# THE DISTRIBUTION OF INCOME

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BY

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The National Dividend is at once the aggregate net Product of, and the sole Source of Payment for, all the Instruments of Production within the Country.—
MARSHALL.

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TO

**Mr. Andrew Stewart**

THE MUNIFICENT FOUNDER OF THE
ADAM SMITH CHAIR
IN THE UNIVERSITY OF GLASGOW

# PREFACE

THIS book reflects a part of my own mental history. A man who takes up the systematic study of Economics only after a considerable apprenticeship to practical business life, has to spend some years not so much in acquiring knowledge as in revising his experience and getting rid of misconceptions. He naturally becomes critical of common opinions, of wide generalisations, and of short cuts to serious conclusions. In a study which deals so much more with men than with things, he finds the difficulty of ascertaining the exact truth about even the most ordinary economic occurrence, and becomes, if not cynical, at least impatient of other men's credulity. He becomes less and less disposed to dogmatise, knowing very well that a man's development on any side of his subject often stops from the time when he comes to a reasoned conclusion about it. Hence he becomes known as a silent man who asks questions, and he incurs very likely the reproach of being a blind leader because he will not pronounce on such a thing as a labour dispute till long after the dispute has settled itself. He has nothing of the cloud-compelling confidence of other scientific teachers. By the nature of his subject he ought to be—and, I think, generally is—the humblest of men, and is indeed only too apt to spend the best years of his life in waiting for more light, and meantime throwing cold water on other people's enthusiasms. If afterwards he feels any superiority to his students, it is not that he knows a little more than they, but that he knows how little any one can know of law and order in this many-motived work-a-day life of man.

Thus for some years I shrank from grappling in earnest with the supreme problem of Distribution; waiting, I might say, till the unconscious influences of learning and teaching made up my mind for me. For, as Adam Smith says, a teacher "obliged to go every year over the same ground, if he is good for anything, necessarily becomes, in a few years, well acquainted with it; and if, upon any particular point, he should form too hasty an opinion one year, when he comes in the course of his lectures to reconsider the same subject the year thereafter, he is very likely to correct it." When, however, the duty could no longer be denied, I decided to take my own difficulties as probably representing those of the ordinary man. If my brother economists find this procedure tedious, and are disposed to think that I arrive at familiar conclusions by tortuous paths, I can only say that, from my business experience, I am perhaps more likely than they to know what are the lines of thought along which the ordinary man moves, and what are the difficulties which prevent his freer acceptance of these familiar conclusions.

The first thing to be done was to get a definite idea of what it is that is distributed under the name of Wealth, and the result of the inquiry is contained in Book I. As I wrote this, it became clear to me that, of the vast National Income which this country enjoys, a great deal is distributed while and as it is made; that, in short, the production process as we know it is also a distribution process. Following this clue, I began with the personage who, in the present state of things, is primarily the paymaster of organised industry, the employer, and tried to find how his payments are conditioned and overruled. Working along this line, I was forced to see that, whatever hard names may be applied to the results of this distribution, the distribution is not arbitrary, much less chaotic.

Hence, beginning with no thought of doing more than setting forth the methods of the present distribution of wealth, I have found myself led to express an opinion on its merits. One may, perhaps, imagine a better distribution, although, it seems to me, it is not easy to do so except by assuming that society is much simpler than it is, or that it is willing to renounce many of its motives as well as its gains. Nor am I insensible to its anomalies and hardships:

I confess, indeed, that they are enough to confuse the generous mind and drive it to ill-considered action, and I find myself rather apt to think that there is something wrong with the student who begins his economic studies in any admiration of the *status quo*. But when the question is whether a regulated state control according to any social or socialist ideal would bring us conditions of life wherein all would have the possibility of realising their moral being, or of being what is called "happy," I am disposed to think that the "invisible hand"—however one interprets Adam Smith's reference—is bringing about these conditions more quickly than any deliberate rearrangement of industry would. As "man's unhappiness comes of his greatness," so does our dissatisfaction with the present distribution come from the knowledge of what wealth has done for some, and the want of knowledge that there is not yet enough of wealth to do it for all. A little better knowledge of history, or a teaching of history that would try better to reproduce the everyday life and environment of the common people in past generations, would make us more content. The fact that many rich men get more than they deserve is obvious; it seems to have been overlooked that even a very poor man may be getting more than he is worth.

I am well aware that to give a deliberate judgment on this subject is probably the most responsible act of an economist's life, and that to give the one I have expressed will probably relegate me, in the opinion of many with whom I have been associated and whose goodwill I most value, to the rank of the "high and dry" economists; but, as an honest man, *ich kann nicht anders.* It may, perhaps, carry the more weight if I say that I began writing with a long-rooted conviction that the present distribution was bad, even unjust, and that I did not know from chapter to chapter where the argument would finally lead me.

Part of my task, I gratefully acknowledge, has been made easier than it would have been two years ago by the publication of Mr. and Mrs. Webb's *Industrial Democracy.* Accepting it as by far the most able and exhaustive account and defence of Trade Unionism, I have not gone outside its pages for information of what Trade Unionism is and what it aims at.

My thanks are due to my colleague, Professor Stockman, the Rev. Bruce Taylor, and Mr. John G. Kerr, who have assisted me with statistics, and to many others. But most of all am I indebted to the Nestor of English economics, Professor Alfred Marshall, and to my friend Mr. Edwin Cannan. The book itself could not have been written but for Professor Marshall's *Principles*, which I have used as text-book for some years, and in which, at each revision, I find unexpected depth and fresh

suggestion; and its author, in this as on many other occasions, has been my kindliest critic and helper. If the chapters on the Mobility and the Subsistence of Capital are at all clear, I owe it to Mr. Cannan's scholarly and exhaustive *Theories of Production and Distribution*, and to his keen and patient criticism when the sheets were in proof.

Finally, I should be untrue to the conviction as to what I have called on p. 70 "the greatest unpaid service of all," if I did not acknowledge that if I have done anything worth doing, either in this book or elsewhere, it has been by the faithful co-operation of her who has given me the necessary condition of continuous quiet work, the peace of home.

WILLIAM SMART.

UNIVERSITY OF GLASGOW,
*July* 1899.

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### THE NATIONAL INCOME

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# CHAPTER I

## THE PROBLEM

*Two things get the name of National Income; the money incomes annually received, and the commodities and services annually produced. These things require, first, to be separately explained and analysed, and, afterwards, to be put in definite relation to each other.*

"THE National Income," say the statisticians, "is about £1,500,000,000 a year." The two incomes.

"The National Income," say the economists, "is the net aggregate of commodities, material and immaterial, including services of all kinds, produced within the year."[1]

Unless statisticians and economists are speaking of two different things under one ambiguous name, it would seem to be the case that the net aggregate of "commodities" produced within the year is, somehow or other, priced at £1,500,000,000.

When the two propositions are thus set side by side, and the relation between them directly challenged, this would probably be accepted without question.

[1] Marshall: *Principles of Economics*, 4th ed. p. 594. "Everything that is produced in the course of a year, every service rendered, every fresh utility brought about, is a part of the national income."—*Ibid.* p. 150.

But they are not usually put side by side. The business man, whether landowner, or capitalist, or wage-earner, thinks with the statistician. His income appears at his credit in money figures or is paid over to him in money. It is his income that he "spends," and what he spends is money. He never thinks of it but in terms of pounds, shillings, and pence.

The economist, on the other hand, with some reason, rather distrusts the money income. The first years of his training are spent in getting behind the disguise which money throws over the real wealth it names and measures: he becomes so conscious of the inadequacy and ambiguity of the money measurement that he often fights shy of it altogether, and speaks of income as "commodities and services," forgetting that in so doing he has stepped off the platform of the ordinary man. At the same time it may be confessed that he is not altogether consistent in this attitude. Usually when he passes from the consideration of the making of goods to that of selling them and paying the various agents for the making, he falls into the habit of the people around him, and thinks of income as merely so many shillings or sovereigns. It almost looks as if people generally think of income alternatively in one or other of two ways.

Subjects of Book I.

Three things, then, claim our consideration. First, the money income requires explanation and analysis. Second, we require to get behind the money income to the real income which it represents, and find its nature and sources. Third, the money income and the real income require to be put in definite relationship.

# CHAPTER II

## THE MONEY INCOME

*Extracting from the Income Tax returns the income attributable to capital, we get a total of £488,000,000. Adding incomes earned in Trades and Professions but not returned, incomes attributable to the small capitals of those under the tax limit, and incomes from foreign investments which escape, we get another £131,000,000. This makes a total of £619,000,000, presumably derived from capital. The incomes in Schedules E and D, and the £666,000,000 of working-class income, make up £896,000,000 as income presumably derived from labour. The total is, roughly, £1,500,000,000.*

THE National Income, in terms of money, is about £1,500,000,000. Of this the income "derived from capital" may be put at £600,000,000, and the income otherwise derived at £900,000,000.

The statistical basis.

These amounts are based on Sir Robert Giffen's admirably clear figures in the first series of his *Essays in Finance*, No. VII., revised ten years later in *The Growth of Capital*.[1] All that I have done is to bring

[1] The original calculations were based on the returns for year ending 31st March 1875. The income, calculated on the lines here followed, amounted then to about £1,200,000,000, and the capital value of the nation's property (arrived at by taking the actual and estimated income at so many years' purchase, and adding in moveable property and government and local property not yielding revenue) to £8,500,000,000. The revised calculations were based on the returns for year ending 31st March 1885. Here the income was about £1,350,000,000, and the capital value £10,037,000,000. It may be noted, for purposes of comparison, that Dudley Baxter, in his *National Income* (1868), computed the aggregate income of the people for the previous year at £814,000,000.

them up to date from the 41st Report of the Commissioners of Her Majesty's Inland Revenue for the year ended 31st March 1898.

We begin with the Income Tax Assessments as affording the most convenient basis. For the year 1896-97 the gross annual income thus assessed was £700,447,064.[1] In these returns, however, income from capital is put along with income from other sources. The first thing to do is to analyse the returns and eliminate all incomes which are not "presumably derived" from capital. The principal items then stand as follows:—

[1] Since 1885 there have been several new exemptions and abatements, and the gross return of incomes assessed has accordingly been diminished. But probably this has not greatly affected the total.

NOTES TO TABLE

[1] Including agricultural lands, ornamental grounds, gardens attached to houses when exceeding one acre in extent, farmhouses and buildings.

[2] Including factories, workshops, warehouses (probably about one-fifth of the total), but excluding farmhouses, which are comprised under "Lands." It is rather interesting to note that the amount is almost identical with the "drink bill" of the United Kingdom, presented in Dr. Dawson Burns's annual letter to the *Times*, February 1899.

[3] By the Finance Act of 1896, one-third the full annual value of lands under Schedule A is assessed as farmers' profits, subject to appeal if the ascertained profit falls short of that amount. In comparing the present contents of Schedule B with those of 1885, notice should be taken of the great changes introduced by the above Act.

[4] Including chiefly Foreign and Colonial Funds, £16,790,472; Indian Government Stocks and Loans, £3,485,654; Indian Guaranteed Railways, Canals, Irrigation Works, £4,580,212; but excluding the permanent charge on the National Debt.

[5] Including Banks, Telegraphs, Insurance Companies, and the like.

| | | |
|---|---|---|
| **Under Schedule A** | | |
| Land [1] | £54,800,902 | |
| Houses [2] | 158,774,515 | |
| Other property (including Tithes, Manors, Fines) | 623,915 | |
| | | £214,199,332 |
| **Under Schedule B** | | |
| Farmers' Profits [3] | | 18,496,701 |
| **Under Schedule C** | | |
| Public Funds [4] | | 24,856,338 |
| **Under Schedule D** | | |
| Quarries | 1,200,511 | |
| Mines | 10,509,292 | |
| Ironworks | 1,840,350 | |
| Gasworks | 5,529,456 | |
| Salt Springs or Works and Alum Works | 182,082 | |
| Waterworks | 4,015,316 | |
| Canals, etc. | 3,433,931 | |
| Fishings and Shootings | 726,720 | |
| Markets, Tolls, etc. | 738,001 | |
| Cemeteries | 165,346 | |
| | | 28,341,005 |
| Other Public Companies [5] | 87,570,834 | |
| Foreign and Colonial Securities and Possessions and other Profits | 9,351,688 | |
| Coupons | 9,277,808 | |
| Railways in the U. K. | 37,541,260 | |
| Railways out of the U. K. | 12,833,133 | |
| Interest on Municipal and Corporation Stocks and Loans (paid out of Rates) | 5,235,680 | |
| Other Interest and Profits | 3,461,125 | |
| | | 165,271,528 |
| Capital employed in "Trades and Professions," say, one-fifth of the total £180,000,000 | | 36,096,000 |
| Total under Income Tax | | £487,260,904 |

This £487,260,904 is the income derived from capital which appears in the Income Tax returns. To this two items must be added.

Incomes from capital which escape taxation.

(1) It is notorious that the Income Tax returns do not show all the income attributable to capital. Many an Englishman will smuggle, if he can with safety, and think little shame of being found out: considering, as in poaching, that the sport of matching his ingenuity against that of an official condones the offence. So many people seem to count the assessment of their income to taxation as a game in which they match their wits against those of the assessor. To this we owe the calculation that 20 per cent of the incomes made in trades and professions escape from Schedule D—say, £7,200,000;[1] and that no less than £50,000,000 of incomes from foreign investments escape from Schedules C and D.[2]

(2) A proportion of the income of working people, who are below the tax limit, may properly be ascribed to the possession of capital in the

[1] Mr. Gladstone, in his Budget Speech of 1853, said that when Cannon St. was constructed, twenty-eight persons claimed compensation for loss of business, putting in their claim at £48,159 as one year's income. They obtained from the jury £26,973. It was found subsequently that they had returned their profit to the Income Tax at £9000!

[2] For the calculation by which this very large amount is arrived at, see *Essays*, p. 170, and *The Growth of Capital*, p. 27. "It should be explained that a great deal of this income may escape assessment to the Income Tax in no improper way. The partners residing abroad of firms which are really English, but which are domiciled abroad, are perhaps under no obligation to return the income, though their wealth and income are English wealth and income, and much profit that may be made by such partners may be eventually brought home as capital and not as income, and so escape assessment" (*The Growth of Capital*, p. 27).

shape of tools, small retail stocks, etc.; say, one-tenth of the £740,000,000 drawn by such classes, or, £74,000,000.[1]

The total income from capital.

These sums amount to £131,000,000. Adding this to the previous figure of £488,000,000, we get a total income of £619,000,000 which would be liable for Income Tax if all incomes from capital paid this tax. This is the part of the National Income which may be ascribed to capital.

The balance of the £1,500,000,000 comes, broadly speaking, from three sources.

Incomes from labour.

(1) Schedule E of the Income Tax consists of "Salaries, etc.—Employees of Corporate Bodies, etc.," £38,594,508, and of "Salaries, etc.—Public Offices, including Army, Navy, and Civil Service," £17,854,757; in all, £56,449,265. This includes pensions.

(2) Schedule D covers incomes from trades and professions amounting to £180,000,000. But, as was said, one-fifth of the incomes here earned are not returned, which would add £36,000,000; making £216,000,000 in all. But one-fifth has already been deducted from this and included among the income from capital, leaving £173,000,000, as income which must be considered due to the labour engaged in trades and professions.

(3) The income earned by working people and others under the Income Tax limit was estimated, according to Dudley Baxter's method, at £600,000,000 for 1875, and £670,000,000 for 1885. If, to be safe, we add only another £70,000,000 for the intervening twelve years, we get £740,000,000: deducting one-

[1] See calculation on following page.

tenth for the small capitals employed (already noted), there remain £666,000,000.

The total of these three items is £896,000,000. This is income derived, presumably, from labour.

The total income.

If, now, we add these two great divisions together—the £896,000,000 from labour and the £619,000,000 from capital—the total of the National Income is £1,515,000,000. This is the sum that would be assessable to Income Tax if all incomes whatsoever were subject to Income Tax and no incomes escaped it.[1]

Its constituents.

The National Income, then, expressed in money is a total composed of rents (land and buildings rent), of profits (made by farmers, manufacturers, merchants, traders, by the owners of mines, iron, water, and gas works, of canals and railways), of dividends and interest (for money lent at home and abroad), of salaries of professional persons and officials, and of wages of labour. To put it technically: it consists of Rents and Quasi-rents; of Profits remunerating organisation, management, and risk; of Interest on capital; and of Wages of all kind of labour. Roughly, we may say that it amounts to £1,500,000,000, of which £600,000,000 are presumably derived from capital and £900,000,000 from labour.

[1] It may be as well to emphasise that I make no criticism on these categories. It is not necessary for the object I have in view in what follows. But obviously any scheme which divides the National Income between "Labour" and "Capital" must be generously interpreted.

## CHAPTER III

### THE REAL INCOME

*In the primitive community the goods produced were evidently the income, and if such a community, in course of progress, had produced their goods in association and taken claims on the central store where they deposited their supply, the income would still evidently have been the goods claimed. It is not essentially different to-day, when, instead of selling our goods for a claim, we sell them for the universal commodity, money. Thus the £1,500,000,000 represent a real income which the community supplies for its own living.*

THE National Income, in the form which we have just considered, is a total of money payments handed over or credited to the individuals of various classes during the year. What does this money represent? We shall find this most easily if we look back at the simpler system from which money delivered us.

Goods constitute the primitive income.

