

HOW WE LIVE

by

SIR JOHN A. R. MARRIOTT

Honorary Fellow, formerly Fellow, Lecturer
and Tutor in Modern History and Political
Science, of Worcester College, Oxford



LONDON
OXFORD UNIVERSITY PRESS
HUMPHREY MILFORD

1930

PREFACE

THIS little book is intended to form a companion volume to my *How We Are Governed* (Clarendon Press 1928), and has been written in response to a request that I would do for Economics what in *How We Are Governed* I tried to do for Politics. It endeavours to present a complicated subject in the simplest possible terms. I hope that I have not sacrificed accuracy to attempted simplicity, but I would beg any expert, who may deign to read it, to remember that it is not written for him, but for beginners of all ages, and that intermediate links in a chain of argument are sometimes by design omitted—notably in Chapter XI, which beginners will perhaps do well on a first reading to skip. The chapters are indeed roughly progressive in difficulty. The earlier ones have been made almost childishly elementary in the hope of tempting the inexperienced reader to persevere, and to tackle the chapters, unavoidably more difficult, which follow.

I may be allowed to add that this little book would not have been written were I not profoundly convinced that a firm grip upon Economic truth is, to-day more than ever, vital to our well-being, nay our existence, as a nation and an Empire.

J. A. R. M.

16 September 1930.

CONTENTS

I. The Daily Miracle	7
II. The Shop	14
III. The Farm	21
IV. Some Definitions	30
V. Capital	41
VI. Labour	48
VII. Modern Business	64
VIII. Money	82
IX. Banks and Banking	94
X. Overseas Trade	109
XI. The Machinery of Trade	121
XII. Some Reflections	132
Index	141

I

THE DAILY MIRACLE

'FROM whence can one satisfy these men with bread?' The immediate answer to that question was the miracle of feeding the four thousand. A not less amazing miracle—be it said with reverence—is daily performed in Great Britain.

'Daily Breaders'

To bring the nature of that miracle home, let us stand for a while on London Bridge during the 'rush hour', on any week-day morning, and watch the serried phalanx of men and women, boys and girls, hurrying from their suburban dormitories to their daily work in London. Repeat the process during the same hour at any of the great railway termini in London. Watch the crowds. They consist of people apparently well nourished and certainly well clothed. Not one of those men or women has left home that morning without a cup of tea, or coffee, or cocoa, some bread and butter, and probably a rasher of bacon, or an egg, or both. Yet it is safe to say that among them not one in a thousand directly provides any portion of his daily food, save possibly an egg, or an apple, a tomato, or a lettuce. Not one of them provides the material for his own clothes. Few of them have helped to build their own houses; still fewer have provided the materials of which their houses are built.

How then do these people live? Whence do they buy bread that each one of them may have a little? The feeding, clothing, and housing of these multitudes constitutes an economic miracle, which appears the more amazing the more it is thought on. For not only do these people produce none of their own food or clothes; the vast majority of them produce nothing. Yet they live, and most of them live by their own exertions. They are in fact

(to use the colloquial but expressive phrase) 'daily breaders'. Daily they troop into London and there earn the money which they, in turn, exchange for food, raiment, and shelter.

'Money' gives us, in one sense, a clue to the mystery; in another sense it deepens it. Where does the 'money' come from? Plainly the coin is not 'produced' by those who earn the 'money'—at any rate in Great Britain. We have no gold or silver or copper mines to speak of. To most people the money comes primarily out of the pockets of an employer, or maybe out of the pocket of a customer. But that only pushes the inquiry one stage further back. How did the money get into *their* pockets?

Ultimately the 'money' must have been 'made' by some one; and money can only be made out of profits derived from the production of goods, or from the exchange of them. Those who grow corn, or rear sheep and cattle, or plant orchards, make money, or should make it, by the sale of their corn, and cattle, their wool, and apples. They live on the produce of the earth—primary products as we call them. But comparatively few people in England—less than 1,000,000 out of 45,000,000—are engaged in agriculture. In France things are very different. In that country nearly 9,000,000 out of 41,000,000 are tillers of the soil; and a large proportion of them own the soil they cultivate. These peasant proprietors are more nearly 'self-sufficing' than any class in England; they are the economic backbone of France, and give to their country a stability, a sense of security, which we may well envy.

But even in England the present position is of recent origin. Down to the end of the eighteenth century this country was almost self-sufficing: its external trade was relatively insignificant. We were, in fact, a nation of farmers living on and mainly by the land. I say 'mainly' because many of the farmers were also 'manufacturers'. In nearly all farmhouses you would find a spinning wheel, and in most of them a hand-loom. These farmers not only fed themselves, but, to a large extent, clothed themselves. But this

'self-sufficing' population was a small one compared with that of to-day. Great Britain contained, down to the end of the eighteenth century, not more than 11,000,000 people.

The nineteenth century brought nothing less than a revolution. England became a land of factories and mines; scarred with iron roads; covered with towns. The population grew apace, and as the towns increased in number and size, the villages decayed. The townsfolk cried out for bread, for meat, for vast quantities of cheese, butter, and eggs. Down to the middle of the nineteenth century these wants were mostly supplied by British farmers. But then came the revolution in the means of ocean transport. All the countries of the world were laid under contribution for the supply of the necessities of the workers in English mills and mines, until, at the present time, nearly three-fourths of the people in Great Britain are fed on the products of other lands. Most of the raw material for the factories and furnaces—all the silk, cotton, and rubber, much of the wool, jute, timber, iron, copper, tin, and oil also comes from abroad. Besides these we import a vast quantity of articles, wholly or partly manufactured. In the aggregate we import and retain for consumption in this country goods to the value of over £1,000,000,000 per annum or £23 11s. 4d. per head of the population. We export home produce to the value (1928) of £723,579,000, or £15 17s. 2d. per head. Evidently there is a big gap between what we buy and what we sell. The explanation of the gap must be reserved for a later chapter, for it is not quite simple. For the moment we are concerned only with the facts as they appear on the surface. It is plain that as a nation we are living not only by the production of goods, but also by the supply of services. We are not only farmers and manufacturers, but merchants, financiers, bankers, shopkeepers, sailors, and what not. In more technical language we live less by making goods than by exchanging them. Whether this is a healthy state of things or not is a matter of dispute. Here we can only note the facts.

What is true of the country as a whole is pre-eminently true of

cities like London and even Manchester. Such cities are great commercial centres, not manufacturing centres.¹ The people work in warehouses, shops, and offices. They buy and sell; they do not 'make': yet there is one thing they do 'make'—a 'living'.

There are some large towns where a still more remarkable state of things exists. Bournemouth is an example. Only a small fraction of the 100,000 people living in Bournemouth have any visible means of subsistence, or earn anything either by 'making' or 'exchanging' goods. There are, of course, a good number of retail shops, and a few gardeners, but almost the only industry in Bournemouth is building; almost the only manual workers are bricklayers, carpenters, painters, plumbers, engineers, railwaymen, and the like. The rest of the people—the vast majority—are 'retired' folk, living on savings. In technical language they are *rentiers*—living on the interest of invested capital—but not, therefore, to be condemned (though many so speak of them) as 'parasites'. They are men and women, for the most part, who have spent their lives in toil; it is only the late autumn of their days that they spend in the delectable city far away from the scene of their life's labour.

So we may roughly divide the people of Great Britain into four classes: those who live by making things; those who live by exchanging things; those who live by rendering service, professional, commercial, or personal, to others; and those who live on the savings (accumulated by themselves or others) from the profits of agriculture, industry, trade, or service. The first class you will find mainly in Lancashire and the West Riding of Yorkshire, in the midlands cities like Birmingham, Wolverhampton, Leicester, Nottingham, and Coventry, in the mining areas of South Wales, South Yorkshire, Derbyshire, Nottinghamshire, Northumberland, and Durham, or in the shipyards of the Clyde, the Tyne, and Belfast; the second class is concentrated in London, Manchester, Liverpool,

¹ This is broadly stated. London and Manchester have, of course, *some* factories, but their activities are predominantly commercial rather than industrial.

Cardiff, and such towns; the third class is to be found everywhere; the *rentiers* congregate mostly in London and the 'pleasure towns' of the south—in such places as Bournemouth, Cheltenham, and Bath. Oxford and Cambridge are apart, but both are important centres of agricultural exchange, and the former is becoming to some extent industrialized.

This classification is evidently a rough one, and in detail will become increasingly inaccurate. For this reason: industry is far less localized than it was even twenty-five years ago. The distribution of electrical power and the development of road transport are working a revolution which can hardly be described as silent. Oxford is only one of many examples of the industrialization of districts hitherto quite bare of industry. Population which, between 1750 and 1850, shifted rapidly from the south to the north of the Trent is steadily moving south again. Owing to a variety of causes, in addition to the two mentioned above, industry is moving out from the towns into the suburbs and even into rural districts. This means an industrial and social change which may become almost as important as that which revolutionized the face of England a century and a half ago. The successive stages in the evolution of modern industry must engage attention later on. The last three stages are as follows. The application of water-power to machinery led to the erection of mills on the swift-flowing streams of the Pennines and the Peak. The use of steam-power carried the factories into the districts adjacent to the coal-fields. It is costly to carry coal long distances: so industry must needs move towards the coal. But as steam made for industrial concentration, so electricity, easily and cheaply transmitted, is already leading to the decentralization of industry. Nor can it be doubted that we have as yet seen only the first steps in a process which may have results of far-reaching significance not merely to the industrial but also to the social life of the community. But this is to indulge in speculation. Our immediate concern is to analyse and explain the economic situation as it exists to-day.

The situation is, in a sense, highly artificial; some hold it to be precarious. At the beginning of the nineteenth century there were 155 persons to the square mile in England; to-day there are 701. France still has only 187. From 1805 until the World War England's supremacy at sea was indisputable. In 1917 we were brought perilously near to starvation, and therefore to surrender, by the success of the German submarine attack.¹ In 1800 we could feed ourselves from the produce of our own soil; to-day we could not produce enough food for our people were we to plough up every acre of land whether cultivable or not, whether unencumbered or built over—every street, square, golf course, and tennis lawn. In 1800 we not only outdistanced all competitors in manufactures, in ship-building, as oceanic carriers; we practically had no competitors. In 1800 Germany did not exist, nor Italy, nor Belgium; the United States did not begin to count in international commerce until three-quarters of the new century had passed; Japan was still purely medieval in structure and wholly isolated; Cape Colony was a Dutch port-of-call; New South Wales was a convict station; the population of British North America was almost wholly French; the old France had not yet started in the industrial race.

It is true that the wealth per head of our people is ten times as great as it was a century ago, and that the burden of debt, in relation to the national wealth, is no heavier to-day than it was then. But the foundations on which the economic structure rests to-day are less sound and substantial; the mechanism of international trade is infinitely more delicate, and more liable to sudden dislocation; wealth if more abundant is more elusive.

To say this is not to prophesy disaster, nor to deny the immense improvement which has been effected during the last hundred years in the condition of the great mass of the people. Nine-tenths of the people have to-day attained a standard of economic life infinitely higher than they enjoyed a century ago; they are better

¹ Cf. Admiral W. S. Sims, *The Victory at Sea*, and Winston Churchill, *The Aftermath of War*.

fed, better clothed, better housed, and their work, if not less irksome, is incomparably less toilsome. But while all this must be admitted and emphasized, it is impossible for any one who looks below the surface of things to banish all apprehensions; the insistent question still obtrudes itself: 'Whence should we have so much bread as to fill so great a multitude?'

Bread, in the literal sense, is still the staff of life among the European peoples. In this country we consume annually some 35,000,000 quarters of wheat which means, roughly, 3,500,000,000 quartern loaves, or almost exactly $1\frac{1}{2}$ loaves per head per week. Of this wheat only about 15-17 per cent. is now home grown. Or, to put the same fact another way, in each 4 lb. loaf there are only 8 oz. of home-grown wheat. Of the remainder rather more than half is supplied by British countries overseas, and the residue comes from foreign countries—mainly from the United States and the Argentine. Of other food-stuffs some 80 per cent. of cheese, 70 per cent. of fruit, 60 per cent. of butter, 40 per cent. of meat and eggs, 20 per cent. of poultry, and 5-10 per cent. of oats, vegetables, potatoes, and milk is supplied to us from overseas. These figures need not greatly alarm us so long as we remain at peace with our neighbours and with the world at large; what danger they may threaten in time of war I have already hinted. They are quoted here merely to illustrate one aspect of the peculiar, if not precarious, position in which we find ourselves to-day. It is largely the result of the critical decision which we made some eighty-five years ago. We then decided to make England the workshop of the world and to let our agriculture take its chance. I am not going to criticize that decision; to do so would land me in a controversy I wish to avoid. But that it was the most fateful of decisions deliberately made in our economic history none can dispute. As a result of it we find ourselves to-day the most densely populated of any civilized country in the world; dependent for at least half our daily bread on supplies from overseas; producing (relatively) less and less, but sustaining our people in an unpre-

The situation is, in a sense, highly artificial; some hold it to be precarious. At the beginning of the nineteenth century there were 155 persons to the square mile in England; to-day there are 701. France still has only 187. From 1805 until the World War England's supremacy at sea was indisputable. In 1917 we were brought perilously near to starvation, and therefore to surrender, by the success of the German submarine attack.¹ In 1800 we could feed ourselves from the produce of our own soil; to-day we could not produce enough food for our people were we to plough up every acre of land whether cultivable or not, whether unencumbered or built over—every street, square, golf course, and tennis lawn. In 1800 we not only outdistanced all competitors in manufactures, in ship-building, as oceanic carriers; we practically had no competitors. In 1800 Germany did not exist, nor Italy, nor Belgium; the United States did not begin to count in international commerce until three-quarters of the new century had passed; Japan was still purely medieval in structure and wholly isolated; Cape Colony was a Dutch port-of-call; New South Wales was a convict station; the population of British North America was almost wholly French; the old France had not yet started in the industrial race.

It is true that the wealth per head of our people is ten times as great as it was a century ago, and that the burden of debt, in relation to the national wealth, is no heavier to-day than it was then. But the foundations on which the economic structure rests to-day are less sound and substantial; the mechanism of international trade is infinitely more delicate, and more liable to sudden dislocation; wealth if more abundant is more elusive.

To say this is not to prophesy disaster, nor to deny the immense improvement which has been effected during the last hundred years in the condition of the great mass of the people. Nine-tenths of the people have to-day attained a standard of economic life infinitely higher than they enjoyed a century ago; they are better

¹ Cf. Admiral W. S. Sims, *The Victory at Sea*, and Winston Churchill, *The Aftermath of War*.

fed, better clothed, better housed, and their work, if not less irksome, is incomparably less toilsome. But while all this must be admitted and emphasized, it is impossible for any one who looks below the surface of things to banish all apprehensions; the insistent question still obtrudes itself: 'Whence should we have so much bread as to fill so great a multitude?'

Bread, in the literal sense, is still the staff of life among the European peoples. In this country we consume annually some 35,000,000 quarters of wheat which means, roughly, 3,500,000,000 quartern loaves, or almost exactly $1\frac{1}{2}$ loaves per head per week. Of this wheat only about 15-17 per cent. is now home grown. Or, to put the same fact another way, in each 4 lb. loaf there are only 8 oz. of home-grown wheat. Of the remainder rather more than half is supplied by British countries overseas, and the residue comes from foreign countries—mainly from the United States and the Argentine. Of other food-stuffs some 80 per cent. of cheese, 70 per cent. of fruit, 60 per cent. of butter, 40 per cent. of meat and eggs, 20 per cent. of poultry, and 5-10 per cent. of oats, vegetables, potatoes, and milk is supplied to us from overseas. These figures need not greatly alarm us so long as we remain at peace with our neighbours and with the world at large; what danger they may threaten in time of war I have already hinted. They are quoted here merely to illustrate one aspect of the peculiar, if not precarious, position in which we find ourselves to-day. It is largely the result of the critical decision which we made some eighty-five years ago. We then decided to make England the workshop of the world and to let our agriculture take its chance. I am not going to criticize that decision; to do so would land me in a controversy I wish to avoid. But that it was the most fateful of decisions deliberately made in our economic history none can dispute. As a result of it we find ourselves to-day the most densely populated of any civilized country in the world; dependent for at least half our daily bread on supplies from overseas; producing (relatively) less and less, but sustaining our people in an unpre-

cedented degree of comfort largely by the profits derived from trade and commerce—as opposed to industry; partly, perhaps, by dipping into savings. In fine we have become, in a sense not thought of by Napoleon, a ‘nation of shopkeepers’.

II

THE SHOP

TEXT-BOOKS on Political Economy generally begin by discussing the problems incidental to the *production* of goods. But this little book, not being intended for professed students, shall start with something much more familiar to most of us. If we want anything, whether it be butter, or boots, or a lettuce, or a hat, we don’t begin to *make* any of these things, we go and *buy* them (being careful to take our purses with us) at a shop.

A shop or store is thus, for most people, the focus of their economic world, and it is an obvious convenience to be able to go and *buy* what we need instead of *making* it. To make use of this convenience we must have money in our pocket, or we must deal only at shops which will trust us to pay in due course, which (in technical language) will give us ‘credit’. The use of money, still more of credit, belongs to a relatively late stage in civilization. The primitive method of exchange is barter. If I, being a farmer, want a pair of boots, I get them from a cobbler and give him butter and eggs and potatoes, or fowls in exchange. This is evidently a very cumbersome and inconvenient way of doing business. I may want boots, but the cobbler may not at the moment want butter. Still less (were I not a farmer but a tailor) might he want a coat. But exchange by barter implies an advance on a more primitive stage of existence. The primitive household was self-sufficing. The members of the family supplied their simple wants by the direct labour of their own hands: planting, tending, making, gathering, hunting, fishing. Hunting, fishing, gathering—these

come first. But the grazing of cattle was possible even for nomads. Tillage—agriculture—marks a later stage. Our own Teutonic ancestors, when we first hear of them from Caesar, lived mainly on cheese, milk, and meat. Except for the absence of wheaten bread, their diet was not unlike our own. Wheat cultivation implies settlement; bread is not the food of nomads. As soon as people settled in a particular place they began to till the soil. Tillage gave them cereals. The old village communities had a regular scheme of arable cultivation, and they were almost entirely self-sufficing, purchasing very little from outside except millstones and salt.

With the growth of towns we see the introduction of a crude mechanism of exchange. Exchange was facilitated by the general use of money, and with the introduction of money we soon reach the stage of retail trading. Thus we get to our shops.

To the shops we now go for everything we want: for food, clothes, furniture, books, and what not. Of recent years we have been able to get most if not all of these things at one shop—or 'Stores', and so, for the purpose of my parable, we need go no further than the *Army and Navy Stores*. One department after another will supply us with everything we want. But in order to do that the Stores must rely on a world-wide organization of trade. The tea we buy comes from Ceylon or India, or it may be China or even Java.¹ The coffee comes largely from Brazil, though the Empire (notably East Africa and India) supplies us with more than 40 per cent. of our requirements. Coffee, however, is an insignificant item of consumption in this country as compared with tea. Our cocoa we can get from the Gold Coast or Trinidad or Ceylon—not to go outside the Empire; our sugar from the West Indies, though the chief supply comes from Cuba. Beet sugar

¹ About 80 per cent. of the tea consumed in Great Britain now comes from India and Ceylon, though in former days nearly the whole of it came from China. In the lower grades of tea Java has recently become a serious competitor with Ceylon and India.

we used to get entirely from the European continent, but we are now, with the encouragement of a large bounty from public funds, growing a good deal for ourselves.¹ More than half our wheaten loaves are supplied by British countries overseas, mostly by Canada and Australia, but, as already observed, we still depend a good deal on the supplies from the Argentine and the United States. Butter is still largely supplied (40 per cent.) by English farmers, and of the 60 per cent. we get from abroad about one-third comes from Australia and New Zealand and almost another third from Denmark. To Australia and New Zealand we look largely for our supplies of mutton, and in increasing measure of fruit, but large quantities of fruit come also from South Africa and Canada. On New Zealand and Canada we rely mainly also for cheese, but most of our imported beef comes from the Argentine, and most of our bacon from Denmark.

But unless we are keen Imperialists we do not inquire closely about the origin of the supplies: the point of immediate importance to us is that we can get all we want at the 'Stores'. And not of food only, but clothes, furniture, hardware, crockery, glass, and all the multifarious wants of the English household of to-day. Nevertheless, despite all this, we must insist that, for those who would really understand how we live, the retail shop is a mere smoke-screen. It conceals from our eyes the hard facts that lie at the root of our economic lives. Shops are a great convenience to the housewife, but they are a mere obstruction to the economic investigator. We must get behind them, but before we leave them we must settle our account at the pay desk.

Money

That we shall do with money, or, if our purchases are on a large scale, more probably with a cheque. About cheques I shall have more to say when I come to speak of the function of banks. Here

¹ The amount of land under cultivation was (1926-7) about 130,000 acres; the subsidy was over £3,325,000.

it will suffice to say that a cheque is merely an order to a person or an institution with whom I have previously deposited money to transfer a portion of it to the person named in the order. Thus I write an order to the Westminster Bank to pay the *Army and Navy Stores* £5 11s. 10d., the amount of my purchases for the day. Or by depositing money with the *Army and Navy Stores* itself I can make it my banker on a small scale. If the amount is a small one I pay it in silver and copper.

Money has been described as 'the root of all evil', and the greatest of Greek philosophers, Aristotle, disliked money as heartily as the Hebrew moralists. But their dislike of money was rooted in the fact that it led to confusion between the means and the end. Money, like fire, is a good servant but a bad master. Used as a convenience to facilitate the exchange of commodities money is an indispensable adjunct of civilized society; set up as an idol to be worshipped it has been responsible for untold mischief. Aristotle denounced the introduction of money because the means of exchange is so apt to be perverted into the end of existence. To that aspect of the matter we shall return. For the moment we must think of money merely as a means of getting rid of the inconvenience of barter—i.e. the direct exchange of one commodity for another—and of facilitating retail trade: of buying and selling the necessaries of civilized life.

Thus far we have only scratched the surface of the subject. We have dealt only with matters which are within the daily experience of all. Everybody is familiar with the operations of retail trade, with the economic function of a shop.

We must now ask a further question: How did the grocer get the tea, butter, and cheese, which he sold us over the counter? He got these articles in one of two ways, either directly from the producer, or more probably from a wholesale merchant trading in these commodities. There is indeed a third possibility: the retail distributor may also be a producer; Jones the greengrocer, for example, may have a market garden of his own; your butcher may

also be a grazier; the big Stores may own a tea-plantation at Darjeeling or a butter factory in Denmark; they may even own their own ships. Generally speaking, however, the retail shopkeeper gets his supplies from the wholesale merchant.

Merchants

It is commonly said that trade is hampered and prices increased to the consumer by the multiplication of 'middlemen'. The merchant is a 'middleman'. He neither produces goods, nor sells them to the consumer. At first sight it would seem that he is a mere encumbrance; an economic parasite. Is this the case? The merchant generally makes large profits. Does he earn them? Why should not the retail shopkeeper buy direct from the producer, the manufacturer, or the farmer, and so, by eliminating the middleman, make things cheaper for the consumer, or leave a little more profit in the hands of the producer, or secure a little more for himself? Evidently this argument might be pressed further. Why should not the consumer buy direct from the producer, and so push out both middlemen—both the retail tradesman and the merchant? In some cases this can be and is done. You sometimes see advertisements which offer inducements to the housewife to buy direct from the producer: to buy eggs and chickens from a farmer; or fish from the fishermen; or friezes from cottage weavers in Donegal or the Shetlands. This is done already, and done, doubtless, with advantage to both parties. But it is the exception, not the rule. The introduction of the parcel post, the adoption of the cash-on-delivery system, the development of road transport—all these things have facilitated direct dealing between producer and consumer; and so far as they have gone are all to the good.

Why then, has the method not been more generally adopted? It needs no demonstration to show that there are obvious limits to its application. Few households, for instance, want to buy a whole sheep at once, still less a whole ox. Few butchers want to buy 1,000 carcasses of sheep from New Zealand at one consignment.

A farmer might, it is true, set up a butcher's shop; but a butcher's shop in Aberdeenshire is not much use for the housewife who wants a sirloin of beef for the Sunday dinner in Winchester; there would be no saving in labour costs, and evidently a great increase in cost of transport. The same arguments tell, if less strongly, against the direct purchase of carcasses from New Zealand or the Argentine by the retail butcher.

Moreover, it is by no means certain that the consumer would gain by dispensing with one or more links in the chain of services which he can now command and for which, of course, he has to pay. Each of those services is now rendered by a man who is a specialist at the job: the farmer, the merchant, the retail tradesman. It does not follow that because a man is a successful farmer he would be a successful merchant; the qualities required in a good butcher are not the same as those which make a man a successful merchant. It is an attractive notion to 'eliminate the middleman', and so increase the profits of the producer, which are as a rule comparatively meagre, and cheapen for the consumer the cost of the commodity, which generally appears excessive as compared with the reward of the primary producer. But experiments tend to dissipate such sanguine hopes. The truth is, that clumsy and expensive as the existing system appears, it is the result of a natural process of economic evolution. Practical experience shows that it tends to the convenience, and therefore to the economic advantage, of all parties.

Nor must another consideration be ignored. I have thus far tried to avoid the use of technical terms and to keep the discussion in the realm of everyday experience. But later on we shall see that the middleman or merchant—the cloth merchant who buys from the mills at Bradford or Stroud, and sells to the tailor in Savile Row; the linen merchant who buys from Belfast or Bolton and sells to the hosier in Oxford or Bath; nay, the wool merchant who buys in Australia and sells to the wool merchant in London, who in turn sells to the mills in the West Riding—is legitimately remunerated

not only for his skill in buying and selling but because he is (I am well aware of the unpopular implications of the word) a 'capitalist'. Time is a very important element in most commercial transactions. Months may elapse between the time when the Oldham weaver wishes to sell his shirtings and the Oxford hosier wants to replenish his stock. The merchant intervenes, buys when Oldham wants to sell, perhaps in January; sells when Oxford wants to buy, certainly in September. To 'carry' stock means the possession of capital. A shop must be in a busy thoroughfare; every inch of space in Bond Street is worth gold. Warehouses cover much ground but they may be situated in a less accessible quarter; even so they cost money and the contents of the warehouse may be valued at hundreds of thousands of pounds.

Suppose the cloth merchant buys £100,000 worth of cloth from the West Riding on three months' credit in January, and sells the whole stock (an unlikely event) to Bond Street tailors on three months' credit in September, he will be 'out of his money' for nine months. Assume that owing to his own credit and standing he could borrow the whole of that money from a bank at 6 per cent. he would still have to sell the whole consignment for £4,500 more than he gave for it to avoid actual loss. As a fact he would probably have to go out of business unless he could make an average profit of something nearer £12,000 to £15,000. For his actual expenses—rent, wages, salaries—are heavy, and in addition he is taking a heavy risk. He may have to 'carry' a portion of the stock not for nine months but for eighteen; owing to a sudden change of fashion he may have to sell some of it below cost price. All 'risk' has got to be paid for by the ultimate consumer—the man who buys the trousers in Bond Street.

