup>

<sup>1</sup> Cmd. 2390, p. 129.

<sup>2</sup> Cmd. 2390, p. 57-8.

*Conclusion.*—Whilst, therefore, evidence of general profiteering is lacking, its presence is felt in particular trades, of which some at least directly affect Cost of Living. For in the case of bread, not only will it affect the whole community, but it will bear most heavily upon the poorest classes in direct proportion to their poverty. In short, there seems an element of profiteering, though possibly a small one, in the increased Cost of Living.

#### IV. THE MIDDLEMAN

*The Position.*—The view is commonly held that the existence of too many middlemen between producer and consumer unduly increases the Cost of Living. In fact, the proper adjustment of their numbers to the services required of them is important. With a given total National Dividend, the presence of excessive numbers in any branch of national business means an increase in the participants without increasing the amounts to be divided. Hence, where the numbers of middlemen are in excess of requirements, or where superfluous services are performed, there is no increase in the goods in the hands of consumers beyond what could be provided by smaller numbers. Thus industry generally is burdened by some who make no real addition to its output, but receive their share from its total product. 'There must be a point,' wrote

the Linlithgow Committee, 'beyond which any further increase will not necessarily react favourably on retail prices.'<sup>1</sup> In other words, if a trade is burdened with more distributors than it can comfortably carry, it must submit to lower wages and profits or transfer the cost to the consumer in increased prices. Thus prices may rise either because of too great numbers of middlemen or because such middlemen may obtain a remuneration out of proportion to their real services. The second, indeed, has some affinity to profiteering, but possesses characteristics which justify its separate treatment.

*Numbers of Middlemen.*—'In some trades there are now too many profit-making agencies engaged in the process of distribution.'<sup>2</sup> Their increase, indeed, may, up to a point, stimulate and extend competition, and so keep down prices. This, indeed, justifies particular grades of middlemen, whose existence at first sight might appear superfluous, 'The keen competition for business which exists between commission buyers and wholesalers tends to keep them to an economic charge for their services.'<sup>3</sup> But beyond a certain point excessive numbers tend to increase costs. 'Many (small firms) are too small and inefficient to render the public the services desired, except on wide margins, which, though not more than sufficient to enable

<sup>1</sup> Linlithgow Committee, *Report on Fruit and Vegetables*, p. 117.

<sup>2</sup> *Ibid.*, *Final Report*, p. 12.

<sup>3</sup> *Ibid.*, *Report on Fruit and Vegetables*, p. 116.

these establishments to pay their way, prevent them from being a check on larger and more efficiently managed concerns,<sup>1</sup> though in some cases the existence of itinerant venders of milk, fruit and vegetables has good effects on retail prices. The excess may consist either of too large numbers in a particular trade or in creation of too many specialised services. An example of the former is provided by the retail distribution of milk, where 'the practice of door-to-door delivery . . . with the overlapping of delivery services, impedes any considerable reduction in retail prices'<sup>2</sup>; and the existence of many small retailers may even excite a reverse influence. 'The United Dairies could retail milk at a lower price than at present, but the effect would be to exterminate the small retailer in milk, who lives on the edge of the profit margin.'<sup>3</sup> On the other hand, there are sufficient retail fruit and vegetable shops to 'ensure continued competition,' whilst in the meat trades economies might follow from the extension, desirable on other grounds, of public abattoirs. Excessive sub-division of functions seems to be illustrated by the fruit and vegetable trades. 'Occasionally there may be as many as six intermediaries between the grower and the consumer, as, for instance, London commission salesman, London wholesaler, London commission

<sup>1</sup> Lidlithgow Committee, *Final Report*, p. 24.

<sup>2</sup> *Ibid.*, *Report on Milk*, p. 84.

<sup>3</sup> *Ibid.*, p. 87.

buyer, provincial wholesaler, second provincial wholesaler, provincial retailer. This may involve as many as sixteen to twenty different handlings of the produce. Such cases are not general. They relate mainly to produce reconsigned from Covent Garden. . . . More usually two intermediaries, . . . or at most three, are involved, and these serve a useful purpose.'<sup>1</sup> The Linlithgow Committee suggest the possibility of reducing distributive costs in these trades by the reduction of 'uneconomic reconsignment,' though direct consignment, has a certain danger of increasing local gluts. Direct purchase by retailers from growers 'has its limits, but is capable of expansion.' Certain undesirable tendencies may also arise from developments of large-scale operations in the wholesale trades, with the danger that 'savings attributable to unification will be dissipated in the uneconomic consignment and reconsignment of supplies, in the maintenance of costly selling agencies, and in avoidable duplication and waste.'<sup>2</sup>

*The Profits of the Middlemen.*—The reactions against war economies, and high post-war wages, led to 'loss of touch with values on the part of the consumer' and to the large and easily made profits of 1920 and 1921. Injuries to private traders' initiative and to the consumers' watchfulness over prices have

<sup>1</sup> Linlithgow Committee, *Report on Fruit and Vegetables*, p. 112.