In the good old times—of which we know very little, and very little that is good—the family or tribal group was almost self-contained, producing for the most part what it consumed. It would scarcely be denied that the income of each group was the food, clothes, and buildings, plus any other comforts which it might obtain by bartering its surplus for the surpluses of other groups. And the income of the community was the total food, clothes, buildings, and surpluses.

If we could imagine such a community dividing its labour and bartering its goods, it would be clear that the "demand" of each group of producers—what it bought with—was the goods it supplied; that the total demand of the community was the total supply of that community; and that, accordingly, the community's income was this total demand or total supply of goods.

Claims as income.

If, again, we could imagine such a community getting rid of the awkwardness of barter by establishing a central store, where each group of producers took its goods and got in exchange a "claim" for a similar value of other goods (however that value was assessed), we have the phenomenon that, instead of a number of individual incomes taken directly into consumption, there is one income on which the various contributing groups take claims, these claims being exchangeable at will into any aliquot part of the one income. The name of "income" might in this case be given to the claims, without any one being misled into thinking that the income was anything more than representative of the goods claimed.

Money income a sum of claims

It is not otherwise in essence in the modern economic state, where, as the result of a tacit agreement, the producing groups do not sell their goods for a claim but for a commodity, itself the product of capital and labour, valued for other purposes than money, and exchangeable at will for any commodity or commodities of equal value.

To-day the prominent phenomenon is, not only that labour is almost infinitely divided during time and over space, but that all goods are sold before they enter into the consumption of the nation. The self-contained groups are replaced by groups working on a plan under an organising paymaster, and the making of each good now takes the form of a short or long production process. During the course of the process this "employer," as he is called, pays out to the various people employed by him a money income, equivalent in his estimate to the contribution rendered; and when the goods, which are the outcome of the production process, finally come into his hands, he sells them, recoups himself for all the incomes he has advanced during the process, and keeps the balance. He and all working under him take their "payment" in that unique good which potentially is anything else, and the money arrogates the name of income.

The modern phenomenon, then, is that the entire product of industry, which in simpler times was retained in the household for consumption, and was visibly the "income," is now taken to the shops and called "goods," while the various claims on the shops are called "income." It seems clear that the money income is still practically only a sum of claims against the one real income of goods. on a concrete income.

The answer, then, to our question as to what the money represents, is that the £1,500,000,000 is really representative of a concrete income which the community supplies for its own living. Underlying the modern money form is a real national income of "goods," or good things, corresponding to the food, clothes, and buildings which constitute the primitive income.

# CHAPTER IV

## THE RELATION OF THE REAL INCOME TO THE MONEY INCOME

*The relation suggested is that the real income is what the money income pays for. But this gives us the unfamiliar conception that the real National Income, which we naturally think of as the "finished" goods by which a man may live, consists of intermediate products and services, down a long hierarchy of processes. These, however, are really alternative ways of reckoning the same sum of things. The helpful but indefinite Austrian division into production and consumption goods suggests that the National Income may be conceived of as the sum of consumption goods, plus any additions to capital, but calculated as the sum of the services which issue in them. The identity of the two suggests that there is a parallel identity in price. Whether the conduction of value is backward or forward, the total payments for the contributory services must equal the total price of the consumption goods and added capital, and these payments appear in our schedules as Incomes. Thus the total money income is seen to be a payment for a total goods income produced, and each money income may be economically conceived as an output of goods.*

The money income pays for the real income.

THE National Income thus takes two forms. On the one hand is a money income of £1,500,000,000. On the other hand is a concrete income on which certain persons have established claims to the amount of £1,500,000,000. The relation between the two suggests itself. It is that the various money incomes are paid in virtue of contributions rendered to the real income. Down the long hierarchy of industry shown on p. 7, which begins with land and mine owners, includes all those engaged directly or indirectly in manufactures and transport, and ends with the retail dealer; from the prime minister guiding an empire to the comic singer doing his "turn" in a music-hall—all these people get their income because they are producers of goods. The real income is what the money income pays for.

**What corresponds to the primitive income of food, etc.?**

But when we follow this line of connection it leads us to a conception of the real National Income which is certainly unfamiliar. We readily accepted the proposition that in the primitive community the income was undoubtedly the "food, clothing, buildings, and surpluses." But when production is broken up into processes of various length and complexity, we are compelled to ask what now precisely corresponds to the primitive income.

Say that the making of furniture is divided up between four industries. Are we prepared to say that the real income of the modern community consists of the screw-nails which are the final product of one trade; of the oak planks turned out by a second trade; of the fitting together of the planks and nails in the form of tables and chairs, which is a third; of the warehousing and selling and delivering, which make up a fourth? Or does it consist of the furniture?

**Is it finished goods?**

The man in the street will have no hesitation in saying that it is the furniture, this being the "good" which the four industries aimed at and issued in, and the good, moreover, on which he is likely at some time or other to spend part of his money income. But if we say, as we have done, that the real income is what the money income pays for, we must say that the National Income consists of the various inter-

Or the intermediate products and services?

mediate products and contributory services, and not of the furniture.

On looking carefully at this, one thing emerges very clearly — namely, that the National Income cannot be calculated by adding the one to the other. "If," as Professor Marshall says, "we have counted a carpet at its full value, we have already counted the values of the yarn and the labour that were used in making it, and these must not be counted again."[1] And this, in turn, suggests that these are not conflicting but alternative ways of computing the National Income. This, however, requires explanation.

Consumption and Production Goods.

In the writings of the Austrian economists the division of goods into Consumption Goods and Production Goods plays a great part. Life, the satisfaction of human wants and the realisation of human activities, is the end towards which all goods are made, and which, in the last resort, gives them their worth. It was so in primitive times, when life was simple; it is not otherwise to-day, when life is complex. If industry is divided up into an infinite number of processes, it is simply that those goods which maintain the modern life may be increased and multiplied. Consumption Goods, accordingly, is the name given by the Austrian economists to those final and finished goods which pass away and disappear in the maintenance of human life. Production Goods, on the other hand, are all those goods which go to the making of consumption goods—those innumerable things, and processes, and services which focus in the consumption goods. If production goods do not issue in goods that subserve the life of man they are as useless as the

[1] *Principles of Economics*, 4th ed. p. 150.

sixty millions sunk in the Panama Canal. Thus production goods are conceived of as consumption-goods-in-the-making. To make use of our illustration: the furniture represents the consumption goods, and the services, which embodied themselves first in the screws and planks and afterwards in the tables and chairs delivered to consumers, represent production goods.

An indefinite

But on examining this classification, we find it altogether lacking in definiteness. The majority of goods are not ear-marked either to production or consumption. A machine, for instance, is the very type of a production good, and a loaf of a consumption good. But a railway car, as taking men to their work in town, would be called a production good, while, as carrying our country cousins to a day's enjoyment in the metropolis, it would appear as a consumption good. The loaf, which to the consumer is a consumption good, is to the retailer the good by which he makes his living. And because we cannot put all goods into one category or the other, some have said that this classification must be dropped altogether.

though necessary classification.

But those at least who have had to teach Political Economy to mixed classes of people who bring with them all sorts of preconceived ideas about "intrinsic value," the "claims of labour," and the like, would probably be sorry to do without the classification. If we are to keep a clear distinction between wealth as a collection of instruments, and Well-being or Benefit or Satisfaction as the subjective state which is its end, we need a category in which to put goods in the last stage at which they can be measured, and this category is supplied by consumption goods. Personally, I find it as impossible to dispense with the classification as to draw the line which divides the classes.

Alternative computations.

In any case, the attempt at classification seems to bring out clearly that there are, conceivably, two ways of computing the real National Income: the one which takes it as the sum of consumption goods plus any additions to capital, the other which takes it as the sum of the services which contribute to the making of them; and that these two are alternatives. Either alternative, however, may be used when different purposes are in view; and the thesis which I put forward is that, while the National Income must be *conceived of* as the total sum of consumption goods, as these and these alone are the means of satisfying the end of economic action, the life of man, it must be *calculated* as the sum of the contributory services.

The object which we have now in view is to connect the money income with the real income. Clearly we cannot connect it with an income of consumption goods. Even if the distinction between goods and goods were as definite as it is vague, and certain goods were as clearly marked for immediate consumption as is the roll on the breakfast-table, there are no statistics or inventories either of the amounts or the prices of such.

But we can and do connect it with the contributory services, and remembering the Austrian suggestion that production goods are simply consumption-goods-in-the-making, we see that there is a parallel identity in price.

Whether value goes backward

In the argument of the Austrian economists, the price paid for the consumption good is reflected back on all the previous services in the process and pays for them. To put it concretely: A loaf costs sixpence to the consumer. Of this price a fraction falls to the baker for his personal services, and the rest replaces the flour which came to him as raw material, the plant, and the wages. Take the flour alone as it is sold by the miller: a fraction of its price falls to the miller for his services; the balance of the price replaces the co-operating factors he bought, the wheat, the plant, and the labour. Take the wheat alone: a fraction of the price realised by its sale falls to the farmer as the price of his services; the balance replaces the factors he buys, land, plant, and labour, and so on.

In the argument of the English economists, on the other hand, the conduction of value is forward, from factors of production to product; the cost price of every factor enters into the price of every intermediate good, and the cost price of the various intermediate goods enters finally into the price of the finished consumption good, and determines it.[1] **or forward,**

Whichever way we put the conduction of value—and, in the long-run, they come to the same thing—the total payments for the contributory services are, in the end, the same as the total payments for consumption goods plus additions to capital, and *vice versa*. At every stage of the production process, services are embodied in intermediate goods, and when these intermediate goods are paid for, the services are paid for. In other words: to get a suggestive conception of the National Income, we seem bound to think of it as a sum of consumption goods of all kinds. But when we wish to connect the money income directly with **the payments are the same.**

[1] See *passim*, "The Standard of Comfort," in *Studies in Economics*.

the real income, we must take it as a sum of contributory services rendered during the year, whether they issue at once in consumption goods, or are embodied in goods that are only stages toward consumption goods, or are simply additions to capital.

Thesis. And what we have now to put forward is that, while, as we said, we cannot get at the consumption goods and their prices, we can get at the various prices paid, all down this hierarchy, to all the factors, which, however remotely, are necessary to the emergence of the final consumption goods. For these prices appear in our schedules as Income.

Proof. Let us take the case of the finished commodity, a suit of clothes. The raw material, wool, is bought by a wool-spinner. Say that he buys the whole clip of a year, then the price at which it is bought has to pay for the following: rent of land, interest on capital (farm buildings, implements, etc.), profits of farmers, wages of labour. The landlord's rent and interest appear in Schedule A ; the farmer's profits and interest in Schedule B; the wages would appear in Schedule D if it were not that they are under the exempted amount and so have to be guessed at. The prices of implements, etc., are complexes of rent, profits, and wages made in other production processes, and appear in another set of incomes.

The phenomenon, then, is that the production goods called land, buildings, implements, farmer's labour, and men's labour have all co-operated in—are all factors toward—the making of the commodity wool, and the price realised by this wool pays or replaces payments previously made for all these factors. None of these goods probably wear themselves out in the process. They wear away only a portion of themselves—give a year's use or a year's service. The point to be brought out is that the payment for each use or service appears in the National Budget as an Income. And the total of these incomes is the same as the total price of the wool; that is, the total money income here represents the total real income of wool.

The next stage is when the wool enters with its full price into the production process of the weaving manufacturer as his raw material; that is, appears as capital. Say that a wholesale cloth merchant now takes the whole annual output of the weaving sheds. Then the price paid for the woven cloth in turn pays for a year's use of land, a year's use of the capital (including factory, plant, coal, oil, etc.), and pays besides for what might perfectly appropriately be called a year's use of the manufacturer and a year's use of all the wage-earners. All these payments, then, appear in the various schedules as Incomes.

Say, finally, that a dozen tailors take this cloth and turn it into suits of clothes; then to the full price of the cloth is added the service of the wholesaler, the service of the tailors and all the wear and tear of their capital; and the price at which the suits of clothes are bought by the community is nothing else than a complex of the prices paid for all the services from the first production to the last.

As was said, we have no statistics of the suits of clothes produced and of the prices paid for them. But we have statistics of the prices paid for all the intermediate services whose value over the year individually comes above the tax limit, as these appear in various schedules under the name of Incomes, and we have a calculation for those which are under that limit.

Thus the total money income really represents a total goods income, and each individual money income may be, economically, conceived of as representing an output of goods.

## CHAPTER V

### THE REAL INCOME AS A SUM OF GOODS PRODUCED OR SERVICES RENDERED

*The two incomes being thus put into direct relation as* (a) *a sum of goods produced and paid for by* (b) *the £1,500,000,000 of money, we are introduced to the conception of society as a co-operation of mutual service, where the receivers of income figure as the producers of goods. This is unfamiliar—to the worker, who looks on his employer as an exploiter; to the employer, who thinks of his profits as a difference in values; to the merchant, who is credited with merely "taking toll" of goods already produced; to professional classes, whose product is pure service; to government servants, who afford the conditions for carrying on industry. All these produce good things, and this may be best brought out by speaking of the real National Income as a Sum of Services, whether embodied in commodities or not.*

**This method of calculating the Real Income**

As the starting-point of our investigation we have taken the £1,500,000,000 of money which appeal to us as having the most undoubted claim to the name of the National Income. But equally indubitable is it that this "money" is not money, but only the aggregate value in money of something very different. As in the primitive community, people work for a "living," and this living is properly conceived of as a sum of goods destined to pass away and disappear in maintaining the life—using the term in its modern extension—of that community. If, then, the primitive income consisted of the "food, clothing, shelter," and surpluses produced during the year, no less is the modern income the sum of similar goods finished, and this is how we must conceive of the National Income when we think of it as the end of economic action. But this income is not one which we can put into figures for purposes of calculation and measurement; and when we wish to connect the modern real income with the money income the only way of doing so is to take the alternative method and consider the contributory services which come into existence during the year as the real goods income. To put it in terms of our former illustration: the National Income may, and for many purposes must be, conceived of as consisting of commodities like furniture; but for our present purpose it must be calculated as everything brought into existence during the year which was instrumental toward making the furniture. In so doing the money income appears as the direct equivalent of the goods income.

suggests the fundamental idea of industrial society.

This points us to the conception which is essential to all real understanding of economics — the conception of society as a co-operation of Mutual Service. The money paid over or credited to landowners, employers, capitalists, professional men, officials, etc., and to working men, is payment for and represents an income of goods or good things produced, and the goods produced, which exchange for or buy the money income, are the same things as are exchanged again or sold for the money income. Each group's supply is thus a demand for the supply of other groups, and we get our first glimpse of what Professor Marshall means when he says that the National Income (or Dividend as he prefers to call it) "is at once the aggregate net product of and the sole source of payment for all the agents of production within the country; it is divided up into earnings of labour, interest of capital, and, lastly, the producer's surplus, or rent, of land and of other differential advantages for production; it constitutes the whole of them, and the whole of it is distributed among them; and the larger it is, the larger, other things being equal, will be the share of each of them."[1]

There is no doubt, however, that this conception of mutual service—of income receivers as income producers; that is, producers of goods—is an unfamiliar one.

**Employers are producers of goods.**

Working men, as a rule, have a fixed idea that the employer is not a servant of society, but an "exploiter" of labour; one who gets the service done for him, and arrests the greater part of the payment. Even where they admit that he does some service, they say roundly that he is overpaid. This we shall have to examine in detail later.[2]

The employer, again, has a reason of his own for not easily recognising the truth, and a quite distinct one. It is that his income represents itself to him as a difference or surplus—something left when the total outlays are deducted from the total receipts. He deals in values rather than in goods. He knows very well that in the making of one kind of goods he consumes and destroys other kinds of goods, and the destruction seems as much part of his business as the production. To say that he produces so much goods annually, itself suggests the other phenomenon—that

[1] *Principle of Economics*, 4th ed. p. 609.
[2] In book ii. chap. ii.

he consumes only a little less goods annually. Yet if he were asked suddenly what he made his income by, he would blurt out the truth, in saying that it was by making cloth, or iron, or chemicals, or this or that. Here there is a continuous stream of goods sent out to be sold, and it is the price realised for those goods during the year that pays all the factors for their year's use and service. The employer is paymaster. He must replace capital—and this is the meaning of the guarding expression in the definition of the National Income "net aggregate"—but after this is done the balance of the price realised by the goods pays interest on capital, pays rent, pays labour, and leaves over the payment called profits. It makes no difference in this respect whether they are monopoly goods or goods sold under free competition. Under monopoly conditions the price divided will be greater than it would otherwise be; more will go to the owner of the monopoly, and only the ordinary payments to the other factors; but the essential thing is that the public pay the price and the employer divides it out. In the case, then, of industries organised under employers, whether extractive, agricultural, manufacturing, or transit industries, the total income from each organised unit of production is nothing but the money name for goods produced and sold during the year.

So are merchants.

The obscurity is greater in the case of merchant industry. The phenomenon here is that, in the division of labour, certain men set themselves to take goods from where they are made or warehoused, and distribute them to the various quarters where they are to be used. The essential nature of this transaction is easily misunderstood, even by the actors themselves, as if what the merchant did was simply to take toll of the goods as they passed through his hand; and it must be said that Mr. Ruskin has given countenance to this in *Unto this Last*, p. 55. There he speaks as if merchant industry were typified by the case of a third party who undertakes simply to superintend the transference of commodities from one farm to another, receiving some sufficiently remunerative share of every parcel conveyed, but who keeps back the articles with which he has been entrusted until there comes a period of extreme necessity for them on the one side or the other, and then exacts in exchange all that the distressed farmer can spare of other kinds of produce. Perhaps it is too much to say that Mr. Ruskin really means this as typical, but he gives that impression by saying, "This would be a case of commercial wealth acquired on the exactest principles of modern political economy"—which seems to infer that the operation known as a "corner in wheat," and that too run by a person who is trusted and paid for watching the interests of his principals, or the action of a share-broker who speculates on his own account and against the interests of his clients, is the normal occupation of the merchant.