I am, however, anticipating much that will call for more careful explanation later on. For the moment I am concerned only to give a superficial description of the economic operations of everyday life: to explain how we live.

Beginning with the shop at which *we* buy, I have pushed the

analysis one stage further back to the wholesale warehouse from which the shopkeeper buys. There are, of course, other intermediaries whose operations I have, for simplicity's sake, temporarily omitted—notably carriers and transporters. In even greater numbers these intermediaries intervene between the merchant who buys in London and the sheep-farmer in Australia, or the tiller of the wheat-fields on the Canadian prairies. But to these 'primary' producers I shall now pass, and thus recover the path of logical analysis.

III

THE FARM

'ALL wealth', we are told, 'is derived from the land.' In one sense that is true, though many of the deductions commonly drawn from that simple and not inaccurate proposition are hopelessly misleading, not to say flatly untrue.

The Soil

'All wealth', we are told by the more sophisticated, 'is derived from the application of labour and capital to land.' The latter statement offers a more complete analysis than the former, but it is still very far from the whole truth.

It is, however, incontestably true that if we want to trace the origin of any commodity which we purchase in a shop, we shall be driven back to mother earth. For 'earth' or 'land' some people prefer to use the term 'nature'. It is, indeed, more accurate: for besides land there are other 'natural' forces which we can and do harness to the service of man and utilize for the supply of his necessities: the sea, the air, the wind, the water in a river, even the soil itself we must analyse into its constituents, for some land is 'rich', other land is 'poor'. The minerals extracted from the subsoil are probably more valuable to-day than the crops grown on its surface.

But at this stage of our inquiry we may regard the soil as our starting-point. Land, even in its natural state, will yield herb and grass for the use of man and beast *provided their numbers are strictly limited*. On this limitation we must from the outset insist; to ignore it is to involve ourselves in a maze of errors from which we shall escape only by much superfluous toil.

Virgin soil, then, will sustain human and animal life, but only for a limited number of people and for a limited time. You must move on quickly if you don't want to starve: you must live the life of a nomad. There are, indeed, vast regions, and those among the richest, where you will have to apply labour to the land before you can get any sustenance from it, for a large proportion of the earth is, or was, covered by forests. Forests must be cleared before you can cultivate the land; that means (as we shall see) not only the application of labour but the possession of capital, since it is sorry work starting to clear forest without tools, and the man who is the owner of an axe is a capitalist. But of this, more presently. The present chapter is concerned with the soil.

Since most of the things desired by man are ultimately derived from the cultivation of the soil, it is evidently of the highest importance that it should be cultivated to the best possible advantage. Our object should be to get the maximum yield of wheat, potatoes, tea, cotton, tobacco—or whatever the crop may be—at the minimum of cost in labour and money.

How is this to be done? To answer this question is difficult without involving ourselves in discussions which are still matters of acute controversy. Nor need we be surprised at controversies. Attachment to the soil is an almost animal instinct among mankind. The earth is the mother of us all. She nourishes us on her broad bosom, so we have a filial affection for her. We cannot bear to be separated from her. And jealously mingles (as so often) with affection. We desire to possess the thing we love. To possess more and more of it becomes a passion. We fight for it, and the man who is victorious in the fight becomes an object of admiration and envy to

his fellows. Thus the possession of land, in larger and larger portions, ministers to the lust of the eye and the pride of life. Men desire land not only for the wealth it yields to its possessor, but for the consideration it enables him to command.

Land Tenure and Wealth

But a vital question now arises. Does the accumulation of large quantities of land in the hands of individuals serve the interests of the community? Is this the way to get the highest yield from the soil? As a matter of fact this question is not likely to be asked until a late stage has been reached in the history of civilization. It will not arise so long as population is sparse and land is relatively abundant. But it is a question which is eagerly discussed among most modern peoples.

Many systems of land ownership, land holding, and land cultivation have prevailed in different countries, and at different stages in the history of mankind. We can concern ourselves only with England.

The English System of Agriculture

Most of the land in England to-day is owned by a comparatively small number of people (landlords), who do not themselves cultivate it, but let it out to people who pay them an annual rent for the use of it. The latter are known as tenant-farmers. Some farms are large, some are small. Most of the farms in Great Britain range in size from 5 to 50 acres. Of these there are about 219,000. About 60,000 range from 50 to 100 acres; about 75,000 from 100 to 300 acres; and there are a few—about 15,000—very large farms of over 300 acres each. The smallest farms are cultivated by the tenant with the help of his family; on the larger farms the farmer does not work with his own hands but superintends and organizes the work of his labourers who receive weekly wages, with the addition perhaps of some allowances such as milk, firewood, vegetables, and so forth. Many labourers nowadays, besides working for farmers, have

small plots of land of their own, 'allotments' as they are called, where they grow some vegetables and fruit for themselves. Landlord, tenant-farmer, wage-earning labourer—this is the prevailing system in England.

Owner-cultivators

Of late years, however, a good many tenant-farmers have bought their farms; they have become in fact their own landlords. Nevertheless, the ownership of land in England is concentrated in relatively few hands. Only about half a million people in England own more than one acre apiece, and only about 60,000 own more than 100 acres. Only about 14 per cent. of agricultural holdings are cultivated by their owners. In France it is very different. Out of 8,591,000 farmers in France 5,000,000 are their own landlords. But even France is, in this respect, far behind Denmark where over 80 per cent. of cultivators own their own farms.

We have, then, in England and Denmark two sharply contrasted systems of landholding and cultivation.

Before asking which is the better, we must notice a third system which a good many people prefer, in theory at any rate, to either. It is a system in which there are no landlords at all, or rather, where all the land is owned by the State or community and only leased out, for longer or shorter terms, to those who desire to cultivate it. Or, in the alternative, the State might cultivate the land itself by means of an agricultural service. But the latter alternative does not now commend itself to many people and need not be further considered. The former scheme of 'nationalization' is still attractive to many people, who look with envy upon the large fortunes made by landowners who have had the luck to own farms in the immediate neighbourhood of great towns, or on which towns have, for one reason or another, sprung up. The Dukes of Westminster, for instance, own land which not so long ago was farm land in the neighbourhood of London, but on which a great part of fashionable London has now been built. Bournemouth is an example of a town

built on land—and very 'poor' land—owned by two or three land-owners who draw large incomes from what are known as ground-rents, i.e. rents for ground on which houses have been built, not by the owners of the land, but by people who take a long lease of the land—usually for 99 years—and build on it. These people are known as 'leaseholders' as opposed to 'freeholders', because the land belongs to them not in perpetuity but only for the term—be it 99 years or (in some cases) 999 years—for which it is leased to them by the owner.

But we are not here concerned with the land on which buildings are erected, but with the soil which is used to produce food and other things to satisfy the needs of man.

For each of the three systems of land-tenure mentioned above—for State ownership, for the system of landlord and tenant, and for that of peasant-ownership—there is something to be said. In this place we must try to think of the matter less from the point of view of individuals, rather from that of the whole community.

English and French Systems

The English system and the French system, sharply contrasted as they are, are both the result of historical causes, though some people will tell you that the 'causes' are in the one case the result of bad and selfish legislation and in the other of 'revolution'. But into that controversial question we must not enter. We must take things as they are, and ask merely, which is the better?

We may not be able to give a very positive answer, but it may help towards one to imagine the case of a new colony, say of 1,000 families, finding itself planted on an uninhabited island, or settled in a new district, say in western Canada. We will imagine that the colony is free to make all its own arrangements, that the land, a tract, let us assume, of 1,000,000 acres, is entirely at its own disposition, never having been cultivated or inhabited. Three courses are open to the colonists. They may decide that the ownership of the land shall remain permanently vested in the community, i.e. in the whole body of colonists, but that for purposes of cultivation

half the land shall be assigned, in equal proportions, to the thousand families, while the other half is held in reserve for the time being, by the community as a whole. Each of the original families will receive, accordingly, 500 acres.

New Settlements

Their first business will be to put up some sort of shanty in which to live, and then to set to work clearing the ground of scrub or forest-trees and prepare it for cultivation. It is of immense importance to the new community, and to each family within it, that the work of clearing should be done as quickly and thoroughly as possible; but it is quite certain that some families will do the work better and quicker than others. A question at once arises. Are all the fruits of cultivation to go into a common stock, or are they to be enjoyed by the families which produce them? If all the produce is to be equally shared it is only too likely—human nature being what it is—that some of the lazier people will not (to use a colloquialism) ‘put their backs into their work’, while some of the more naturally industrious people will be discouraged from excessive toil by seeing the lazy people having just as much to eat (and at first there will be little enough for anybody) as they have themselves. If, on the contrary, the produce is not pooled but retained in each case by the family which produces it, the lazier people will be jealous and complain that it is not ‘fair’.

Another question will soon arise. For what period is each holding of 500 acres to be assigned to each family? Are they to have it for ever, i.e. to become owners of the soil? Or to be tenants only—for a longer or shorter period? If the latter, on what terms are they to hold it? Are they to pay ‘rent’ to the community, and, if so, how is the amount of it to be fixed?

Rent

Two things are certain: that it will be a long time before any ‘rent’ can be paid; for rent represents surplus produce, and for

some time the land will not produce more than the bare necessities of life for those who cultivate it. Another certainty is that, unless the term of the tenancy is a long one, no one will be at any pains to put up anything better than a temporary shanty, or to clear more of the ground than he requires for the supply of his immediate necessities. We may be sure, therefore, that the community, or its 'management committee', even if it decides to retain the ultimate ownership in its own hands, will grant very long leases to the original colonists, long enough to make them regard the allotments as their own, and to put their utmost efforts into the improvement and cultivation of their land.

Ownership

Yet the longest lease is not quite the same thing as a 'freehold'. It is the universal experience that the idea of ownership appeals to an ineradicable instinct in man. Experience teaches that if you hand over a bit of sandy desert to a man in absolute ownership he will soon convert the wilderness into a smiling garden. If you put the same man to work on the same patch, for *you*, and pay him wages for his work, it will be much longer before the garden begins to smile.

Most colonies have, accordingly, chosen the way of ownership. A colonist going out, say, to Alberta to-day has three choices: a portion, perhaps 160 acres, of prairie land which he can have free, or a cleared and cultivated farm which he can buy, or a similar farm which he can rent. The two latter alternatives are not open to the original members of our imaginary colony, in its first years; they will probably be open to late-comers.

Our colony is not, however, wholly imaginary; though the outlines have been sharpened, the general description is based on actual facts. All the different plans have, in fact, been tried, and some very disastrous results have followed the experiments based on communism.¹ But those matters must not be discussed here. Our

¹ e.g. at New Australia. For details, see S. Grahame, *Where Socialism Failed*.

sole anxiety is to find out which of the arrangements mentioned above is productive of the best results in practice; and we have to reach the lame conclusion that it depends on circumstances.

French Peasant-Owners

It is quite certain that the English system would not suit France as a whole, though it prevails in some districts in that country. It is certain that the French system would not suit large portions of agricultural England. The French peasant is passionately attached to the land, and for him the 'land' means the *ownership* of the land. He will make almost incredible sacrifices to keep it and hand it on to his son. He will work from sunrise to sundown—and make his family do the same—and it is undoubtedly a magnificent thing for the country to have its land cultivated by men and women who will slave to get the last ounce out of the soil. There is, it is true, a darker side to the picture. The life of the peasant-owner is narrow; his character hardens; he tends to be penurious, both as regards money and other matters. Moreover, peasant ownership is suitable only for *la petite culture*, for the growing of vegetables and grapes—crops which need intensive culture and are grown in small quantities. The system is wholly inapplicable to the large arable farming of East Anglia or the sheep farms of the down-land. If Englishmen would learn to co-operate in marketing their produce as the small Danish farmers have, peasant ownership might give us, as it gives them, abundant supplies of butter, bacon, and similar produce, but not bread nor mutton. For growing wheat, and still more for feeding sheep, farms must be reasonably large, much larger, at any rate, than peasants can either own or work exclusively on their own capital and by their own labour.

English Farming

A question at this point emerges: why should not big farmers as well as small farmers own their farms? Some of them do, but the main reason why more do not is that English farming is in effect

a partnership in which much of the capital (as well the land) is supplied in the form of buildings, fences, permanent improvements to the land, not by the tenant who is relatively poor, but by the landlord who is, or was, relatively rich. And the system has, until quite recently, worked remarkably well—how well is illustrated by the terrible plight in which agriculture finds itself to-day (1930). During the 'fat' years for farming, during and after the war, a good many farmers purchased their farms outright. The number of these 'cultivating-owners' increased from 48,000 to 70,000 in that time. Most people rejoiced at this development. It was regarded as a 'healthy' tendency and so, in one way, it was; it gave the 'magic' of property a chance to work, to demonstrate its stimulative power in England. But when the lean years succeeded the fat years, the reverse side of the picture was exposed to view. The farmer having put much of his own capital, besides a great deal of borrowed capital, into the purchase of his farm, has not sufficient left wherewith to work the farm properly. He has no longer a landlord to fall back upon. He owes not rent to a landlord but interest to the lender of capital; buildings, fences, &c., fall into disrepair; the land itself is starved for lack of requisite manures; the stocks of cattle and sheep dwindle; they are gradually sold off and cannot, for lack of working capital, be replaced; the land suffers—the whole community is the poorer because the soil is inadequately cultivated. People begin to perceive that there was more to be said for the landlord and tenant system than they had imagined. But the thing that, from the point of view taken in this chapter, matters, is that the whole community is suffering along with farmers and landowners. It is suffering by the loss of the produce which the soil ought to be yielding, but cannot yield when it is starved; it suffers by having to maintain, at the public expense, the labourers whom the farmers are compelled to discharge; it suffers indirectly in a dozen other ways. A prosperous agriculture is, in fine, one of the greatest assets any nation can possess. It is in every sense a life-giving occupation. It provides sustenance for man and beast; it rears healthy men and women; it

helps to maintain a balance between country and town; it keeps starvation at bay in the face of an enemy blockade. A depressed agriculture means an unprosperous people.

But agricultural prosperity implies more than an abundance of fertile land; it implies great knowledge and skill, a sufficiency of capital, the best implements, and 'cheap' (but not necessarily ill-paid) labour. These matters, however, call for careful explanation. Despite all my efforts I am dropping into the use of technical terms which I was anxious to avoid. Before we can go further I must explain them.

IV

SOME DEFINITIONS

What is Political Economy?

I AM afraid that I can no longer dissemble the truth that this little book, however simple in form and elementary in treatment, is concerned with a science—the science of *Economics*, or *Political Economy*. I am hopeful, however, that having followed me thus far, the reader will persevere a little farther. *Economics* is not as bad as it sounds. There is nothing to be afraid of in the word—or indeed in the things signified by it.

The word *Economics* means neither more nor less than *Household Management*. *Political Economy* means State (*πόλις*) Management. Some people prefer to call it the Science of Supply; others the Science of Exchange. It includes both these subjects and others as well. Every science has its own proper subject. Geology deals with the earth, astronomy with the stars, and so on. Economics deals with *wealth*: the getting, the spending, and the exchange of wealth.

Wealth

We must, therefore, get a clear notion of what we mean by wealth. Money is the most obvious form of wealth, but it is not the only nor the most important form of it. A man who possesses

a great store of gold and silver is said to be wealthy. So he is, because in exchange for his gold and silver he can get almost anything he wants of a material kind. He can buy land, houses, pictures, furniture, books, jewels, clothes, food, drink, and so on. Under ordinary circumstances he is rightly described as wealthy. But Midas, despite all his gold, was not wealthy, and many wealthy men have very little gold and silver. In Old Testament days the wealth of men like Abraham and Jacob was measured by the size of their flocks and herds. Even to-day the man who possesses a large number of sheep and cattle is a rich man. But many rich men do not possess a single cow or a single sheep, nor an acre of land, nor costly jewels. The typically rich man of to-day is the man who is called by the envious a 'bloated capitalist'. Capital is wealth, but wealth is not necessarily capital. Wealth may be defined as something for which you can get some other thing in exchange. If I own a pocket-knife I can probably get somebody to give me a shilling, or a tennis-ball, or some apples in exchange for it. Plainly there are many things which are better, and *to the possessor* more 'valuable' than a pocket-knife or any other form of wealth. A signed photograph of a dead friend is to me more valuable than a pocket-knife. But it is not wealth. No one would give me sixpence or even one apple in exchange for it, unless he happened to have loved the friend as I loved him, and even he would not buy my signed photograph if he possessed one of his own. Happiness is a greater possession than wealth. But you cannot exchange it. Many people would give half their possessions to buy the happiness of a happy man. But he cannot sell it.

Wealth, then, consists of things which can be exchanged for other things. But their value, as objects of barter, is not constant but exceedingly variable. When Raeburn or Sir Joshua Reynolds painted the portrait of your great grandmother he exchanged it perhaps for £100. If it is now in your possession you might exchange it for £10,000. Or contrariwise. I bought a set of etchings many years ago for £30. A few years later I could have sold them probably for

£150. To-day I could not get 30s. for them. They have 'gone out of fashion'—in other words nobody is willing to give me an arm-chair in exchange for them.

Let us bear in mind then two points: (i) there are many things better than wealth; but (ii) wealth has, in economic language, a very precise and definite meaning of its own; it is something which has material *value*, i.e. for which you can get something in exchange.

Value and Price

Value is another word which has a technical meaning in Economics; it must constantly recur in even the simplest book on economics and we must, therefore, explain it. *Value* means the *rate at which* one thing exchanges for another thing. If all exchanges were effected (as mostly they are) for money, it would be simpler to use the commoner word *price*. *Price* is the value of a thing expressed in terms of money, as when we said the *price* of a good Raeburn to-day is £10,000, or the price of a motor-car is £250. But the *value* of a pocket-knife may be expressed in terms of apples; or of a motor-car in horses.

Now we are on the verge of a very difficult question, one of the most difficult in all Economics, *viz.* why does a pocket-knife exchange for 3 apples only? Why not for 10? Why not for a motor-car? There are indeed circumstances under which a man would gladly give 100 or 1,000 apples in exchange for a pocket-knife.

If I happened to find myself in Nova Scotia or the Okanagan Valley and was the only man in Canada who possessed a pocket-knife, I have no doubt I could get as many apples as I liked in exchange for it, if Canada were cut off from the rest of the world. What would a German have paid for a rubber tyre in 1917? Value then means the rate at which x apples exchange for x pocket-knives, or motor-tyres for pictures.

What determines Value?

What fixes the rate? In technical language *what determines value?* That is not an easy question. Very roughly we may say that it is

determined by the ratio between supply and demand. If on an island, cut off from the rest of the world, there were only 10 clocks and watches and 1,000 motor-cars, probably the fortunate possessor of a clock would be able to get several motor-cars in exchange for it. If there were 1,000 clocks and only 10 motor-cars the position would be reversed. But not necessarily. If the island was small and rocky there might be little or no demand for motor-cars. The *value* of a motor-car depends, therefore, not only on the supply but on the demand. There is another consideration. The island might contain abundant supplies of steel, rubber, and other things requisite for the manufacture of motor-cars, and several good mechanics. In that case even if there were only 10 motors in the market (as we say), i.e. available for exchange, yet the value of each would not be high, as more cars could easily be made.

The old-fashioned theory of value was that the value of any given article—say a pocket-knife—depended on the cost of producing it. That is no doubt a consideration taken into account by the man who possesses the knife, and also by the man who wants it. Each will consider, not indeed what it cost to make that particular knife five years ago, but what it would cost to make a knife exactly like it to-day. That is what economists mean when they say that value depends not on the cost of production but on the cost of *reproduction*. You go to an ironmonger to buy a shovel. The price asked for it is 5s. 'Too dear,' you may say. 'Well,' replies the ironmonger, 'it cost every penny of that to make it.' 'Very likely,' you retort, 'but what does that matter to me? The price of iron is cheaper to-day: wages are lower: I can get that shovel made to-day for 2s. 6d.' Despite all that the unfortunate ironmonger may say, 2s. 6d. is, therefore, the *value* of it, and ought, in a free market, to be the *price* of it.

But there are some things which cannot be reproduced at any cost. A Raeburn portrait, for instance, or an autograph of Charles I. The value of a Raeburn does depend upon the proportion between the supply of Raeburns and the demand for them. But the *supply*

of Raeburns is constant; it cannot be increased. Is that so? No doubt a Bond Street dealer could tell you exactly how many Raeburns there are in the world: but not even he could tell you what is the *supply* of Raeburns, i.e. the number which the possessors would be willing to sell; nor could he estimate exactly the *demand*, i.e. the number of people who wish to buy them. Both *supply* and *demand* are, then, even in the case of Raeburns, variable quantities. Each depends on the temptation offered to seller and buyer respectively. This theory of value is known to economists as the theory of marginal utility—a difficult phrase which I shall not attempt to explain. I will show by an illustration how it works.

We must assume (as is true) that most men are actuated by a mixture of commercial and sentimental motives, and we often have to measure the strength of the one motive against the other.

I am not a rich man but I possess a portrait of my great-grandfather painted by Raeburn. I see in the paper that a similar Raeburn has just been sold for £50,000. Every possessor of a Raeburn will at once ask himself the question: Would I rather have £50,000 or my ancestor's portrait? The poorer the possessor of a Raeburn the greater the temptation to sell. Some possessors (perhaps not the poorest, but the least sentimental) will yield to it. Assume that there are 500 Raeburns in the world, perhaps ten of them will be offered for sale—will 'come into the market'. There may for the moment be some little competition among the sellers. Will that depress the market-price of a Raeburn? That depends on how many people want to buy a Raeburn and can afford to give £50,000 for it. If there are twenty such people, the competition will be among the buyers, and the price of each Raeburn may rise to £60,000. If it does there will be an increased temptation to the possessors of the remaining Raeburns to sell. Twenty may yield to the temptation of getting (or hoping to get) £60,000; though only ten parted with them in the hope of getting £50,000. But suppose on the contrary there had only been only five buyers for the ten pictures offered, the price would have fallen say to £40,000; and

five pictures would remain unsold. The fall of the 'market price' may then multiply prospective buyers. Whereas there were only five buyers willing to pay £50,000, there may be twenty willing to pay £40,000. But the fall in price has diminished the temptation to sell. The twenty buyers will be compelled, therefore, to compete for a diminished supply. So the process goes on; and so values are adjusted by the constant variation in the ratio between demand and supply.

This is most remarkably illustrated, perhaps, in the case of articles which cannot be reproduced, but it is true of all articles. At this point, however, a further distinction must be drawn. Some articles can be reproduced only at increased cost; in the case of others, the greater the demand, the cheaper the cost—and the price.

Diminishing and Increasing Returns

The older economists used to lay great stress upon the 'law of decreasing returns'. That meant that when a certain point in the cultivation of land had been reached you could only get additional crops from it at a proportionately increased cost. When transport was difficult and freight expensive, each country was to a large extent self-contained and self-sufficing. The amount of land was limited, and as population increased men were compelled to have recourse to worse and worse land. Worse land meant more expensive cultivation. So the older economists were, in the circumstances of their time, right to insist on 'diminishing returns'.

To-day things have changed. We can bring wheat and flour from Montreal to Liverpool almost as cheaply as we can carry it from Lincoln to Exeter. Instead of ploughing poor land in Surrey it pays better to plough the rich prairies of Alberta. Other things also have changed. We think less about agriculture (too little perhaps) and more about manufactures. The law in manufactures is the reverse of that in agriculture. Generally speaking, the more you make the cheaper you can make it. Large-scale production, accordingly, is the order of the day. We manufacture in bulk, and

sell as cheaply as possible. That is the principle at the back of what we now call the 'rationalization' of industry. The object of that process is to reduce the costs of production to the minimum, and so enable the English manufacturer to compete in the open market with the manufacturers of other countries, where the standard of living is lower and the cost of labour less.

We come back, then, to our original statement: value depends on the relative strength of the two forces of supply and demand; on the one hand on the amount of a given commodity for sale, and (a point of great importance) the anxiety of the sellers to get rid of it; on the other hand on the number of buyers and on their anxiety to buy.

Markets

The word *market* is a term applied both to the place where transactions between buyer and seller take place, and also to the transactions themselves. Thus we speak of a cattle-market in the former sense: of there being a 'free market' in Consols or War Loan, meaning that there are plenty of people ready to buy and plenty of people ready to sell those securities. There are, on the other hand, many things of which the possessor may, for one reason or another, wish to sell, but for which it is difficult to find a purchaser at any given moment. Such things are said to have 'fallen in value'. The 'market' affords an infallible index to the day-to-day value of any commodity, be it wheat, or a picture, or government securities. In wheat there is always a market, though the price may, at a given moment, be a 'sacrificial' one to the seller; so there is in other necessities of life, but many things are temporarily unsaleable at any price. When that is the case there is said to be 'no market' in them.

Rent

Rent is the sum paid by a tenant to a landlord for the use of land. Technically, it is said to represent and measure the difference in

fertility between any given piece of land and the worst land under cultivation for the same market at the same time. If this be so, and broadly it is, the money-rent of a particular farm will depend on the market-price of produce. Prices, therefore, determine rent. Rent, consequently, cannot determine prices. Nor does it. If rent were, by law, abolished to-morrow, there is not the slightest reason to suppose that the price of bread or butter or any other commodity would be reduced by one farthing.

The demonstration of this truth is easy. Walk into your local corn-exchange, examine three samples of wheat from three different farms. You find them equal in quality. But Sample No. 1 has been grown on a farm which pays 10s. an acre, Sample No. 2 on a 20s. an acre farm, and Sample No. 3 on a 30s. farm; but the market-price for all three samples is the same—42s. a quarter. Suppose that, owing to a war, or for any other reason, the price of wheat rose to 84s., the landlord would be entirely justified (assuming that other costs of cultivation remained unaltered) in doubling his rents. As a fact wheat prices did rise in this way in the recent World War (1914-18), but 'other costs' did not remain constant. Wages, for example, doubled, and there was not, in fact, any general raising of rents, though existing rents were no doubt collected with less difficulty than usual. Farmers and labourers alike enjoyed great and unaccustomed prosperity. It was, however, of short duration. With the return of peace, prices began to fall rapidly. But meantime two things had happened. Many farmers, as we have seen, bought their farms, hoping that 'good times' had come to stay. As for the labourers, Parliament had intervened and fixed their wages at the war-level.¹ Farmers, consequently, find themselves in dire straits—especially those who bought their holdings. Wheat is back at its pre-war price. Wages remain on the war-level. Rent, where it is payable, is virtually wiped out. But that is little consolation to the farmer who has become his own landlord.

But discussion of these matters is outside my immediate purpose

¹ Wages are in fact fixed by *Wages-Boards*, but these act under statute.

I am concerned only with the definition of *rent*: the sum payable to a landlord by a tenant for the use of land.

Interest

Interest is the sum payable by a borrower for the temporary use of money. The older moralists were curiously prejudiced against the taking of interest, which was stigmatized as *usury*. The Jewish law and that of the medieval Church absolutely prohibited the taking of interest. 'Lend, hoping for nothing in return.' Greek philosophy was not less stern in its denunciation of usury, and most Christian States, down to relatively recent days, legislated against 'excessive' interest. Experience, however, has proved that such laws are apt to defeat their own object. They only make things harder for the necessitous debtor. He has not only to pay for the use of the money, but he has to compensate the lender for the risks he runs in breaking the law.