<sup>2</sup> *Ibid.*, *Final Report*, p. 21.

had a longer influence in rendering competition ineffective, though this influence is decreasing. More permanent has been the increased effectiveness of distributive trades' organisation, which has given increased opportunities 'to work steadily forward in the direction of less expensive methods . . . and economical distribution.'<sup>1</sup> Moreover, two alternative policies have been open to the distributive trader: either to aim 'at a big turnover with lower prices and narrow profit margins or to maintain wider margins with a smaller turnover. The ample supplies available, indeed, gave good opportunities to carry out the former policy. In fact, the contrary has often been adopted. Mutual understandings have been utilised 'to retard the normal initiative of the private trader,'<sup>2</sup> and in some cases at least prices and wages have been maintained at high levels. After all allowance is made for unremunerative profit margins in certain individual sections, or for losses on stocks purchased at inflated prices during the boom, or for decreased sales due to lower purchasing power during the depression, 'the margins of gross profit obtained by manufacturers and traders . . . have been sufficient . . . to provide their workers with wages at least on a parity with, and in most cases superior to, those enjoyed before the war, and have maintained sufficient net profit to enable them to improve

<sup>1</sup> Lidlithgow Committee, *Final Report*, p. 25.

<sup>2</sup> *Ibid.*, p. 22.

their financial position.'<sup>1</sup> This policy, which seems, on the whole, to have been less marked in the wholesale than in the retail distributive trades, has tended to restrict their power to absorb the unemployed, and retarded the restoration of commercial and industrial equilibrium. The above discussion has been limited to food-stuffs, but similar controversies are raging in other directions, notably over the distribution of coal. \*

*The Responsibility of the Consumer.*—For the tendencies at work consumers as a body have their share of responsibility. First, the special services demanded from shopkeepers, such as calling for orders and delivery of goods, extensions of credit to customers, concentration of shopping into busy days and hours, and requirements of expense in the attractive display of goods, are necessarily costly, and 'consumers should realise that their ever-increasing demands for comfort, convenience and service are largely responsible for the high cost of distribution to-day.'<sup>2</sup> Such things existed before the war, but 'are relatively far more costly than in pre-war days. . . . Consumers who insist on extensive service must be prepared to pay increased prices.'<sup>3</sup> With the English system the Linlithgow Committee contrast the municipal retail markets of Continental countries. Secondly, war-time prices

<sup>1</sup> Linlithgow Committee, *Final Report*, p. 16.

<sup>2</sup> *Ibid.*, p. 25.

<sup>3</sup> *Ibid.*, p. 25.



and food control caused considerable loss of that 'practice of discriminating in their purchases between one retail establishment and another, and in thus renouncing their customary watchfulness they stultified competition, and so forfeited their one effective safeguard against imposition,'<sup>1</sup> though a knowledge of relative values is being reacquired. In some cases mutual price agreements tend to keep prices at an uniform level; but many retailers, nevertheless, retain reasonable prices and profits. 'A large number of fruit and vegetable retailers operate on a moderate profit margin, if consumers will take the trouble to discriminate and seek them out.'<sup>2</sup> So far the remedy rests with the consumer himself.

*Conclusion.*—As with profiteering, the facts suggest some measure both of excessive numbers and unduly high charges in distribution. Most classes of middlemen seem indispensable. But 'economies can be made and processes of collection and distribution can be shortened. In certain cases it should be possible to concentrate in the hands of one intermediary the successive functions now performed by several.'<sup>3</sup> Again, 'retailers as a class work hard and serve the public well,'<sup>4</sup> but 'the spread between producers' and consumers' prices is unjustifiably wide,'<sup>5</sup> and a reduction in the

<sup>1</sup> Lidlithgow Committee, *Final Report*, p. 22.

<sup>2</sup> *Ibid.*, *Report on Fruit and Vegetables*, p. 117.

<sup>3</sup> *Ibid.*, *Final Report*, p. 11.      <sup>4</sup> *Ibid.*, p. 23.