**_Pace_ Mr. Ruskin,**

The truth about the merchant is that, like others, he is a part producer of goods—a servant in the long production process. No production process is finished till the goods come to the consumer. When they leave the manufacturer they have merely finished a late stage in the process, not a final one. The relation of the wholesale merchant to the manufacturer is parallel to the later relation of the retailer to the merchant. He takes the goods as the raw material of his trade.

**they are not mere "middle-men,"**

He breaks bulk to suit customers. He puts the goods into convenient packings. He arranges for the transit, and finally places the goods where the consumer may easily get them. Any manufacturer will confirm this. It would not enter into his head that his profit is curtailed because he sells his goods to a merchant instead of to a consumer. If he himself sold them to the public, it would involve more expenditure, and he would charge up the expenses on the price. If he employs an agent to do this for him, the agent's remuneration is added on to the price. But if the manufacturer employs no agent, but sells outright to an independent merchant, the superficial phenomenon is that the merchant buys goods at one price and sells them at another, and this permits of being represented as if it were a wrong to the new buyer. It is assumed that if the purchaser had bought them direct, without the intervention of this "middleman" as he is misleadingly called, he would have paid less, and that the consumer would ultimately have got the goods for less. But this is a mere assumption. Probably the consumer has no facilities of getting at the manufacturer—who is possibly in another country and selling his goods in a different currency, involving all the machinery and mystery of foreign exchange. Probably the manufacturer would not sell him the small quantity he requires at all, or would sell it at a higher price.

The fact is evident that if the merchant had no useful function, if he merely "took toll" of the goods and added nothing, he could not obtain a permanent footing in a competitive organisation. He has to compete in the same work with regular agents; he has to compete with the act of consumers dealing direct; and this competition keeps his profits within limits.

nor gamblers, nor engrossers.

But one may grant that it is difficult to keep the rationale of this trade clearly in evidence. As I write, for instance, the produce market is disorganised by the Spanish-American war. France has thrown her ports open to wheat, and there is a sudden and exceptional demand for produce. Merchants are caught short of stock, with prices flying up hour by hour, and the dealers are selling to each other—selling one day and buying back the next. Here are presented the features of a gamble—not a useful communication between producer and consumer, but an excited buying and selling of produce between middleman and middleman. The grower in America who has sold his wheat last month at a low figure sees it now in the possession of some third person, in whose hands it has risen to a ridiculous price, and he, naturally enough, considers that if he had not sold last month, but held on, he would now be getting this high price; from this it is but a step to the idea that he has been defrauded, and that such merchants are the curse of his industry. The only answer to this is that all men occasionally make mistakes in the time at which they sell. He has sold at the wrong time, that is all. But if he had held on till now, it is difficult to see that the consumer would have got his wheat a farthing cheaper. If things had gone the opposite way—if prices had come down in the hands of the middlemen and they had been desperately buying from and selling to each other to spread their losses, the grower would have been thanking heaven that there were middlemen!

All the same, it is easy to see that the merchant is too ready not to take himself seriously; to think that he deducts from—takes toll of—the goods that pass through his hands; and so he also fails to recognise that his income is a payment for an equivalent—goods made or services rendered within the year.

So are direct servants

Not otherwise, in substance, is it with occupations which do not send out separate and transferable goods for sale, but sell their services direct. The East End practitioner, indeed, embodies his services in the "bottle" which he sells for a shilling. The West End physician sells advice, care, a "good bedside manner," etc. There is no more difference between the two than there is between the service rendered by the dentist when he fills an old tooth and makes it fit for use, and the service rendered when he puts in a new one made in his workshop downstairs. Professional services are goods offered, assessed, and sold. The "fee" is paid for value received in "immaterial goods."

and officials.

Lastly, consider the case of incomes in the shape of salaries paid by governments and municipalities. Here the truth is more obscure, because the thing paid for is, as a rule, neither embodied in goods nor paid for freely by a body of consumers. Such incomes are payments for affording certain conditions to the industrial and general public, and the price for them is handed over once a year to central paymasters for distribution. We may be paying too much or too little; as in the case of monopoly goods in manufacture, this is beside the question. But when Parliament votes so many millions for this supply and so many for the other, it does so on the clear understanding that it is not paying away salaries to privileged parties for doing nothing, but is paying for services evidently rendered to the secure and smooth carrying on of the national industries and national life generally. Taxation, for instance, is one of the expenses reckoned in cost; it is, in fact, of the same nature as the wage paid to the night watchman.

**We should, however, replace "commodities" or "goods"**

The reader will probably have noticed that there is some difficulty here as regards terminology. Professor Marshall speaks of the National Income as consisting of "commodities, material and immaterial, including services," and this is well enough in an economic treatise. But in ordinary language the word "commodity" certainly means something material, and would not be understood to cover direct services. "Goods," indeed, is a more elastic term, and might better cover both "immaterial goods" and services. But, again, the common grouping of "goods *and* services" shows that "goods" by itself is apt to be misleading.

**by the term Services.**

A simple solution seems to be to use the word "services" by itself. It has one obvious advantage: that it suggests the essential principle of industrial society as a great co-operation of mutual service. It has the further advantage of bringing into line the various factors in production. We cannot get a satisfactory conception of the National Income till we recognise that, whether we pay men and women or pay for goods, what is paid for is always service. There are some services which human beings alone can render; others which goods alone can render; some which may be rendered by either indifferently; others—perhaps the majority—which require the co-operation of both.

We are easily misled by some common terms. We speak of the "consumption" of some goods; of the

The "use" of a man is his service.

"use" of others; while we always speak of the "services" of a human being. The difference is one of durability. We embody labour and capital indifferently in loaves or in houses, in coal or in machinery. The one wears out in a single use, the other in a long succession of uses; but both are consumed in the service of man's life. We embody labour and capital in the maintenance, education, and training of a man, just as we do in the making of a machine. Both of them wear out in time, although both of them may improve for a time as they "settle down to" their work. And the "use" of a man is often enough demonstrated to be identical with that of a machine when the one replaces the other. In any case, the payment is always payment for what men and things do, not for what they are. We do not pay the physician for his good bedside manner, but because of the health he restores or maintains. We pay our soldiers, not because they wear beautiful uniforms—that, indeed, is part of their wages—but because their wearing of the sword allows us to dispense with wearing swords. It does not matter essentially whether the land produces wheat or is reserved for pleasure walks; it does not matter whether the capital turns out cloth or sustains credit; and it does not matter whether the man works along with tools to produce commodities, or simply exerts his faculties for the benefit and delectation of his fellows—all are paid for what they do, for their services. When one asks of the various factors what their income is payment for, the landowner answers that his is payment for the year's use of his fields, the capitalist answers that his is payment for the year's use of his capital. If the employer, the professional man, and the working man answered in the same way, they would say that they draw their income from society for the year's use that society makes of them.

A sum of services.

If we speak, then, of the National Income as a sum of services, embodied in material forms or not embodied, we seem to get an expression equally applicable whether we conceive of it as a sum of goods which minister to the wants and activities of man's life, or calculate it as a sum of services.

# CHAPTER VI

## INCOME AS AN ANNUAL PHENOMENON

*There is a peculiarly misleading relation between the two forms of the National Income. The money income is "made" and estimated by the year. But the goods income has no such natural limit, unless, exceptionally, in the case of agriculture. As a rule, the harvest of industry is a perpetual stream of crop, and the year is no more than a convenient period for reckoning gains and losses.*

A misleading relation.

IN the last chapters we have tried to define the two forms of the National Income and to indicate their direct relation as services and the money payment for services. We have now to refer to another and a peculiarly misleading relation between the two.

Money income is an annual receipt.

Money incomes are paid at regular or irregular intervals. The working man's pay comes to him once a week for fifty-two weeks. The capitalist's return comes in to him in the shape of dividends paid perhaps once a year. The landowner gets his rents at quarter days. The business man generally draws a regular salary during the year, but he does not know what his income is till the annual balance is struck. But, as a rule, income is estimated by the year. By definition it is an annual receipt. The question is: Does the year correspond with anything in the production of the real income, or is it merely an arbitrary period chosen for convenient calculation?

So is the agricultural harvest,

In that industry which is at once the oldest and even yet the most universal, the production process has a very definite connection with the year. While the earth is travelling its 365¼ days round the sun we have the winter, spring, summer, and autumn necessary for the sowing, incubating, growing, and reaping of the staple food of man in temperate climates, and for resting the ground after its labour. Associated with food is the second staple of life, clothing. The fleece which is necessary for the sheep's covering during the winter becomes a burden in spring, and in early summer the annual wool crop comes forward. Once a year, again, the cocoon is built by the silkworm, and the flax yields its harvest. The coming forward of the cotton crop in Europe is associated with the annual rise and fall of the Nile. These staple raw materials, then, come forward only once in the 365 days. Thus it is easy to see that to our ancestors the annual harvest was the natural time for stock-taking, for counting their gains and losses. As regards the most familiar crops, the production process—the time from start to finish—is a year; the course of one annual process is clearly separated from that of another; and we have an identity between the payment of the money income and the receiving of the goods income.

generally, but not always.

But as regards some other field products the propriety of the annual stock-taking is not altogether so obvious. There are some crops, such as hay, that come forward more than once a year. There are others which take more than a year to come to fruition, the most obvious being trees grown for timber. There are crops which are always more or less at the stage of harvest, such as grass. As regards cattle the year may or may not mark the economic period of production.

But there is no such annual harvest in manufacture.

Even, however, if in agriculture there were the closest connection between the year and the beginning and end of the production process, there is no such connection as regards the making of other forms of wealth. In the working up of raw material into finished goods the seasons play scarcely any part. The grain which took a year to grow is turned into flour one day and into bread the next. In Chicago the living pig goes in at one end of the factory to come out pork at the other. The raw cotton may leave the spinner as yarn, the weaver as cloth, and the tailor as clothes all in a few days. Some production processes take hours, others take days, still others months. Many, such as wine, take years.

Further, if we were to take weaving as the typical industry instead of farming, we should see that the harvest of industry is not one which is gathered at stated intervals. There is a constant flow of the cloth from the looms to the warehouse. If we took the shop as a more appropriate type than the barn, instead of the grain being stored once a year we should see the harvest pouring in in one steady, unceasing flow from hour to hour and day to day.

Our conclusion must be that, while it is easy to see how the year should have come to be thought of as the natural period for taking stock and calculating gains or losses, it has no more warrant than convenience of calculation, and may, indeed, prevent us having clear ideas of the nature of production processes.

# CHAPTER VII

## INCOME AS A GROWTH FROM SOME PERMANENT STOCK

*We get the idea from agriculture, where the fields remain after the harvest is gathered, and transfer it to other industries without noticing the difference. Thus we imagine that there is a clear and obvious distinction between income and a permanent something from which income comes. But are even the fields perennial sources of crop? Land, implements, cattle are durable indeed, but not permanent. And,* pace *Henry George, the idea that reproduction is more than production is sufficiently exploded. Thus, in essence, agriculture does not differ from manufacture; in neither of them is there a permanent stock from which comes a recurring income.*

Does income leave an unimpaired stock?

IT would seem to be the case, however, that the general acceptance of the year's end as the natural time to square up accounts of profit and loss has led to another misleading belief: that real income is the growth from some perennially fruitful stock. Every year £1,500,000,000 worth of wealth is brought into the world. The most of this is consumed every year, and the whole of it might be, without leaving the community any poorer at the beginning of the next year. This appears to correspond accurately to the phenomenon of money income. Just as a dividend is thrown off and distributed to shareholders for consumption while the company's "stock" remains unimpaired, so, it is conceived, may the £1,500,000,000 worth of income be consumed and pass out of existence while the stock or capital of the world's wealth remains as it was.

The fields indeed remain after harvest.

It is easy to be quite mistaken in tracing the genesis of common conceptions, but it seems to me that in this case also, ever since the Physiocrats, the views of economists as regards income in general have been based, more or less consciously, upon the phenomena of the industry assumed to be typical. In agriculture, as we have seen, the year marks a natural period of sowing, gestation, and harvest. Once a year the fields are stripped of their chief crops. The grain is carted away and put into barns, or sold off the land—but the fields remain. Is not income, then, the wealth that is born once a year—the grain and plants and roots and fruits? Is there not something that is sufficiently distinct from this, and remains as a productive fund ready to yield a similar income another year, namely, the fields? Hence, when the balance-sheet is struck once a year, it is easy to produce a capital account and a profit and loss account. The net assets are the fields; the gross income is the crop; and this income has visibly sprung from the ground during the year, leaving the assets untouched.

The belief is strengthened by other phenomena of the farm. The cow that has dropped her calf is standing in the byre, and the milk is no visible drain on her life. The sheep are feeding along with the lambs, and the fleece is growing again on their backs. All the phenomena of animal reproduction, in fact, tend towards this view. Again, the farm buildings are permanent shelters; the dykes and fences are not appreciably deteriorated in the twelve months; even the implements are good for several seasons.

In the case of this industry, then, everything tempts us toward the conception that there is a clear distinction between income and that from which income comes—the growth and the stock. Once every year, when the crop is cleared off and the land lies gathering its strength for its next effort, it seems to be demonstrated that income is the annual crop from fields which remain unimpaired by the drain made upon them.

**But there is nothing similar in manufacture,**

We transfer this all too readily to manufacture without noticing the difference. When the business man strikes his balance he does not find what his income has been till he secures that the wear and tear of his factory and plant are compensated by a sinking fund. It is his business to see that his concrete capital remains intact—as capable of producing the same endless flow of manufactures next year as it has been this. What he does not so readily notice is that he provides for this in a way which differs from that which Nature takes in agriculture; that the sinking fund is a new phenomenon; that the keeping of his capital intact involves laying aside a portion of the produce to stand in place of that which was worn out, while, in the case of land, Nature provides a capital that does not substantially wear out. There is nothing in his concrete capital which corresponds to the fields; no bed rock covered with soil. The true analogy is between his factory and his machinery on the one hand, and the farm buildings and farm implements on the other.

When we pass to merchant industry the difference nor in merchant industry

is more evident. If we eliminate the warehouse—as we may do on the consideration that perhaps the largest merchant businesses consist of transferring goods from the factories where they are made to the people who are to use them—there is nothing corresponding either to the fields or the buildings or the implements. The merchant's "capital" may be a claim on a bank. On the strength of this claim he buys goods one minute and sells them perhaps the next. When he strikes his balance at the year's end, he puts so many debts due to him on the one side and so many due by him on the other. Yet he also speaks of his capital as being intact after he has drawn his income during the year, and calls his creditors to witness that his claim on the bank—his capital—is as large as it was at the beginning of the year.

though a "dividend" leaves "capital" intact.

All these differences, which might be supposed to strike at least the people interested, tend to be hidden from us by the disguise of the Public Company. To a great and increasing number of people little or nothing is known of the industries in which their wealth is sunk. Whether the company is agricultural, or extractive, or manufacturing, or mercantile, or transit, the only thing the shareholder knows is that the business is an "investment," and the chief—almost the only—concern he has in the matter is that once a year he gets from it a dividend. To him, therefore, the income is something, as it were, "budded off" a parent stem which it leaves unimpoverished. For, by definition, the paying of a dividend leaves the productive organisation of the company unimpaired. At least a dividend that does not do so—one "paid out of capital"—is justly regarded as of the nature of a fraud.

In certain so-called dividends, indeed, it is recognised, at any rate by business people, that in each annual payment a certain portion of capital is being paid back—the typical case being that of ships and mines whose working life is limited. The return is higher than it would be by a percentage which is assumed to stand for a sinking fund. But in such cases every one knows that something is contained in the dividend besides the dividend proper, and the fact that such payments are expected to come to an end in a limited number of years bears out the definition that the paying of a dividend proper leaves the productive organisation intact.

Thus, in days when the Limited Liability Company is the most familiar form of industrial organisation, we unconsciously grow up with the idea that there is a clear separation between income and a something from which income comes. Without very well understanding what we mean, we think of income as an annual growth from some perennial stock, or as a lake which overflows its banks once a year. This is to be recognised perhaps most clearly in the popular complaint about the Income Tax—that it makes no distinction between those incomes derived from capital and those from professions. When it is asserted that the income of the professional man dies with him while the income of the capitalist passes on to the heir, a grievance seems made out. It is taken for granted that some incomes come from a source which remains distinct and permanent.

But it is time to hark back to the fundamental fallacy—that in agriculture, any more than in other industries, there is a stock which remains unimpaired when the harvest is gathered.