Modern usage has, in this matter, almost entirely broken away from medieval theory. There is still a strong feeling, reflected in modern legislation, against 'usurers'—money-lenders who charge the unfortunate people who get into their toils excessive rates of interest—and the feeling is right and intelligible. Usurers of this kind are often guilty of gross cruelty; they take a mean advantage of the necessities of a fellow creature, and harrowing stories of the sufferings of their victims are not infrequently made public in the courts of law. But usurious interest is a relatively negligible matter.

The borrowing and lending of capital is, as we shall presently see, a fundamental condition of modern industry and commerce. And if something can be made by the use of borrowed money, it is entirely legitimate (as Adam Smith long ago pointed out) that something should be paid for the use of it. 'Interest' is, indeed, entirely to the advantage of *both* parties—lender and borrower. Were the taking of it still prohibited by law, nine-tenths of the trade of the world would be brought to a standstill, and the first to suffer would, of course, be the consumer of the necessaries of life.

But to this important matter we must return. For the moment it only concerns us to remember that *interest represents the remuneration received for the loan of money.*

Profits

Profits represent the favourable balance between the expenses and the receipts of an industry or business. For the year 1926-7, the 'profits' of businesses, &c., in the United Kingdom were assessed at over £1,000,000,000. This was exclusive of salaries which amounted to nearly £870,000,000, and of income from 'securities' (more properly regarded as 'interest') which exceeded £135,000,000. The classical economists analysed 'profits' into three component parts: insurance against risk, interest on capital, and wages of superintendence. We shall see presently that as business was ordinarily conducted down to the middle of the nineteenth century, that was a perfectly correct analysis, and the term 'profits' is still loosely used in this sense.

Take the case of a man running a little shop, with the help of his wife and perhaps his children, but without any paid assistance. At the end of the year he makes up his books and finds that he is £180 to the good. He reckons his 'profits' at that sum. He arrives at it thus:

<i>Payments</i>	£	<i>Receipts</i>	£
Rent and rates . . .	75	By Sale of goods . . .	610
Insurance	5	Deduct expenses . . .	430
Purchase of goods . . .	350		—
	430	Profit	180

This is, of course, a very imperfect analysis. The man would in fact have been better off had he taken a job in an office or a business at £4 a week. In his estimate of profits he has allowed nothing for his own wages, his wife's, and his children's. He could not have carried on even so modest a business without some capital, but he has not charged his business with the interest on that capital. Had it been borrowed he doubtless would have done; being his own he has not.

We shall see presently that that constitutes the main difference between business to-day, and the business of the early- and mid-Victorian period. Accordingly, modern economists eliminate 'insurance' and 'interest' from 'profits', and indeed 'wages of superintendence' as well. Profits represent the favourable balance after *all* expenses (including the above) have been paid.

Dividends

Dividend is the amount divided up among the partners or 'ordinary shareholders' of a business undertaking.¹ But for one consideration 'dividend' would be almost identical with 'profits'. But a modern business does not (if it be cautiously managed) distribute its profits to shareholders or partners 'up to the hilt'. On the contrary, it puts by a considerable proportion of its profits to 'reserve funds'. The destination and employment of these 'reserve funds' are points which may demand attention later on; for the moment it suffices to insist that 'dividend' is that portion of the profits of a concern which is distributed to shareholders or partners. It is akin to *interest*, in so far as it is paid in proportion to the amount of *capital* contributed to the concern. It differs from interest in that it is not a fixed but a variable percentage on capital.

Capital

Capital represents that portion of a man's savings which he devotes to the production of more wealth. If a man has an income of £1,000 a year and spends £1,000 a year he will never become a 'capitalist'. If he spends only £800 he has £200 available for investment; in ten years time he will be a capitalist to the extent of £2,000, and may, if he is reasonably fortunate, be deriving therefrom an additional revenue of £100 to £150 a year. The mere saving of money does not create capital; the amount saved must be put to a commercial use—the 'talent' must not be hidden in a napkin. More of this, however, in the next chapter.

¹ See below, pp. 69, 129.

Wages

Wages represent the remuneration of labour. The term is, by convention, applied to the remuneration of manual labour, paid, as a rule, at weekly intervals. A collier receives 'wages'; a clerk receives a 'salary'. But if the amount is in both cases fixed and predetermined there is no economic distinction, nor between them and the salary of a manager which may amount to £5,000 or £10,000 a year, provided always that the salary is fixed and in no way dependent upon profits. Wages, then, may be defined as the predetermined amount which an employer contracts to pay to those whom he employs, whatever the character of the work done. Wages are distinguished from the 'earnings' of a 'professional' man, e.g. a lawyer or a doctor, by the fact (i) that they are predetermined, (ii) are paid as the result of a contract between one person and another. The sum paid by a doctor to his assistant (if predetermined) is plainly 'wages'; the doctor's own earnings being variable and indeterminate are described as 'income'.

With so much of definition and explanation we may proceed.

V

CAPITAL

AFTER a long parenthesis we must resume our analysis of the process of producing commodities, i.e. creating wealth. For the supply of all primary products, such as corn, raw cotton, or tobacco, land is, as we have seen, an essential element. But the further we get from 'primary' production the less important does that element become. In the production of wheat, for example, the soil is all important. It is less important in the manufacture of biscuits. Important in that of raw cotton, it is less important in that of shirts. The more elaborate and expensive the process of manufacture the less is the proportion of the value of the finished product which can be attributed to land.

Labour is hardly less essential than land to the creation of wealth. Some land possesses value to which no labour has ever been applied. Nevertheless, it is labour which indirectly has given to it its value. The Duke of Westminster's farms, now in the heart of London, would possess no more value to-day than they did two centuries ago had not human heads and hands been busy in the immediate neighbourhood. Virgin soils might under certain circumstances fetch thousands of pounds per acre, but not unless man had been constructing railways, making roads, building bridges, and houses, and factories. That labour is essential to the creation of wealth needs, then, little demonstration.

Less obvious, and therefore more difficult to understand, is the part which *capital* plays in production. Capital, as we have just seen, is that portion of wealth which has been saved and is available to assist in the production of more wealth. Take the simplest case. A working gardener is employed at 50s. a week by a market gardener; he saves out of his wages 10s. a week and at the end of two years has got £52 in the Savings Bank. With that money he may do one of two things (there are other alternatives which I need not discuss): he may invest it in some company, from which he may obtain an income of £3 a year, or he may boldly launch out (with the help of further capital borrowed from a bank or from friends who trust him) and start market-gardening on his own account. If he keeps his accounts properly he will set aside out of his profits, say 6 per cent. on his own capital embarked in the business and for the payment of interest on his loan. Before doing that he will have to set aside a sum, out of his profits, to pay the rent of his garden-land. He will be wise to start modestly, perhaps with an allotment or two which he can work without hired labour. But even the working of an allotment requires capital. The man who owns his own spade and barrow is a capitalist, and ought to charge himself with interest on the money required to purchase, repair, and renew them.

Take an even simpler case. There has been a heavy fall of snow.

Two men appear on my door-step armed with shovels and ask to be allowed to clear the snow. I agree to pay them 1s. an hour, and then make inquiries. How did they get their shovels? I discover that one of their neighbours, of a saving disposition and an eye for business, had, on the first sign of heavy snow, bought six shovels at 6s. each, hired six men at the Labour Exchange, and sent them out, thus equipped, to clear away snow. But he very properly made a bargain. Each man was to receive 1s. an hour from the householders, but out of that the small capitalist was to receive 3d. an hour for the use of the shovels. The shovels were his capital, bought out of his savings, and he was entitled to interest on that capital, sufficient to remunerate **him** for his self-restraint and also to replace the shovels when their working life was done. As snow-storms are uncertain in their incidence, and as the shovels might have to lie idle for a year or more, he would be fairly entitled to a very high rate of interest. In the present case each labourer at the end of six hours' work would have earned 4s. 6d. and each shovel 1s. 6d. Suppose the snow lasted four days, each shovel would have paid itself off but would have yielded no profit to the prudent and enterprising capitalist. If it lasted a week he would have made 4s. 6d., or 75 per cent. on his original investment. This sounds a high rate, especially to the labourer who thinks he has done all the work; and not less to Becky Sharp whose ambition was a regular income (of sufficient size!) derived from investment in the 'sweet simplicity' of the three per cents. But the disgruntled labourer must remember that at the end of the week he has taken home 31s. 6d., not one penny of which he could have earned but for the prudence of his 'parsimonious' neighbour. The envious investor in Consols or War Loan should remember that their income is as secure as any income derived from capital can be, that it does not depend upon the vagaries of the English climate (except perhaps very remotely), nor on the humours of British householders, nor even on the bye-laws of local authorities. The little capitalist in buying snow-shovels was taking enormous

risks; he was in fact speculating in snow. Those who are quick to condemn speculation in business will do well to reflect that but for this speculation, in the imagined case, the labourers would have continued to add to the roll of the unemployed, the householder might have been fined by a fussy inspector of the Urban Council, the snow might have melted into slush and he himself incurred a doctor's bill of two guineas. My illustration sounds childish in its simplicity, but, if carefully considered, it will be found to explain a good many things which some people find obscure.

It may be desirable to emphasize one or two of them. It partially explains the prejudice of 'labour' against 'capital'. It is quite natural for the manual worker to think that all the real work is done by him, while much of the profit earned by his work goes to a man who has 'never taken his coat off'. This is particularly intelligible and, therefore, forgivable in certain heavy industries. Take the miner, or the heavy engineer, or steel maker. You see the miner working underground, hewing coal as he lies on his back, exposing himself to considerable risks, and all for fifty or sixty shillings a week. The Colliery Company for which he works may pay (though in these days it is improbable) £500 a year in interest to a number of men not one of whom has ever seen a coal-mine. That does not sound right. But take 1,000 unemployed miners with no savings out to Ontario. Give them, free, 100 acres of land which is believed to be carboniferous. At the end of a month not one of them will be alive, unless some capitalist has come to their assistance. At the end of a year it is unlikely that, under any circumstances, any one of them will have *earned* his bare keep. To start a colliery means (i) the previous accumulation of savings which in any case will not, for a long time, bring any remuneration to the men who have accumulated them; (ii) it means the purchase of expensive machinery, the provision of which has, in its turn, involved large savings, much skill, considerable risk, not to add a heavy wages bill; (iii) knowledge and skill on the part of managers,

scientific experts, and merchants. For of what avail is it to produce coal unless you can sell it, and to sell it, in these days, means business acumen of no mean order. Take the printer of this book and the publisher. The writing even of a short and simple book like this has cost the writer many years of toil. Before he can receive a penny of remuneration the printers and compositors will have received their weekly wages, and the publishers will have repaid themselves some portion at least of the costs of production. Quite properly in both cases. But for publishers and printers authors would starve. That is generally admitted and remembered. What is less often remembered is that but for authors printers would starve; but for capitalists the printer and the author would both starve.

But the author himself may be a capitalist: so may the printer. The printer may be both capitalist and author. In such a case interest, wages, and profits all go into same pocket.

Origin of Capital

We now understand, I hope, what capital is, what is its economic function, how essential it is to industry and commerce. Let it again be emphasized that capital can only be accumulated in one way, i.e. by abstention from immediate *spending*. We have seen that the working gardener became a capitalist by saving 20 per cent. of his weekly wages. Similarly the Civil Servant may become a sleeping partner in a publishing business or in a coal-mine by saving a portion of his yearly salary: so may a doctor or a lawyer. But all these are usually 'small investors'. The greater part of the capital required in any given industry or business is drawn out of the profits of the business itself. Nearly all the vast expansion of industry and commerce in the nineteenth century was financed in this way. The older concerns were mainly built up by individuals or families and were enlarged by setting aside year by year a portion of the profits earned by the business itself. Most of the founders of famous concerns have lived lives of self-denial. Some of them may

have practised the saving habit in an excessive degree—excessive for their own happiness and the happiness of their families. *The saving habit can never be developed too much for the interests of the community*, as I shall presently show, though it may become morally injurious to the character of the individual. For the moment that need not concern us. We want to see the wealth of the community increased. It was rapidly increased in the nineteenth century, partly by inventions, partly by courage and enterprise, partly by skill and judgement, but not least indispensably by saving.

Take an illustration. A weaver has saved out of his wages a little money; he rents a plot of land, builds a weaving shed, or maybe rents one which is already built, puts in fifty looms, and starts weaving on his own account. At the end of the year he finds that having paid out wages every week, having paid his rent, perhaps only for the land, perhaps for land and building, having perhaps paid some interest also on a loan from a friend or an overdraft at his bankers, having kept himself and his family (in strict economy) he has £100 in hand. He may do one of several things: he may buy a grand piano for his wife; or put it to 'reserve', i.e. keep it in some readily realizable investment for use in an emergency (certain to come sooner or later) in the business; or use it to enlarge and develop his business. A year or two ago, Sir William Morris, the great motor manufacturer, astonished the world by putting the whole of the money available for a dividend on the ordinary shares of Morris Motors, Ltd.—a sum of £750,000—back into the business. It was a wise and (as Sir William owned the whole of the ordinary shares) a generous thing to do. But that was the way, I make no doubt, in which he had built up the vast business which started, only a few years ago, in a single little shop in Oxford. That is the way in which nearly all successful businesses have been built up. The Lancashire weaver who saw a profit of £100 on his shed did not buy the piano for his wife, but bought some more looms for his shed. Next year the profit was £200. More looms. Next

year £300—the shed had to be enlarged, and (of course) more hands employed—and so on. A century later three of the descendants of the original weaver die leaving fortunes of £1,000,000 apiece, and envious people grumble. Why should they?

Is one weaver, one clerk, one accountant, one banker, one tradesman, one human being one penny the worse by reason of the fact that three men have left fortunes of £1,000,000 each? Have not thousands of people, on the contrary, been enriched in the course and in consequence of the accumulation of these large fortunes? But this is a point to which I hope to return. Meanwhile I am only concerned to investigate the *origin* of capital.

Saving and Spending

Capital is the result of abstention from spending; in other words of saving. But it is a curious fact that the man who spends, who ‘flings his money about like a prince’, is almost invariably popular; the man who saves is frequently the reverse of popular, an object of scorn if not of pity. Yet the truth is that the man who saves is just as much a spender as the man who spends. The only difference is that he spends more wisely and in a manner which is of permanent advantage to the community, instead of a source of transient pleasure or profit to a few individuals.

Savings as we have seen may be employed in a variety of ways, but unless they are in the form of coin or paper money and are hidden away in an old stocking, savings must be ‘spent’; they must, almost inevitably, be converted into capital. The original saver may not so convert them. But even if he refuses to do so and merely keeps his savings in a Bank, they will be utilized by the Bank as capital. Mr. Smith, who derides Mr. Jones for his penurious habits, may, unknown to either party, be carrying on his own business with the help of Mr. Jones’s savings, obtained from the Bank in the shape of an overdraft. Unless Mr. Smith saves for himself or Mr. Jones (unconsciously) saves for him, Mr. Smith’s business will, we may be sure, never expand and will probably, sooner or later, collapse.

We have now dealt with two out of the three main agents of production. You cannot produce wealth without ultimate recourse to land; very little without the application of capital; and still less without putting labour into land.

VI

LABOUR

SOME people, as we have seen, hold the view that all wealth is derived from land. Others insist that labour is the sole source of wealth. As a fact both labour and land are essential to the production of wealth; so also, except under the most primitive conditions, is capital.

We must now deal with labour, by which we have come to understand, with misleading exclusiveness, manual or bodily labour. Brain labour is almost equally essential, and under modern conditions increasingly important. It is also, be it observed, as a rule, more highly remunerated. For the moment, however, we will consider the place of manual labour in production.

Under modern conditions in England manual workers are generally employed by some one who does not work with his hands, and they receive wages in payment for their work.

It was not always so. The system under which the world is divided into employers and employed, those who pay wages and those who receive them, is comparatively modern. So lately as the eighteenth century comparatively few people in England lived wholly on weekly wages; to-day the vast majority of people are dependent for subsistence on what they earn week by week. In ancient days the world was roughly divided into masters and slaves. There was an intermediate class who lived on the product of their own labour, but the number of hired labourers was small. During the Middle Ages society was organized on a feudal basis. The typical feudal village (*manor* it was technically called) consisted

of the lord of the manor, who held his land on certain conditions from the king, to whom all the land of the kingdom belonged; a few freeholders, and a few slaves; the greater part of the inhabitants of the village were known as villeins or serfs. The position of a villein was half-way between that of a farm-labourer and a tenant-farmer. He worked on the lord's land, but, unlike a modern labourer, he received no wages. He farmed his own land, but, unlike a modern farmer, he paid no rent. He was indeed the 'owner' of his own land just as much as the lord was the 'owner' of the whole village. Neither was an unconditional owner; both were 'tenants'. The lord was the 'tenant' of the king and owed him military (or knightly) service, and paid him certain dues. But as long as the services were rendered and dues paid the lord was secure in his manor. Similarly his villeins were bound to follow their lord to war, and in peace were bound to cultivate his land for him and to pay him certain dues. But in their case also, as long as services and dues were rendered, they were secure in their holdings. The lord could not turn them out, nor might they leave the manor without the lord's permission. The land was tied to them, and they were tied to the land. They paid no rent; they received no wages. They worked for the lord, and lived on the produce of their own land. The details of this manorial system are very interesting;¹ but must not now detain us. We are concerned with them merely to emphasize the point that in those days there was no such thing as a free labourer, living on wages paid by an employer.

Town Life

When population began to collect in towns society ceased to be wholly feudal, but the medieval town resembled the modern town as little as the feudal manor resembled the modern country village. The typical town was dependent for food supplies on one

¹ For detailed description see Marriott, *The English Land System* (Murray, 1914).

or more closely adjacent manors. The manor exchanged food for things made in the town, but the methods of exchange were simple, and the use of money comparatively rare, though certain towns, like York and Chester, had their own mints. Just as country-life was organized in manors, so town-life was dominated by the 'Guilds'. These guilds were associations of merchants and craftsmen. The merchants and tradesmen formed associations for their mutual protection and benefit, in the same sort of way (though with much more elaborate organization) as they form chambers of commerce to-day. In the same way the 'craftsmen'—the weavers and smiths for example—brought together in associations or guilds the people who worked at a particular craft. Even in the towns wages were comparatively rare. The trade was carried on by a master-craftsman assisted by apprentices, and a few journeymen—paid partly by wages.

Money Economy

By the fourteenth century, however, the manorial system was breaking up; the guild system began to give place to 'free commerce' in the fifteenth century and rapidly broke up after the sixteenth. Money transactions and agreements had become increasingly common. The king had begun (in the twelfth century) to take money from his vassals in place of the military services of their villeins. With this money he hired soldiers to fight his battles in France. The king's vassals in their turn accepted money payments from their villeins in place of the agricultural services which the latter were bound to render to their lords. With the money thus obtained the lords met the demands of the king and also engaged farm labourers to cultivate their estates. The villeins got money by selling their surplus produce to the towns. So money gradually came into general use as a much more convenient way for the discharge of mutual obligations than rendering services or exchanging goods.

Contract and Status

The coming into general use of money marked a very important stage in the evolution of society. When the king began to *hire* soldiers and pay them, when landlords began to pay wages to labourers, who voluntarily engaged to do agricultural work, society passed (in technical language) from *status* to *contract*. That merely means in plain English that service based on a free bargain (contract) between employer and employed superseded customary services based on differences of birth (status). Henceforward John the son of Robin works for Rupert de Belesme not because he is the son of Robin and Rupert is the son of his father, but because Rupert has bargained with John to work for him at—say 6s. 8d. a month. So a *contract* becomes the basis of mutual economic relations.

Wages

Thus came into existence a class of people who lived on the wages they earned. But the wage system only made its way very gradually. The Great Plague (Black Death) of 1349 gave the first great shock to the old system. It caused great mortality among the villeins, and few were left to till the fields. Wages consequently rose rapidly, and when the lords of the manors attempted to reimpose the old feudal services the villeins ran away and took service, as wage-paid labourers, with lords to whom they owed no service. The revolt of the peasants under Wat the Tyler (1381) went far to complete the process begun by the Great Plague. Thereafter villeinage (i.e. tenure by customary service) rapidly died out; the vacated holdings of the villeins were put down to grass, and the rearing of sheep laid the foundation of England's commercial prosperity. Wool was exported in ever-increasing quantities to Ghent, Bruges, and other cities in Flanders where it was worked up into fine cloth. We began also to make some rough cloth at home.

Enclosures

Not, however, until the sixteenth century did sheep-farming become the staple industry of England. Land, down to that time, was mostly regarded as a means of subsistence. The increasing demand for wool gave to land a new value. It might be made not only to provide subsistence for those who lived on it, but to yield a commercial profit. But to achieve this farming must be on a much larger scale. Accordingly, all through the sixteenth century, we have constant complaints, in contemporary literature, against the practice known as enclosure. 'Enclosure' meant firstly, the fencing in of 'unenclosed' or open fields. Arable cultivation requires no fences. Sheep or cattle must be fenced in. 'Enclosure', however, meant two other things: putting down ploughland to grass, and the consolidation of holdings—the conversion of several small farms into one large one. Thus we constantly hear of 'men being evicted to make room for sheep'; of the pulling down of homesteads; of consequent unemployment and vagabondage; of 'sturdy beggars' infesting the public highways and making them unsafe for peaceful wayfarers.

Here we are concerned with the enclosure movement only as a stage in the process by which the great mass of the English peasantry were divorced from the soil from which they had derived subsistence and became increasingly dependent for their daily bread upon wages paid by an employer.

The process began much earlier in England than in other European countries and has gone much further. With the general economic or social effects of the process we are not now concerned. It may be, as many argue, that it has contributed to make England the great and wealthy nation she is; it may be, as others contend, that even if it has made for wealth it has not made for welfare, and that, although England as a whole might be the poorer had her peasantry remained attached to the soil, the poor themselves would be in a happier state. It is difficult to say. Few English

wage-earners, especially in these days of restricted working hours, toil nearly so hard as the small French or Swiss proprietors, but the land on which the French and Swiss work is their own; they reap where they sow. But these things are outside the immediate purpose of this chapter. Whatever the historical explanation may be, whatever the economic effects may be, the fact remains that in England to-day the great mass of the people are dependent upon the wages they earn from week to week, and that whereas over 50 per cent. of our working population find their occupation in industry and mining, and only about 7 per cent. in agriculture and fisheries, in France more than half the entire population live in country districts, and over 40 per cent. of the 'active' population are employed in agriculture and fisheries.

The Industrial Revolution

Down to the end of the eighteenth century the transition to the wages-system was a gradual one. Until the 'Industrial Revolution', as it is called, took place, the number of people in England who depended *entirely* on wages for their subsistence was comparatively small. Most farm labourers kept some poultry, some pigs, a few goats, perhaps a cow, which fed on the village commons, on which many labourers had rights of pasturage. Many cottages had their spinning-wheels, on which the wife and daughters spun wool, a few had their hand-looms on which they wove the yarn into cloth. Until the invention of spinning and weaving machinery nearly all the manufactures—mostly of wool—were carried on in the scattered cottages and farm houses. In 1733, however, a Lancashire weaver, John Kay, invented a weaving machine called a 'fly-shuttle', and after that one invention followed another very quickly. But the new machines cost money. The man who possessed one was a small capitalist; the man who could afford to buy many was a large capitalist. Then it occurred to some one, that it would be an immense saving of labour, and therefore of expense, if a number of these machines could be collected in a

single building and driven by 'power', instead of by hand. The millers had long used water to turn their great stones. Why not let water work the new spinning and weaving machines? This was done; and mills, mostly for making cotton, sprang up, as we have seen, on the streams of Lancashire, Derbyshire, and the West Riding of Yorkshire—places where the rivers run down swiftly from the Pennine range. Very soon steam displaced water as the 'driving power', and the mills began to be built near the coal-fields.

But we are concerned in this chapter with the labourer. How did all these changes affect him?

They affected him in many ways, but particularly in two: they carried him away from his country cottage on the edge of the common into a factory town, and they made him wholly dependent on weekly wages paid to him by an employer who might engage him to-day and dismiss him next week. The labourer gave up his cottage, sold his poultry and pigs, received a little compensation for the loss of his rights of pasturage on the common, and went off into the town to become a 'hand' in a cotton mill or a weaving shed. But he was not the only hand in the factory. His wife worked there too, so did his children, even from the tenderest years. Between them, father, mother, and children brought good wages into the home when trade was brisk; when trade was slack they were likely to be dismissed and they and their families came near to starvation, for they had nothing but their weekly wages to rely on. There was no 'unemployment' benefit, no insurance against sickness, no compensation if they got caught in the machinery or otherwise injured; if owing to slack trade or sickness they lost their job, there was nothing but the workhouse. For a faithful description of those days—so different from our own—we may go to two of Mrs. Gaskell's novels, *Mary Barton* and *North and South*. Each contains a vivid picture of the condition of things in the middle years of the nineteenth century. Both are well worth reading.

The Division of Labour

Now behind all these changes there was a very important principle at work about which I must now say something. When Adam Smith, the 'father' of Political Economy published his great work the *Wealth of Nations* in 1776 these changes were only beginning. But his keen brain nevertheless apprehended the principle which was destined to transform the face of England. He perceived that the principle of *Division of Labour*, or specialization, lay at the root of economic progress. Nowadays we are all 'professionals' or 'specialists'. One man specializes in cricket, another in golf, a third in football, another in surgery, a fourth in medicine. Much more than that: in cricket one man specializes in wicket-keeping; in medicine one man treats nothing but ear trouble, and so on. It is the same in industry and to a lesser degree even in agriculture. One man specializes in cheese, another in potatoes. A farmer's speciality is, of course, largely determined by locality, by soil, and climate. Thus you make cheese in Cheshire and Somerset where the pasture is rich; you grow potatoes in Lincolnshire and barley in Norfolk where there is less rain and the soil is light. But it is in manufactures that the principle is carried furthest. Two centuries ago, as we have seen, every farmer was a manufacturer, spinning the wool shorn from his own sheep, and perhaps weaving the yarn spun by his wife and daughters. Equally, of course, most manufacturers were farmers.

Then came the wonderful series of inventions which revolutionized the social and economic life of our country and brought into being the England that we know—a land of towns and factories, of mines and gasworks and electric power stations, of railways and motor-cars, an England that is the centre of world-trade, world-shipping, and world-finance. The England that we know is a very new England, an England in which Queen Anne or Sir Robert Walpole or even Lord Chatham or Dr. Johnson would feel entire strangers. Yet the oldest of those people died

little more than two hundred years ago. Not one of them but would be amazed to learn that Great Britain now contains nearly 45,000,000 people, of whom some three-quarters are, except for insurance benefits and the like, dependent on what they or their parents earn from week to week.

This statement needs a little qualification, for a very large proportion of the wage-earners have got, I am glad to say, savings which they have invested in all sorts of ways. They are, in fact, small capitalists. But if they ceased to earn wages the savings would, I am afraid, quickly disappear. It is therefore true that to-day our people mainly live on wages.