<sup>5</sup> *Ibid.*, p. 11.

wages of distributive trades, if 'accompanied by an effective reduction in gross and net profits . . . might have been effected without ultimate disadvantage to the interests of the trades, and to the . . . advantage of producers and consumers.'<sup>1</sup> Finally, the consumer can help himself in the ways already indicated.

<sup>1</sup> Linlithgow Committee, *Final Report*, p. 17.

## CHAPTER VIII

### CONCLUSION

*Present Position of Cost of Living.*—Man's conquests over Nature and the progress of industry tend normally to slow reduction in prices and costs. But from time to time progress is thrown back by such catastrophic events as the opening-up of the mines of the New World, the Industrial Revolution and the Napoleonic Wars, and the Great War of 1914-18. Prices, too, fluctuate with changes in the world output of gold. But after each great crisis economic and industrial forces begin to work to bring back costs to their former levels. The after-effects of the Great War are still felt. Its more temporary influences, indeed, have been largely removed. Its more permanent ones remain and have tended to fix Cost of Living at about 75 per cent. above pre-war levels. But already general tendencies are operating, as in the past, towards economies and improvements.

*The Immediate Future.*—Present conditions, whilst comparatively stable, suggest that there are forces working towards a fall in Cost of Living. The restoration of the Gold Standard should tend to

raise the value of money. If the argument is sound that wages and profits are still too high in some trades there may be room for reductions in them, which will contribute to lower costs. But the 'relativity' argument must take account of all qualifying conditions, and the possible underpayment of unskilled labour before the war. Any increase in efficiency will make for higher earnings and reduced costs.

The bold experiment of the Food Council may mark the beginning of a distinction between illegitimate and legitimate profits, and of more effective handling of such malpractices as underweight.

The consumer can contribute to decreased costs by greater care in purchases and use of goods, and by discrimination in favour of firms whose charges are most reasonable.

*The Ultimate Future.*—There are thus hopes of some immediate reductions in Cost of Living; and as the years pass the progress of industry should permit its fall nearer to the pre-war level. How great the fall will be will depend upon the National Dividend. There is much room for improvement in output and efficiency, in better organisation of the agents of production and in elimination of waste. The national output, too, is kept down by suspicions and distrust between classes. Such defects, indeed, are not new, and past improvements were achieved in spite of them. But their future removal can

pave the way for great permanent lowering of costs and raising of standards. The National Dividend, therefore, is vital. With more produced there will be more to divide, and in peace and co-operation lies the road to that maximum production which, given a fair distribution, will provide the best conditions for all.

## APPENDIX

TABLE ILLUSTRATING THE BOARD OF TRADE INDEX NUMBER  
OF WHOLESALE PRICES (1878-1920) WITH WEIGHTS

Group	Number of articles	Individual articles (weights in brackets)	Weights assigned to Group	
			Actual	Percentage of Total weight
I. Coal and Metals .. ..	6	Coal (34), Pig Iron (16), Copper (5), Zinc (1½), Tin (1½), Lead (1½)	59½	11.8
II. Textiles, Raw Materials ..	6	Cotton (38), British Wool (6), Foreign Wool (13), Jute (3), Flax (4), Silk (9)	73	14.4
III. Food, Drink and Tobacco:]				
A. Corn, etc. .. ..	10	British Corn (43), including Wheat (14), Barley (12), Oats (17), Foreign Corn (42), including Wheat (33), Barley (5), Oats (4), Maize (8), Hops (4), Rire (1), Potatoes (33)	131	25.9
B. Meat, etc. .. ..	8	Beef, English (52), Mutton, English (31), Bacon, Pork, Ham, imported (21), Milk (29), Butter and Margarine (12), Cheese, imported (4), Eggs, imported (5), Fish (7)	161	31.8
C. Sugar, Tea, etc., Tobacco	5	Sugar (20), Tea (8), Coffee (1), Cocoa (½), Tobacco (2)	31½	6.2
D. Drink .. ..	2	Foreign Spirits (1½), Wine (5)	6½	1.3
TOTAL (Food, etc.) ..	25	.. .. .	330	65.2
IV. Miscellaneous .. ..	10	Cotton Seed (2), Linseed (5), Olive Oil (1), Palm Oil (½), Paraffin (½), Petroleum (2), Bricks (3), Wood and Timber (20), Rubber (1½), Hides (8)	43½	8.6
GRAND TOTAL .. ..	47	.. .. .	508	100

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