**But are the fields unimpaired?**

It is now long since economists had to modify and limit the phrase which Ricardo made memorable through his rent theory, namely, the "original and indestructible powers of the soil." The land which grows the crop that human beings need is not a permanently productive instrument. Every crop takes away with it so much of the organic and inorganic elements, and the constant growing of one crop soon makes ground sterile as regards that crop. It has indeed the peculiarity that, if left fallow long enough, Nature itself will renew its powers; and, in a new country where people are content with a small yield per acre because acres are plenty, it will be some years before even the constant succession of one crop will greatly impoverish the ground. But, in an old country, one of the chief functions of the farmer is, by manure, by pasturing cattle, by appropriate rotations, to put back into the ground what each crop takes from it. The utmost that can be said for the phrase, "indestructibility of the soil," is that agricultural land contains very much more plant food than is ever utilised, and that the soil is less destructible than most other instruments of production.[1]

A manufacturer who sinks part of his capital in

[1] Professor Marshall, indeed, finds the only fundamental attribute of land in its extension—its space-relations and the annuity that Nature has given it of sunlight and rain and air. "We shall find that it is this property of 'land' which, though as yet insufficient prominence has been given to it, is the ultimate cause of the distinction which all writers on economics are compelled to make between land and other things." —*Principles in Economics*, 4th edit. p. 221.

machinery knows that, however heavy and strong it is, he must, if he is to keep his productive power constant from year to year, face two expenses. He must lay out so much in keeping it in due repair and working order. But this is not all: no amount of care and patching will keep it going for ever. There must come a time when the machinery is, on the whole, "done," and has to be thrown out. Against that day he lays aside each year a small percentage of his return, to accumulate till the expense of new machinery must be incurred. We might say, then, that, in the case of land, agriculturists dispense with the latter fund, on condition of spending a somewhat ample percentage on wear and tear or repairs account. But evidently this is only a difference of degree.

As regards the implements of agriculture, again, and as regards buildings, dykes, drains, fences, and the like, it is clear that we have in them nothing different from the other fixed capital of the manufacturer. Some of them are designed to last for years, while others are expected to last perhaps a season, but none of them has any claim to permanence.

**Is reproduction the cause of interest, as Henry George affirms?**

When, finally, we turn to seed and cattle, we get on the track of an ancient fallacy lately revived. "Supposing that in a country adapted to them," said Henry George, "I set out bees; at the end of a year I will have more swarms of bees, and the honey which they have made. Or supposing, where there is a range, I turn out sheep, or hogs, or cattle; at the end of the year I will, upon the average, also have an increase. Now what gives the increase in these cases is . . . the active power of Nature; the principle of growth, of reproduction, which everywhere characterises all the forms of that mysterious thing or condition which we call life. And it seems to me that it is this which is the cause of interest, or the increase of capital over and above that due to labour."[1]

In this curiously tentative passage, cattle are looked on as instruments of production different from other tools; durable if not permanent sources of income, which remain unimpaired after the new wealth has been taken away. Cattle, he says, "of themselves increase in quantity," and a similar statement is made about seed. The same ideas, it is to be noted, are to be found in Adam Smith, and they probably formed the basis of the Physiocratic theory.

But surely the simple fact that a sheep is sold indifferently to be turned into mutton or to become the mother of future sheep, and that both uses are discounted in the price, tells us that it cannot be the power of reproduction alone that yields "interest." The price of a thing includes the price of all its uses. Some goods are wanted for a single exhausting use; others are wanted to give out their uses gradually. If a commodity, like seed, is capable of either use, the alternative use is considered in the price. We no more get interest because of the reproductive power of a sheep than we get it because of its virtues as mutton. It was long ago pointed out that this separation between the work of Nature and the work of man is quite unreal. It is the one Nature that works in the fields, that works in machinery, and that works in man. Reproduction is by no means the greatest miracle in the production of wealth. It takes Nature a great many months to produce a horse; it does not take as many minutes for

Nature works in manufacture as in agriculture.

[1] *Progress and Poverty*, p. 168.

her to raise hundreds of horse-power by setting water to boil in a great kettle.

Capital never remains intact.

Enough has been said to show that agriculture does not differ in nature from manufacture, and thus we fall back on manufacture as exhibiting more perfectly the phenomena we wish to examine. But what is manifest in manufacture is that the capital does not remain the same in amount unless every bit of it is continually being remade as it wears out. Income is not a growth budded off from a tree which remains what it was. Its truer analogue is to be found in the machine shop which makes tools for all kinds of trades and at the same time replaces its own tools by the same process.[1]

But even this analogy is incomplete and misleading. It still conceives of income as if it were a different thing from parent wealth. It is time that we came to clearer ideas of what it is that does remain and what it is that wears out.

[1] Cf. *Studies in Economics*, p. 231.

## CHAPTER VIII

### THE ONLY PERMANENT STOCK

*The metaphor of a "flow" tells us that consumption is not a terminal point for wealth; that production and consumption are a circle. Man is a part of Nature—a momentary embodiment—an organism which the earth builds up for a time and then claims for others. Thus what we call the "accumulation of wealth" is a flash-light view of the state of Nature (including man) relative to the desires of man. In other words: wealth wears out in the concrete and is replaced; man wears out in the individual and is replaced. What remains constant is Wealth and Man. But the two, in the last resort, are not distinct and separate, but pass constantly into and out of the body of each other.*

A "flow not a fund."

IN modern economics we are familiar with the metaphor of wealth as a "flow not a fund." The expression has done better service than most metaphors do. It keeps before us what has just been brought out—that the production of wealth pours on without a break, year in year out, and has no natural limit or stock-taking at the end of the twelve months, and that the various incomes are not taken out of some great fund accumulated in the past. But it seems to contain deeper meanings.

The stream of wealth

The popular belief about wealth is that it is produced by man for his consumption, and, in this consumption, is destroyed. Wealth-production is thought to be like the exploiting of a mine. If it were so, one might well wonder that the world gets richer describes a circle.

every day. In contradiction to this, the description of wealth as a flow or stream aptly suggests that the production and consumption of wealth describe a great circle—a passing from one form into another and back again. For a stream describes a circle. It passes to the sea; is taken up by evaporation; discharged in rain on the mosses and uplands; and sinks to form again the source of the stream. And, like the stream too, no single drop of it perhaps comes back to the same source. We never step twice into the same river. The drops are new: the stream remains.

Man is like a worm.

The relation of man to his world is primarily that of the animal to its world. He is visibly a part of Nature and conforms to all her laws. He gets his living from the earth and air. For a time he builds himself up and grows, and then he sinks back and resolves into the materials from which he came. He is but a worm that fills its skin and draws its life from the earth which it passes through itself and leaves on the grass again. He makes the world richer as the worm makes the surface richer—by bringing matter from one place and leaving it in another. He is the passing tenant of a house of life which is not his own; the passing holder of a purse which gets fuller as he spends.[1] He thinks complacently of all other organisms as made for him: he is really bound up in the one bundle of life with them. Certainly the worms riot when man loses what he prizes most. He is, after all, only one of the innumerable organisms that the earth builds up with its substance for a time, but in time claims again for other organisms.

Thus we come to the commanding point of view

[1] Cf. *Studies in Economics*, p. 274.

that to separate man and his world is to separate what God hath joined. In metaphysics this is brought out in its clearest form in the demonstration that there is no outside world which lies below us coloured and shaped and sounding as we know it; and that, as we cannot conceive of a matter which has neither shape nor colour nor any of the other qualities with which we unconsciously endow it, so neither is there any mind which exists apart from the world it knows. In economics it is only another form of the same apparent dualism that rules our thoughts. We think of man as somehow apart from and above his natural environment, contemplating it, working on it, and subduing it to himself. Yet any deeper consideration shows us that man is simply the last and greatest embodiment of his environment, and is, after all, but a temporary embodiment.

**The apparent dualism.**

To put this another way. Some classes get their income credited to them as "due to capital," others as "due to labour." In either case there is something that wears out and something that remains. All capital—even land—wears out day by day, month by month, year by year. All men wear out day by day, month by month, year by year. The embodiments of goods and of services are alike transitory. But all capital is replaced day by day, month by month, year by year; and all men are replaced day by day, month by month, year by year.

**Men and goods wear out alike,**

Thus what presents itself to the superficial view as the accumulation of wealth on a world for the sake of man, is nothing else than a flash-light view[1] of the

**but only change their form.**

[1] We owe the phrase—and much more in the analysis of capital—to Mr. Irving Fisher, whose papers in the *Economic Journal*, vols. vi. and vii.

state of Nature (including man) at any moment. And the consumption of wealth is not its destruction, but its transmutation; the going up of the flow of wealth into the clouds by evaporation, to fall again in matter, and in course of time pass into other embodiments of the twin phenomena of Nature, the environment and man.

In short, we cannot view man and wealth separately, for wealth is the substance of man, and man is the sensitive point at which matter for the moment appears as wealth. Capital, in time, is added to: the earth itself, under reclamation, increases its economic area, and under greater strain develops greater powers: and the number of men is added to.

Wealth and Man

Thus what remains permanent, or increases, is wealth as a sum the concrete forms of which are constantly wearing out and being replaced by other and probably better ones. And what remains constant or increases is a sum of population the individuals of which are constantly wearing out and being replaced by larger families, and, we hope, better people. The permanent stock, then, is Wealth and Man.

are one.

But these two, in the last resort, are not distinct and separate, but live for each other and by each other, the faithful partners of one wedded life.

The stumbling-block to the full acceptance of wealth as a "flow" was that it seemed to leave out man, the consumer. Or rather, man came in somewhere as a person on the bank dipping in his pail, and taking so much from it. Or the ridiculous idea was suggested that the stream of wealth was all dipped up in

probably end an old controversy and mark a new departure in economic classification and nomenclature.

this way by the various participants in the National Income, so that by the time it got to the sea there was no stream! The metaphor seems complete when it is realised that man is *in* the stream—like a trout lying with its head to the current—getting its food from what the stream contains, living by that, and passing it through it again.

As I write this on a May morning, a blackbird is picking up his breakfast on the lawn. He has just pulled a large worm from the ground. The worm is writhing on the grass; the blackbird is leisurely taking bites out of it. In a minute the worm has disappeared, and the bird is saying choral grace after meat on a tree. **"Red in tooth and claw."**

It is a good enough picture of how we live, except that our living demands many more deaths, and that, as our dainty stomachs cannot stand the writhing of the worm, we get the killing done for us by butchers and sportsmen.

But we are more exacting than the blackbird. He has his feathers: we grow sheep to give us ours. He perches on a tree: we dig our houses out of the ground and build them up on the surface. He woos his mate by no other attractions than Nature gives him—his song, his glossy breast, his rounded outlines. We ransack heaven and earth for clothes and jewels in which to look our best, and dangle the prospect of so much a year before the lady of our choice. But, essentially, we live like the blackbird by robbing Nature for the moment of things and creatures which, in their turn, had robbed Nature of other things and creatures. The stream of life runs through us, not past us. **Life passes through us.**

The distinctive difference is that we do not require to take our living ready-made from Nature. She does not indeed give us too freely the things we want; we have to search out, and combine, and make her do many things that she would not of herself do. This provision we then call Wealth. So the conceit grows upon us that we are creators of wealth, and we are so to the extent that we fashion Nature according to our own image and desire. So also it comes that Nature is always trying to get her own way again, and to turn our wealth back into her own forms of matter, and what she daily disintegrates we daily recreate.

**Resurrection.**

Thus men make their living by taking wealth into themselves, and wealth lives by being taken into them. Wealth is consumed by their lives and replaced by their lives. Man, again, is consumed by passing into the body of wealth, and replaced by that body of wealth. Man, in short, lives *as* his income comes in to him and through him; not by his income perishing in the furnace called his body. Income is not something taken from Nature by a being alien to it, but its substance as it passes for the moment into one of the parts of itself.

Having thus tried to clear away some short-sighted or one-sided views as to Income, and, in the doing so, perhaps, got into thinner air than the economist is supposed to have lungs for, we go on to a closer examination of the constituents of the real income.

# CHAPTER IX

## THE REAL INCOME OF A PURELY ECONOMIC STATE

*If the National Income consists of those things for which the money incomes pay, economic science, in taking this wealth for its province, has a wide field. To appreciate this, let us ask what would be the features of a purely economic State; that is, one whose entire activities were bent on and limited to the production of the necessaries of the working life. Even if the whole twenty-four hours of every man's existence were taken up in purveying these necessaries, it would be a very extensive State, for it would embrace all the processes and all the government protection and assistance necessary for this end. All pursuits, in fact, would be parts of a production process. Nor would this imply a sordid State; the sciences would be there, though not as ends in themselves, but as aids to production. In such a life the circular flow of wealth—the consumer consuming for the sake of producing, and the producer producing for the sake of consuming—would come out with perfect clearness. But, after all, is this essentially different from the State as we know it?*

**The scope of economics**

FOLLOWING out the lines on which we have started, we must say that the real National Income consists of those things for which the various money incomes of our income schedules are the payment. It is the sum of the services paid for by rents, interest, profits, wages, salaries, etc., whether these services are embodied or not. But if this is what we have to examine as "wealth," and if wealth is distinctively the subject of economic study, the science of economics covers a wider field than most people think.

as suggested by the income schedules.

When we turn to our income schedules in chap. ii., what ought to strike us is that they contain the industries and occupation of most of the male and many of the female inhabitants of the country. There we find our farms, mines, and quarries; our fisheries, shootings, and cemeteries; our ironworks, gasworks, waterworks, ships, canals, and railways; our workshops and factories, warehouses and shops; banks, telegraph, telephone, and insurance services—all the capital sunk and all the labour employed in them. There appear the teachers, thinkers, physicians, lawyers, parsons, artists, literary people—all co-operating with each other, and selling their services to make a living. There, too, are the £159,000,000 representing the constant service rendered by buildings. There is the return given by British wealth invested abroad. Finally, there is the great army of government and municipal servants, from Atkins with his shilling a day to the Queen with her £172,500 of household allowance. Some by their hands and brains and looks and voices, others by their lands and wealth, all by their service, earn incomes which duly appear in our schedules, and total up to £1,500,000,000 a year. If the services rendered to the community by all these form the National Income, what we have before us for study is little short of a brief account of the entire activities and pursuits of the modern community.

If this is startling to those who have been accustomed to regard the sphere of economic study as a narrowly limited, perhaps even a slightly sordid one, it is because we are slow to recognise that the modern State is primarily an industrial one, where the activities of the most superior persons among us are as subordinate to the economic life as are the activities of the mill hand and the day labourer. But we shall better realise this if we try to find out what are the differences between the modern State and a State whose entire phenomena should come strictly under the scope of economic investigation.

The mere existence of forty million people

Every day forty millions of individual bodies in Great Britain have to be fed, and every day so many million loaves are baked. This reminds us that there are wants recurring three or four times a day in every life, on the satisfaction of which life itself depends. The provision for such wants accordingly must come before any other occupation whatever. In modern circumstances the provision involves a long series of industries stretching from the farm to the retailer, and embracing agricultural, extractive, manufacturing, transit, distribution, and banking industries. But this is only one of the industries which are absolutely necessary to existence. Clothing and shelter are not recurring but constant wants, and they involve even longer series of industries, beginning with the raw material and ending with the shop.

demands extensive industries.

These are wants from which we never escape in any state of society, poor or rich, and the slightest investigation would show that these three industries alone must furnish occupation to a very large proportion of our forty millions of people. Suppose we take these industries as they are, divided into an infinity of long and wide production processes—for the division of labour is not only a chain of processes which take time, but a co-operation of many places and countries—

we need for their continuity and safe conduct the organisation of police and defence; we need the machinery for the interpretation and enforcement of contracts; we need a postal and telegraph service; we need, in short, at least the most undoubted functions of the State. And in this view and to this extent we must class the many occupations furnished by governments, imperial and local, with their equipment, as strictly parts of the general production process.[1]

A purely economic State

Suppose, then, that the return of Nature to man was so bare and so difficult, or that population increased so fast that these occupations absorbed the *whole* of man's waking life, and that the remainder of his twenty-four hours was spent simply in repairing the waste of tissue and brain by rest and sleep; we have, I think, what might be called a purely economic State. Its *raison d'être* would be the maintenance of physical life, and all its pursuits would be but necessary parts of a production process towards that end. It would not be very different from the economy of the settler in a new country, whose life is taken up, filled, and concluded in supplying his elementary wants. It at least would correspond to the time-honoured definition of Political Economy as the science of wealth, for here nothing else is in question, or is aimed at by the national effort, but the production and consumption of the elementary forms of wealth, the necessaries of life. And the National Income in this case would consist solely of these necessaries.

[1] If there seems at first sight to be some violence to current ideas in this, we have only to consider the argument constantly advanced for the increase of our fleet—that it is necessary not so much for the safety of our shores as for the safety of our shipping; it is, in other words, a police force on the high seas.

Nor would this economic State be, in any possible interpretation, a sordid one. No doubt we should still see the swagger of the soldier, the fuss of the politician, and the insolence of the official—the old mistake of the tail wagging the dog; but every thinker would be able to see that all occupations—his own included—were mere divisions of the one labour, the end of that labour being the maintenance of life. Whatever the theoretical opinions as to the powers and capacities of man under more favourable circumstances, it would be recognised that Nature had set limits to man's development in making him a creature dependent for his existence on the filling of his stomach, the clothing of his back, and the shelter of his body, while limiting the provision of the things necessary for these purposes. If it would be a "city of pigs" as Plato suggested, at least it would not be a "city of God" built above the fouler sty of slave labour. Sordidness is not poverty.

**would not be in the least a sordid one.**

Moreover, the suspicion of sordidness disappears when we consider that, although all pursuits and energies were directed to and controlled by a purely economic purpose, there would be room for most of the sciences. Man would still be the central figure. Physiology and Anatomy would map out his constitution; Surgery would preside at his birth, and Medicine attend him all his life; for the maintenance of the body of man at its highest level would be the maintenance of the good worker. Physics, with her handmaid Mathematics, would have almost as prominent a place as now; for, after all, pure science generally has an outcome in applied. So would Botany, Geology, Zoology. The science of Law would be called on for its decision in contract relations, and so on. The somewhat numerous class who deprecate the extension of our universities, except as technical and professional schools, and would teach science only as it can be applied to industry, would perhaps not notice that any limit was being put on thought.