Free Trade

Moreover, they are, as we have seen, mostly specialists—each proficient at his own job, but rather clumsy at other jobs. The ‘all round man’, the ‘handy man’, is much less easy to find than he was two hundred years ago. Adam Smith ought to be pleased at what has happened. He declared that the clue to efficiency, the condition of progress, was specialization—the division of labour. And he applied this principle not only to individuals. No prudent person, he declared, will make for himself what he can buy more cheaply from somebody else. That applies also to nations, and its application was at the root of Adam Smith’s theory of ‘Free Trade’. If England can buy wheat or cattle cheaper and as good from America as she can grow wheat or rear cattle in England, then she ought to buy them and let America have in exchange the cloth or coal or steel or iron in the production of which we can beat America. Adam Smith, be it said in passing, never imagined that American wheat or Argentine beef would be sold in London as cheaply as English wheat and Scottish beef. He could not foresee that, by the development of railways and steamships, New York would be brought nearer to Liverpool than was Aberdeen to London in his own day, and the consequent cheapening in cost of carriage. He did not imagine that his theory would ever be put, even one-

sidedly, into practice. He could never have supposed that English agriculture, the mainstay of the population, would fall into decay; that the people, five times as numerous as the people of his day, would all flock into the towns; that London alone would come to contain as many people as did the whole of England when he wrote his great book. None of these things could he have foreseen. Whether they would have effected his readiness to apply his theory in practice we cannot tell. His theory rested on division of labour and a free exchange of goods between one country and another. He did not contemplate the possibility that one country might *buy* freely from others, but find it difficult to sell to them. That, however, is a mystery into which, for the moment, I do not invite my readers to penetrate.

This chapter is concerned with labour, and with the effect which certain changes have had upon the work and life of the manual worker. The most important changes in his position are, first, that owing to the minute subdivision of labour, he has become a specialist, and secondly, that he has become dependent on wages.

Where do his wages come from? If I were writing this book for specialized students of Political Economy I should have to discuss that question very carefully and at some length. Many books have been devoted to that question alone. But speaking very broadly it is true to say that wages represent a portion, in many cases a very large share, of the wealth created by the combined efforts of land, capital, and labour of brain and hand. The proportion of the total value of any given article varies very much in different articles. The rate of wages also varies considerably in different occupations. Many circumstances contribute, in both cases, to the variation. In most cases the rate of wages is fixed by a bargain between the employer and the wage-earner, or, more often in these days, between an employer, or a group of employers in a particular trade, and an association of the workmen in the same trade. The latter association is known as a Trade Union,¹

¹ See below, p. 75.

and most trades have now got an organization of this kind. In a few cases wages are fixed by law, as, for instance, in agriculture where trade-unionism has never been successful, or in certain so-called 'sweated' industries, where the wage-earners are so poor, so scattered, and so incapable of defending their own interests as to be at the mercy of unscrupulous and greedy employers. In the long run, however, the rate of wages will be found to depend, like the value of material goods, largely on the ratio between the demand for and the supply of labour in a particular occupation.

Supply and Demand

Take a familiar case—that of domestic servants. Wages in this case are entirely fixed by a bargain between an individual master and an individual servant. There is no organization or combination on the one side or the other. But it is notorious that there is no other occupation in which the rate of wages has risen so much since the world-war as in domestic service, especially among women servants. Why is this? Simply because the supply of servants has greatly diminished in proportion to the demand for them. There are more masters seeking servants than servants looking for employment. This is due to many causes: partly to the increasing reluctance of girls to go into domestic service, partly to the increased employment of women in other occupations. During the world-war, when most of the men went away to fight, women took their places in offices, and factories, and shops, and employers discovered that in many cases the women could do the work as well or better than men, and would do it for less wages. Consequently, more and more women have gone into commercial work and there are fewer available for domestic service.

Besides, the wages earned in shops and offices seem (apart from other inducements) tempting. But here we must notice an important point. The money wages paid to domestic servants represent only a portion of their total remuneration. They receive free board and lodging (as they do also in some shops)

from the employer. It is generally reckoned that a domestic servant, with wages of £50 a year, is receiving at least another £50 in free board, lodging, and laundry, in addition to a considerable though fluctuating amount in 'tips'. A woman clerk would have to earn at least £2 10s. or £3 a week to find herself in as good a position. A competent and prudent servant can, and does, accumulate considerable savings; it is doubtful whether many shop-girls or clerks do.

Wages Paid Out of Product

This is a striking illustration of the working of the principle of supply and demand in labour. The same principle, though less easily demonstrated, holds equally good in other cases. Domestic service is not, however, a happy illustration of the equally important truth that wages really represent a portion of the total value of the product. Take coal. On each ton of coal sold at the pit-head for 30s. the wage-earners will receive probably 25s. But a ton of coal sold at the pit-head for 30s. will fetch in London 50s. or more. Of the additional 20s. thus added to the value of the coal a considerable proportion will have gone in wages to railway-men, carters, to the clerks of the wholesale merchant and retailer and other employees. In coal the ratio of wages to total value (or price) is exceptionally high, for human labour counts for so much in coal mining. It is much lower in the case of cotton where machinery plays a proportionately larger part, and machinery earns not wages but interest.

Piece-work and Time-work

The working of the principle would be much easier to demonstrate were all industrial wages paid on the basis of piece-work instead of time-work, i.e. if wages were calculated not on the number of hours worked, but on the tons of coal hewn, or the weight of yarn spun, or the yards of cloth woven and so on. In some industries, the two systems—time-rates and piece-rates—are

combined, but the trade unions are generally opposed to piece-rates on the ground that they tend to depress wages, and to produce inequalities between worker and worker. It is obvious that if wages are made to depend on output and not on time worked, the quick and efficient worker will earn more and the slow and inefficient less. This may in the long run actually depress the wages of the whole trade, but to explain this would carry me beyond the limits of this little book.

It may, however, have occurred even to an elementary student of this subject that 'wages' is not a very satisfactory method of remunerating manual or other workers. It seems unnatural that, even on the surface, they should bear so little relation to the work done, to the amount of wealth or goods actually brought into being. The relation is, in fact, closer than may appear at first sight. The recent depression in English trade has brought home to a good many people a realization of the truth that the wage-earners cannot get more (in the long run) out of an industry than they put into it. Suppose that in coal-hewing wages were reckoned by piece-work and that a miner's wages worked out at 30s. a ton. It is obvious that unless the coal could be sold at considerably more than 30s. a ton the pit would have to close down. No industry could be carried on on those terms. If on the other hand coal was selling at 60s. a ton it seems unfair that the miner should get only 30s. This is frankly acknowledged. Accordingly, in some mining districts there is, between masters and men, a 'sliding-scale' management, under which the wages vary according to the price of coal.

That seems quite fair, but it is less applicable in some industries than in others, nor does it in any case satisfy those people who would like to see more of a partnership or sharing method adopted between employers and workmen. Such a partnership or sharing arrangement is undoubtedly the ideal arrangement. It has in some cases been adopted and in a few cases worked very well. But the practical difficulties are far more formidable than inexperienced people imagine; the method, so attractive in theory, has never been

generally adopted, and, when adopted, the proportion of failures to successes has been lamentably high. That does not prove that the principle is wrong, but only that the practical difficulties in applying it are serious.

Co-operation

But why have 'employers' at all? Why have wage-paid labour at all? Why should not a number of good workmen get together and run a business and share out all the profits among themselves? There is, as we saw in a previous chapter, no reason why they should not, provided (i) they have accumulated or can borrow an adequate amount of capital, and (ii) they possess or can hire the brains requisite for the management of the business. Many experiments of this kind have in fact been tried under the name of Industrial Co-operative Societies. The root idea of all such associations is to get rid of the employer and to share the profits that would have gone to him among the labourers themselves. Too often it has been found that in getting rid of the employer they have got rid of the profits as well, and that the actual profits, when divided up, do not in fact work out as high as the wages earned in similar concerns. This has too commonly happened in the case of societies formed to *make* some article. Societies which have been formed, on the same principle, to *sell* commodities, in fact to take the place of retail shops, have been, on the contrary, remarkably successful. These 'Distributive Co-operative Societies' (as they are called) now do an enormous trade. But the business of selling ('distribution'), though calling for no little business ability, is simple as compared with the business of *making* ('production'). Particularly simple is it when you have an assured body of customers. And that is the case with Co-operative Societies. To this subject we shall return later on.

Wages in England

The rate of wages in England is now relatively high. It is high as compared with the wages paid in England a century ago; it

is high compared with the rate in other European countries, and still higher, of course, as compared with wages in Oriental countries. This is a serious matter for the Lancashire cotton industry which now finds itself in competition with the mills of Bombay and Japan where wages are much lower; it is a serious matter also for the iron and steel industries which have to compete with similar industries in Continental countries. Recent inquiries (July 1930) have shown that in the iron and steel trade the weekly earnings of wage-earners are over 30 per cent. higher in England than in Germany; 50 per cent. higher than in France, and even more than that in excess of the wages paid in Belgium and Czechoslovakia; and while wages are higher, the hours of work are shorter. For higher wages and shorter hours there can only be one *economic* justification—higher output. Wages in the United States are higher than in England, but the output is more than proportionately greater. Every reasonable person wishes to see the highest possible rate of wages compatible with the survival of a competitive industry; but it is indisputably true that in the long run labour cannot get more out of an industry than it puts into it. It is, in fine, indisputable that wages *must*, in the long run, be paid out of the product of the industry. For philanthropic reasons, in order to avoid the dismissal of workmen, an employer may be willing to run a business at a loss, to pay wages out of his own pocket, but the process cannot go on indefinitely, and with the elimination of individual employers¹ is likely to go on much less in the future than it has in the past.

Nationalization

There is, indeed, another alternative—that the State should take over the conduct of business and become the sole employer of labour. But this solution—known as the nationalization of industry—is less favoured to-day than it was a few years ago. It is realized that the purse of the State, though capacious, is not

¹ See p. 66.

bottomless. The State can no more afford to carry on business at a loss than can any individual employer, unless it is prepared to meet its losses by imposing additional taxation upon its citizens. But to the successful adoption of this device there are very obvious limits. A very large proportion, nearly one half, of the total revenue of the State is at present obtained from the taxation of business profits. Were all industry and trade 'nationalized' there would be no such profits, and taxation imposed upon them would therefore yield nothing.

There is, then, no escape from the inexorable law that wages to be paid must be *earned*. Only out of the product of labour can the labourer derive subsistence.

Wages, Real and Nominal

Another point demands brief consideration. A distinction is rightly drawn between real and nominal wages. Nominal wages correspond with the amount of *money* received by the labourer. His *real* wages are measured by the amount of bread, meat, clothes, house-room, &c., he can obtain in return for his wages. If the cost of living in a particular country or locality be high the real value of high wages is greatly diminished. Less wages in a cheap country or district may be worth more to the labourer than higher wages in an expensive district. Assume, for example, that house-rent is 5s. a week higher in London than in Oxford and that other necessaries are higher in similar proportion, it is obvious that a man with 60s. a week in London will be worse off than a man with 50s. a week in Oxford. The cost of living in London is cheap, compared, for example, with New York or Montreal. £3 a week in London may, therefore, go further than £4 a week in New York.

These considerations, however, though important, are not, in the present connexion, fundamental. The points on which, for the moment, it is essential to insist are: that, for better or worse, the great mass of the English people live on *wages*; that these wages are the result of a bargain between those who pay and those who

receive them; that in the long run the wage-earner cannot receive more than the economic value of the work done, though, he may receive less; that it is consequently in the interests of the individual labourer, no less than of the whole community, that industry should be carried on to the highest possible point of efficiency and should earn the highest possible rate of profit. It is true that the advantage of high profits may temporarily accrue to 'capital', or to the directors of the industry, or to both, but owing to the changes which are taking place in the structure of industry and to the better organization of the wage-earners it is certain that capital and management will be less and less able, in the future, to monopolize these advantages. They will be, as they ought to be, shared among all who contribute to secure them. There are, however, few things more difficult than to decide how, in strict equity, the product of industry should be divided among those who by labour of hand, labour of brain, and by the provision of capital have combined to create it.

To that difficult question we may return, but it is necessary, in the meantime, to examine rather more closely the structure of modern industry and the way in which business is, in these days, conducted.

VII

MODERN BUSINESS

WE have now considered the elements which go to the making of goods, or, in more technical terms, the production of wealth. We cannot get far in that process without some land, some capital, and some labour. This is true of all production.

We may now follow in greater detail the life history of a single article down to the point when it is sold to a customer over the counter of a retail shop.

Take a flannel shirt. The wool is sheared from the backs of

sheep 'up country' in Australia. The sheep are reared on the land, but the farmer who owns them must possess some capital and must bring all his experience and skill to his business. He is assisted by labourers to whom he pays wages. The wool is taken by wagon or rail to Sydney, and thence by steamship to London. Its journey has involved more capital for the construction of wagons, railroads, steamships, more labour to work these, more skilled management, higher and more elaborate organization. In London the raw wool is bought by a merchant who pays for it by what is called a *Bill of Exchange*.¹ The merchant, who has to employ the labour of clerks, warehousemen, porters, &c., sells it to a manufacturer in Bradford who must again apply capital, skill, and manual labour to the process of manufacture. The finished flannel is bought by a Bradford merchant who sells it to the shirt-maker by whom it is finally sold to the customer. At each stage of the process—selling, buying, manufacturing, carrying—fresh capital is employed, more labour applied, more business skill and organizing power is demanded. Before I can buy my shirt I must pay for all these things, at all these stages. I pay for them with money or more probably by cheque. The later method involves, as we shall presently see, a vast network of financial organization.

In the present chapter I am dealing not with banking or finance, or transport, or selling and buying, but with the manufacture of flannel, or any other commodity, or rather with the organization of a manufacturing concern.

Joint-Stock Companies

If we pick up any daily newspaper to-day we shall find many columns devoted to the Stock Exchange. There you may read long lists of 'Companies'—Banking, Insurance, Shipping, Mining, Manufacturing, Distributing, Catering, and what not. If you have some savings you can, by a very simple process, become a shareholder in one of these companies—let us say a woollen

¹ See below, Chapter xi.

manufactory or a cotton mill. If the company is successful you may get a proportionate share of the profits; if it is not, you may lose your money. But you cannot lose more money than you invest. That is because under Act of Parliament your liability (the amount you may lose) is limited to the amount you invest. Before 1855 the partner in a business, might, if it became bankrupt lose not only all the capital he had put into the business but everything he possessed. Even his house, his furniture, his clothes, might be sold to pay for losses incurred in his business. That is still the case in 'private' concerns, in any business or company which is not publicly and legally registered. In 1855 an Act of Parliament was passed which has revolutionized modern business. The Act established the principle of 'limited liability', i.e. that, if certain conditions are fulfilled, a man may invest capital in a bank or any other company, without incurring the risk of losing more than his own 'share'. This has gradually transformed every sort of business. It has enabled very small capitalists to become partners in very big businesses; it has enabled the workmen in a mill to draw *profits* out of the mill as well as wages; it has enormously extended the scale on which business is conducted and has brought into existence an entirely new type of business men—men who have special capacity for management, and who may make great fortunes even though they possess little or no capital to start with.

Before 1855 each business, the mill, the warehouse, the bank, belonged to one man or a very small group of men, frequently to three or four members of one family. They provided the capital, they managed the business, and, after paying all expenses, they took all the 'profits' that had been made.

Comparatively few such businesses now survive. The scale is now too big for one man or one family, or even for half a dozen men. Go into a big hotel in any town and ask to see the 'proprietor'. You will very rarely find one. You may meet the 'manager', but there is no proprietor; there may be 10,000 proprietors living all

over England, indeed all over the world. These proprietors own perhaps a dozen hotels in a dozen different towns in England, and abroad. The same thing is quite likely to happen even at your butcher's or your grocer's. You will find a manager, but the proprietor is a noun of multitude. In fine, businesses of all kinds are now the property of joint-stock companies, the shares of which are daily bought and sold on the 'Exchanges' of London, Manchester, Montreal, and other big towns.

Interest

Another effect of this development must be noted. Payment for capital is one of the heaviest items of expense in any business, and it is one of the expenses that, like the rest, must ultimately be paid by the consumer or purchaser of the finished article. When I buy my shirt in Bond Street I am repaying the interest on the capital employed by the farmer in Australia, by the carriers by land and sea, by the London merchant, the Bradford manufacturer, the Bradford merchant, and the London shirt-maker and shop-keeper. Assume that each of these persons is an individual venturing his whole fortune in his business. As he takes immense risks (though of varying degrees in the different stages of the journey from the sheep to the shop) he is entitled to very large remuneration. Let us put it at 25 per cent. of the capital employed in getting my shirt on to my back. On a shirt costing 20s. the 'interest' at this rate might amount to 5s. But suppose that the interest charge could be reduced to 5 per cent. I could get my shirt 4s. cheaper.

Starting a Business

Let us suppose that I want to start a woollen factory in Yorkshire, but have little or no capital of my own—only a good head for business. How do I set about it? I must buy (or rent) land; build a factory or rent one; buy machinery; get together a staff of workmen and clerks, and having done this I must buy some wool from

a merchant. But all these preparations need capital. I persuade a rich friend to lend me £100,000. He has faith in me, in my business ability, but even so, he is taking a great risk. To compensate him for that risk I promise him half the profits I make. Assume that at the end of three years I have made an average of £20,000 net profits per annum: my friend has taken £10,000 a year. But, in these days, all this is unlikely to happen. Let us take a more likely case. Five shrewd Yorkshiremen who have had some twenty years experience of the woollen trade, as managers, salesmen, accountants, &c., think they would like to start business on their own account. Each has accumulated or inherited £10,000 of capital. But that is not enough, even if they decide to risk the whole of it in the new business. So they start a company. They need £100,000 to start it. They make careful calculations and draw up a paper ('Prospectus') and issue it, broadcast. It gives, or should give, full particulars of their calculations and their prospects.

Smiths Woollen Mills, Ltd.

<i>Capital.</i>	£	<i>Expenses.</i>	£
£40,000 6 per cent. Debentures	40,000	Land and Buildings . . .	40,000
£40,000 8 per cent. Preference		Machinery	30,000
Shares of £1 each	40,000	Provision for Wages and	
20,000 Ordinary or Deferred		Management	20,000
Shares of £1 each	20,000	Miscellaneous	10,000
	100,000		100,000

Debentures (as the word implies) represent a debt, and the payment of the debt is secured by the value of the land and buildings; with a further 'security' in the shape of the machinery—all of the newest and most up-to-date type. The founders of the company calculate on 'profits', let us say, of £20,000 a year. The *Prospectus* should contain particulars to show how this estimate is arrived at. For the moment, however, we are concerned with the *Capital* of the company. Nearly half of it is to be raised by debentures, which at 6 per cent. will cost the company £2,400

a year. With land and buildings valued at £40,000, and machinery at £30,000 the people who advance money on 'debentures' ought to be fairly safe, and therefore, lend the money at a comparatively low rate of interest. After deducting £2,400 from the profits, the 'preference' shareholders have the next claim on them. They are in a much less secure position than the 'debenture' holders, and must have at least an extra 2 per cent. to compensate them for the increased risks they take. If, however, the estimate of £20,000 profits is honest and reasonable the risk of the preference shareholders should not be excessive. Their share will absorb a further £3,200 a year. This leaves a surplus of no less than £14,400. In a new business prudence would dictate that at least half of this—say £7,400—should be put to 'reserve', to provide against accidents, but even the remainder would yield a very handsome dividend—35 per cent. on the ordinary shares.

The promoters of the company were, however, over sanguine. The 'surplus' after paying the interest on the debentures and preference shares, and all other expenses, including 'management', amounted only to £10,000. Half of this must go to reserve. The 'ordinary' or 'deferred' shareholders will get the remaining £5,000, or 25 per cent. on their £20,000 of capital.

Suppose, however, that the five founders of the business, instead of starting a company on the lines suggested above, had possessed between them £100,000 of capital and had put the whole of this into an ordinary firm or into a 'private' company with 100,000 shares of £1 each and that the results had worked out as above. This would have given them:

	£
Net profits (after provision for 'reserve', depreciation, &c.)	5,000
Saving of Debenture Interest	2,400
Saving of Preference Interest	3,200
	10,600

There would have been available for distribution as a dividend on their capital an amount which would have yielded them not 25 per

cent., but only a little over 10 per cent., and their own personal risks would have been enormously increased. They risked indeed their all.

We have so far looked at the matter from the point of view of the producer. By forming a company with shares of graduated risk the business men have been able to secure very large profits. But we may be sure that if they did other enterprising people in Yorkshire would hear of it and would start similar companies in competition. The profits on the ordinary shares of the original company would be brought down and the purchasers of the flannel would get the benefit of reduced prices.

The principle of 'Joint Stock' or 'Limited Liability' is, therefore, of great advantage to all concerned: to the business man who has plenty of brains, but little capital; to the small (or large) capitalist who can invest his savings in a business without devoting himself to its management; to the trade in general which can command large supplies of capital at a very moderate rate of interest, and not least to the purchaser, the 'consumer', who gets his goods cheaper.

In the course of the above illustration several points of great importance have emerged, and need to be emphasized.

One-man Businesses

The first is the distinction which in modern business has to be drawn between the earnings of capital and the remuneration of management or direction. In old days (and even to-day in the one-man business) no such distinction need be drawn for the simple reason that the owner of the business worked it on his own capital and was his own manager. Take the case of a small greengrocer who owns his shop, and runs it with the help, maybe, of his wife and daughter. At the end of the year, when he makes up his books, he finds that he has made a profit, let us say, of £250. He makes no allowance for the rent of his shop; he is his own land-

lord. He pays no wages, and having put his own savings into the business he pays no interest. If his accounts were more strictly kept he would produce this sort of balance sheet:

	£		£
Rent (paid to myself)	50	Goods purchased	500
Interest on £200 capital at 10 per cent. (also paid to myself)	20	Goods sold	750
Wages (to myself and family)	250		
	320	Profit	250
By profit	250		
Deficit	70		

Suppose that instead of running his own little business he had (i) let his shop at £50 a year; (ii) taken a situation as manager of a greengrocer's business at £250 a year; (iii) invested £200 in the Debentures of Smith's Woollen Mills Ltd., he would have at the end of the year:

	£
Rent	50
Salary	250
Interest on Debentures	12
	312

while his wife would have had no work to do, and his daughter might have earned £125-50 a year as a typist or shop assistant. But the man would have ceased to be 'his own master'—a position which appeals to some people, and compensates them for small earnings.

These simple cases illustrate the change which has taken place on a large scale in the organization of modern business. A century ago the same man provided both the capital and the management. To-day one man (or more probably 1,000 men) provide the capital; another man (or a small group of men) furnish the brains of management.

Brains

Management becomes more and more important every day. As business expands in scale, until it is world-wide, the management of it calls for men of exceptional ability. It is commonly said that for a vacant job of £1,000 a year you will have 100 competent applicants; while the £10,000 a year jobs cannot be filled owing to deficiency in the number of £10,000 a year men. That sounds paradoxical, but it is true. The supply of men of the very highest business ability is far short of the demand for them. Put it another way. There are plenty of Company Commanders to be had in business, and quite enough Colonels; the Generals are scarce, while a Generalissimo can obtain any price he chooses to ask for his services.

This is the difference between politics and business, and it is apt to puzzle democratic politicians. The root principle of Democracy is equality; the root principle of modern business is inequality. If you start out to organize business on the basis that all men, whatever their job, should receive equal pay for an eight hours' day, or even if you hold (as some do) that 'no man is worth more than £500 a year', you will find that all your business is slipping away and being picked up by those who hold that some men are worth £10,000 a year, and others are not worth £500. This applies, of course, with much greater force to the officers in the regiment of business than to the privates. Machinery tends to equalize the merits and the business value of manual workers, though even machinery cannot make all men and women economically equal. But it is in the 'higher commands' that differences become more and more marked, until at the very top they are so great as to give rise to the paradox noted above.

Directors

Owing, however, to the development of the Joint-Stock Principle, a certain analogy has been established between politics and

business. The supreme control of Government in England is confided to a Cabinet, consisting of men selected for general political capacity and not for their expert knowledge. The First Lord of the Admiralty may never have seen a ship before his appointment as head of the King's Navy; the Secretary of State for War may never have fired a rifle in his life; the Foreign Secretary may not be able to speak a word of French, and so on. But their nominal subordinates must be experts trained to their several jobs, at the Admiralty, the War Office, the Foreign Office, &c.

Similarly in business. At the head of most companies is a Board of Directors, selected less for expert knowledge than for general business capacity, above all for their knowledge of men and their judgement in choosing the right men for the right jobs. Few railway directors, for instance, could build an engine. But they know how to choose a good locomotive engineer. In technical matters they take the advice of the experts whom they put at the head of departments, just as a Chancellor of the Exchequer must rely largely on the advice of his permanent officials, or a First Lord of the Admiralty on his professional Board.

Managers

At the head of the expert staff is the general manager, who may or may not be a member of the Directorial Board. If he is a member of it he draws an additional salary and is known as the managing director. Under him are a number of heads of departments: a 'works manager' who is responsible for the engagement and discipline of the manual workers; a secretary who acts as secretary to the Board and is head (in many cases) of the clerical staff; a chief engineer responsible for the machinery; a chief accountant who is head of the financial department; a sales manager who is responsible for the commercial side of the concern, and so on. The internal organization of the business will, of course, vary in different concerns and according to the nature of the industry. Many concerns to-day have a highly qualified scientific staff

engaged partly in research and partly in superintending the scientific processes involved, for example, in the brewing of beer, in calico-printing and dyeing, above all in the production of fine chemicals. Many concerns, especially those in which a large number of women and girls are employed, have special 'welfare officers' whose duty it is to look after the health and well-being of the employees. This is now generally recognized as a matter of the first importance. Many modern factories and even great distributing stores are splendidly equipped with rest-rooms, libraries, recreation-rooms, playing fields, and all manner of amenities for promoting the health and cheerfulness of the employees.

Works' Councils

There is no greater asset to an industrial or commercial concern than a body of loyal and contented workpeople. Yet even in the best-managed business it is impossible wholly to avoid friction. It may be due to the petty tyranny of an overseer or other subordinate official, or to a slackening of trade and the consequential shortening of hours, or perhaps reduction of wages. On the other hand it may be due to the tactlessness or over zeal or actual malice on the part of the 'workshop stewards' or other officials of the workers' organizations. But, whatever the cause, friction means waste of effort and loss of quality or quantity in output. To reduce it to a minimum is the ambition of every prudent employer of labour. With this object in view many concerns have set up Works' Councils. So many representatives of the management, of the clerical staff, and of the wage-earners meet round a table every week to discuss the internal affairs of the factory or business. By this means misunderstandings are often removed, disputes are nipped in the bud, and strikes and lock-outs averted.

Strikes and Lock-outs

A strike or a lock-out means the breakdown of industrial peace and the declaration of industrial war. If the stoppage of work is

due to the withdrawal of labour it is called a strike, if to the refusal of the employers to carry on business except on terms unacceptable to the wage-earners, it is called a lock-out. There is frequently a dispute as to which term ought to be applied to a 'stoppage'. The miners always contended that in the coal dispute of 1926 the mine-owners 'locked out' the men; the employers on the contrary declared that the men 'struck', or 'downed tools'.