But indeed the essential dignity of such a State may be seen from the consideration that it is only the unequal distribution of income that allows any of us to escape from its conditions. If each of us were reduced to the 14s. 6d. per week, which is all our share on an equal distribution, our time would mostly be taken up in working for our daily bread, and preparing by sleep for the next day's work; and yet men would be men, and life would be worth living. And, again, if the comfortable classes were to accept the reality of our national poverty, and, seeing that the excessive consumption of the few inevitably puts the many below the line of efficiency-wages, were, for conscience' sake, to abandon their easy and leisured life, give up luxuries, and take to the increasing of the National Income in the shape of "necessaries for efficiency," it is by no means certain that this distinctively industrial State would be more sordid than the present one.

In such a society the only department which escaped the economic framework would be the religious in its strictest sense—the spiritual relations of man to some unseen power and unknown future. For morals would find its sphere, as now, inside the economic framework, in regulating the relations of honest dealing between people who worked. With the one exception, then, as there would be no room nor time for anything which did not contribute to the building up of the efficient human agent of production, everything else would come within the sphere of economics.

In it the circular flow would be obvious.

Here comes out, with perfect clearness, the circular flow of wealth spoken of. The life of man is seen to be no more than the taking up of food, clothing, and shelter — matter turned for the moment to wealth — into a certain temporary organic shape. Here also appears the fundamental identity of producer and consumer. The names would not designate different classes—as they may come to do when some escape producing, although none escapes consuming—nor even indicate quite distinct functions of the one class; for the consumer would consume for the sake of producing, and the producer would produce for the sake of consuming.

The limits of such a state

In the foregoing I have tried to sketch the features of a State whose entire activities and pursuits would be the recognised object of economic study. If the truth of this be admitted, the purely economic State might be defined as one whose whole life and conduct were shaped solely with a view to the maintenance of human life. The question inevitably arises: What extension may be given to the conception of "human life" without altering the character of the State as an economic organism? Can it ever be limited to the mere physical life—the complex of wants without whose satisfaction the body of man would die? The answer would probably be that it always has been and always must be more than this; else we should have little justification in distinguishing between human and merely animal life.

But even suppose it were limited to the physical life, is the "maintenance" in question confined to the satisfactions absolutely necessary to the mere continuance and efficiency of such a life? If food were chosen and weighed out solely with a view to heating and strength giving power—as some theoretical mothers do in the case of babies; if we clothed ourselves in Jaeger and lived in houses which had no recommendation but their sanitary accommodation and appliances; we should indeed be fit for the Socialist paradise where half an hour of labour per day[1] will provide mankind with all the necessities of existence. But evidently in no community above the savage has any such limitation been thought of. Even our "city of pigs" must have a better sty than four walls, fresh air, and abundant husks.

If, however, we admit this, and allow our "maintenance" to include provision for the other wants which we suppose necessary for an existence worth calling "life," or allow the production of anything beyond what is necessary to the efficiency of a continuous race of workers, it seems to me that we throw away the possibility of logically limiting the economic life or the economic purview.

are very elastic.

Indeed the single consideration that, even for those pursuits which are generally excluded from economic cognisance, there is necessary an infinity of instruments which the producing world must provide, and that in these pursuits the instruments are worn out and require replacement, is enough to confirm this. Or consider what is involved in the idea of "efficiency of labour." It may very well be that the tired brain-

[1] This is Godwin's and Owen's calculation.

worker finds in the theatre a rest and inspiration which make his next day's work the better. Here he makes a demand for the player. He turns the machinery of industry to providing the appliances of the play-house — taking capital from other directions — and determines men and women to particular employments in which they make an income. He invokes the machinery of the State to protect him while he finds his "life" and adds to his "efficiency" in listening to the play. It is difficult to see any essential difference between this and the demand for the bread and butter which sets the farming industry in motion.[1]

Here, then, is an alternative. If we are to limit the "economic life" to the provision of what satisfies a limited number of wants—presumably those wants by whose satisfaction the productive efficiency of labour is conditioned—Economics will have a much narrower sphere than the severest economist ever yet marked out for it. But if we take in the provision for what the modern man calls his "life," then, I am afraid, it is a shorter task to point out what does not fall within the scope of economic study than to give a detailed account of what does.

[1] The very words "maintenance of life" suggest how difficult it is to get an expression that will cover everything involved in the economic sphere. Mr. Ashe relates that £15,000 worth of cloth were buried in the grave of a savage chief!—*The Two Kings of Uganda*, p. 279.

# CHAPTER X

## THE REAL INCOME OF THE MODERN STATE

*The modern State differs from the purely economic one as being a State where the simple life of struggle with Nature has widened into a rich, complex, social, cultured life, which finds itself not only in the consumption of goods, but in its own activities, and is, moreover, a life continuous with and under obligations to the past and future. If we still define wealth as the provision for human life, the greater part of our energy is still spent in economic pursuits. And Economics is seen to be the study of the foundations and framework of society.*

WE may now consider the modern State in its full development, and see how far, in the whole of its complex activities, it really differs from the purely economic State we have just looked at. The conclusion to which we shall probably come is that there is less difference than some people think; that the most of our activities are still glorified forms of the simple life led by the peasant—the "making of a living" by contributing to and being paid from the National Income.

**What life now is**

The modern man is not by any means a simple being. Material in substance and animal in form, he is an animal who has come to consciousness of himself, to remembrance of his history, to ideals of his future; he is a part of Nature, and yet he has remade Nature in his own image; he is the focus point of countless ancestries, knit together with other lives, finding his individuality in society. He is not like his brother animals, a being merely with recurring or constant wants, nor even a being with an infinite number of infinite kinds of wants, but a being whose wants are set in and subordinated to a planned, associated, and continuous life of thought, action, aspiration, and leisure. His satisfaction demands more than material goods: it requires personal services; it requires living association with men; it requires beauty and art; it craves for action; it pursues knowledge for the sake of knowledge. If we could sum it up in a word, it would be, perhaps, that this life has turned on itself and made its own activities an end. It not only works to live; it lives to work.

**—with claims and obligations:**

Nor is this the only complexity of the modern man. He cannot be considered by the economist apart from certain relations into which he is born. He is not in the least like a sheep in the meadow, which might be supposed to have as good a right to his share of the meadow as any other sheep. His past and his parents transmit to him not only life, but claims or obligations, or both. He may be heir to landed property, which means that he has the legal right to run a barbed wire round a certain portion of earth's surface, and either warn off other people as trespassers, or make them pay for the privilege of using it. He may be heir to general wealth, which means that he is the owner of those innumerable instruments of production that other men want and will pay him for. Or he may be the younger son in this entailed estate of the world, who finds no field to work in and no tools to work with unless he hires them from his more fortunate brothers.

Thus there comes to be a broad distinction between men. Some are born in possession of two instruments of production; others of only one.[1] Every normal man, in virtue of his muscles and brains, has something by which he can, in normal circumstances, make a living. But those who are born heirs to wealth have, in addition, something which men will pay them for the use of. But in any case, whether propertied or empty-handed, the modern man has to pay for his footing in the country into which he is born. In becoming one of our forty millions he inherits their legacy of debt, and bears on his shoulders his share of the £638,000,000 which the nation owes.

Comparing, then, our modern State with the simpler economic State whose end and *raison d'être* was the maintenance of its physical life, we certainly have to recognise that there has come a change in the character of the provision for this life. It is the provision for an emotional and intellectual social life with a more exacting and more refined material basis.

demanding still the grosser satisfactions;

The provision still takes, for the most part, the shape of material goods. Men still eat and drink, still require clothes and shelter; and, when it is considered how little the corresponding wants can increase in gross capacity, it is surprising how much of the capital and labour of the country is still taken up in the pro-

[1] In another sense from Carlyle's, we may say that the modern epic is not "Arms and the Man," but "Tools and the Man." In past times the difference between men was that one was clad in skin and steel and another in skin only; and so the one had the power of living on the other. Now the one has muscles and brains alone; the other has wealth as well. Yet the latter does not live on but by the former.

vision of these. But the growth of wealth, the increase of numbers, and the rise in the standard of comfort and taste call for more goods of the commoner kinds, for better quality of these goods, and for new kinds of goods. This new demand is reflected back on the various production processes, absorbs more of the national wealth and more of the population, and this, again, makes greater demands on the general and technical education of the workers. With this goes an increased demand for the imperial and local services which are the condition of these industries.

**but also the higher ones,**

But a great many of the goods demanded almost escape from the category of material goods: they are so obviously the medium of mind, and appeal so directly to the faculties least associated with the material. Pictures are, in form, simply coated canvas, but in them mind speaks straight to mind. The newspaper is the voice of men scattered up and down the earth collecting news. The book, externally, is the material product of a very material workshop, but—well, there is no generalisation that would describe what the book is, but certainly the material part is the least of it.

**and, above all, the human service.**

From this it is but a step to services where the material embodiment vanishes altogether. It is difficult to see how one could speak of a play or a concert or a lecture as a "utility fixed and embodied in material objects." Domestic service occupies a larger and larger place in rich communities. And though the labour of a cook may be embodied in the dishes, what of the maid who brings them in? Thus we come to the crowning phenomenon of modern life: the growing demand for services which are not embodied in goods but are rendered direct, and are inseparable from the servant.

We discover that the human being is the treasury of a wealth capable of satisfying want, and that the progress of man is in the direction of developing just those wants that cannot be satisfied but by the human service.[1]

Here, however, is a kind of income which adds very much to the complexity of economic study : the chief productive factor—who stands in other respects as a mere tool of production, like a slave—himself occupies the same category as the finished goods which land, capital, and other labour together produce. Man is as clearly an embodiment of service as goods are. The companionship of a man of genius is surely as good a thing as the books he writes; his conversation is as valuable as his formal lectures, just as a good woman is as much wealth to the circle in which she moves as are the stockings she knits.

A sum of services.

In this we seem to have a final confirmation of the propriety of speaking of the National Income as a sum and complex of services. It consists, as we have seen, of those things for which the money National Income is payment—the total of rents, interest, profits, wages, salaries, etc. For the most part these services are embodied, directly or as conditions, in material goods, the result of the joint action of organised labour and capital. But an increasing number of these services has no embodiment, or but slight embodiment, in material forms: they are services rendered direct by men and women to each other. It consists, besides, of those services which do not clearly come within either category—the provision for happiness and quiet life afforded by the organisation of good government and the administration of good laws.

[1] Compare p. 246.

What we find, then, in the modern State is a life which, perhaps for the most part, still finds its satisfactions in the provision for the primitive wants, but finds, besides, a growing satisfaction in "goods" that bear the impress of the human factor more prominently than that of the machine factor, and appeal to wants and activities which emerge only with wealth and leisure. I fail to see how the provision for the maintenance of such a life escapes from the scope of economic study. If Professor Marshall's opening sentence, that "Political Economy is a study of mankind in the ordinary business of life," be accepted as defining its scope, the field of economic study is almost as extensive as that of morals; for making an income is still the "ordinary business," if not the ultimate aim, of most men's lives. But, beyond this, all lives, however remote from the "vulgar cares" of making a living, are based on labour, and are set in an economic framework. The history of our times is not like ancient history, the struggle of armed bands against each other: all such struggle is instinctively resented as an interference with the industrial life—an accident or impertinence. Nor is our real history a political one, except in so far as we are still extending the cover of our shield and the shelter of our flag over people who live and work under it, or so far as we devise laws and administer them for the better securing of liberty to our people as they earn their bread. It is the history of an Industrial State, extending the demands it makes on Nature and on man, by reason of the widening life which is at once its end and its being.

**But does this life, as a whole, escape the economic survey?**

I repeat, then, that, if Political Economy is a study

The economic framework of society.

of wealth, and if the wealth of the modern State is what its money income pays for, the science covers a wider field than most people think; for it is no less than a study of the foundations and framework of modern society.

This may become clearer when we now go on to show that, after all, this income, represented and paid by the money income, does not exhaust the wealth that accrues periodically to the nation. We may grant that Economics concerns itself chiefly with motives and satisfactions that are easily measurable in money. But as the very conception of boundary involves the existence of something outside the boundary, so the ordinary economic measure itself suggests that there is a field outside, which, if it does not belong to Economics, does not seem to come within the sphere of any other study. In the schedules in Chapter II. we find most of the male citizens of the community, excluding paupers and criminals, and thus they include incomes from that of the day labourer up to that of the millionaire. But (1) they include only that real income which is paid for; they do not include the unpaid services: and (2) they do not include improvements in conditions generally.

# CHAPTER XI

## INCOME WHICH ESCAPES BOTH NOTICE AND ASSESSMENT

*This may be put in seven categories: (1) unpaid services, particularly those of women; (2) growing leisure, where work is hard and uncongenial; (3) congenial occupation as a wealth in itself apart from its product; (4) personal relations as a bye-product; (5) new kinds of goods and improved quality not represented in price; (6) property yielding no revenue and general reconstruction of environment; (7) freedom and good government.*

**Thus far of paid services.**

THE lines of investigation which we have followed compel us to a somewhat limited definition of the real National Income. We started with the money income as given us in tax returns and statistical estimates. Taking these as payments for services rendered and received, we found the real income in these services, and so came to the conception of the National Income as the result of the co-operation of all the instruments of production within the kingdom, embodied in or owned by the forty millions of British men and women. But these are the paid services. They are the only ones which can be reduced to statistics. Evidently they do not exhaust the annual resources for the satisfaction of the people's wants. The income which escapes may be put in seven categories.

1. *Unpaid Services.*—In the modern State the unpaid

services attain great dimensions, just because the growth of wealth allows many people to produce things which they do not sell or even use, but give as a contribution to humanity. It has been noticed that society has been divided into those who have two instruments of production and those who have only one. If the one is sufficient to yield the maintenance demanded, the other may be set free to work for love. Thus we have the services of Members of Parliament, municipal, county, and parish councillors, managers of charities and benevolent and educational institutions, magistrates, justices, students, explorers, and the like.

**Woman's work in the household.**

To these must be added the greatest unpaid service of all—that of women in the household. What this income really amounts to may be guessed if we imagine what we should have to pay to servants for doing work now done by wives, sisters, and daughters, and how entirely impossible it would be to get similar work done for money. If such women went to the factory or into professional life, we should have to withdraw probably a much greater number from the factory or professions to take their place, and should lose something with it all.

For the rest, it is enough to say with Professor Marshall: "A woman who makes her own clothes, or a man who digs in his own garden or repairs his own house, is earning income just as would the dressmaker, gardener, or carpenter who might be hired to do the work."[1]

2. *Leisure.*—There are people—not all poor—who seem to have the idea that a man is somehow hardly treated in having to work for his living; that for a

[1] *Principles of Economics*, 4th ed. p. 149.

minority to be "enjoying themselves" while the majority work, implies injustice and oppression on the part of the minority.

The fact, of course, is that there is no natural provision to allow of man's idleness. In any climate similar to ours, the savage, even with unlimited acres, has a very hard time, and if he escapes incessant work he does so only by limiting his wants and leaving his nature undeveloped. But even if Nature in the wild state were more bountiful than she is, she never undertook to find subsistence for an unlimited number of people with unlimited appetites. When we ask, then, how this little country is able to support forty millions of more or less civilised people, the answer is that we owe it primarily to our ancestors, who made the rough estate of Nature into fruitful farms and workshops, and, abstaining from the immediate crops, left the estate stocked with tools of all sorts for their heirs. Thus, though life is easy to some and hard to others, it is very seldom so hard to anybody as it would have been to all but for the action of those whose transmitted claims we honour in favour of their descendants. In other words, the forty millions are able to live at all, even by constant work, because the minority have inherited the tools of production which they have an interest in lending.

But, as the consequence of this beneficent action, there is in modern society a hereditary class which is not a privileged class, nor a class whose existence is a burden on other classes, but which has, all the same, the possibility of leisure, or of living in idleness, by lending to others what the others want. And one is tempted to think that, but for the spectacle of this class, men generally would no more have complained at having to work for their living than the blackbird complains that he has to spend his days looking for worms.

Where work is hard

Possibly, however, there is another and a better reason for the new idea which regards labour not so much as a means to wealth as the contradictory of wealth, and puts it in the place of evil as the opposite of "goods." It is that, in some respects, life is harder to the majority than it used to be. Perhaps it need not have been so. But when a little island like this increases its numbers from fifteen millions to forty within a century, and when these millions increase their desires and raise their standard of living till the labourer on 20s. to-day is in many respects better off than the middle classes of three generations ago, one can see why the hours of labour are not more curtailed than they are, and why the intensity of labour may be much greater than it was. It is because the demands of the consumer are so enlarged that the demands on the producer are not diminished.

and continuous,

In old times all labour was very much what agricultural labour or domestic service is now. The work might be rough and exhausting, but men "took their time" over it. It had constant breaks and lightenings consequent on its being carried on, not in isolated premises, but in houses and adjoining sheds. Men could come out to the door for a smoke or a chat, and go back to their loom without feeling that they had forfeited their place. Time could be made up by working a little later. There was in the simpler life, one may imagine, very much the kind of liberty that literary men hold so dear—the liberty of doing their work when they please and with the intensity they please.

But the characteristic feature of regimented labour to-day is that men must do their tasks within certain hours and certain years, and during these times they must work their hardest.[1] It is not the tyranny of a master that is to blame; it is the outcome of the whole system—the inevitable consequence of factory industry, where men and women work along with steam and machinery and must regulate their labour by the starting of the engine, and adapt their movements to the speed of the spindle. The good master here is the man who pays the highest wage—not the man who allows his workers to work as they will. To this intensity of work the Trade Union has contributed its quota. Employers compelled to pay the minimum rate are compelled to get their money's worth out of the workers, and so skilled men are superannuated at forty,[2] till working men dye their hair and reject the friendly spectacles lest their age should betray itself.

Leisure is wealth.

It is, then, more than likely that the intensity of work has increased during the century, and, if so, it becomes abundantly clear why leisure — the mere abstinence from work—has attained the importance of a thing to be prized and priced. In these circumstances it is not a mere negation; it is a positive form of wealth. It is one of the services which the community render and make possible for each other. But the shorter work-day does not appear in any recognised category of income. It is only a rise in the general standard of comfort, in the same category as the

[1] Compare p. 283 (*note*). [2] Compare p. 177.

gradual and unpriced improvements of the natural and social environment.

3. *Congenial Occupation.* — If work is congenial, then, in the act of providing, is obtained some of the "life" which was originally found in the provision. A great many of the occupations which in harder times were pursued as means to an end, become ends in themselves, and the former end may even become subsidiary. It is markedly so in the professions where the "bread and butter" is assuredly the smaller part of the wage. It is so to a very great extent with officials, employers, and all men in business for themselves. Only among the great mass of the working classes do we find the entire absence of this, partly because the work is not their own but that of a master, partly because of the monotony which divided labour tends to induce.[1]

A second income.

Here the phenomenon is that numbers of men are producing services for other men, and making their money income by doing so, while, in the same act, they are making a second income for themselves which is never expressed in money at all. It cannot exactly be called an income of "pleasure," for somehow we do not usually associate pleasure with hard work; but it is an income of satisfaction, of happiness, of well-being, which might be weighed, and sometimes is weighed, by a money measurement against the satisfaction of goods or services which satisfy the grosser wants, as, for instance, when a professional man chooses a small

[1] It would be dishonest, in me at least, to pretend that the change from hard manual labour to monotonous watching of machinery is essentially a lightening of labour: its bright side must be found in its results.

salary and congenial work to the larger rewards of less congenial occupations.

Social activities.

4. *Personal Relations.*— As this working life develops into a leisured, dignified, congenial life, and moreover a life that is, in many departments, engaged in the production of that which develops man and makes him unsatisfied, rather than fills up his wants and satisfies them, the purely social relations of man to man form a source of happiness and well-being which is almost a bye-product of the other occupations. I refer, of course, to the satisfactions of personal communion and intercourse between men and women; the association in culture and education; the co-operation in games and amusements and kindred pursuits of all kinds, where man finds the expression and realisation of his nature and opens up sources of happiness otherwise unknown. And it is in these directions that wants — and with them satisfactions — expand into infinity, or rather where activities, which are realisations in themselves, take the place of wants that require filling from outside.

Unpriced improvements in quality.

5. *New Goods and Improved Qualities.*—Another steady increase of wealth escapes notice because of its very commonness. It is the invention of new goods and the improvement in quality of old ones. The best illustration is perhaps the familiar bicycle. Here is a form of wealth which has added probably more to human health and happiness than any other invention of late years. Thirty years ago nothing like it was in man's knowledge. Then came the old high bicycle with direct action, the chief attraction of which, I am persuaded, was its danger. Later came the modern cycle, which enables even delicate women to go long distances

without fatigue. What makes us overlook the increase in the income of benefit here is precisely that it is a change of quality, not an addition of quantity, and that probably the improvement is not reflected very appreciably in the price. In the present instance, not only is the difference between the luxurious pneumatic of to-day and the boneshaker of a few years ago already forgotten, but it is not noticed that, within thirty years, the estate of human happiness has been widened by the drawing of the world closer together. Men and women who seldom escaped from the city are now at home anywhere within a radius of twenty miles. Parallel cases are the typewriter and the telephone, improvements in photography, sewing-machines, pianos, in the printing, binding, and illustration of books, in newspapers, in all the apparatus of sport and games.

6. *Property yielding no Money Revenue.*—There is another group which escapes assessment and yet adds infinitely to the stream of human well-being. It has two forms: (1) the wealth sunk by governments, municipalities, and individuals which appears thenceforth as capital not yielding a revenue, and (2) the gradual change that creeps over the environment as it comes into conformity with man's new nature and desires.

Capital not assessed for income.

(1) When Sir Robert Giffen calculated the "nation's property" at £10,037,000,000,[1] the most of this amount was made up by taking various money incomes at so many years' purchase. But to this he added two sums: one of £960,000,000, representing "moveable property, *e.g.* furniture of houses, etc., works of art, etc."; another of £500,000,000, representing

[1] *The Growth of Capital*, p. 11.

"government and local property." Now these two classes yield an actual income of benefit to the nation just as private houses, which are assessed to Property and Income Tax, do, but they are explicitly scheduled in the wealth of the nation as "not yielding income."

Of the same nature are public parks, open spaces, and recreation grounds. If, for instance, a rich man leaves his house and grounds within a city to be used as a public museum and park, the enjoyment of it, which formerly appeared measured in money as income, now drops out of the tax returns. But, practically, it is the same as if it had fallen into the possession of a large family.

**Reconstructed environment.**

(2) The other form is less obvious. It corresponds in the public sphere to "good-will" in a private business—the smooth running of a concern when the various parts get fitted into one another. The development of a country repeats on a great scale the familiar history of a badly laid out watering-place. In its young days it grows as it pleases, with the result that, when it comes to years of discretion, a great deal of its revenue must be taken to pull down and clear away nuisances. This kind of reconstruction of the environment is notorious in the purification of rivers, drainage schemes, city improvement schemes, etc. But there is another kind which goes on more quietly but more surely. It is the increase of well-being which comes, not of adding new material for enjoyment, but of finding for the old material new uses hitherto unutilised or badly economised. It takes such shapes as the removal of industries to particular quarters—say to the neighbourhood of water—leaving the residential quarters to quiet and fresh air; the deportation of

working people from congested towns to suburbs, by railways and cars; the bringing of the country and seashore within reach for summer quarters; the utilisation of waste stretches of sand and turf for the national (and rational) recreation of golf; the speeding up of town traffic by tramway lines; the improvement of city pavements to secure absence of noise and jar, and of roads to suit bicycles—the endless ways, in short, by which growing knowledge and organisation "make the most of" the environment. The rough places of the world are often made marvellously plain, as a golf-course is—by simply tramping over them.

National conditions.

7. *Freedom and Good Government.*—Last, and most unnoticed of all perhaps—especially by those who find the golden age in the past—is the growing wealth of peace, free choice of occupation, security to person and property, abolition of class privileges, freedom of thought and expression, which come with the growing culture of the nation and the making and administration of good laws. If we for a moment realised the difference between a time when men had to take the protection of themselves in their own hands, and a time when gaslight and the policeman make even a great city safe to life, property, and virtue, we should know how much has thus been added to the real but indivisible wealth of the nation. It escapes our notice because it is the elimination of a minus rather than the coming of a plus.[1]

[1] An eighth category may be suggested. Human well-being gains not only by the addition of instruments, but by the growing capacity to make use of them. It is education, of course, which develops this capacity. Thus the increase of wealth, which makes it possible to raise the school age and to afford free education to the children of the poorest, has a double effect on the real "income of benefit."

# CHAPTER XII

## THE LIMITATION OF MONEY INCOMES BY THE REAL INCOME

*A parable to show that, whatever the distribution of the money income may be, there is only one sum of goods for which it can be exchanged. This real income admits of being looked at from two points of view: either—as we have done—as the sum of goods bought from the factors by the money, or as the sum of goods bought by the factors with the money. In either case there is only one sum. Two things prevent us seeing this. One is that goods are paid for at one time and bought back at another. The other is the possibility of miscalculation between supply and demand. But, on the whole, all the supply (goods income) is bought by all the demand (money income). Therefore, if one factor or group of factors gets more, some other must get less. And, as corollary, if one factor renders more service, some factor gets more income, and vice versa. This is illustrated by the case of a rich man's daughter taking to typewriting, and the contention put forward on the Eight Hours' Day question.*

THERE still remains something to be said as to the relation in which the money income stands to the real income. It may be introduced by a parable bearing on one of the problems of the day.

A conscientious weaver

Suppose a well-meaning cloth manufacturer has been making the experiment I once made, of living like a working woman; and has found that, while it is possible to feed oneself on sixpence a day, it is not pleasant, and that, remembering house rent, clothes, and other necessaries, it is extremely difficult to see how women can live under 10s. a week and remain honest.

Suppose, then, he becomes uneasy in his mind as to the lowness of the wage he is paying to his women workers. He would fain pay the girls more, but, being in the condition of many employers at all times, and getting only bank interest on his capital, he cannot afford to make any further reduction on his own remuneration.

raises his prices and wages,

At this moment, one of the workers comes to him with the argument that wages come out of price of product, and suggests that he should raise the price of the goods made in the factory. A favourable opportunity presents itself; he raises the price of his cloth; and, let us say, he gives the whole of this advance to the workers.

Well, of course, the women workers are congratulating themselves on getting, say, a shilling a week more. And a few of us who buy cotton cloth are thinking that their contentment is cheaply bought even if we have to pay something more for the cloth we buy.

But suppose that this cloth is one of the necessaries which working women must buy for their own living, then all working women will find that they have to pay more for it, and the weavers themselves, if they buy cloth at the mill warehouse, will possibly grumble when they find that they have to pay more for the cloth they themselves have woven.

and all employers follow suit.

Suppose now that all employers take a conscientious fit, and all raise the prices of their product in the same proportion, till we turn the complete circle of all trades. This might be possible so long as prices are not kept in check by competition either from other countries or from people who remain outside all combinations. What is the total result? The wage-earners, let us suppose, get a shilling a week more wage than they did, but the new wage now buys only what the old one did. The money wages of all trades have risen; but the prices of all commodities have risen; and the real wage remains constant.

*Cui bono?*

Thus we are reminded that a rise in *price* attended by a rise in *wage* is good for the wage-earners of any individual trade only in proportion as other trades do not follow suit. "The strength of sixpence in my pocket depends upon the want of sixpence in yours." If the cloth-worker gets a shilling of advance and if no price rises, it is all clear gain to the cloth-worker. If she gets a shilling of advance, and something which she does *not* buy rises in price, it is still all gain to her, although those of us who buy the dearer commodity suffer to the extent of our purchases. But if the cloth-worker gets a shilling advance, and all the commodities on which she spends her wages rise in the same proportion, in what respect has she gained?

What has been forgotten by those who think that a rise in price is the short cut to universal well-being? It is that money is, after all, merely a claim on one fixed sum of goods, which changes in price or wage may redistribute but cannot increase.

**An alternative definition of Real Income.**

The parable brings before us, in another form, what was already hinted at: that the real National Income admits of alternative definitions. "The real incomes," says Mr. Edwin Cannan, "consist of what is bought with money."[1] This has the advantage of corresponding with the familiar economic distinction

[1] *Theories of Production and Distribution*, p. 62.

between Nominal and Real wages, the nominal being the money wage which the workman gets on pay-day, the real being what his wife *buys* with her husband's "pay." But "real income," as defined by our previous argument, is what the working man has *made* for his wage. What must be made clear now is that these are merely alternative ways of arriving at the same result: the real income is the same sum of goods looked at from two points of view—the side of the seller and the side of the buyer. The factors—or rather, the owners of the factors—are primarily sellers of the goods they produce; then they are buyers of the goods they have produced. From the one side the National Income appears as a sum of goods produced and taken to the shops; from the other, as a sum of goods taken out of the shops into consumption. The essence of the matter is that the services we have been considering in the former chapters of this book are the services rendered. But services rendered to the community must be services received by the community. The goods produced are the goods consumed or saved.

Division of labour by means of money.

In primitive circumstances, we may suppose that each worker had an income, part of which he produced and part of which he consumed and saved; there was then no money income to puzzle us. The income for which the worker has now surrendered his individual industry is not money, but a share in the goods produced by the divided and organised effort. The money is a half-way house. For the moment the money income is in the hands of the factors and the goods income is in the shops. But no one gets his real income till he comes to the shops, where he and all the others have sold their part-products or particular products, and buys, along with the others, his share in the total product. It is the last stage in the division of labour: what the factors worked for was, of course, the goods, not the money. It is money that has made the division of labour possible by enabling the worker to contribute an income of unfinished or particular products and get an income of finished or general ones. As his *contribution* to the National Income he makes a part-product or a particular product: as his *share* he gets finished products or products in general. What we have to grasp is that the goods that are then bought—Mr. Cannan's "real income"—are the same goods which were first produced. The sum of the part or particular products is just the products in general.[1]

The worker contributes a particular income to share a general one.

Say that A, B, and C have divided their labour to pool the result. After his week's work, each takes his product to the market and sells it for money. The total real income at the week's end is the goods in the market—the total product of A, B, and C. With this money, again, on Saturday night come A, B, and C, or their wives, to buy their provision for the next week. But what they find in the market is just what they have individually put in. The income is the same goods, whether counted as they come into the market or as they go out from the market.

The identity of the alternatives

There are, however, two things which prevent us

[1] What, perhaps, makes this more difficult to realise is that the putting together of the material part-products or particular products, and the serving them to the consumer as finished goods, are themselves particular products or part-products in an immaterial form. A chair, for instance, is a finished product made up of the labour of the joiner, the polisher, and the retailer, as well as of the substance wood.

seeing this identity quite clearly: the one is the time elapsing between getting the money wage and spending it; the other is the possibility of miscalculation between supply and demand.

is obscured by the time between making and spending,

(1) Goods are produced and payment is made for producing them at one time, while the money is spent in buying them back at another. It is one of the advantages of money that it allows this to be done; the man who takes his income in money—unlike the farm labourer who takes it in kind—gets into his possession a form of wealth which "keeps"; he can retain the money in his pockets as long as he likes before exchanging it.

and the want of coincidence between demand and supply.

(2) The possibility of miscalculation comes of the fact that the working man's wife has her choice—her "run of the shop" to the extent of the wage. If the workers formed themselves into a small co-operative ring, say of six persons, each person making a definite commodity, and if each man at the week's end got a claim on one-sixth of each product, the goods put into the store would be visibly the same goods as were taken out of the store. But in the modern division of labour there is no such arrangement. The majority of goods are not made to order, but in anticipation of order; and demand, the money income seeking goods, adjusts itself through free sale to supply, the goods income seeking money. The division of labour has its advantage in the increase of the goods over what isolated efforts would produce. It has its disadvantage in the great possibility of miscalculation between producer and consumer, the one turning out what the other does not want. But this inevitably rights itself, though not without loss. Every person

makes to sell. If the goods are not sold one week, they will not be made a second. Or, if the worker is so placed that he cannot make anything else than the one thing, he will let his product go at the reduced price till the low price sells it.

It is a marvellous thing, at first sight, that these miscalculations should so right themselves; that, for instance, the shops which sell the most perishable goods and run perpetual risk, one would think, of being left with unsold stock, do, on the whole, make a profit. What it amounts to is that the whole huge complex of goods, mostly made on speculation and anticipation of demand, does find buyers; the money income is just able to exhaust the goods income. But it is not so marvellous as it looks. What escapes notice is that the incomes which the people spend were first paid out of price, or in anticipation of price, and that this price is presumably a price determined by the wants and desires of the people; that the producers, on the whole, produce the goods at a price which will sell the goods, and hand over this price to be paid back again. This is perhaps a hard saying, and should be put another way.

**The money income just clears the goods income,**

The employers, who organise the divided labour towards the production of a finished commodity, do take a risk that the goods will not sell, and pay their wages only in anticipation. They do not do so, however, on a wild speculation, but on a calculated one. They do not make goods at all unless there is a desire for them, and unless the desire is likely to express itself in such an offer of price that they can sell at a profit, and it is because, and in expectation, of this that they pay the wages. If they make a mistake and the prices are too high, then, indeed, the goods may be left unsold;

but, unless employers normally did not make this mistake, there would be no employing and no wages.

because the money to buy with was first paid for.

To put it in its simplest terms. Suppose an employer wanted to demonstrate the fundamental idea of Economics, that industry is a co-operation of men making goods for themselves; and, in order to eliminate the troublesome phenomenon of profit, were to charge nothing for his own services. Then, if such an employer makes cotton cloth to sell at sixpence a yard, it is because he anticipates that there will be buyers at sixpence a yard, and he makes this possible by putting the sixpence into the worker's pocket as wage. It is only the division of labour that hides from us that the consumers, on the whole, are the producers, and buy their own goods for the price at which they were paid for making them, selling their part-products for sixpence in order to buy sixpence worth of whole products.

This would be quite clear under a co-operative system—and it is one of the chief values of co-operation that it teaches simple people this lesson. When the little group who started the co-operative movement in Rochdale bought their first barrel of sugar and appointed one of their number to sell it to themselves in small quantities as wanted, it must have been evident to them that, unless they fixed the retail price at a figure which would clear the sugar without loss, and unless they were sure of enough demand to clear the sugar at that price, the total transaction would not pay. So if any ring of consumers were to follow out co-operation logically—were to make the goods for their own store and confine their purchases to this store—

the identity of the income produced and the income bought would be clear.