The Organization of Labour

In the case of the coal industry it happens that both sides, employers and employed, are highly organized. The Mine-owners' Association is an association of employers; the Miners' Federation is an amalgamation of the trade unions formed by the miners.

Trade unions

The history of trade unionism is a very remarkable one, and must be carefully studied by any one who would understand the working of the industrial system of to-day. A trade union is defined by a high authority (S. and B. Webb) as a 'continuous association of wage-earners for the purpose of maintaining or improving the condition of their working lives'. Such associations were for a long time regarded with the utmost suspicion by the laws of England, and by the employing class who, during the greater part of the nineteenth century, were responsible for the making of those laws. Not until the legislation of 1871 and 1875 were trade unions recognized by the law as legal associations and relieved of the penalties and disabilities to which they had hitherto been subject. The struggle, crowned with victory in 1871 and 1875, had been, on both sides, a bitter one, and in the course of it many regrettable incidents had occurred and much bad blood had been stirred up. But by the end of the nineteenth century trade unions had attained a very strong position: not only were they fully recognized and protected by law, they were even in certain

respects placed in a privileged position. Of that privileged position (perhaps acquired in error) they were deprived by a judicial decision in the 'Taff Vale Case' (1905). That decision made the trade unions liable for damages for injuries inflicted by their servants and agents.

Defeated in the Law Courts the trade unionists determined to resort to political action. They would send their own representatives into the House of Commons. Twenty-nine 'Labour' members were accordingly returned at the election of 1906 and brought such pressure to bear on the (Liberal) Government of the day that a *Trade Disputes Act* was immediately passed and the privileged position was restored. No longer could a trade union be sued for damages inflicted in the course of *industrial disputes*.

But parliamentary representation involved the unions in heavy expenses and to meet them a 'political levy' was imposed on all trade unionists. In 1909, however, this was declared to be illegal by the Courts, and again the unions appealed to Parliament for a restoration of their privileges. Parliament responded, and legalized the 'political levy', though insisting that it must be a voluntary and not a compulsory levy. In practice it proved to be far from voluntary, and in 1927 (after the 'General Strike') Parliament declared a General Strike illegal and insisted that the political levy must be imposed only on those trade unionists who expressed a wish to subscribe to it. So matters rest (1930). Meanwhile, the membership of trade unions had increased very rapidly from some 4,000,000 in 1914 to about 8,000,000 in 1920 and so strong did their parliamentary position become that they actually put a Labour Government in office in 1924 and again in 1929. Trade depression has, however, reacted prejudicially upon trade unions, and they now (1930) muster fewer than 5,000,000 members, or less than one-third of the industrial population. Nevertheless, the trade unions are still a real and a great force in industry, and no sketch of modern business could omit some account of them.

As to the results of their industrial activities there is acute

controversy. On the one hand, it is asserted that while they have extorted higher wages and better conditions of work for the wage-earners they have also averted many strikes and have contributed to the maintenance of industrial peace. On the other, it is contended that they have been the main source of unrest and discontent among the manual workers and have had much less influence on wage-rates than they claim. Some employers cordially approve of them, contending that they facilitate friendly discussion between masters and men; others are profoundly mistrustful of their influence. No party questions the fact that for good or ill their influence is powerful.

Co-operation

Trade unions at the best, however, represent only one element in the co-operative effort that produces and distributes goods. They contribute neither capital nor directing-skill. They have frequently been invited to go into management on their own account, but hitherto, have declined. They have preferred, probably wisely, to stick to their special function—the improvement of the conditions for labour.

Distributive Co-operation

Much more ambitious are the objects of the Co-operative movement. The movement started with the modest purpose of securing for the consumer the profits of the retail distributors. Lancashire trade passed through a period of deep depression in the 'Hungry Forties'; wages were low and there was much unemployment. Some Rochdale weavers accordingly decided, in 1844, to start a 'co-operative store'. There were twenty-eight members, and a share capital of £28. A shop was rented and a stock of groceries purchased. Goods of the best possible quality were bought wholesale and sold retail for *cash* at the ordinary market prices. Interest at 5 per cent. was to be a first charge on the profits, a proportion of profits was to be assigned to educational work, and the remainder was to be distributed, as dividend, calculated on the

amount of each member's purchases. To the sale of groceries these 'Rochdale pioneers' soon added meat, clothes, shoes, and drapery, and so rapid was their success that in ten years the membership increased from 28 to 1,400, the capital to £11,000, and the turnover to £45,000.

There are now about 1,300 retail or 'distributive' or 'consumers' societies, in addition to three wholesale and seventy productive societies all managed by consumers or member-customers. The sales of the retail societies exceed £200,000,000 a year, and the aggregate membership exceeds 5,000,000. Including the wholesale and productive societies the capital and reserves amount to over £176,000,000; they employ 224,200 persons, and their wages bill exceeds £29,000,000. The profits of the retail societies amounted (in 1928) to £24,498,000; they continue to pay only a fixed rate of interest 4-5 per cent. on capital and this absorbed £4,132,000, while the dividend distributed on purchases came to £19,184,000 or about 1s. 10d. in the pound. In many cases a much higher dividend is paid, in others a smaller, but it is invariably in proportion to purchases.

Wholesale Societies

It was natural that having achieved such remarkable success as retailers the co-operators should extend their operations to wholesale trade, and to-day the three great wholesale Co-operative Societies are doing a trade of over £100,000,000 a year.

Productive Co-operation

If the co-operative principle works so successfully in distribution why should it not be applied also to the production of goods? As a fact it has, but on the whole with disappointing results. There are some seventy¹ productive associations worked on the co-operative principle, but the total sales amount to less than £4,000,000. The truth is that production is a very much more

¹ The number varies according to the basis of classification adopted.

difficult art than distribution, and the Co-operative Productive Societies, wedded to equalitarian ideas, have not learnt the first lesson of successful business that it pays to pay for brains. Consequently they find it difficult to obtain or retain directors of high capacity, and, except in certain specified trades, such as boots and hosiery, producing primarily for the home market, they have shown little capacity for expansion.

This does not apply to the productive work of the great wholesale societies, which enjoy a sheltered market for the sale of their products. They have over 100 manufacturing establishments which produce biscuits, butter, jam, soap, bacon, furniture, boots, &c. They are landowners, farmers, shipowners; the Scottish Wholesale Society grows its own wheat in Canada, and in conjunction with the English Wholesale Society has some 80,000 acres of tea plantations in the East. The English Society also owns large palm-forests in West Africa. There is also a Co-operative Bank, and a Co-operative Insurance Society.

Co-operation and Politics

Co-operators have shown some disposition of late years to imitate the trade unionists and enter the field of politics. At recent parliamentary elections they have run candidates and several of them have found seats in the House of Commons. Though primarily co-operators and nominally independent they act in Parliament with the Socialist Party and are not in practice distinguishable from other members of that Party. The Co-operative Congress of 1927 decided, indeed, to affiliate the Co-operative Movement to the Labour Party. The decision caused some consternation in Co-operative circles and has been virtually repudiated by certain of the local societies which, being autonomous, are in no way bound by the resolution of the Congress. The matter is relevant to our immediate purpose only in so far as it may affect the industrial fortunes of the Co-operative Movement, and on that point it is too soon to venture any prediction. To those who,

from the outside, regard with sympathetic eyes the wonderful development of distributive or consumptive co-operation it appears deplorable that so successful a movement should entangle itself in party politics. Nor is this view confined to outsiders.

On the other hand it must be said that co-operation has always claimed to be something more than a trading enterprise; from the first it set before itself social and ethical as well as economic ideals. Beyond all question co-operation has done more than supply the daily wants of the working classes at reasonable prices. The management of each society being vested in the members, it has trained thousands of men and women in the technique of business; it has given them personal and practical experience of the difficulties with which retail trade has to contend; it has taught them the function of capital and the meaning of 'interest' and 'profits'. By adhering strictly to the rule of ready money purchases, by charging the full market-price for all goods sold, by accumulating the 'discounts' thereon to the credit of the purchaser and by encouraging the investment of these accumulated dividends in the shares of the society, it has automatically saved millions of money for the working classes of this country. It has thus become one of the most powerful thrift institutions in the country. The share capital of the societies now approaches £200,000,000, but this represents only a fragment of the savings which, through the Co-operative Movement, working men and women have made. Tens of thousands of them have become, through the same agency, owners of the houses in which they live; others have applied the money automatically saved for them in a multitude of ways.

Co-operation, therefore, is entitled to a prominent place in any account, however elementary, of our industrial system. It supplies one at least of the answers to the question, 'How We Live'.

Co-partnership and Profit-sharing

Less ambitious in scope than co-operation are a great variety of schemes which aim at reconciling the interests of all the several

partners in industry: those who provide the capital, the directing brains, and the manual labour. The underlying idea of all these schemes is, while retaining the advantages which are claimed for individual or company management, to give the wage-earners an interest in the success of the business by assigning to them, in addition to their wages, a share of the profits. These schemes have been successful in public utility undertakings for the supply of water, gas, and electricity. Such undertakings are monopolistic or semi-monopolistic in character and operate under some measure of public or parliamentary control. Profits being regulated no question can arise as to the amount of 'profits', and the share due to the wage-earners can therefore be easily ascertained. The attempt to apply the same principle to manufacturing concerns has been less successful, partly owing to the persistent opposition of the trade unions, partly to difficulties inherent in the schemes, and partly to the trifling addition which, as a rule, the schemes make to wages. The average bonus per head declared by 245 profit-sharing firms making returns (1928) to the Ministry of Labour was £9 8s. or 4.3 per cent. addition to wages. Such an addition is not negligible, but the trade unions claim that it is insignificant as compared with the wage increases obtained by the exercise of their bargaining strength. In theory, profit-sharing should be an ideal means of eliminating strife between the co-partners of industry and of averting class war. In practice, the results achieved have been somewhat disappointing.

Whatever form the structure of industry may in the future assume, the co-operation of capital, directing skill, and manual labour must remain essential to the work of making and distributing goods. It is evidently to the common interest that the relations between them should be harmonious, and that the operations of the machine should not be clogged by misunderstandings and disputes.

VIII

MONEY

REFERENCE has been frequently made in preceding chapters to 'money' and to 'banks'. It is time to explain more precisely the part which they play in our economic life. Every one has a general idea of the convenience of money, and most people in these days know something about banks. Few towns, however small, are without one or two banks, while in large towns these imposing structures meet the eye in almost every street. But relatively few people have exact notions about the many different functions of a bank, and it is desirable to make them clear.

Money

Money is said by economists to serve two purposes: (i) a *medium of exchange* and (ii) a *measure of value*. What do the economists mean? They mean that with money in your pocket you can buy what you want, without waiting to haggle over the respective value of a beef-steak and a pair of stockings. Were there no money (of one sort or another) you could only exchange one article for another. One schoolboy does not, as a rule, sell his knife to another for 2s. 6d., he 'swops' a knife for so many tennis-balls, and there may be a good deal of discussion as to how many tennis-balls ought to be given in exchange for a knife, or how many knives in exchange for a cricket bat. 'Swopping' or 'barter' is the primitive method of exchange. But even savages soon discovered its inconvenience and adopted a rough sort of 'Currency', that is, they selected some particular article, it might be shells or carved pebbles, or glass beads, or red feathers, or wheat, to serve as an instrument of exchange and avoid the inconveniencies of barter. Oxen were used as money by the Greeks of the Homeric age; Indian natives used rice; the Russians used tea; the early Colonists of Virginia used tobacco. Anything may be used as 'money' on one condition, viz. that it is an

article which any one from whom you wish to buy will accept in exchange for anything he has to sell. In other words it must be something which in a particular community is *universally acceptable*. You could not, in a given case, be certain of getting a sheep or an ox in exchange for any number of glass beads unless the possessor of the sheep or ox were certain that he would be able, in his turn, to exchange the glass beads for things that he wants.

It is all the better if the particular commodity selected to serve as money is useful for some purpose other than money, as is iron, tin, copper, or silver. But the one essential condition for serving as money is that the article must be (for whatever reason) desirable. It is also a good thing if the selected article be easily divisible. For both reasons the metals were very generally used as money: iron, lead, tin, copper, silver, and gold. These metals are all useful and they are all in great demand. Any of them is more convenient as money than oxen; they are readily divisible into large and small portions, but silver and gold are most convenient of all. Why? In the first place, because they are not only useful but are *scarce*; they possess, therefore, great value as compared with their size and weight. It is obviously a great convenience if money is portable—if you can carry it about in your pockets. A man can easily carry £50 of gold in his pockets, less easily £50 of silver; £50 of copper would be a nuisance; £50 of lead or iron an impossibility. But if gold, why not diamonds? He could carry £5,000 worth of diamonds with ease. Gold, however, has the supremely convenient quality of divisibility—you can cut up an ounce of gold into bits, the aggregate value of which is equal to the original ounce of gold. If you cut a fine diamond into four portions, the four small diamonds would not be worth a tithe of the value of the single big stone. Gold and silver and copper have this further advantage over diamonds: they are malleable; you can put an image of the king's head on them and so give them a guarantee of genuineness. Unless you are an expert you have to take diamonds (and many other things) on trust; you have no guarantee except the honesty and good faith of the

person with whom you are dealing. In the case of gold and silver you have the guarantee of the government which issues the money from the Mint.

Coinage

The right to issue these guaranteed pieces of gold and silver, the right of *coinage*, is a valuable one, so valuable that modern Governments keep the right entirely in their own hands or in the hands of their nominees. In feudal days every great noble issued his own coinage and made large profits by doing it. In England, however, this right of private coinage, long enjoyed by the more powerful barons on the Continent, was withdrawn, and taken over by the king, at an early stage in our history.

This was not due solely to motives of greed on the king's part. As long as trade is purely local a variety of currencies does not much matter. As trade develops it becomes increasingly important to have a single system of coinage so that the man who sends coal from Newcastle to London will get coin in exchange which will be as readily acceptable in Northumberland as in Middlesex.

Even national coinages have now become a great impediment to trade and intercourse. It is irksome, for instance, to have to change your English money into French when you cross from Dover to Calais, and to change from French francs into Italian lire when you cross the Italian frontier, and so on. A common coinage, like a common system of weights and measures, for the whole world would be an immense convenience. Big traders have, however, as we shall see, devised methods to minimize the difficulties inherent in national currencies, but they have not entirely surmounted them. International trade and the means of conducting it are matters not easily explained, so I shall defer dealing with them until simpler matters have been clearly grasped.

Money—a 'Standard of Value'

So far I have treated 'money' only as a means for simplifying the exchange of commodities. It is also a very convenient standard or

common denominator of value. It is very cumbersome to have to reckon how many tennis-balls should be given for a knife—for there are knives and knives; or how many knives, even of a uniform pattern and standard, for one cricket bat; or how much coal for a horse; or how many horses for a house. It is infinitely simpler to be able to relate all these articles to a single article: to say that 12 tennis-balls equal £1; that one cricket bat equals £1; that one ton of coal equals £2, and one horse £50; and one house equals £5,000 or £500, as the case may be. In this way you get a common standard of value, universally understood, and at the same time you facilitate exchanges and bargains.

The Value of Money

But now I must reluctantly discuss another complication. Everybody knows that the prices of things in common use vary a good deal. You will see notices posted in some grocers' shops: 'Butter is cheaper to-day', or 'Bacon is cheaper to-day'. They are often 'dearer to-day', but that fact is naturally not advertised; you only discover it when you get into the shop. Wholesale prices show even greater variations than retail prices, but the important point to notice is that prices, both wholesale and retail, are *not constant or fixed*, but vary greatly from week to week, even from day to day.

Are gold and silver exempt from this law of variability? Gold and silver are, after all, commodities, just like iron and wheat and tea. If the prices of iron, wheat, and tea vary, why not the prices of gold and silver? *Price*, as we have already explained is the *value* of iron expressed in terms of gold or silver. But may it not, then, be the case that gold and silver vary as well as other articles of exchange? It is the case; they *do* vary, but one of the reasons why they have been so generally selected as a 'standard' of value is that they vary less than most things. In earlier days, down in fact to the nineteenth century, it was commonly supposed that over a considerable period of time wheat was less liable to variations in value

even than gold. Accordingly it was a common practice, when granting long leases of farming lands, to fix the annual rent payable by the tenant to the landlord in terms of wheat. This was especially the case where the land was owned by colleges or other institutions which wanted stability of income. A farmer would agree to pay annually not £100 but 50 quarters of wheat—or its market-price. As a matter of fact a landlord who made such an agreement, say in 1800, would have found himself very badly off in 1900, for wheat fell very rapidly in value and price in the later years of the nineteenth century.

The truth is, however, that no two commodities, not gold and wheat, or tin and tobacco, can be trusted to maintain complete stability of values. But down to the outbreak of the Great War the value of gold (though not of silver) remained over a long period of time remarkably constant. We must now go into the reasons for this; some of them are simple, others rather abstruse. The fact that gold is a relatively scarce commodity; that the supplies of it do not greatly vary from year to year; that it is a very durable commodity, so that even if the *annual* supply did vary it would not greatly affect the total quantity in existence—these are among the obvious reasons for stability. Into the more abstruse I must not enter. It must, however, be noted that to the general rule of gold stability there have been exceptions. The discovery of a new and rich gold-field, flooding the markets of the world with gold, must bring about a general fall in prices.

A famous instance of this occurred after the discovery of the new world at the end of the fifteenth century, and the development of the rich mines of Mexico and Peru. They were, it is true, mostly silver mines, but silver not gold, was the common currency of that day, and, in any case, the principle is the same. Half the difficulties between the Stuart kings and their Parliaments were due to the rapid fall in the value of silver and the consequent inadequacy of the Crown revenue to support the increasing expenses of the Government. The large discoveries of gold in Australia, California, and

South Africa had, at a later period, similar though less noticeable results.

Exactly the reverse effect was witnessed during the World War of 1914-18. Governments then needed every ounce of gold they could get hold of to carry on the war. No gold was allowed to get into private hands. Gold as a medium of exchange disappeared as if by magic.

Paper Money

Two results ensued. People have got so used to a common currency that they cannot get on without it; if they cannot get gold they must get something to take its place. In the war they got *paper*—paper issued, no doubt, by the authority of the Government and in the form of *Treasury Notes*, but still essentially nothing but paper. And the marvellous thing was that this almost worthless paper began to circulate just as freely as gold had circulated.

But was it 'worthless'? The worth of a thing is, as we have seen, just what it will fetch. If a butcher was prepared to give me a leg of mutton in exchange for a treasury note, it was because he thought that the treasury note was *worth* a leg of mutton. It was—and the proof lay in the fact that the butcher having given me mutton in exchange for the note could go round the corner and exchange that same note for four pounds of tea or a pair of slippers.

So we get round again to the point that the test of 'good money' is acceptability. Whether it is gold or copper or paper does not matter. So long as people will freely take it in exchange for goods it is *money*.

But why should a butcher part with a good leg of mutton in exchange for a flimsy bit of paper? Mainly for the reason given above; he had learnt by experience that his grocer would exchange it for tea, but partly because he knew that he could not get gold for his mutton, and it was less bother to take the paper than to come and look round my house for something he fancied. But there was another reason. The butcher (and everybody else) knew that, as

a fact, there were only a *limited number of notes* in existence; each bore an official indication of its 'value' £1, or 10s. as the case might be. For a long time past people had become accustomed to the use of paper money. The notes from £5 upwards issued by the Bank of England were accepted as good money in almost every part of the civilized world. In Scotland the £1 note was in common use long before the war. Consequently, when gold suddenly disappeared and the Government began to issue Treasury notes, people readily accepted them. In one sense they had no option, for the Government made their notes 'legal tender', that is, people were by law compelled to take them in discharge of legal debts. A grocer could not, of course, be compelled to part with a pound of tea in exchange for a note, but if you had bought the tea on credit the previous day, he was obliged to accept a note offered to him in payment of his bill.

Convertibility of Paper

There was, however, an important distinction between the £5 Bank of England notes, to which we became accustomed in pre-war days and the 'Treasuries' or 'Bradburys'.¹ The former were in law and in practice 'Convertible'. They bore on their face a guarantee of payment in coin. Anybody could go to the Bank of England and exchange a £5 note for five sovereigns. Treasury notes could not be exchanged for gold. The treasury notes constituted, in fact, a huge piece of bluff on the part of the Government. What would have happened if the traders of the country had refused, as a body, to 'play up' to the Government it is difficult to say. The Government would no doubt have been compelled to set up as a universal provider and commandeer all supplies of food and other essential articles. Happily no such crisis occurred. The English are a well-disciplined, law-abiding, and above all a patriotic people. The

¹ Sir John (now Lord) Bradbury was in 1914 the Permanent Secretary of the Treasury and his signature was printed on every note. Hence the notes became popularly known as 'Bradburys'.

Government issued bits of paper which they said were worth £1 each, and the people took them at their face value and made the best of it.

Money and Prices

As a matter of fact people very soon discovered that the £1 note was *not* 'worth' £1, or rather it was not worth what a gold sovereign had been worth in June 1914, nor were five £1 notes 'worth' what a £5 Bank of England note had then been worth. The value of money, as we have seen, varies like the value of other commodities. During the war the value of money fell sharply. When a particular article, say tea, falls in value (and price) the fall may be due to one of two causes, or possibly to both in conjunction. It may be due to an extra good crop of tea and to a consequent glut in the supply of tea, or it may be due to a falling off in the supply of other things for which tea is exchanged. If the decline in market-price is confined to tea, you may be sure that it is due to the first of the two causes mentioned above, i.e. to an *excess* in the supply of tea. But if the fall in prices is general, if it extends to flour, meat, butter, cheese, wool, cotton, and the rest of our 'necessaries' of life, then you may shrewdly surmise that the cause is to be found in a rise in the value of the one commodity by which all the rest are measured, i.e. money.

During the war both sets of causes were constantly operating. It became increasingly difficult to get the usual supplies of tea, mutton, beef, wheat, flour, &c., from abroad. Our merchant seamen performed prodigies of valour (not always sufficiently recognized) in keeping the people of this island, and our men at the front, supplied with all they needed. But thousands of them lost their lives in the attempt, and supplies consequently ran short. As ship after ship was destroyed by German submarines, preference in freights was naturally given to things which were essential for winning the war. Supplies of other things became scarcer and scarcer.

Prices would, therefore, have risen even had there been no change

of currency. But there was as we have seen, a great change. Paper displaced gold. Now gold is so scarce, at all times, that there is little temptation to a Government to coin too much of it. The profits on coining gold are very small. But the profits on the issue of paper money are enormous: nearly 100 per cent. Consequently, it is a sore temptation to a Government to issue it in great quantities. Every Government, during and after the war, succumbed to this temptation. The English Government was more prudent than others, but even in England paper money was much more abundant than the gold coinage had previously been.¹ Consequently there was a serious rise in the general level of prices even in England. In other countries the rise was disastrous.

'Disastrous.' Why? What does it matter how many bits of paper you have to give in exchange for 1 lb. of tea? It would not indeed matter much if everybody were able to command an unlimited supply of notes. But could they? Take the case of an old couple who had invested all their savings—say £5,000 in 2½ per cent. Consols. Before the War they would have an annual income of not less than £125.² That income they would receive in gold sovereigns, or their equivalent. After August 1914 they would receive 125 £1 notes. If each note was really worth as much as a sovereign, the position of the old folks would be unaffected. But measured in tea, butter, meat, &c., the £1 note was worth only about 10s. Consequently the *real* income of the old folks would be diminished by a half. That was, in fact, the fate of all who were living on *fixed* incomes or salaries. A University professor, for example, with a salary of £1,000 a year, suddenly found himself with the equivalent of £500. The rise of prices did not matter to people who, like

¹ The issue of 'Treasury' or 'Currency' notes never exceeded £365,505,247. The Bank of England note issue in July 1914 was about £57,000,000, but to that should be added £157,000,000 in gold, silver, and bronze coin.

² The income might of course be much more if the Consols, i.e. Consolidated National Debt, had been purchased 'below par', but this is a complication for future explanation.

weekly wage-earners, could demand, and obtain, higher and higher wages as prices mounted higher and higher. As a matter of fact, so great was the demand for workers that wages rose even more rapidly than prices, with the result that the great mass of manual workers were better off in the war than they had ever been before. The terrible depression from which trade has suffered in recent years is, no doubt, partly the result of reckless expenditure during the war, and from that depression many of the wage-earners have suffered acutely, but that is another story.

I am, at the moment, only concerned to explain the relation between 'money' and prices, and the war period affords an outstanding, though but special, illustration of a universal truth. Difficult as the situation was in England it was far worse in the Continental countries which were at war, notably in Russia and in Germany.

The German Government issued paper money in such reckless profusion that the paper mark (roughly the equivalent of an English shilling) became almost worthless. A suit of clothes, for instance, which before the war might cost 100 to 120 marks, could not afterwards be bought for less than 10,000, or even 100,000 marks. The plight of persons living on fixed incomes was pitiable. Many of them literally starved to death. But if the 'inflation' of the currency (i.e. the flooding of a country with money) spells ruin to those who have to live on fixed incomes, it is a corresponding advantage to all debtors, to all who are under a contract to *pay* to others a stipulated sum, either as salary or as interest on a loan. Suppose that Herr Schmidt, a shipowner at Hamburg had borrowed £1,000,000 at 6 per cent. in 1912. He would have to pay in interest 1,200,000 marks a year. When the mark fell in value from 1*s.* to 1*d.* he would be paying, not the equivalent of £60,000 a year but the equivalent of £6,000; if it fell further to 1/5th of 1*d.* he would be paying £1,200 a year; if to 1/10th of 1*d.* his charge for interest would be reduced to £600.

As a fact, it was reduced to zero and he could pay off his debts in

absolutely worthless paper.¹ This has actually happened in Germany, and German industry has restarted free from the heavy charges or debts under which English industry staggers.

Much the largest borrower in every country during the war was of course the Government. The German Government, by the simple expedient of issuing an unlimited amount of money has practically cleared itself of all indebtedness to its own countrymen. External debt—debt to foreigners—is a very different matter; it has, as a rule, to be paid in sterling (i.e. gold coin).

At one time the French franc seemed to be going the way of the German mark. The franc in France did actually fall to the equivalent of an English penny, or rather less, the note circulation reaching (1925) 43 million francs. But France is the land of the *rentier*, the small investor. A French Government cannot, therefore, afford to play ducks and drakes with its currency. Accordingly, by a supreme effort, initiated by a great French statesman, M. Poincaré, France managed to pull up just in time, and made the franc legally worth one-fifth of what it was before the war. That was bad enough for the investor in French Government loans (*rentes*) and for all those who had made pre-war bargains. But it stopped short of repudiation, and was by that much less advantageous to debtors and to the chief debtor, the Government. The British Government alone, among the European belligerents, has paid its creditors (and other peoples' creditors) to the uttermost farthing, though even in England the £5 per cent. interest paid on War Loan is not worth to the investor much more than the 2½ per cent. previously (and still) paid on Consols. But it has done it at the price of crushing taxation, from which less scrupulous peoples have escaped. That, however, is yet another story.

To sum up, money may consist of anything which the people of any given community will readily and without question accept in exchange for goods. Anything which does money-work is money—

¹ By December 1923 the note circulation equalled 400 milliard marks (1 milliard = 1,000 millions).

shells, silver, gold, paper, or what not. Some people draw a distinction between 'good money' and 'bad money', but it is needlessly confusing. There is no reason why, given the conditions enumerated above, money should possess 'intrinsic' value, i.e. should have some use besides that of a mere medium of exchange. There is no better money in the world than a Bank of England note, but its 'intrinsic' value is practically nil. The high reputation of Bank of England notes has, however, in the past depended on the widely diffused knowledge that these notes could, on demand, be exchanged for gold. Are non-convertible notes equally 'good' money? To this question there is only one satisfactory answer. They are (like anything else) good money, so long, but only so long, as people accept them as such.

To the use of such non-convertible notes there is, however, as should be clear from the foregoing paragraphs, one grave objection. There is no physical limit on their issue. Being under no obligation to exchange them on demand, governments are tempted to issue them in larger and larger quantities. But a penalty waits on these excesses. Beyond a certain point these notes will not maintain their value. The more governments issue, the more they have to issue. The English Government, exercising restraint in the issue of notes, only had to issue two or three £1 notes to pay the weekly wages of a postman. The German Government, to secure to their postmen a comparable standard of living, would have had to issue notes to the nominal value of £100 or more per week. So long, however, as the temptation to overissue is avoided, inconvertible paper is money—'good' money.

The 'value' of money then depends on the ratio between the supply of money and the demand for it, between the amount of money available for trading purposes and the volume of business to be transacted. But in actual fact big traders hardly ever handle money at all—even paper money. The transactions of trade, even the 'money' transactions of ordinary folk, are more and more coming to be carried on through another medium. International trade is

conducted almost entirely by means of what are called *Bills of Exchange*; private citizens and many traders discharge their debts or accept payment for their accounts by means of *cheques* or orders drawn on banks. We cannot, therefore, get very far in the discussion of 'money' before being compelled to consider the work done by banks, and the way they do it.

IX

BANKS AND BANKING

SOME fortunate people think of a bank only as a place where they can go and get all the money they want. Occasionally even these people are pulled up sharp by an intimation from the bank that they are 'overdrawn'. But, as a rule, while things go smoothly, the payment of bills to such people means no more than filling in and signing a 'cheque', i.e. an order to a banker to pay the sum mentioned therein.

Many more people think of banks as places where they can safely deposit their savings, on which they receive a very moderate rate of interest. They visualize a bank as a building with strong-rooms and safes in which their hardly-saved shillings and pounds lie safely until they want them again. These banks are known distinctively as 'Savings-Banks' and are conducted by Government officials or by semi-public associations, which are rather strictly regulated by the State. One big town (Birmingham) runs its own Municipal Savings Bank, and some others would like to do so. The Government Savings-Banks, which are managed by a department of the Post Office, have some 10,000,000 depositors who have £480,000,000 of savings standing to their credit. The 'Trustee' savings-banks (so called because they are managed by trustees) have about 2,500,000 depositors with about £155,000,000 to their credit. These savings-banks, though exceedingly valuable agencies for the encouragement

of thrift among the poorer classes, are purely banks of deposit, and do not play any part in the daily commercial life of the community.

The Joint-Stock Banks

Most of the banking business in Great Britain is now in the hands of five big banks, which in the course of the last thirty years have absorbed most of the smaller banks. In 1900 there were over 100 banks; to-day there are less than 50.¹ But the five big banks have over 8,000 branches in all parts of the country. The amount of business done by banks may be gleaned from the fact that the cheques with which they deal every year amount to a value of some £50,000,000,000.

The original function of banks was to arrange loans for governments. Such was the origin of the Bank of England which started its career in 1694 by arranging a loan of £1,200,000 to help William III to carry on the war against Louis XIV of France. The raising of loans and the conduct of the financial business of the State still constitute the main business of the Bank of England. Not, however, until the last years of the eighteenth century did banking begin to play an important part in the commercial life of England. During the French wars (1793-1815) industry underwent, as we have seen, a tremendous transformation and England became for the first time in its history the centre of manufactures, mining, commerce, finance, and shipping for the whole world.

Banks sprang up like mushrooms in all parts of the country. It was reckoned that in 1801 there were nearly 400 country banks in existence, and some 300 more were started between that date and the Battle of Waterloo (1815). For a short time many of them were exceedingly prosperous, owing to the fact that they, like the Bank of England, issued currency notes. These local banknotes, being payable on demand, in Bank of England notes, could not be issued

¹ Mr. H. Withers gives the existing number as 20. *Meaning of Money*, Preface to fifth edition.

in unlimited quantities and their circulation was practically restricted to the district in which the issuing bank was well-known. But for a time they were issued in quantities sufficient to bring large profits to the bankers.

It was proposed in 1801 to limit each country bank to an issue of £30,000, or a total of about £12,000,000 for the whole number of them. The sudden collapse of trade in the critical years 1814–15 compelled at least one-third of these mushroom institutions to cease business, and after 1844, as we shall see, the privilege of note issue was confined to the Bank of England and to such banks as were already issuing notes. In both cases it was severely restricted, and no bank started since 1844 has enjoyed the privilege.

So long as the old local banks remained in private hands, they naturally retained the coveted and profitable privilege of issuing their own notes, but the number of private banks declined rapidly in the course of the nineteenth century. Some of them failed and were compelled to close their doors; others were absorbed by larger banks, and so lost their identity and the privilege of note issue; others were converted into Joint-Stock Banks.

The passing of a series of Joint-Stock Companies Acts between 1855 and 1862 gave an immense impulse to the adoption of the Limited Liability Principle not only, as we have seen, in industry, but also in banking. But there was this difference. The successful private banker was the man known to his neighbours as a man of high personal character as well as of great financial resources. Many of the earlier and most successful bankers were for both reasons drawn from the Society of Friends or Quakers. Quakers were commonly reputed to be men of high probity; their neighbours trusted them and this confidence laid the foundations of the great fortunes made by such families as the Hoares, Barclays, and Gurneys. Companies—especially after the adoption of ‘Limited Liability’—did not inspire the same confidence, but confidence was gradually re-established in another way. Only a fraction of each share was ‘called up’; the balance formed a reserve upon which the creditors

and depositors of the bank could draw in case of default. Say the share was nominally £1, only 2s. would be 'called up', but each holder of a £1 share would, in the event of default, be liable to be called upon to subscribe 18s. a share. This method has inspired such confidence both among depositors and investors that not only have the Joint-Stock Banks absorbed practically all the old Private Banks but investors are ready to buy the shares, at high premiums, despite the large liability attaching to them. Large it is, for the purchaser of 10,000 £1 shares might find himself, in case of failure, called upon to pay £9,000 in addition to any sum which he might have originally given for his shares. The same principle, and for similar reasons, has been largely adopted in the case of Insurance companies. But so great is the repute and stability of the best of these great institutions that people take shares in them, in almost complete heedlessness of the liability which they thus accept.

Functions of a Bank

We must now explain more precisely the services which banks render to individuals and to the community at large. Banks originated in the desire of people, in times when there was no efficient police force, to find a place in which they could safely deposit their money and other valuables. They took them to the goldsmiths who gave them paper-receipts for them. Meanwhile, the goldsmiths lent the coin deposited with them to approved borrowers, charging them interest for the accommodation. The critical moment in the history of banking arrived when the goldsmiths induced the borrowers to accept *Notes*, or promises to pay, in place of actual coin: thus multiplying their own resources. If the goldsmith's repute was high, these 'Notes' instead of being returned to him periodically for redemption, remained in circulation, passing from hand to hand and thus performing the function of money.

Bankers then are primarily money-lenders, but that business they

can develop only in proportion as people entrust them with their money for safe custody. Much, however, of the money thus entrusted to them remains only for a short time in their hands, and is at any moment available for the depositor or his nominees at 'call'. But it is quite likely that the nominee will also be a customer of the same bank. It may be convenient to him to deposit the money instead of drawing it out. In that case the whole transaction is conveniently effected by two book entries.

Let us see how it works on the simplest scale. Imagine a small country town with only one bank. John Smith is a doctor who sends out his accounts to his patients every quarter, and receives on an average £250. If he receives it in cash he may proceed to run round the town and pay his own bills at the butcher's, the baker's, the grocer's, &c. But these tradesmen may prefer to be paid weekly, or the total amount he owes may be only £150. The doctor therefore, having paid all his bills out of the cash received, deposits the balance of £100 in the bank.

Cheques

In these days, however, this is not how things are done. As a matter of fact the doctor's fees will dribble in from his patients in the form of cheques drawn, let us assume, on the one bank in the town. He pays them into the bank, which places them to his *credit*, at the same time charging (or debiting) the amounts so drawn to the accounts of the several drawers. A cheque is merely an order to a bank to pay a certain sum to a certain person, and can only be legally drawn by a person who has a balance on which to draw at the bank. A cheque runs thus:

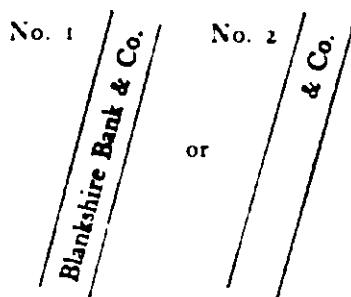
To the Blankshire Bank, Johnsonville. vi/18/30/

Pay to Mr. John Smith or Order, the sum of three pounds fifteen shillings and threepence.

£3—15—3

F. Jones-Robinson.

If the drawer wishes to make himself and his payee doubly secure, he 'crosses' the cheque thus:



In No. 2 case the cheque cannot be cashed except through some bank; in case No. 1 it can be cashed only through the Blankshire bank. If all the tradesmen of Johnsonville keep accounts at the bank there will be little need in that town of coined money, except for the payment of weekly wages and very small transactions. The bank will simply make credit and debit entries respectively in the accounts of its various customers.

'Clearing'

But suppose there are two banks in the town: the Blankshire Co. and the Johnsonville Co. If you stand at the counter of the former just before closing time you may see a clerk or porter from the Johnsonville Co. come in and pass over the counter a sheaf of cheques, receiving over the counter another sheaf. A rapid calculation ensues, and then one clerk hands to the other *2s. 6d.* That *2s. 6d.* may represent the balance between the cheques drawn on the Blankshire bank and paid in to their accounts at the Johnsonville bank by the latter's customers and conversely the cheques drawn on the Johnsonville Bank and paid into the credit of customers of the Blankshire bank. This process is known as 'clearing'. If there are only two banks and all the business of the town is concentrated therein, it is a very simple process—balanced by a cash payment of *2s. 6d.*

As a fact, however, most banks will receive, in the course of a day's business, cheques drawn on banks situated in half the towns of England from Newcastle to Plymouth, from Cardiff to London. 'Clearing' becomes, therefore, a highly complicated business, and in order to simplify it there is (in addition to local clearing houses) a central clearing house in London, through which there now pass as we have seen, transactions which total £50,000,000,000 a year. Yet not even 2s. 6d. passes in coin on these vast 'clearings', or 'cancellations'.

The Bankers' Bank

The indebtedness of banks one to another cannot, of course, be expected to cancel out exactly. But all banks keep an account with the Bank of England—the bankers' bank, and the Bank of England does for the bankers just what the Blankshire bank does for its own customers at Johnsonville. The banks pay their differences to each other, as ascertained at the Clearing-House, by means of cheques drawn on the Bank of England.

Loans

Of the unique position and functions of this great institution more must be said presently. Meanwhile, we must deal with other services rendered by the ordinary banks to their customers and to the community at large. Thus far we have considered a bank only as a place of safe deposit for the money of its customers, and as an agency for the cancellation of their mutual indebtedness by means of cheques. Much the most important, as well as the most difficult and delicate business of a bank is that of money-lending. But its money-lending takes a particular form. Be it remembered that a bank, generally speaking, lends not its own money, but the money deposited with it by its customers. These customers may, however, want their money back at any moment, and the bank must always be ready to pay it 'on demand'. Many customers keep, in fact, two accounts at a bank: (i) a 'current' account on which they can draw

without notice, and (ii) a 'deposit' account on which the bank allows interest, but only on condition that it shall have notice (generally a week's notice) of the customer's intention to withdraw any portion of the 'deposit' account. But even a week's notice is short enough; consequently it would never do for the bank to lend out its customers' money for long terms, still less to invest any considerable proportion of it in permanent or even long term investments.

On the other hand, there are many customers who want purely temporary accommodation. It may be a farmer who at harvest time wants money with which to pay wages, but who cannot expect to sell his hay or corn for some weeks or months. Or he may find himself, after a wet spring, with a superabundant amount of grass and may want to buy more stock to feed it down. He goes to his bank for a temporary loan. The banker knows his customer personally, he can go and look at his grass or his stock, and he can lend the money with little risk. Similarly tradesmen may want temporary loans for their trading purposes. Great merchants and big manufacturers may want them. These loans may take the form of an 'overdraft', i.e. the banker allows the customer to draw out more money than he has paid in. Most firms, in these days, have 'overdrafts' on which they pay, of course, interest to the bank. Or loans may be made on 'discounts'. Many retail traders, will allow their customers a 'discount' for cash, or for payment within a certain period. It pays them well to do so, for as we have already seen, one of the heaviest charges against gross profits is the charge for interest on capital. Net profits largely depend on (i) keeping down interest charges and (ii) rapidity of turnover. It pays a tradesman better to sell £100 worth of goods at a very small profit for cash, than to sell £1,000 worth on long credits. Fashionable tailors and milliners would be well advised to give much larger discount for cash than they generally do. The longer they have to wait for the payment of their bills, the larger their overdrafts at the bank, and the higher the interest charges they have to meet.

Some business cannot, however, be done on a cash basis. Most trades, especially those which import or export goods, have a regular period of short credit, three or six months. Unless their own capital is very large this means that they must get temporary loans from the banks or elsewhere and they get it by 'discounting' their bills. Discounting is, however, such an enormous business in itself that many firms do nothing else. The process, therefore, which may seem rather complicated at first sight, shall be explained later. Meanwhile, let it be remembered that the discounting of bills forms a considerable part of the business of bankers, and with other forms of *lending*, provides the sole source of profit to banks. The thousands of people who deposit small sums with them are, no doubt, welcome customers. Banks could not exist without them, but even more welcome (paradoxical as it may sound) are the hundreds who want to borrow larger sums.

Borrowing from the thousands, lending to the hundreds: this is the primary business of a bank, and in doing that business it not only affords facilities to individuals, but renders an important service to the community.

Money and Capital

How? By transmuting money into capital. The sums which come into its coffers from customers come in dribbles; it is unlikely that if they had remained in the pockets, or even in the safes, of customers, they would have been utilized as capital. The bank cannot afford to retain more than a small proportion of them except as capital. So they flow into the bank as rivulets of money, they flow out as a broad stream of capital, irrigating and fertilizing the parched lands of commerce. Every penny which can be thus transmuted from money into capital is a clear gain to the whole community.

Miscellaneous Services

Banks render other services to their customers, less important than the provision of business capital, but by no means insignificant.

They act as executors and trustees under wills; they advise customers (within cautious limits) about investments, and transact the business for them; they hold securities, and other papers, in safe custody and collect dividends; they make periodical payments for customers, and pay their subscriptions; they provide them with 'letters of credit' if they wish to travel abroad, and thus virtually furnish them with banking facilities in every town they wish to visit; they procure passports; they will even help them in their dealings with the inland-revenue authorities, and indeed act as income-tax agencies. What most of us would do, amid the pitfalls and complications of modern life, without our bankers, it is difficult to imagine; they are truly our guides, philosophers, and friends.

The Bank of England

At the apex of the vast edifice of banking is the Bank of England. In more ways than one its position is unique, though it will act for a humble customer, in most respects, as an ordinary banker though not quite on the ordinary terms. But the main functions of the Bank of England are twofold: (i) it is, as we have seen, the banker's bank, and (ii) it is the banker of the Government. But though the Government's bank, it is not a State bank. Some States have their own bank. In England the central bank is (and long may it remain!) independent of the State or Government. It is, necessarily, in the closest touch with the Treasury (the Financial Department of the Government); the Treasury looks to it for information and advice; it issues loans on behalf of the Government, and controls the paper currency; but the Governor and Directors of the bank are not Civil Servants, or otherwise paid by, or officially connected with, the State. In some respects this creates an anomalous situation, but it is not on that account less characteristically English. Some people dislike it and would have the Government take over the Bank of England or establish a State Bank for itself. But anomalous as the situation is, odd as it may seem to foreigners that the Governor of a non-official company should be, in some respects, a more impor-

tant person than the Chancellor of the Exchequer, the arrangement has worked well and few people who have given thought to the matter would wish to change it.

Suspension of Gold Payments

The bank, naturally, has had from time to time difficult crises to face. One such occurred during the Napoleonic wars. The last years of the eighteenth century were marked by feverish commercial activity; there was the usual drain of gold for war purposes; added to this, in 1797, came rumours of an imminent French invasion; there was a run on the country banks; the latter made heavy demands on the Bank of England; the latter could not recover its advances to the Government and the gold reserve in the bank sank so low that Parliament hastily intervened and passed a law forbidding the bank to make any further payments in gold.

For twenty-four years gold payments were suspended, and, as in the World War, a paper currency was substituted for coin—but with this difference. From 1914 to 1928 the paper currency was issued directly by the Government; during the earlier crisis the issue was prudently left in the more experienced hands of the Bank of England. So prudently did the latter act, that for twelve years its notes, though inconvertible, did not depreciate, but maintained their value in relation to gold. But during the last five years of war 1809-14, there was a steady rise in the value of gold, and conversely a fall in that of paper money.

This caused considerable perturbation, and eventually Parliament enacted a law under which the bank was, by gradual stages, to restore completely the gold basis of its paper currency. The old basis on which the bank exchanged gold for notes at the rate of £3 17s. 10½d. per ounce, was to be completely restored by 1823. So rapid, however, was the recovery, that in 1821, two years ahead of the date fixed by law, the bank resumed payment in full. But the experience of recent years raised an acute controversy be-

tween two schools of economists. Into that controversy we need not enter; enough to say that the discussion led to the passing, in 1844, of the most important Act in the history of the Bank of England.

The Bank Charter Act (1844)

The Bank Charter Act contained three main provisions. By the first, the Note Issue Department of the bank was entirely separated from the ordinary banking department, and the former was placed under most stringent legal regulations. By the second, the convertibility of all notes issued by the bank was secured. The bank was authorized to issue £14,000,000 of notes on the security of Government Securities (Consols, &c.), but for every note issued beyond that amount the bank was to retain a corresponding amount of bullion, of which 75 per cent. was to be gold. By the third, the note issue of other banks was severely restricted. Private and Joint-Stock Banks established after the passing of the Act, were forbidden to issue notes at all; old established banks were restricted to a total of £8,500,000—the average amount in circulation during recent years.

The whole principle of this famous Act has been severely criticized. It had to be suspended during the financial crises of 1847, 1857, and 1866, but the fact remains that the Bank of England became a household word, throughout the world, for safety and stability, and a Bank of England note was 'as good as gold' in every civilized country. Whether Peel's Act of 1844 would have proved unduly restrictive of trade but for the immense development of banking, and the increased use of cheques and other similar instruments of commerce, is a question which cannot be discussed here.

Recent History

At the beginning of August 1914 this country was faced by a terrible crisis. Its severity was indicated to business men by un-

precedented events. Among these not the least alarming was the rapid rise in the official rate of discount. One of the most important duties of the Bank of England is to fix this 'bank-rate' week by week. This bank-rate indicates the price which the bank will charge for discounting bills of the highest class, and incidentally it fixes the rate of interest which the other banks allow on deposits. Very often the rate remains unaltered for weeks or months together. On Thursday July 30th the Directors of the Bank of England, at their ordinary weekly meeting, raised the official rate from 3 to 4 per cent.

There was nothing unusual in that, but on Friday they met again and raised the rate to 8 per cent. On that day the Joint-Stock Banks had begun to refuse to pay their customers in gold, paying them (as for large sums they were entitled to do) in notes. On that same day the London Stock-Exchange closed its doors not to reopen them again until January 4th 1915. On Saturday August 1st the bank raised its rate further to 10 per cent. Monday the 3rd was fortunately Bank Holiday, and the Bank Holiday was prolonged by Act of Parliament for four days. This gave the Government time to turn round. They suspended cash payments on August 6th, but, when the banks reopened, the Government supplied them, as we have seen, with treasury notes of £1 and 10s. denomination, and the crisis was over. On the same day (August 6th), the bank-rate was reduced to 6 per cent. and on the 8th to 5. Confidence was restored.

Treasury notes continued, as we have seen, to supply the ordinary currency requirements of the country from 1914 to 1928. In 1925, however, by the Gold Standard Act, the convertibility of Bank of England notes were restored as regards *foreign trade* by compelling the bank to sell gold bullion, in bars of 400 oz. Troy (but not to exchange coined sovereigns) in exchange for banknotes at the rate of £3 17s. 10½d. per standard ounce, but only in comparatively large quantities. This meant the restoration of what is called the 'gold standard' as regards the financing of foreign trade.

This, as we shall see presently, effectually restored our international credit, but, as some affirmed, at a heavy cost to the internal trade of this country and to the profitable employment of its working people. But that is a highly controversial question and must not be discussed here.

A further step was taken by the Currency and Bank Notes Act passed in 1928. This put an end to the Treasury (or Government) note issue and authorized the Bank of England to issue notes to the extent of £260,000,000 against securities. For any notes which are issued above that amount a corresponding amount of gold must be retained in the coffers of the bank.

A comparison of two tables will make the position clearer. Every Thursday the Bank of England issues an account, setting forth its position on the previous day. The two subjoined accounts give the position in July 1914 and June 1930 respectively.

I. BANK OF ENGLAND ACCOUNT FOR THE WEEK ENDING:

July 30th 1914.

ISSUE DEPARTMENT

	£		£
Notes issued	55,121,405	Government debt	11,015,100
		Other securities	7,434,900
		Gold coin and bullion	36,671,405
	<u>55,121,405</u>		<u>55,121,405</u>

BANKING DEPARTMENT

	£		£
Capital	14,553,000	Government securities	11,005,126
Rest	3,491,756	Other securities	47,307,530
Public deposits *	12,713,217	Notes	25,415,055
Other deposits	54,418,908	Gold and silver coin	1,460,139
Seven-day and other bills	10,969		
	<u>85,187,850</u>		<u>85,187,850</u>

* Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

June 18th 1930.

ISSUE DEPARTMENT

	£		£
Notes issued:		Government debt . . .	11,015,100
In circulation . . .	359,247,209	Other Govt. securities	232,889,623
In banking department	57,362,801	Other securities . . .	11,629,060
		Silver coin . . .	4,466,217
		Amount of fiduciary	
		issue . . .	260,000,000
		Gold coin and bullion .	156,610,010
	<u>416,610,010</u>		<u>416,610,010</u>

BANKING DEPARTMENT

Capital	14,553,000	Government securities.	46,475,547
Rest	3,304,572	Other securities: Dis-	
Public deposits * . . .	16,577,610	counts and advances.	7,098,791
Other deposits:		Securities	16,640,653
Bankers	58,331,534	Notes	57,362,801
Other accounts . . .	35,687,253	Gold and silver coin .	879,517
Seven-day and other bills	3,340		
	<u>128,457,309</u>		<u>128,457,309</u>

* Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

Several points require explanation. (i) Only the 'Issue Department' is peculiar to the Bank of England: the 'Banking Department' is similar to that of an ordinary bank; (ii) the enormous expansion in note issues, due to the substitution of a paper currency for a gold currency; (iii) the *capital* = the capital subscribed by the proprietors or shareholders; (iv) 'Rest' = Reserve; (v) 'Public Deposits' = the balance of the Government's account, and fluctuations like the account of an individual at an ordinary bank. It rises rapidly towards the end of the financial year (February and March)

when the Inland Revenue Department puts the screw on income-tax payers. It falls sharply after the quarterly or half-yearly disbursements for interest on Government loans.¹

Mention has been made, in foregoing paragraphs to several matters which now demand more detailed explanation. This calls for a new chapter.

X

OVERSEAS TRADE

WE have already seen that we British folk are largely dependent for our existence on goods which we buy from overseas, and that those goods can, for the most part, be purchased, not by remitting gold or silver but by exporting the products of our own mines and factories.

Among the things which we can only obtain from abroad are tea, coffee, cocoa, cane sugar, rice, raw cotton, jute, gold, diamonds, rubber, nickel, asbestos, and petroleum. It is fortunate that we can obtain almost all these things from our own Dominions, Colonies, and Dependencies, but though that is an important *political* fact, it does not concern the immediate argument of this chapter. The point is, that these things cannot be produced in this island; they must come from abroad. There are many other articles which, as a fact, we obtain largely, though not exclusively, from abroad: such as wheat, wool, butter, cheese, beef, mutton, bacon, timber, hides and skins, paper-pulp. There is yet a third category of articles which we buy from abroad in considerable quantities though we can make the same articles at home. The value of the things we imported (in 1928) reached the enormous total of £1,196,940,354. Of this total nearly £532,000,000 represented food, drink, and to-

¹ For full information on these and other points reference should be made to H. Withers, *The Meaning of Money* (5th edition, 1930); and the same writer's *Money Changing and War and Lombard Street*; also to W. Bagehot, *Lombard Street*.

bacco; about £335,000,000 raw materials, while some £318,000,000 consisted of articles 'wholly or mainly manufactured'. Some of the items in the last category may well excite astonishment. Great Britain is, or has been, incomparably the greatest manufacturing country in the world, yet in the year 1928 we imported earthenware, glass, &c., to the value of nearly £11,000,000; iron and steel £24,000,000; machinery £750,000; about £60,000,000 of textiles (cotton, woollen, silk, &c.); about £19,000,000 of leather goods; £17,000,000 of manufactured paper; and £10,000,000 'vehicles', including locomotives, ships, aircraft, and automobiles. We have already seen that we are largely dependent for our food supplies on overseas trade. Nor is there any possibility that, as long as we have our present population, it can be otherwise. But though Great Britain cannot be self-sufficing, the British Empire could supply most, though not all, our food necessities. The Empire already grows more wheat than the Empire consumes, and that the Empire could, were it necessary or desirable, become independent as regards its bread there can be no question. As a fact, we still largely rely on the Argentine and the United States for wheat, though much of 'American' wheat is actually grown in Canada, being classed as 'American' because it is shipped from American ports.¹ This latter anomaly is due to the fact that the St. Lawrence is ice-bound for many months in the year, and the Western Provinces send large quantities of wheat to Europe via Boston and New York, instead of via St. John (N. B.) and Halifax, to the great and natural indignation of the Canadian ports. This anomaly may, however, be corrected before long, as Vancouver is increasingly utilized (in conjunction with the Panama Canal) for the wheat exports of the Western Provinces, particularly of course Alberta.