**The essential question always is: How is the real income affected?**

The conclusion to which all this leads up is shown concretely in our opening parable. The total money income cannot buy more than the goods there are to buy. If all the factors were to change all their money income back again for goods, the goods income would be exhausted. But, in any case, there is only one sum of goods to be bought with the money. It follows, then, in accordance with the law which does not allow us to have original ideas as to simple arithmetic, that, unless the real income is increased, if one factor makes good its claim to more, another must be content to take less. No juggling with rise of price and rise of wage, or, again, with fall of price and fall of wage, will alter this. If landlords manage to charge more for rent, or employers for organising, or workers for labour, they simply redistribute the National Income. There is a crude idea among the working classes that what any trade gains by combined action it gains from capital or from employers; it is just as likely that it gains it from other bodies of wage-earners. If it is almost impossible sometimes to see on what shoulders any new taxation will light, it is as impossible to see which class any particular re-arrangement will pinch.

**Corollary.**

The corollary of this, however—if we may judge by the expressions and actions of great numbers—is not at all clear. It is that, if one factor renders more service, some factor (itself or another) gets more income; and if one factor withholds its service, some factor (itself or another) gets less income. These points may be proved most usefully, perhaps, by taking up two concrete cases in which they are not understood.

Case of the rich man's daughter.

(1) There is a statement which comes up with tiresome reiteration, even among those who should know better;—that a rich man's daughter has no right to work for her living. Generally those who are most eager to claim the "right to work" for the poor deny it, in this case, to the rich, and those who speak with scorn of the rich as "parasites" disapprove of the daughters of the parasites doing what their fathers are blamed for not doing.

There are two easy answers to the statement. One is opportunist; that, if the rich man's son is condemned if he does not work, it is difficult to see why the rich man's daughter should be condemned because she does. The other is economic: that any person who adds to the National Income adds to the sum of goods divisible, while one who only consumes deducts from it.

But answers which silence do not always convince, and the constant resurrection of the statement, even among my own students, justifies the following out of the economic argument in the concrete. Let us, then, take a common case which seems most keenly resented: where a girl, whose father is in a position to keep her, finds a field for her energies in typewriting.

What catches the eye is that the girl here competes with other girls who need to work, and, as it is phrased, "takes the bread out of their mouths." The implication is, evidently, that only a limited number of typists are required, and that this number may be had from the daughters of less well-to-do people.

"Over-production" again!

The first answer to this is: that a similar statement is currently made, not only about typewriting and women's occupations generally, but about every occupation whatever. One would think, for instance, that, in a country which boasts of being mistress of the seas, and whose superiority in the construction of ships is notorious, the statement could never be made of engineers and shipbuilders. But it is the fact that, in the most prosperous years, there is always a considerable percentage of unemployed in the great trade societies which dominate the industry, and this is counted by the Trade Unions a valid reason for limiting the number of apprentices.[1] Ask any person connected with our next great industry, the manufacture of textiles, and he will point for proof of "over-production" to the number of mills in Lancashire that neither pay dividends nor lay aside adequate depreciation. It is the same all down the scale to commission merchants and retail dealers: "there are too many in the trade." Nor is it otherwise with the professions. The number of "stickit ministers," of lawyers who cannot make a living, of medical men without a practice, the slowness of promotion in banking, in teaching, in the civil service, the great army of wretchedly paid clerks, the horrors of Grub Street journalism, the starvation of minor poets — all repeat the same story. Only for army and navy do we ever hear that there are too few candidates, and the reason given is that the payment is too small to tempt any but the adventurous, the restless, and the "waster."

The statement, then, that there is overcrowding

[1] Cf. p. 176.

in typewriting cannot be taken more literally than the similar statements about other trades. We must regard it as merely expressing the common fact that people in a trade do compete, and must ask if a rich man's daughter does not also co-operate; in other words, if she does not add a real income as well as take a money one. Suppose, then, our typical instance offers her services on the market, the question is: Does this of itself bring the means of paying for her?

Well, let us suppose that she has been getting a dress allowance of £30 from her father, and that, in view of her making 12s. 6d. per week in typewriting, he stops the allowance. There is no difference to the girl except the honest glow of independence. But what about the father? He has now a sum of £30 of unspent income. Suppose, to make the argument quite clear, that, with this sum, he engages another typist in his own office. Is this not a new opening in the industry? And, granted that Miss Dives has displaced another typist, if this displaced one gets the new situation, has this competition taken the bread out of Miss Lazarus' mouth? The position, of course, practically is that the new typist has added a new sum of wealth to the community, and is paid by the value of this new sum.

Does she not "make" her wage?

Whichever way we turn it, we cannot escape from the arithmetical fact that the rich man's daughter adds before she divides; deducts only as she adds; competes only as she co-operates. In all this we have only another form of that popular fallacy which Professor Marshall has—one would hope—nailed to the counter under the name of the Fixed Work Fund.

(2) The demand for an Eight Hours' Day made by the engineers in the course of the 1897-98 dispute was based on many arguments, good and bad, but two seemed to come into prominence. To some the chief gain seemed to be the absorption of the unemployed. It was, no doubt, asserted at the same time that the reduction of hours would not diminish the output, but those who put this forward must have reckoned that the two arguments would not be considered by the same class: if the output per man was not to be reduced, where would the demand for more labour come from? The real conviction, of course, was that the workers hitherto employed would not be able in eight hours to do the amount of work required, and that the employers would be forced to take on more men—ignoring the probability that the amount of work required and ordered would not be the same if prices, owing to the increased cost, were raised.

**Taking up the unemployed,**

To others the attractiveness of the proposal was the extra hour of leisure. But they did not wish to pay for this hour. They did not propose to work any harder and do in eight hours what they had been doing in nine. They simply asked that the wages for eight hours should remain what they had been for nine. It was, in short, a peculiarly awkward demand for a rise of wages, and many employers regarded it as merely a device for securing an hour more of overtime-pay in the day.

**or saving an hour's leisure.**

The increase in cost which would have followed in either view was to be taken either out of the consumers in higher prices or out of the employers in reduced profits. The former, urged the employers, was not possible in face of foreign competition both in mutual markets and at home; the latter was not possible in the state of profits; and they proved the reality of their belief by the great federation formed by rival units in face of a common danger.

Again the essential question: What would be the effect on the real income?

The fundamental economic question here was: Could machinery and men, severally and jointly, do as much in eight hours as they did in nine? If they could, then there was a gain on many counts. The men would have an hour's more leisure while their wages remained the same. The masters would economise engine power and wear and tear of plant. If, however, they could not, the result would be a diminution in the amount of goods poured into the National Income. How, then, could one get more out of a bag that contained less? But all through the dispute it was evident that this was a view which did not enter into the heads of the men. Their idea was the old one: that wages come out of employers' pockets, or that employers can fill their pockets by charging higher prices, forgetting that, in the long-run, if the consumer has to pay higher prices, it simply means that one part of the national dividend pays more for the other parts. If there is no increase in the real income, any increase in money income is only a re-distribution. To think otherwise is to conceive that the earth could be made to yield more to farmers' labour by dividing the 365 days of the year into thirteen months.

# BOOK II

# DISTRIBUTION

# CHAPTER I

## THE PROBLEM

*The importance of the inquiry rests on the assumed "badness" of the present distribution. The phrase covers two latent assumptions:—(1) That work, merely as work, deserves wage. The idea probably is that the Creator must have provided for man as well as for his fellow-creatures. But we ask infinitely more than Nature gives, and get it on one condition—that we divide our efforts and make to each other's orders. Thus a distribution is not necessarily "bad" because it withholds a living from some who are willing to work. (2) That an unequal distribution is a bad one. But would an equal distribution be a good one? Among suggestions for a better distribution some have thought of a distribution according to Needs. As the only needs which could reasonably be assessed are physical ones, this would be a distribution according to size of families—which would scarcely recommend itself after the experience of last century. Is Deserts, however, not a reasonable principle? Suppose we grant this, and take Product as a criterion of deserts. In this case we must bring quantity and quality of products to a common measure, and this must be value. In many cases this is the modern principle: the author,* e.g. *gets the value of his services as assessed directly by the public. But this is not the typical case of modern industry. (A) It is not always personal desert that is paid; the propertied classes are paid according to the product of the factors they own. (B) In factory industry the individual contribution is lost, first in the thing produced, and, second, in its price, which latter is the thing really divided. Thus income "due to" does not mean "produced by," but "credited to." This is more clear in the case of factors which enter into the making of all sorts of goods—still more so when the services are not factory goods, but general conditions of their production and of life generally, as* e.g. *police protection. Individual income, then, is a share in the total produce of industry somehow credited to a factor, and the payment in money is suggestive of this. Thus our problem is: by examining the relations between servant* *and paymaster, to find if there is a principle which attaches the various payments to the various services.*

IN the previous book we have tried to arrive at clearer ideas of the national money income as a sum of individual money incomes, amounting to £1,500,000,000, and of the national real income as a year's flow of services, sometimes rendered directly, sometimes embodied in goods, sometimes taking the form of general conditions of life.

"Bad distribution."

The ascertainment of the principle, if there be a principle, on which the distribution of the national wealth depends, is a matter not only of scientific interest, but of the deepest practical importance. It is all the more so that it is almost universally assumed that there is something considerably wrong, or at least regrettable, in the present distribution. The soberest statesman or publicist has seldom any hesitation in speaking of the "bad" or even the "unjust" distribution of wealth. If it is "bad," it is not, as some people seem to think, *ipso facto* proved that it might be better; but, at any rate, we cannot rest till we settle whether it is inevitable or not. If it is "unjust," it is not inevitable. People, indeed, never have had very clear ideas of what justice is, but every one has a rude idea that there is such a thing, and most of the pressing questions of the day are pressing just because of some suspicion of injustice.

It may be no unprofitable introduction, then, if we try to bring to light one or two of the latent assumptions that underlie the current criticism of our present distribution, and criticise in turn one or two suggestions for distributing the National Income on a different plan. We have an honoured exemplar of this method in the *Republic*, where Plato allows Thrasymachus and Glaucon to ventilate their crude ideas about justice before he builds up the majestic fabric of that state, ordered with a view to the good of the whole, wherein justice resides.[1]

Most of us are familiar with the bitter complaint of the literary man that he cannot make a living by his pen. He calls heaven to witness that he has lived soberly and worked hard—perhaps that he has a wife and family depending on him. But the public will not buy his books. Was ever honest man so treated? Or, harder still, it is an actor who cannot make a living, as he wishes, by playing Shakespeare. He has sunk his fortune in the staging. He has ransacked the British Museum for accuracy in dressing. No one doubts his ability; neither Hamlet nor Lear has any secrets from him. But night after night he faces a beggarly array of empty boxes. So he turns and curses Supply and Demand, and asks a state-endowed theatre.

**If a man cannot make a living,**

Yet, common as the idea is that a man has a claim to a living when it is proved that he has worked hard and worked according to his ability, it is a mystery to the economist how this idea ever got acceptance.[2] Is there

[1] The Platonic division of labour is a division according to capacity—each man to practise only that thing to which his nature is most perfectly adapted. It is suggestive that, with Plato, a just distribution of income is nothing compared to the distribution of *employments* with a view to the realisation of the perfect life.

[2] If some reader doubts whether it really has acceptance, let him consider this: that while public opinion has got to the point of resenting pure begging, it still allows the organ man or the so-called German Band to torture us into bribing it to go away. The only explanation is that the

any self-evident connection between mere work and wages? On what "scheme of the universe" is it based?

and blames society for it,

Perhaps man is thought of as a shipwrecked sailor thrown on these hard shores of life by wind and waves. It is "disgraceful" to let him starve. Well, but he is not let starve; at worst, the workhouse doors are open, and food and shelter guaranteed him there. But he does not want charity, he wants work. Well, let him work. But he wants payment for his work. Ah, that is a different thing; what can he make? Paints pictures, does he? or makes verses? or can turn the handle of an organ? But we don't want these. Bad pictures and bad music are as bad as bad verses—better pay him not to do any of these things. But, it is repeated, he wants work, not charity. There is no answer to this; so our complainant appeals, as usual, to the higher court and says: If the individuals do not recognise their duty, the State must make work for the unemployed. But where does the State get its money? And to whom will the State sell the goods if, as is the case, they are not wanted by the citizens?

No doubt at bottom the idea comes to us from the religious side. God provides a living for the beast of the field and the fowl of the air, therefore he must have provided as much for His favourite child, man: if the provision is not forthcoming it must be kept back by some engrosser or other. "We are beaten—*nous sommes trahis.*" Those who use this argument from the animal kingdom to man might consider the answer of the old farmer when, in the day of adversity, he was

turning a handle or blowing into a tube is "work," and that the men accordingly are working for their living—the fact being that they are forcing their living from us at the point of the bayonet.

reminded that God feeds even the ravens, "Aye, that's it—on my tatties."

The truth is that the analogy is quite misleading economically, whatever it may be theologically. We are not beasts of the field or fowls of the air, but men. As men we have, for the time, reversed the "natural process." We set limits to the elimination of the unfit. We have a fixed idea of the sanctity of human life, and we spend ourselves in sustaining and increasing the sum of it. Thus, refusing to limit our numbers as Nature dictates to her other creatures, we have to plan deliberately to make Nature yield us what she does not yield her other creatures. Individually we produce almost nothing that could sustain even a simple life, in order that we may, in combination, produce the things we ask for our complex life. And, having surrendered our individual working, we cannot produce without considering the wants and wishes of our fellows. The marvellous thing is that, by this co-operation, we not only secure existence to millions who otherwise would not survive at all, but we release multitudes from the necessity of mechanical, laborious toil, and allow them to produce things for which their capacity fits them—things in the making of which they take positive pleasure. All, however, on one condition—that the goods made meet demand. We are not Crusoes working to our own orders. The body of consumers is our employer, and ultimately our paymaster. And if, after all, the public will not buy our work, we need not complain that it has broken its bargain with us. It is we who took the risk of pleasing ourselves and producing something for which the demand was precarious.

we must ask if he has kept the industrial contract.

Thus we are driven to see that a distribution of wealth is not necessarily "bad" because it withholds a living from some who are willing to work.

But, it will be argued, granting that the analogy from the animal to man is misleading, we are a rich nation—richer than ever nation was before—and yet luxury and want jostle each other in the street. That, of the total income of this country, four and three-quarter millions of families should divide among them only some £500,000,000, while other two hundred and twenty-two thousand families divide £350,000,000: that not fewer than 25 per cent of the whole number of adult workers in the community should receive for their labour less than a pound per week—what is this but the old contrast of Lazarus and Dives? Does anything more require to be said to prove that the distribution of income is thoroughly bad? Every one is familiar with this kind of statement. It is always assumed that Lazarus went to heaven because he was poor.

**Is unequal distribution necessarily "bad"?**

The assumed premiss here is, of course, that unequal distribution, which every one admits, is bad distribution. Is this not a somewhat hasty assumption? The Declaration of Independence tells us that all men are born free and equal—and we all know the kind of equality America allows its black citizens. But, outside America, when did any medical man commit himself to the statement that all the babies he brought into the world were "equal"? Is it in inches or weight, in strength or appetite, in size of brain or muscle—in anything, in short, except that they all have the same number of arms, legs, and other members, and are partial to milk diet? Yet, as a rule, though born unequal, and all through life remaining unequal in every respect, many people regard the inequality of income as quite abnormal. Let us ask, then, if an equal distribution would be a good distribution.

The National Income, as we know, sums up to £1,500,000,000, and the population is some 40,000,000. The one divided by the other gives £37 : 10s. per head, or 14s. 6d. per week. Suppose, then, that an extreme communist assumed the dictatorship, and that he managed—which would not be quite easy—to induce or compel all the leaders of industry to continue organising as keenly for the community as they did for themselves; the most that could be distributed per head, whether as wages, aliment, or however it was called, would be just what fourteen silver shillings and one sixpence could buy in the shops and schools, theatres and churches, or wherever the goods of the National Income are sold.

But would any dictator distribute the National Income equally? The first thing that strikes one is that a large portion of the nation at any moment consists of babies—who certainly could not consume 14s. 6d. worth of milk and cot accommodation per week. Another part consists of those interesting but difficult people who inhabit jails—people who are not only non-producers, but have done their best to overturn the structure of honest society, and would continue to do so even if it were demonstrated to them that a benevolent despot were at the head of it. Again, more than half the population consists of women, and although one may have the greatest admiration for the woman who works, some of us are not prepared to give an equal share to the woman who thinks that her sex gives her immunity from work.

It needs very little demonstration to show that, whether an unequal distribution is a bad one or not, an equal distribution would not be a good one; and it is suggested that, whatever else a better distribution might do, it could not make us all rich.[1]

Admitting, then, that an equal distribution is at least questionable, let us inquire what other principle might conceivably be adopted to regulate income, assuming that a regulated distribution is in human power.

Do Needs supply a better principle?

Would a distribution according to Needs be any better? Perhaps it would, if we could define the word in any satisfactory way. But it is difficult to see how any needs could be taken into consideration but the physical ones, and, as every grown-up person has very much the same physical needs, this—if it is not to be an equal distribution—would be a distribution according to families; so that, to use Pitt's words, "this will make a large family a blessing and not a curse." Every one knows what happened in the beginning of the century when the Poor-Law Guardians acted on the principle, and made the allowance proportional to the family.