As regards meat, Great Britain is still largely dependent on the Argentine, from which (in 1928) we imported nearly £29,000,000 worth of beef, mutton, and lamb. New Zealand in the same year

¹ It has been stated that over 80 per cent. of the grain shipped from United States Atlantic Ports was last year of Canadian origin. Melchett, p. 126.

sent us £11,600,000 and Australia £4,050,000. Of the beef consumed in Great Britain, over 50 per cent. is home-grown; of the rest more than half comes from Australia and New Zealand, though in 'chilled' (as opposed to 'frozen') beef South America still has a virtual monopoly. Science may, however, be expected to overcome the difficulties at present encountered in bringing chilled beef from the antipodes to this country. About half our mutton and lamb is home-grown; of the rest, much the larger proportion comes from New Zealand and Australia, though South America is still an important source of supply. For bacon and ham we are mainly dependent upon Denmark and the United States, though why we do not produce more, both at home and in Canada, it is difficult to understand. For butter we look mainly to Denmark, New Zealand, and Australia; for cheese to Canada and New Zealand; for fresh fruit to the United States, which still supplies a large proportion of our apples, to Canada, Australasia, and South Africa; for soft fruits (large quantities of which are also produced at home) to Belgium and France; for tea to India and Ceylon, which, with a little help from Nyasaland and South Africa, supply over 80 per cent. of our requirements.

For its raw cotton Lancashire looks mainly to the United States, though efforts to supply its needs are being made with increasing success by the Sudan and the East African Dependencies. The finer quality wool comes almost entirely from Australia, New Zealand, and South Africa, though of the coarser qualities a good deal (some 20 per cent.) comes from South America and other foreign countries. Our tobacco comes largely from the United States, though the production in Nyasaland and Rhodesia amounted (1927) to nearly 25,000,000 lb. and the sale of this Empire tobacco, in this country, is increasing rapidly. Less than 10 per cent. of our imported timber (the value of which is nearly £50,000,000) comes from countries within the Empire; the United States supplied most of the rest. Of wood pulp about 85 per cent. comes from Scandinavia and Finland, and of the rest the greater part from Canada.

Of jute production India has a practical monopoly; while of the world's supply of asbestos the Empire possesses 90 per cent., of nickel 88, of diamonds 82, of gold 72, and of rubber 59.

From this brief and far from exhaustive analysis one or two points emerge. The first is that for *food*, this country is likely to remain permanently dependent on supplies from overseas, though in much less degree than at present on *foreign* countries. Secondly, that we must look to foreigners almost entirely for our supplies of oil and mainly for cotton and tobacco. There remains only the third class of imports, viz. manufactured goods, all of which we could make for ourselves, though, in some cases not so cheaply, and perhaps in a very few cases not so well, as we can buy them abroad.

As regards excellence of production, there are a few things which, mainly owing to climatic conditions, or inherited aptitude and skill, foreigners can make better than we can. On the other hand, there is no climate in the world better suited to the production of fine cotton goods than that of Lancashire, while in inherited aptitude and skill the manual workers of Great Britain have, in most trades, few equals and no superiors.

Cost of Labour

As regards cheapness of production it is another story. Wages form the chief item in the cost of production in most of our 'heavy' industries. In coal, for example, they are about four-fifths of the total. It is, however, most important to observe that the *rate of wages* is not the same thing as the *cost of labour*. On the contrary, the rate of wages may be high, but, if high wages are offset by superior skill and efficiency, the cost of labour may be low. This is notably the case in the United States, and some people contend that, despite the high rate of wages paid in England as compared, for example, with Belgium, the *labour cost* per item of goods is actually lower in England.¹ These matters are not easy to prove one way or the other; but the fact remains that, be the reasons what they may, English goods are being undersold in neutral markets, and even in

the English market, by goods produced in countries where the wage rates are lower than in England.

Cost of Production

This does not in itself prove that high wages are the sole or the main reason for high costs of production in England. There are, as we have seen, other factors of which we must take account. The heavy burden of taxation—national and local¹—may have something to do with it. Taxation in Great Britain is about twice as heavy as it is in France (£15 2s. 8d. per head compared with £8 5s. 10d.); three times as heavy as in Germany (£5 6s. 5d.) and five times as heavy as in Italy (£3 8s. 9d.). In the United States it is £6 1s. 11d. Another very important factor in modern industry is the *scale* of production. Speaking generally, the larger the scale the lower the cost. Mr. Ford, the motor manufacturer, for example, has been able to turn out cars very cheaply, although he pays exceptionally high wages, by applying to the making of automobiles the principle of mass production. In twelve years Mr. Ford increased his production of touring cars from 18,664 cars (in 1909–10) to 1,250,000 (1920–1). During the same period he decreased the price from \$950 to \$355. It is, moreover, noteworthy that each successive reduction of price was reflected in increased sales. Sir William Morris of Oxford could show results precisely parallel.

And the reason is the same in both cases. At the head of each business there was a man with a genius for business organization. Here are Mr. Ford's own words: 'Why flounder around waiting for good business? Get the cost down by better management. Get the prices down to the buying power. Cutting wages is the easiest and most slovenly way to handle the situation, not to speak of its being an inhuman way. . . . It is not good management to take profits out of the workers or the buyers. Make management produce the profits. Don't cheapen the product; don't cheapen the wage; don't

¹ The aggregate of national and local taxation is now (1930) about £1,000,000,000 a year.

overcharge the public. Put brains into the methods, and more brains, and still more brains—do things better than ever before.' That is a characteristic outburst, and its vehemence and self-confidence do not detract from its essential truth. It contains the kernel of the philosophy of the Ford workshops, which I may paraphrase thus: 'Don't be afraid of the bogey of "over-production"; the demand for any really useful commodity is virtually unlimited; but higher prices obstruct and neutralize demand; the cost of production is too high, though wages are too low. Raise wages, but take care that the higher wages are really *earned* by larger output; employ the best possible machinery and the largest possible amount of it; do not be afraid that machinery will displace men, men are not put out of work by the improvement of industrial processes; but there must be no red tape in the workshop, no rigid demarcation of duties, no water-tight compartments of work; we want a "better recognition of the human element in business", but we must not admit sentiment into the factory; above all let there be fair play for all workers, a career open to talent, promotion by merit, and no petty tyranny—no unjust exercise of authority by overseers, foremen, and other non-commissioned officers.'

Mass Production

The main advantage enjoyed by Mr. Henry Ford, and by other great industrialists in the United States consists in the enormous scale on which they work. There are, of course, some goods which demand the exercise of individuality—for instance, the most expensive ladies' clothes—you cannot apply the principle of 'mass production' to them; you would defeat your own object if you did. There are vast regions of industry, however, to which you can apply it, and with great advantage to the cheapening of production.

Overhead Charges

In most business concerns, though in varying degrees, there are certain expenses which are the same whether the business has a

turnover of £1,000, £10,000, £100,000 or £1,000,000 a year. Science is playing a more and more important part in industrial production. In a brewery, for example, or a calico-printing works, or a fine-chemical factory, you need the services of at least a first-rate chemist, and perhaps a complete scientific staff. The £1,000,000 business can afford them; the charge per item of production for scientific advice works out at an infinitesimal figure; in the £10,000 business the cost is prohibitive; yet the small business needs the advice quite as much as the large one. The same is true of the salaries of your higher officials. A big 'stores' will pay a salary of £2,000-£3,000 a year to the head of one department. He is an expert at the job and the scale of the business is so large that the charge is not felt. These 'overhead charges' as they are called, though they may be larger in a big concern than a small one do not vary in a corresponding ratio, and the big business, therefore, gets an immense advantage over a small one.

Machinery

The same principle applies also to machinery. The ambition of a good manager is to keep his machinery running for 24 hours out of the 24—or, at any rate, with only such short intervals as is necessary for cleaning, &c. Think of the waste of capital involved in keeping your machines idle 16 hours out of every 24! But they can be kept running only if the scale of the business is sufficient. That is one reason why the big concern can undersell the small one, and yet make a larger profit per item sold.

Another point. The bigger the concern the more your machinery can be *specialized*. In the manufacture of motor-cars Mr. Henry Ford has brought the specialization of machinery up to the highest possible point.

Division of Labour

This is really, if one thinks of it, just the same principle as that which is at the root of the whole argument of Adam Smith's great

book on *The Wealth of Nations*. Only Adam Smith was thinking not of machines but of men. Labour, he argued, can only attain the maximum of efficiency if it is specialized; if each man is set to do the job for which he is best fitted. Now you cannot 'divide' labour scientifically, and so utilize each man's talents and faculties to the best advantage, unless the market for the sale of your goods is an extended one. In old days, when communications were bad, before the days of motors, or even railroads, or even good roads, country villages were almost completely isolated. How could one man devote fifty-two weeks in the year to making boots for the little community in which he dwelt when he could supply their annual wants by the labour of six months. The cobbler would have to devote himself, say, to making clothes during the rest of the year. If he cannot do that he will have to try and extend the market for his boots and shoes, i.e. sell half his year's output outside his own village. If he can do this, it will enable him to devote himself to his proper jobs of making boots, all the year round.

Adam Smith's Argument for Free Trade

Now Adam Smith went further than this. He applied the argument of division of labour—or as we should say, specialization—not only to individuals and villages, but to whole nations. It was at the root of his argument for free trade. Let each country devote itself to the work for which it is best suited. The climate of Scotland is not suited to the cultivation of vines. Very well, let Scotland buy its claret from Bordeaux and let Bordeaux buy cattle from Scotland or woollen cloth from Bradford. Undoubtedly the whole world would be richer if there could be entire freedom of exchange between all countries. Nobody doubts that—not the most convinced Protectionist. But, all the same, specialization, if carried to its logical conclusion, might have some disagreeable consequences.

Assume that England's speciality was cotton goods, i.e. that only in cotton goods had we an advantage over every other country in the world. On the principle of division of labour applied to the

whole world the 45,000,000 people of England might all be employed in cotton mills: England itself might become one gigantic cotton factory. As a fact, cotton is much the largest article in our foreign trade (£145,000,000): but iron and steel manufactures (£67,000,000), woollens (£57,000,000), machinery (£54,000,000) vehicles (£47,000,000), are also very important items, as is coal (£39,000,000). It needs little imagination to suppose the whole population of England specializing in these industries. Not a farm left, not a field without its mine or its forge or its factory. We might under those circumstances be richer in money than we are to-day. But what an England, without a field or a hedgerow or a wood!

Free Trade and Protection

As a fact other countries are beginning to produce our 'specialities' for themselves and we are finding it increasingly difficult to sell our coal, our cotton, and our iron and steel to them, because foreign nations have declined to adopt Adam Smith's advice; they have preferred (wisely or unwisely) to protect their own industries and to employ their own workmen, even though they could buy these things more cheaply or better from us than they could produce them for themselves. A discussion of this matter would carry us into very controversial country. In this little book we had better avoid it. But it is important to point out that there are two opposite principles or policies in regard to foreign trade: the one ('Free Trade') is based on the idea that the whole world should be regarded commercially as a single unit, and that one country should exchange goods with another just as freely as Lancashire buys coal from Nottinghamshire to-day, as Northumberland buys woollens from Yorkshire, as London buys whisky from Scotland. The other idea ('Protection') is that each country should be as far as possible self-contained: that France, for example, should not only make all the wine it needs, but all the cotton goods and machinery, and woollens as well. The latter idea is carried out, in practice, by

'protecting' the French cotton-spinner or engineer against the competition (e.g. of English manufacturers) by imposing a tax (customs duty) on all English manufactures attempting to enter France. This tax is in some cases so high as to amount to prohibition, that is to prevent the foreign goods coming into the country at all. In other cases the duty is only sufficiently high to give a substantial encouragement to the home-made article against the foreign one, but not so high as altogether to keep out the latter. Suppose that a 50 per cent. duty is imposed by France on English cottons, with the result that a piece of English cotton costs 30s. instead of £1 in Paris; assume, further, that the corresponding French cotton can be sold and bought in Paris for 25s., but that Parisian ladies prefer to pay the extra 5s. to get English cotton. Well, they can have it, but the French Government pockets 10s. on each such transaction and so raises revenue for the State.

This is, in fact, the policy pursued by most 'Protectionist' countries, and most countries have preferred (for reasons into which I cannot enter) the policy of Protection to that of Free Trade. Ever since 1846 England, on the contrary, has moved steadily towards free exchange. Her policy has been to buy what she wants in the cheapest market, whether it happens to be an English market or a foreign one. We buy our food, for example, as already pointed out, all over the world. One result of this has unfortunately been to ruin the English farmers. For various reasons the English farmer cannot grow wheat as cheaply as it can be grown on the great prairies of western Canada, or in the Argentine, or in the western States of the United States. Consequently, as already indicated, we buy vast quantities of wheat from those countries.

That is hard on the English farmer, but it might be a good thing for the English miners and cotton-spinners and engineers, if the United States were willing to accept our coal and cottons, &c., in exchange. Unfortunately, that is not the case. While England opens her ports freely to the whole world (believing that to be to her own advantage), other countries have partially closed their

ports to us. That may be bad for them; it is certainly bad for us.

The Balance of Trade

The result is clearly indicated by the figures of 'imports' and 'exports'. Between what we buy from abroad, and what we sell to overseas customers there is a large gap. While our 'imports' amount to £1,196,940,354, our 'exports' are only £723,427,455, or some £844,000,000 if we include the re-export of imported commodities. England it need not be said, is a great *emporium*—a vast warehouse into which goods are brought from all parts of the world, only to be sent out again to other ports. But broadly speaking we import about £350,000,000 more goods than we export.

At first sight this looks alarming. If an individual shopkeeper were annually to buy £11,000 of goods and sell £7,300 he would soon be ruined. But for a long time past we have as a nation had this immense gap between 'purchases' and 'sales', between imports and exports. Why have we, notwithstanding this disparity, grown (until the last few years) richer and richer?

There are many explanations, some of which raise matters of controversy and I want to avoid them as far as possible. Some people tell you that the disparity simply means that we are making excellent bargains. They bid you remember that all foreign trade is *exchange*—chiefly of commodities;—as it is. If we can persuade the foreigner to send us £100 worth of goods in exchange for £75 worth, why should we grumble? Suppose that our foreign trade were confined to one country—the United States—and we could persuade them to send us £1,100,000,000 of cotton, oil, and food in return for £723,000,000 of coal, iron and steel and manufactured goods, we should have nothing to complain of.

Others say, oh! of course we pay the difference in gold! But that is not true. In the year (1928) from which the above figures were taken we *imported* about £6,000,000 more gold than we exported. So that explanation will not serve.

Matters are not quite so simple as that. Much of the difference is due to the fact that exports are valued as they *leave* the country (technically called F.O.B. = free on board). Imports are valued as having paid not only the *cost* of the merchandise but *insurance* and *freight* (C.I.F.). Let us assume that 1 ton of coal put on board at Cardiff is worth £1. By the time it has reached New York it may be worth 30s.—the difference having gone to English shippers and insurance companies. The ship comes home freighted with wheat bought in New York at (say) 30s. a qr.; by the time the wheat cargo is discharged at Liverpool it is worth 40s. a qr. Again the difference has gone into the pockets of the British shippers and insurance companies. Looked at *nationally* the country has exported £1 and imported £2. It is certainly no poorer by the transaction. As a fact this alone accounts for £130,000,000 of the 'excess' of imports.

But that is not the whole story. Almost the whole railway systems of India, of Brazil, the Argentine, and other countries, not to mention our own Dominions, have been constructed with the help of English capital. That 'capital' has mostly gone to those countries in the form of steel rails, locomotives, railways, carriages, wagons, &c., but it has gone, and interest has to be paid for it. That interest returns in the form of wheat, meat, tea, coffee, &c. Rubber plantations, oil fields, gold mines, are also largely financed from England: the interest on money so invested is sent back in rubber, oil, and gold. Altogether about £285,000,000 a year represents interest paid on British capital invested overseas. There are other payments due to us from overseas for services rendered in various forms. The total of these 'invisible exports' (as they are called) is reckoned at over £500,000,000 a year. If this sum be added to our *exports* it will be seen that the balance between imports and exports, so far from being adverse to us, is by some £150,000,000 a year in our favour.

This does not, however, dispose of the matter. It ought, indeed, to bring some reassurance to those who think that we are being ruined by selling less than we buy, but it is not wholly comforting.

It means that as a nation we are living too much on our past savings, and too little on the labour of to-day. Does that matter? The answer is given by the vast army of 'unemployed'. More than one-tenth of the population of this island are living to-day not on the fruits of their own labour, but partly on other people's labour and partly on other people's savings. This process may continue for a considerable time, but it cannot continue indefinitely, and it is not, in any case, a healthy condition of affairs. But this topic I must not pursue.

It must suffice, for my present purpose, to insist, once more, that the position of this country to-day is an artificial one. It may not be actually precarious, but it is not healthy. We have come to rely, in a variety of ways, too little on ourselves, and too much on other people. This is clearly demonstrated by our foreign trade, by our increasing dependence, in regard to the prime necessities of existence, on the supplies which come to us from overseas.

It remains to be seen how, in fact, we obtain them.

XI

THE MACHINERY OF TRADE

ALL trade consists, fundamentally, of the exchange of one article for another. But barter, as we have seen, has long since been superseded by money, and coined money has been largely superseded, in all the more important transactions of business, by various forms of paper.

Any one can understand a money transaction—the exchange of 2s. 6d. for 1 lb. of tea, bought over the counter. I hope that I have also made clear how the system of cheques works. But if I buy 1,000 qrs. of wheat from Chicago or Winnipeg, how am I to pay for it?

Evidently it would be very unsafe, very costly, and cumbersome if all transactions were paid for in gold. It would be clearly absurd

for me to send £2,000 in gold to pay for the wheat in Chicago, if the wheat merchant of Chicago had just bought £2,000 of old silver in St. James's Street and wanted to pay for it. It would be an obvious convenience to all parties if I sent a cheque on my London banker to the silversmith in St. James's Street, and so simultaneously discharged my debt to Mr. William C. Smith of Chicago, and Mr. Smith's debt to Mr. Robinson of St. James Street.

This is, in fact, how foreign trade is done, but not quite so simply as in this case. Mr. Smith of Chicago may not ever have purchased anything from England and may not want to. He, therefore, wants cash from me—and (a further complication) he wants it not in sovereigns but in dollars. I will not, for the moment, go into the difficult matters raised by these differences of currency in different countries—dollars in the United States, francs in France, lire in Italy, kroner in Scandinavia, and so on. Let us assume for the moment that the English sovereign is the universal currency of the world. How is Mr. Smith of Chicago to get from me the £2,000 which I owe him for wheat?

Bills of Exchange

He gets it as a matter of fact from Mr. Silas W. Wolsencraft of Chicago—and he gets it on a *Bill of Exchange*.

The following is a common form of such 'Bills'.

Chicago

June 28th 1930

£2,000. Ninety days after sight¹ pay this First of Exchange (second and third not paid) to the order of Mr. William Williams, the sum of £2,000 sterling value of same, as per advice, against 1,000 Qrs. of wheat per S.S. *Vancouver* to Liverpool.

William C. Smith

To Messrs. Goldsmith & Co.

Lombard Street, London.

¹ Or the bill may be payable 'at sight'.

This 'bill' the drawer Mr. Smith takes to Mr. Silas K. Wolsencraft, a broker or banker in Chicago, and from him obtains not £2,000, but that amount less discount at say 6 per cent. for three months, or £1,970. To minimize the danger of shipwreck or loss in post two copies of the bill are sent by different boats to London. The 'third of Exchange' is retained in Chicago. In London the bill is accepted by the person on whom it is drawn; he writes his name across the bill and by thus 'accepting' it, acknowledges the debt which he owes to Chicago. If his name is a 'good one' the bill instead of being immediately cashed is available to pass from hand to hand as currency, just as if it was an international banknote, as in fact it is. It is eventually used as payment to some one in London who has sold goods to a similar amount to Chicago, and receives his debt in this way.

Cash it will be noted, cannot be claimed on the bill until three months from the date on which it was accepted. If cash is wanted in the meantime it can be obtained by *discounting* it. 'Discount' represents the difference between the cash value of the bill on the date of encashment and the date on which the bill 'matures', i.e. becomes due for payment.

Banks discount bills on a considerable scale as the short term security is a very convenient one for them to hold. They only buy or accept bills which owing to the signature of the acceptor upon them are 'as good as gold'. If the names are 'good' the banks know that the money will be forthcoming infallibly on the date named.

So convenient is this form of 'paper' that bills are frequently drawn quite irrespective of the consignment of commodities. These 'Finance Bills', as they are called to distinguish them from 'Commercial Bills', are in effect post-dated cheques.

There is an immense business in the mere exchanging of such bills, and it is done by 'bill-brokers', with the assistance of 'Discount Houses'. The business of such houses corresponds with that of a banker, but only in respect of one of a banker's many functions.

The discounters, like the bankers, are money-lenders, but they only lend on one particular form of security, viz. Bills of Exchange, and they deal only, as a rule, in large amounts, and with wholesale traders.

The Rate of Exchange

One complication remains to be dealt with. It may be that the London merchant who wishes to pay for the wheat he has bought from Chicago may have to pay in London more than the £2,000 (to keep to our original illustration) which he owes in Chicago. Or he may, on the contrary, not have to pay so much as £2,000. That depends on what is called the 'rate of exchange', and the rate of exchange is determined by the ratio between the supply and demand of the particular commodity in which bill-brokers deal, viz. Bills of Exchange.

The machinery employed is very much the same as the local clearing of bank-cheques already explained. We have watched the bank clerk of the local branch of Barclay's Bank tossing 2s. 6d. over the counter of the local branch of the Westminster Bank and so discharging mutual indebtedness amounting perhaps to £10,000. The half-crown represents the amount of the difference between cheques drawn by their respective customers on the two banks.

In just the same way London may have to discharge the balance of indebtedness to New York, or New York to London, by shipping gold. To ship gold costs money in freight and insurance, so every one who owes money either way will wish to avoid doing it. But it is like the old-fashioned game of musical chairs. When the music stops there is always one person left out! And no one knows until that moment who it will be. If the children were experienced in business affairs they might insure against the possibility of being the 'odd man out'.

That is precisely what the business men of New York and London do when they buy Bills of Exchange. But brokers are both buyers and sellers of bills. The bills themselves, like everything else, have

a market price. It may be above or it may be below the face value of the bill. Chicago owes me £2,000. I want the money in London and I want it not three months hence when the bill becomes due, but to-day. I go to a broker and as he trusts me he procures me the money. But how much money? If he is short of bills on New York he will give me a little more than the face value of my bill; if on the other hand he is short of bills on London he will give me something less than the face value. And the supply of and demand for bills on one or other country depends, in the last resort, on the balance of trade, or indebtedness as between the two countries. (I still assume that our foreign trade is done exclusively with the United States.) The broker is an expert in foreign trade who knows exactly how things stand at any given moment, and deals with his customers accordingly. But when all the transactions are, so to speak, complete the 'odd man out', or some one acting on behalf of a number of traders on both sides of the Atlantic, will have to balance accounts in gold.

This explanation will, I hope, enable the reader to understand his daily newspaper which informs him that the 'Exchange on New York' moved yesterday in favour of London or in favour of New York as the case may be.

The Stock Exchange

This information the reader of the newspaper will find under the head of 'The Money Market'. But after studying the Money Market he had better glance at the adjoining columns which chronicle the business of the *Stock Exchange*. No book, however elementary, which aims at explaining how we live can ignore the Stock Exchange. It has become an integral and essential part of the mechanism of trade.

At one time and not so long ago, the only public borrower was the Government. Since the end of the seventeenth century the Government (or more strictly the State) has never been out of debt. The long war with France which lasted with intervals from

1689 to 1815 saddled us with a debt of over £900,000,000 which was gradually reduced by the careful husbandry of the nineteenth century, until, at the outbreak of the World War it stood at £661,473,765. It now exceeds £7,000,000,000, and the interest and management absorbs over £300,000,000 of the national revenue. This vast debt is owed partly to individual citizens of this country, but much of it has been borrowed from the banks, insurance companies, and similar institutions. These, however, act only as intermediaries. The money is ultimately drawn from the pockets of individuals. Much of the debt is redeemable, i.e. those who have lent the money to the Government can claim repayment within a stipulated period. Some of it is a permanent loan. In either case the individual lender may desire immediate repayment. He cannot get it from the Government, at any rate before the stipulated date, in some cases not at all. But he can get some one else to take over the loan for him, and he can do this by selling his 'stock' on the Stock Exchange. It may be that he will not be able to get all his money back, or it may be that he will get more than he lent. It depends on the market price of Government stock at the moment at which the lender wishes to transfer his loan to some one else. The price varies from day to day, sometimes from hour to hour, and depends ultimately (like the price of other things) on the ratio between supply and demand, i.e. between the amount of stock which people wish to sell and the amount which others wish to buy. But 'demand' and 'supply' are not fixed and inelastic terms in the case of Government stocks any more than they are in the case of pictures by an old master.

Let the reader turn to the 'Stock Exchange' columns in *The Times* or any other newspaper. He will see that 5 per cent. War Loan was bought and sold at prices varying from about 102 to about 103. That means that a person to whom the Government owes £100 can sell the debt to another individual for £102 or £103. But suppose that a large number of people were anxious to get their money back (perhaps because they feared another war was

coming) they might have to accept £90 or £80, for each £100 of loan. Look again at the list of Stock Exchange dealings and you will see that 'Consols', i.e. the old pre-war loan of the Government is quoted at about 52. That means that for every nominal amount of £100 consolidated stock the unfortunate lender cannot recover more than about half. He may indeed have bought it at less than £50, in which case he is all right, but he may have bought it at £100, in which case he will be a heavy loser.

The State or Government is the chief borrower, but you will see about 5,000 securities quoted on the London Stock Exchange: the loans raised by our own Dominions and Colonies; by Foreign Governments; by British and Foreign Municipal Corporations and Public Boards; by semi-public undertakings such as Gas, Water, or Electricity Companies; by British and Colonial and Foreign Railway Companies; Tramway and Omnibus Companies; Docks and Harbours; Telegraph Companies; Canal and Shipping Companies; Banking, Insurance, Investment, and Discount Companies, &c.

But the longest list of all is that devoted to commercial and industrial companies. Of these there are more than 4,000 quoted in London: mining, manufacturing, iron and steel, textiles, catering, retail stores, hotels, breweries, tea, coffee, tobacco, and rubber plantations, oil, coal, and what not.

Attention has already been called to the immense significance of the Limited Liability Acts and the consequent development of the 'Joint Stock Companies'. This immense list of 'Stock Exchange Securities' is the result and reflection of the multiplication of Limited Liability Companies. To-day people of quite small means can and do become partners in gigantic concerns doing trade throughout the world. A working man who has saved £100, may, in this way, be part owner of a rubber plantation in Java, of a coffee plantation in Ceylon, of oil wells in Burmah, and a harbour corporation in some South American Republic. And it is the Stock Exchange which makes this possible

The Small Investor

Few people are, indeed, aware of the extent to which the capital of the great concerns I have mentioned above is supplied by small investors. There are actually more shareholders than there are wage earners in the English railway companies—some 800,000 as against some 700,000. Three insurance companies, the Prudential, the Phoenix, and the Royal number between them nearly 30,000 shareholders. The ‘big five’ Banks, over 311,000. Among great industrial and commercial companies Imperial Chemicals has no fewer than 165,000 shareholders with an average holding of less than £500 a piece. Courtaulds has 65,777, Harrods, 37,000, Lyons 30,000, and so on. These figures are merely illustrative and do not at all adequately represent the ‘savings’ of the ‘poor’ which go largely into ‘savings banks’, building societies, co-operative societies, provident societies, and many forms of Government securities—such as savings certificates. A few years ago I estimated the amount of savings invested by the working classes at £2,500,000,000, only to be told by a high authority that I had considerably underestimated the amount. From every point of view, political, economic, and social, the figures are immensely important and reassuring. The wide diffusion of capital in England balances, to some extent, the wide diffusion of land-ownership in France. For the moment, however, I am concerned only with the mechanism which facilitates small investments by the small investor. That mechanism is provided by the Stock Exchange which makes it possible to deal in capital even more easily than in wheat, or cotton, or wool.

Speculation

There is another element in Stock Exchange transactions. ‘Speculation’ is even more common in stocks and shares than it is in commodities, wheat, cotton, &c. But as regards the stocks and shares it is not a matter which much concerns the com-

munity. We read of 'Vast Losses on Wall Street' (the New York Stock Exchange) or elsewhere, but these 'losses', though very serious for individuals, do not necessarily represent any loss of real wealth to the community. They matter no more than the passing of £5 from one card-player to another, or the transference of £1 at a race-meeting from Smith's pocket to Jones's. Speculation on the Cotton Exchange or the Wheat Exchange is a more serious matter since it may affect the consumers of those commodities. But the matter would not have been mentioned in this little book except for one reason. Speculation has its legitimate part to play in industry and commerce. Risk is the parent of progress. If every one in business had considered 'safety first', half the wealth of the world would have remained undeveloped. The dwellers in our cities who buy cheap food and cheap clothes little know how much of this cheapness they owe to the industrial pioneers who have taken great risks, and incurred in many cases heavy losses, in trying experiments, in promoting enterprise in all parts of the world. It would be impossible to estimate how many thousands of millions of money have been 'sunk' in such enterprises without returning one penny of profit to the speculative pioneers. Here and there the enterprise succeeds, and brings wealth beyond the dreams of avarice to the lucky pioneer—or to some one else. When that happens people are only too ready to cry out against the 'greedy' capitalist, entirely forgetful of the losses which others have incurred in similar quests. Risk is inseparable from enterprise, and indeed from all commerce and industry. But as already explained in a previous chapter, the organization of modern business makes it possible to utilize the capital alike of those who are willing and of those who are unwilling to take risks; or rather, perhaps, to distinguish between the bolder and more timid speculators. And the remuneration of capital is roughly proportionate to the degree of risk accepted. If you want comparative safety you will invest your capital in Debenture stock, which in an industrial concern may pay you 5½ to 6½ per cent.; if you are willing to take slightly

more risk, you invest in the First Preference stock which may pay $6\frac{1}{2}$ to $7\frac{1}{2}$ per cent.; slightly more again in Second Preference stock on which you will look for $7\frac{1}{2}$ to $8\frac{1}{2}$ per cent. If you are prepared for greater risks you will buy 'Common' or 'Ordinary' or 'Deferred' stock which may pay you 20 or 30 per cent.—or nothing. The one per cent. difference between a first and a second charge on the profits may be regarded as insurance against risk, and the prudent investor should put all such differences into a 'reserve' or 'sinking' fund to insure against possible—indeed probable—loss. The main risk is assumed by the 'ordinary' shareholder and large profits should not be grudged to him, if he is lucky enough to gather them.

Overseas Investments

Perhaps one word may be added in reference to another much misrepresented matter. Among the long list of 'securities' quoted on the London Stock Exchange will be found many companies—railways, docks, mines, and what not, located in other countries. Is it 'unpatriotic' for Englishmen to invest capital in them? If there were equally remunerative and equally safe openings for capital at home it would evidently be better that the available capital should be invested in this country. It would be more certain of giving employment to English labour. But, as we have seen, interest on capital invested in foreign countries comes to this country in the form of the oil, the wheat, the cotton, the meat, &c., which are indispensable to our existence. Besides, a very large portion of the 'capital' invested say in Argentine or Brazil has gone out to those countries in the form of locomotives, steel rails, &c., manufactured by English workmen in this country. It would, indeed, be well if in all demands made on the London Money Market for Foreign loans it were stipulated that the money should actually go to them only in the form of commodities of British manufacture (as is in fact sometimes stipulated), but, even apart from this, English investments abroad greatly facilitate the operations of trade.

If such investments be made in British possessions there is much more, indeed everything, to be said in favour of them. Not only is it supremely important that the capital employed in Colonial enterprises should be of British origin, but such investments facilitate the migration of British labourers from the overcrowded homeland to the under-populated Dominions. Every Englishman who migrates from this country to the United States becomes a consumer of British goods to the value of 7*s.* 9*d.* per year. If he goes to Montreal instead of New York, to Alberta instead of to Texas, he will purchase every year ten times as much—£3 12*s.* worth. If he goes to South Africa £4 2*s.*; if to Australia £8 17*s.* 3*d.*; if to New Zealand £13 5*s.* 5*d.*; if to Brazil on the contrary only 8*s.* 8*d.*; if to Malaya £3 18*s.* 10*d.*, and if to the Dutch East Indies only 3*s.* 8*d.* The significance of these figures, so far as they go, is irresistible and suggests the immense importance of guiding both British capital and British labour into Colonial channels. The homeland is more than thirty times as much interested in the sons and daughters who go to New Zealand as she is in those who go to the United States. To the political, as apart from the economic significance of the figures quoted above, no reference is necessary. Memories of the World War are still sufficiently recent to supply the place of argument.

XII

SOME REFLECTIONS

IN bringing this little book to a close it may be well to see what conclusions, if any, can be drawn from the preceding pages. Most of them are fairly obvious.

The Complexity of Economic Conditions

First, it is evident that economic life, as lived in England to-day, is an immensely complicated affair. It is mere affectation to suppose that 45,000,000 people inhabiting these small islands can revert to the 'simple' life of our medieval ancestors. They were virtually isolated from the rest of the world. To-day isolation would mean starvation. A series of events, the cumulative effect of which was unforeseen, perhaps unforeseeable, have landed us in a situation which, if not actually precarious, is undeniably artificial. Moreover, the machinery of trade, on which our existence depends, is now so delicately poised that any accident, however trivial, might throw it completely out of gear, and bring irreparable disaster upon our people.

Man a Born Co-operator

A second and equally obvious moral is that co-operation is the law, if not of human life, at least of civilized society. The last two words prove it. Society (Latin, *socius*) merely means *fellowship*; civilized is the attribute of statehood or citizenship. The greatest of Greek philosophers pointed out, centuries ago, that man is born for fellowship, for membership in an organized community.¹ Nature did not mean him to live a life of isolation. Eve was given to Adam as his mate. Out of the family there developed the State. Citizen-

¹ 'Man is by nature a being destined for citizenship' ('a political animal'), *Aristotle*.

ship involves a sharing of good things attained by co-operative effort.

In the production of goods ('wealth') man co-operates with his fellows. Robinson Crusoe may carry on alone for a time, but Robinson Crusoe would have had a much worse time if he had not found a helpmeet in Friday and also inherited a good many things from the wreck of a previous civilization. Some people are apt to be impatient of the principle of inheritance. But the very poorest child born into the world to-day is heir to a generous heritage. The noble monuments of London, for example, are the heritage of every slum-dweller no less than of the wealthiest citizen. St. Paul's Cathedral and Westminster Abbey, with their stately and costly services, are open as freely to the dwellers in Whitechapel as to those who live in Belgrave Square. The wealth of educational opportunity—itsself the inheritance of the ages—is shared freely by all. But great monuments and highly organized institutions are alike the fruit of the co-operative efforts of man.

Differentiated Functions

They are also the result of specialization. Division of labour—the differentiation of economic functions—is, as we have seen, a fundamental condition of the production of commodities. In almost every branch of human activity we are more and more looking to the co-operation of specialists to produce the most satisfactory results. This is true of scientific research, of medicine, of historical investigation, no less than of industry and trade. It is, however, plain that specialization can be carried much farther in some pursuits than in others. An artist, whether in solo music or painting, must be an individual worker, though the great singer or violinist may depend for the production of some of his best effects on the co-operation of an orchestra. Nor is it certain that co-operation did not play its part in the production of many paintings by 'old masters'. Yet it is evidently the case that in agriculture,

for example, specialization cannot be carried as far as in cotton-spinning. The agricultural labourer is consequently a more handy man than the mechanic or the weaver. He can, as the saying goes, turn his hand to anything, though thatching, for example, calls for a specialist who (incidentally) is increasingly difficult to find. Specialization, however, is the condition of progress in regard to goods which can be produced in the mass.

Capital, Brains, and Brawn

In greater or less degree, then, all the processes of production and distribution call for the continuous co-operation of capital, directing skill, and manual labour. The persons are not necessarily distinct though the functions are; capital may be supplied by the directors or by the manual labourers or by both. All these functions are, nevertheless, indispensable, and the more cordial the co-operation between the co-partners the more satisfactory will be the results of their combined efforts.

Industrial Peace

Nothing, therefore, is so vital to the successful conduct of industry and trade as harmony among those who contribute capital, directing skill, and manual labour to the common task. Unfortunately, as we have seen in preceding pages, industrial peace has been constantly broken during the last century and grave injury has been inflicted, by industrial wars, upon trade. Hence many efforts have been made to 'eliminate the employer' (as in the co-operative movement) or to combine the interests of capitalist, director, and workman (as in various schemes of profit-sharing and co-partnership). But, as we have seen, less success than could be wished has attended most of these efforts except in the field of distributive or consumptive co-operation. Would that it were otherwise. Industrial war means mere waste of economic effort and material resources. Strife is largely due to ignorance and

suspicion and misunderstanding. 'All battle', said Carlyle, 'is misunderstanding'. True of most battles, it is especially true of social and economic warfare. As a great poet has phrased it:

Hate and mistrust are the children of blindness,—
Could we but see one another, 'twere well!
Knowledge is sympathy, charity, kindness,
Ignorance only is maker of hell.
Could we but gaze for an hour, for a minute,
Deep in each other's unfaltering eyes,
Love were begun—for that look would begin it—
Born in the flash of a mighty surprise.¹

The Condition of England

To mutual suspicion among the co-partners of industry, and to the consequent prevalence of industrial disputes, we must attribute, among other causes, the distressed condition in which we find ourselves in England to-day. It is well, therefore, that we should realize that the amazing measure of prosperity enjoyed by this country during the last century and a half has been partly due to causes apparently accidental, and to conditions which are certainly transitory.

Geographical Position

Every one would agree that our geographical position gives us an incalculable advantage among the commercial countries of the world. But it did not always: even geography is not a constant factor. Down to the end of the fifteenth century England enjoyed no geographical advantage; on the contrary, until the Portuguese found their way round the Cape of Good Hope to the Far East, until the adventurous voyages of Columbus and the Cabots opened up new worlds in the Western Hemisphere, England's position was that of a Cinderella among the more highly developed

¹ William Watson.

commercial nations of Europe. Constantinople, Venice, and Genoa were the great entrepôts of medieval trade. From Italy the two trade routes carried the goods of the East up the Valley of the Rhone and down the valley of the Rhine and gave to the cities on their banks—particularly the Rhineland cities—their high commercial significance. From the Rhine delta the goods found their way to Bremen, Hamburg, Lübeck, Danzig, and other cities combined in the great Hanseatic Confederacy. The Low Countries became the centre of the manufacture of fine cloth. England was the very *Ultima Thule* of the commercial world. Few ships reached its shores from the Mediterranean ports; its own merchant shipping was negligible; it had no regular navy. An annual voyage to Iceland brought back a store of cod; an annual voyage to Bordeaux supplied us with French wine—for the rest we lived mostly 'on our own', selling little and buying little outside these shores.

After the labour upheaval of the fourteenth century the farmers, as we have seen, took to sheep-breeding, and English wool soon earned a great reputation in the Low Countries, and was exported in increasing quantities to be worked up into the fine cloth for which Bruges and Ypres, Ghent and other cities of the Netherlands became famous. Wool was the foundation of England's commercial fortunes, but so long as the Mediterranean was the main highway of commerce this remote island made slow progress.

New Trade Routes

In the course of the fifteenth and early sixteenth centuries the Ottoman Turks made themselves masters not only of Constantinople, but of Asia Minor, Syria, Palestine, and Egypt. They thus straddled across all the ancient routes by which the wares of the Far East had from time immemorial reached Europe. If those trade routes were not actually blocked by the Turks they were rendered very unsafe for Christian traders. Consequently, towards the end of the fifteenth century, the countries of Western

Europe eagerly sought for a new pathway to the East. Vasco da Gama found it by sailing round the Cape of Good Hope. Columbus, an Italian¹ mariner in the service of Spain, and Cabot an Italian mariner resident at Bristol failed to reach the Far East, but they stumbled on the West Indies and the American continent.

These mariners were the fairy godmothers of the commercial Cinderella. England was decked out in fine robes and glass² slippers. To be quit of metaphor, England stepped at one stride into the very centre of the world: London, Bristol, and later Glasgow, Liverpool, and Southampton, superseded Constantinople, Venice, and Genoa. That advantage, first accruing to us in the sixteenth century, has never been lost.

Physiography

Physiography has been not less kind to us than geography. The formation of our coast-line, the abundance of natural harbours; the river mouths; the temperate climate; the sufficient rainfall; the moist climate of the north-west, the dryness of East Anglia and the south-east; the wealth of coal and iron in close contiguity to each other and to the sea-ports—all these have played their part in our economic development.

Racial Qualities

Climatic and physical conditions have reacted on man. Less inventive, less thrifty, and less industrious than the French, less painstaking than the Germans, and not more adventurous than the Norsemen, Englishmen have combined some of the best qualities of all three races. Scottish blood drawn both from north of the Tweed and from Ulster has revived that of the southern Britons, and has produced a race, virile and adaptable, adventurous and cautious, of courage unmatched, and inured to labour.

¹ Now questioned.

² As a fact, the slippers were of much more comfortable texture, but the English translators of the fairy-tale misread *vair* for *verre*.

Mechanical Inventions

The industrial inventions of the eighteenth century, in conjunction with the fortunate abundance of coal and iron, gave us a start in the world-race for industrial supremacy the advantage of which our competitors have not yet entirely wiped out. But, as already indicated, Nemesis has lain in waiting for us. We were tempted in the 'forties to put all our eggs into one basket. The result is seen to-day in a nation still prodigiously wealthy, still in the forefront of finance, industry, and commerce, but terribly overcrowded and dangerously dependent upon foreign trade for the bare necessities of existence.

How, under these circumstances, we live it has been the purpose of the preceding pages to show.

Colonies

Fortunately, in the course of the last century and a half we have occupied a considerable portion, about one-fourth, of the habitable surface of the globe. We have planted colonies in North America, in South Africa, and in Australasia. We have acquired in addition vast continental territories in West and East Africa, and in Asia, and many islands amid all the seas and oceans of the world.

The self-governing Dominions, situated largely in temperate climates, offer magnificent fields for the expansion of the British race and for the evolution of great nations of British blood. In our Dependencies we possess estates of immense value which, with primary regard for the well-being of the aboriginal inhabitants, may be worked with immense profit to the world at large, and in particular to their immediate proprietors. The value of that estate has not perhaps, even yet, been adequately realized.

Lines of Communication

So long as we can maintain inviolate the many lines of communication between the homeland and the outlying portions of

the Empire our position, despite overcrowding at home is politically and economically impregnable. But only so long. Unless, therefore, we would imitate the tactics of the ostrich we must face the fact that if we were ever cut off from communications with the outer world (and there was imminent danger of this in 1917) we might literally be starved into unconditional surrender to an enemy.

The inferences from these fundamental facts, both economic and political, are so clear and so irresistible that it is unnecessary to draw them out in detail. He who runs may read, and it is better that the running should be done by the reader than by the writer. If the writer has stated with accuracy and lucidity the outstanding facts, it is as much as can be asked of him. The reader must do the rest.

SHORT LIST OF BOOKS

(This is merely a selection from the immense literature of the subject.)

Economic Text-books.

- E. Cannan: *Wealth*.
 Sir S. J. Chapman: *Outlines of Political Economy*.
 Sir H. Penson: *The Economics of Every-day Life*.
 C. Gide: *Political Economy*.
 Adam Smith: *Wealth of Nations*.
 J. S. Mill: *Principles of Political Economy*.
 F. A. Walker: *Political Economy*.
 Ely and Wickers: *Elementary Principles* (ed. Price).

Economic History.

- L. L. Price: *English Commerce and Industry*.
 W. Cunningham and E. A. McArthur: *Outlines of English Industrial History*.
 Sir W. Ashley: *Economic Organization of England*.
 P. Mantoux: *The Industrial Revolution*.
 Townshend Warner: *Landmarks of English Industrial History*.
 R. E. Prothero: *English Farming Past and Present*.
 J. A. R. Marriott: *The English Land System*.
 A. Birnie: *An Economic History of Europe*.
 J. H. Clapham: *Economic History of Modern Britain (1760-1930)*.
 — *Economic Development of France and Germany*.
 A. L. Bowley: *England's Foreign Trade in the Nineteenth Century*.
 G. R. Porter: *Progress of the Nation*.
 A. Toynbee: *Industrial Revolution*.
 C. R. Fay: *Life and Labour in the Nineteenth Century*.
 Mrs. Knowles: *Industrial and Commercial Revolutions in Great Britain in the Nineteenth Century*.

More General.

- Carr Saunders and Jones: *Social Structure of England and Wales*.
 G. G. Chisholm: *Handbook of Commercial Geography*.
 Kirkaldy and Evans: *History and Economics of Transport*.
 Vaughan Cornish: *A Geography of Imperial Defence*.
 W. Bagehot: *Lombard Street*.
 Hartley Withers: *Money Changing*.
 — *The Meaning of Money*.
 — *Bankers and Credit*.
 J. A. R. Marriott: *Empire Settlement*.
 — *Economics and Ethics*.
 L. St. C. Grondona: *Empire Stock Taking*.
 Lord Melchett: *Imperial Economic Unity*.
 R. A. Lehfeldt: *Descriptive Economics*.

INDEX

- Africa, South, 111.
—, East, 111.
Agriculture, 15.
—, English, 8, 23, 29.
—, French, 8, 24.
—, Danish, 24.
Argentina, 13, 19, 110, 118.
Australia, 16, 65, 111.
- Bank Charter Act, 105.
Bank of England, 100, 103.
Bank Rate, 106.
Banks, 94-109.
—, Savings, 94.
—, Joint Stock, 94-7.
— notes, 95, 97.
— 'clearing', 99.
— loans, 101.
—, services of, 102.
Barter, 14, 82.
Brazil, 15.
Bread, English consumption of, 13.
- Canada, 16, 110, 118.
Capital, 40, 42-7, 68.
Ceylon, 15, 111.
Cheques, 17, 98.
China, 15.
Coinage, 84.
Companies, Joint Stock, 66, 127.
Co-operation, 61, 77.
—, Wholesale, 78.
—, Productive, 78.
Co-partnership, 80.
Cotton, 111.
Cuba, 15.
Currency, depreciated, 90-2, 104.
— and World War, 106.
- Debentures, 68.
Debt, National, 125.
—, Municipal, 127.
- Denmark, 111.
Directors, functions of, 73.
Dividends, 40.
- Enclosures, 52.
England, condition of, 135.
—, geographical position of, 135.
—, trade routes, 136.
—, physiography of, 137.
—, racial qualities, 137.
—, Colonies, 138.
Exchange, Bills of, 122.
—, rate of, 124.
Exports, 9, 119.
- Feudal System, 48.
Foodstuffs, 13, 15, 16, 111.
Ford, Henry, 113.
France, 113.
Free Trade, 56, 116.
French francs, 92.
- German marks, 91.
Germany, 113.
Gold, 83.
Guilds, 50.
- Imports, 9, 109, 119.
India, 15, 111.
Industrial Peace, 134.
Industrial Revolution, 9, 11, 53, 55,
138.
Interest, 38, 67.
Investments, Overseas, 130.
Investors, 128.
- Java, 15.
- Labour, 48.
—, division of, 55, 115, 133.
—, cost of, 112.
Labourers, 54.

- Labour Party, the, 76.
 Land, 21, 27.
 Land tenure, 25.
 Lease-holders, 25.
 Lock-outs, 75.

 Machinery, 115.
 Management, business, 72, 73.
 Markets, 36.
 Merchants, 18.
 Money, 17, 50, 82, 93.
 —, value of, 85.
 —, paper, 87.
 Morris, Sir William, 113.

 Nationalization, 62.
 New Zealand, 19, 111.
 Nomad life, 14.
 Notes, Treasury, 87.
 —, Bank of England, 88, 93.

 Overhead charges, 114.

 Peasant proprietors, 28.
 Piece-work, 59.
 Political Economy, 30.
 Political Levy, the, 76.
 Population, 132.
 —, English (1800), 9, 11, 13.
 Preference shares, 69.
 Prices, 89.
 Production, cost of, 113.
 —, mass, 113.
 Profits, 39.
 Protection, 117.

 Rationalization, 36.
 Rent, 27, 37.
 Rentiers, 10.
 Rhodesia, 111.

 Saving, 47.
 Servants, domestic, 58.
 Shopping, 15.
 Silver, 83.
 Sliding scales, 60.
 Smith, Adam, 55, 56, 116.
 Speculation, 128.
 Stock Exchange, the, 125.
 Strike, general, 76.
 Strikes, 74.

 Taff Vale Case, 76.
 Taxation, 113.
 Tobacco, 111.
 Trade, balance of, 119.
 —, machinery of, 121.
 —, foreign, 121.
 —, retail, 20.
 Trades Disputes Acts, 76.
 Trade Unions, 58, 75-7.

 U.S.A., 13, 111, 113, 118.

 Value, 32-5.

 Wages, 41, 51, 57, 59, 60, 62, 63.
 Wealth, 31.
 West Indies, 15.
 Wool, 51.
 Works Councils, 74.

PRINTED IN GREAT BRITAIN AT THE UNIVERSITY PRESS, OXFORD
BY JOHN JOHNSON, PRINTER TO THE UNIVERSITY



Edward Giffin

THE WORLD'S MANUALS

A SERIES of introductory volumes, designed not only to give the student who is undertaking a special study some idea of the landmarks which will guide him, but to make provision for the great body of general readers who are sufficiently alive to the value of reading to welcome authoritative and scholarly work if it is presented to them in terms of its human interest and in a simple style and moderate compass. The judicious use of illustration distinguishes the series.

OXFORD UNIVERSITY PRESS
LONDON: HUMPHREY MILFORD

The World's Manuals

GENERAL EDITORS: CYRIL BAILEY, ERNEST BARKER, R. G. COLLINGWOOD, C. FOLIGNO, G. S. GORDON, O. J. R. HOWARTH, JULIAN HUXLEY, E. A. G. LAMBORN, R. W. LIVINGSTONE, P. E. MATHESON, C. T. ONIONS, W. D. ROSS, N. V. SIDGWICK, CHARLES SINGER, D. NICHOL SMITH.

Bound in cloth. Many volumes illustrated. 2s. 6d. net each.

(The figures in parentheses denote the number of the book in the Series)

¶ History & Geography

Israel before Christ: An Account of Social and Religious Development in the Old Testament. By A. W. F. BLUNT. (1)

Israel in World History. By A. W. F. BLUNT. (42)

Ancient Greece: A Study. By STANLEY CASSON. (2)

The Growth of Rome. By P. E. MATHESON. (3)

Roman Britain. By R. G. COLLINGWOOD. (4)

The Crusades. By ERNEST BARKER. (5)

The World about Us: A Study in Geographical Environment. By O. J. R. HOWARTH. (6)

The Peoples of Europe. By H. J. FLEURE. (7)

Europe Overseas. By J. A. WILLIAMSON. (8)

The Expansion of Britain from the Age of the Discoveries: A Geographical History. By W. R. KERMACK. (9)

The European States System: A Study of International Relations. By R. B. MOWAT. (10)

¶ Art, Religion, & Philosophy

Greek Art and Architecture: Their Legacy to Us. By PERCY GARDNER and Sir REGINALD BLOMFIELD. (11)

Greek Philosophy: An Introduction. By M. E. J. TAYLOR. (12)

Ethics: An Historical Introduction. By STEPHEN WARD. (13)

Introduction to Modern Philosophy. By C. E. M. JOAD. (14)

Introduction to Modern Political Theory. By C. E. M. JOAD. (15)

The World's Manuals

¶ Art, Religion, & Philosophy—*contd.*

Outlines of a Philosophy of Art. By R. G. COLLINGWOOD. (16)

Our Minds and their Bodies. By J. LAIRD. (35)

¶ Language & Literature

Sound and Symbol in Chinese. By BERNHARD KARLGRÉN. (17)

Persian Literature: An Introduction. By REUBEN LEVY. (18)

The Genius of the Greek Drama: Three Plays. By C. E. ROBINSON. (19)

The Writers of Greece. By G. NORWOOD. (20). Bound together with *The Writers of Rome*, 4s. 6d. net; also in a Prize Edition, 7s. 6d. net.

The Writers of Rome. By J. WIGHT DUFF. (21)

Italian Literature. By CESARE FOLIGNO. (22)

Standard English. By T. NICKLIN. (23)

Shakespeare: The Man and his Stage. By E. A. G. LAMBORN and G. B. HARRISON. (24)

An Introduction to the Reading of Shakespeare. By F. S. BOAS. (43)

Modern Russian Literature. By D. S. MIRSKY. (25)

Arabic Literature: An Introduction. By H. A. R. GIBB. (37)

¶ Science & the History of Science

Greek Biology and Greek Medicine. By CHARLES SINGER. (26)

Mathematics and Physical Science in Classical Antiquity.
Translated from the German of J. L. Heiberg by
D. C. MACGREGOR. (27)

History of Mathematics. By J. W. N. SULLIVAN. (28)

Chemistry to the Time of Dalton. By E. J. HOLMYARD. (29)

Electricity. By L. SOUTHERNS. (30)

Conquest of the Air. By C. L. M. BROWN. (40)

Meteorology. By D. BRUNT. (47)

The World's Manuals

¶ Social Science (Law, Politics, & Economics)

A Short History of British Agriculture. By JOHN ORR. (31)

Population. By A. M. CARR-SAUNDERS. (32)

Food and Health. By A. B. CALLOW. (45)

Introduction to the Study of Karl Marx's 'Capital'. By
A. LINDSAY. (34)

Money. By R. A. LEHFELDT. (36)

Descriptive Economics. By R. A. LEHFELDT. (39)

Empire Settlement. By SIR JOHN MARRIOTT. (41)

How we are Governed. By SIR JOHN MARRIOTT. (46)

¶ Music

A new section similar to the general series has been commenced with

The English Madrigal. By E. H. FELLOWES. 3s. 6d. net. (33)

The English Ayre. By PETER WARLOCK. 3s. 6d. net. (38)

Henry Purcell. By D. ARUNDELL. 3s. 6d. net. (44)



OXFORD UNIVERSITY PRESS