I am far from saying that equality modified by differences of needs is not a possible, perhaps admirable, principle of distribution. It is the one we instinctively adopt in the nursery, the poorhouse, and the hospital; in besieged cities and in ships short of provisions it

[1] Cf. *Studies in Economics*, pp. 35, 269.

would be the only one thought of. But to organise a community ot forty millions on any such principle is a task at which even the Social Democratic Federation might hesitate.

Failing these more obvious standards, our thoughts naturally turn to Deserts as a principle of distribution. This is a standard that runs almost diametrically opposite to the last mentioned. A distribution by Needs would be more or less determined by physical constitutions, but deserts have nothing to do with physical constitution. Peers of the realm may agree in requiring the same amount of food per day, but no dictator would assess Lord Kelvin's deserts at the same figure as those of the majority of his colleagues. Possibly the only resemblance between Miss Marie Corelli and Mary Smith who works in the factory is that they both drink the same amount of tea per day, but Miss Corelli would be much astonished to find that this argued any parallel as to their deserts. Or Deserts?

This suggests, indeed, a very good illustration of the difficulty. Suppose our dictator had come to the case of Miss Corelli and reasoned with himself:—"How much shall we give her? Her novels are the favourite reading of the Queen, but the *Athenæum* does not consider the Queen an authority on novels. Suppose we give her double the average, and allow her 29s. a week." One may imagine Miss Corelli's appeal to her endless series of large editions exhausted before publication, and her denunciation of the unfortunate dictator as a disguised Saturday Reviewer!

Evidently the conception of "deserts" itself requires explanation. But is there—can there be—any recognised standard of deserts? There is one answer which seems obvious and natural. Is not Product the economic criterion of deserts? The examination of this in some detail will at least show us where the problem lies.

But Deserts, translated into Value of Product,

Let us take first the simplest case, where a person works directly for and sells to the public. Let us assume that it is reasonable to argue: This person has produced much; therefore he deserves much. The question is immediately suggested: What do we mean by "much"? Is it much in quantity or much in quality? These in turn must be brought to a common standard, and so our criterion becomes, not Product, but Value of Product.

What, however, is Value? It is not absolute worth—if there be any such thing as absolute worth. It is not worth as it would be assessed by any Academy or Senatus of the wisest, or by any dictator, however able and high-minded. Value is the market expression of human desires—not of absolute wants, but of desires in relation to satisfactions. A loaf is valuable, a diamond is valuable, a bottle of brandy is valuable, and Miss Corelli's novels are valuable, all on the same principle—that they satisfy certain human desires and are not to be had in unlimited amounts. The publisher holds up the product of years of labour and thought of some distinguished scholar. Anybody want it? Nobody wants it: it has no value. What shall I offer you, gentlemen?—*The Sorrows of Satan?* Ah, yes, says the public; that is a valuable thing. We'll take 10,000 of that at 6s. In the end, the relation of Demand and Supply is the only court, if we appeal from product to value of product as our criterion of deserts.

And thus we find that the case of the popular novelist is as good an instance as may be of the way in which some people get their "deserts." She does not go to the critics and ask them for their assessment; she throws her product on the market, and the public, buying her books, assess her share in the National Income. Suppose she is her own publisher, then the printer, the binder, and the paper-maker co-operate to some small extent, but the rest of the value of the product is hers, and she gets paid almost directly for that product: she gets paid, that is, the amount at which the public assess her product. The conclusion to which we seem pointed is that if the worker's "deserts" be translated into "what he has produced," and "what he has produced" be read as "the value of what he has produced," then in many cases the present distribution of income *is* a distribution according to deserts.

is really the principle on which some are paid.

Can this conclusion be extended beyond the case of workers who produce directly for and sell to the public? If we examine the phenomena under our eyes we shall find two things to modify any such conclusion. One is what may be called production by proxy; the other is that the sharing of the producing disappears in the value of the product.

This principle, however,

(1) It is obvious that, under the present distribution, a great many people are paid, not according to the value of what they personally produce, but according to what

the factor of production owned by them produces. In the case of labour there is no difference, for labour and the labourer are one. But what the capitalist is paid for is not what he personally produces, but what his capital produces, and so with the landowner. Is not this change of individual desert into desert of a proxy more than a mere modification? It seems a strange reading of "payment by deserts" that the Duke of Westminster should get hundreds of thousands per year, not because he is a good man and does good work, but because he owns some of the land on which London is built; or that young Mr. Vanderbilt should get his colossal income because he had a rich father.

does not mean personal deserts;

It must, of course, be granted that outside of the incomes which fall to labour as labour, the idea of *personal* desert as the standard of distribution must be given up.[1] It is always the factor of production that is paid for its services, whether it be a human or a "dead" factor, and the payment goes to the recognised owner of this factor.

(2) The other thing which must modify our conclusion is that production for and sale to the public direct is not representative of the complex organised production characteristic of the present industrial state. In the first chapter of Book I. we saw that £600,000,000 of the money income are "presumably due to capital," and that the remaining £900,000,000 are presumably due to labour. Does this mean that so much of the real income may be traced to the energy of capital, and so much to that of labour—that these two sums are

[1] This is not, however, as some think, to give up all defence of the present distribution. See p. 330.

payments according to the respective products? Let us look at a typical instance.

A factory is a unit; an organisation of various factors for one common purpose, the making of one definite thing or stream of things. Every good that goes out of the factory gate as a finished article is a focus point of various contributories. The employer could not exert his functions unless he had workers to organise: the workers could not do anything without machinery and power: the machinery and power could not be brought together unless under a roof: and the building could not be erected but on solid land. We recognise, as we say, that land, labour, capital, and organisation have "gone to" the making of the product.

and fails us in organised industry,

But as the article lies ready for sending out, while we may recognise that the foundation of it is a certain substance, there is little to tell us of the hands and machines which shaped and worked it up, and there is no trace whatever of the organising energy which bound them all together. The material and the immaterial factors alike have embodied themselves in a new creation. There is no earmarking of any share in the process to labour, or capital, or land, or organisation—much less to the infinitely diverse forms into which these factors are subdivided. All we can say is that they have co-operated. Or, looking at the product over a year as a steady stream of similar commodities, all we can say is that it is the joint result of many contributories which have merged and lost their separate existences. Thus we could not divide out the product according to the share which the various factors have had in making it, even if the

where we cannot determine any share as produced by any factor.

goods were distributed among the various factors as the price of their exertions.

The division not of product, but of price.

But, as a fact, the goods themselves lose their individuality before any sharing takes place. It is not only the "seamless garment of product" that is divided; it is the *value* of that seamless garment in the shape of its money price. Yet when the goods are sold and the price realised has paid some factors and repaid the payment to other factors, we unhesitatingly say that the 2½ per cent which the capitalist receives is an income "due to capital," and that the pound a week income of the worker is "due to labour." Evidently the word "due to" does not mean "produced by." The goods are, indeed, produced by capital and labour together. But when they are sold, and so much is said to be "due to capital" and so much "due to labour," the word "due" means "credited to." The money income of either party is no more than the distribution into two shares of an income *produced* by the two, the one share credited to the capitalist and the other to the labourer.

Conceivably, however, it might be said that yarn or cloth is the direct product of all those groups of persons and things so long as their work finds issue in nothing else. But the coal-miner supplies his coal not only to textile but to other factories, to the grates of private houses, to the furnaces of steamships, etc. The machine-maker similarly turns out all kinds of tools and plant. Yarn enters into cloth, but it enters also into half a dozen other things. Cloth, again, enters prominently into clothing, but not exclusively. Here, it must be confessed, we lose all practical connection between individual income and individual product.

The great co-operation.

Indeed, the more clearly we comprehend this phenomenon of divided labour, the less shall we be inclined to assign individual product to individual factors and imagine that wages are paid on any such basis. In a simpler state of things we may suppose that the woman worker spins and weaves her own cloth, and say, without serious inaccuracy, that her real income is what she produces. Suppose, now, mother and daughter divide their labour and one spins while the other weaves, we may still say the income is the joint product, the cloth. But whenever the division is carried outside the home this simple relation between worker and product disappears altogether.

Employed in a mill, the spinner cannot take her income in yarn, for she cannot use the yarn; nor can the weaver take her income in cloth, for she could use only a fraction of the cloth. But neither yarn nor cloth can be said accurately to be the product of these two. They are the product of all those persons and things that have finally found issue in the yarn and cloth, and both spinner's and weaver's contributions are but an insignificant fraction of the whole. Yarn and cloth are, indeed, the product into which their labour visibly enters; but the labour of the machine-maker who makes nothing else than spinning and weaving machinery, and of the miner who digs the coals which supply the power, enter just as visibly and directly into the making of yarn.

If, again, we look beyond factory industry to such offices as that of a policeman, soldier, judge, and ask how their service is to be assessed and divided out among those to whom it is rendered, we find that all we can say is that the total of goods—the total income

—is produced by all the workers acting together, but that to assign any particular share to any individual or class according to its product is impossible. The mill girl no more "produces" yarn than she "grows" potatoes. She co-operates with the machine-maker and the coal-miner, and all those whose exertions are necessary to the turning out of yarn and cloth; but she co-operates just as truly with the ploughman, the policeman, the clergyman, and the musician. If one makes cloth for all, and another preaches sermons for all, the one co-operates with the other in the "producing" the sermons, and the other co-operates in the "producing" of cloth. If the division of labour allows each worker to be released from making his or her own income as the bird or beast makes it—by picking it up on the fields—each member of the economic community is a joint producer with every other, and only the totality of product can be assigned to the totality of income receivers.

The share is only "credited to," not produced by.

Thus we come to the point that the "real income" of each person is not what he individually produces—for no one can tell what that is—but a share in the total produce somehow credited to him, and the paying of this share in money is the definite sign of this. When the weaver goes to the gate to get her wages, she is not paid with a portion of the cloth which her hands have contributed to weave. Nor is she paid with something that gives her a claim on that cloth alone. She is paid in an intermediate something which she can exchange at will into an aliquot portion of the total that is produced. She is paid in so much cloth, so much meal, so much protection, so much ghostly advice, so much amusement, because the co-workers, including herself, have produced the totality of this produce, and she is paid in these things in that she is paid in a commodity which, potentially, is everything which that commodity will buy.

In our brief examination of Deserts, then, as a possible standard of distribution, we seem to find that, translating Deserts as Value of Product, some people are paid according to their deserts. And the problem would be a comparatively easy one if we could attach such and such products to such and such services. But this fails us in organised industry, where we find that what is paid over to the various factors as their share is only a credit note for an aliquot portion of the total product turned out by the joint efforts of all.

**The problem.**

What, then, is our problem? It is not, of course, the statistical one of tabulating the incomes of individuals or finding the average income of various classes, but the economic one of inquiring if there is any principle which rules in and may explain the present distribution. On the whole, our forty millions of people are living on—or, rather, passing through their lives—a great stream of wealth. Complaint is made that this stream is very badly divided among them. But on examining one or two schemes for a better division, we seem to discover that the present distribution, far from being "chaotic," has many features which suggest that the wealth is being divided out as it is made, and falls to the factors which make it in some proportion to the share which they take in making it. Putting aside meanwhile the incomes noted in Chapter XI. as escaping the money assessment, we have seen that the general relation which the money income bears to the real income is that the one is payment for the making of the other. But if the money incomes with which government and statistical accounts present us are, on the whole, a payment for the rendering of various services, it is suggested that there may be a principle which attaches the various payments to the various services, and that it may be found by studying the relations which exist between those who render the services and those who pay for them.

The wage-earner gets so many shillings handed him at the end of the week. The landlord and capitalist at quarter-day receive money equivalent to, say, 2½ per cent on their property. The employer on stock-taking finds that his incomings normally show a surplus over his outgoings, although he may have exhausted his total profit in his interim dividend, and spent the whole of this surplus before his books are balanced. Evidently the various payments which make up the money income are somehow the equivalents for the services; but who or what assesses the equivalence? If the services of £100 of capital for a year (at 2½ per cent) are paid with the same sum as the services of an unskilled labourer for two and a half weeks (at 20s. per week), who or what applies the common measure by which the services are adjudged equal?

# CHAPTER II

## THE EMPLOYER

*Among the very various services paid by income, one class seems likely to yield up a principle;—where an employer is paymaster. The emphasis laid on his paying function, however, keeps in the background the great employing function, to which payment of wages is subsidiary—the organising of the working world. He brings supply and demand together (not only organising the production process, but finding a market), and he takes the risk (employing being a continuous series of speculations). Thus the unit organisation of the modern world being the factory, it might be imagined that the organiser's interest was identical with that of those organised; but among working men there is only the faintest recognition of any such community.*

The paymaster.

IN the category of money incomes, which formed our starting-point in the former book, there is one class which seems most likely to give us the information we seek. According to the latest returns, there are 4,398,983 persons employed in the 160,948 factories and workshops of the United Kingdom.[1] Here the fact which catches the eye is that one man or one firm is the paymaster of hundreds or thousands of incomes. The employer at least must be able to yield up some account of why and in what measure he pays. And it seems a reasonable inference that, if we are to find a principle of distribution at all, it will be in the study

[1] *Report of the Chief Inspector of Factories and Workshops*, issued August 1898.

of the earning and paying of these incomes. This, then, will furnish the material of our principal analysis.

Captains of Industry.

The imagination of many credits this paymaster with very arbitrary and extreme powers. He is presumably a rich man, and, generalising perhaps from the relation of a master to his domestic servants, it is assumed that his ability to pay is only limited by his inclination. Carlyle long ago gave him the honourable title of Captain of Industry, saying: "The Leaders of Industry, if Industry is ever to be led, are virtually the Captains of the World; if there be no nobleness in them, there will never be an Aristocracy more."[1] But in the opinion of many critics he is so far from being a captain of industry that he is a mere exploiter of it. He buys labour cheap and sells its products dear. Even where he is a kindly person, his interests are so strongly in the direction of underpaying his servants that these interests overbear not only kindliness but justice. He is concerned to get as much as he can out of his workers, but he has no appreciation of the stimulating effect of a high wage; he relies instead on the compelling effect of a low one.

A misleading emphasis.

Without entering meanwhile on the truth or falsity of this description, it may be pointed out that the emphasis thus laid on the employer as the paymaster of labour is very misleading. It attracts attention from his other functions and dwarfs them. It elevates, in fact, a subsidiary part of his total activity into the chief place. It tends to that most fallacious and mischievous conception that wages come out of employers' pockets.

[1] *Past and Present*, iv. 4.

The truth is that the function of the employer is no less than the organising of the present working world. He brings supply and demand together. On the one hand, he raises the walls, puts in the plant, buys the material and auxiliaries, appoints the overseers, and organises the production process: on the other hand, he finds the market. But, while some of his critics recognise that he has a function as regards the former, there is literally no evidence that they realise the greatness of his work in the latter respect. In modern industry orders do not run after an employer. He has not only to seek for them but to tempt them, and the steady week to week payment of the workers depends on his success. But he is only one of many competing to get these orders. The working man conceives of capital and labour as the natural enemies; but the employer knows that his nearest enemy is the other employer, and the war is relentless. Here he must be a diplomatist; in large businesses he must be a strategist. It is wit against wit, influence against influence, price against price.

**The organiser of supply to meet demand.**

Of all this the working man knows nothing. He does the work set before him and comes for his wage at the week end.

**The taking of risk.**

Even more anxious is the part the employer plays in taking the risk. Instead of putting his capital in a safe investment, he buys buildings, plant, and material, and sinks his money in making goods that may sell for something more than they have cost to make, but may not. It is a speculation from end to end; it is throwing realised wealth—wealth made and ready for use—into a melting-pot, where it may materialise into valuable products, or may not. He buys out his working-men partners and his sleeping capitalist partners by paying them fixed weekly and annual sums. The danger is not only that of losing his interest, but of losing his capital as well. And even when he has sold the goods he is not at the end of his risk; for he has to give the customary credit, and sometimes to sell for payment in another country and another kind of money, and it may be months more before he knows whether any individual transaction has been successful. But, whether or not, the wheels must be kept going, the fixed charges are being incurred, and to stop is to make loss certain. His business is not one transaction, but a continuous series of transactions, of separate speculations; the capital coming in for the moment realised, and being continuously thrown back again into the production process.

The brain. If we conceive, then, of the nation as engaged in the prosecution of one great business—of the National Income as the total output of the national industry—we find that the unit of its organisation is the single factory, and that the employer is the brain of this unit. The payment of wages is a subsidiary part of an activity whose end is the making of goods; an activity which focuses many forms of labour and many forms of capital towards one single point.

Thus it might be imagined that the interests of all directly and indirectly employed are identical with the employer's interests. Suppose—and it is no absurd supposition—that a set of well-to-do workers were to supply their own capital as well as their own labour, and put over them a manager; their only rational policy would be to give the manager a free hand to do very much as the employer does.

The enemy within the gates.

But the employer who presumes on any but the most rudimentary consciousness of such community of interests, will have a rude awakening. The worker knows nothing about the gravity of fixed charges. He has no suspicion that anything is lost to an employer by a suspension of work—"Aren't the wages stopped as well as the work?" he argues. He has no idea of the co-operation of customer and manufacturer called "good-will." Confounding interest and profits, he thinks the capitalist employer well paid if he gets a few thousands a year, forgetting that he might very likely get the same without the risk and work and worry, simply by investment. In days when our large commerce and industry are at stake, he thinks foreign competition a "bogey." Thus, in times when disunion in the factory is perilous, the enemy is always within the gates. In many of the large trades of the country it is evident that the workers watch for the employer's misfortunes. When he gets into a tight place, then is the time for the workers, not to come to his assistance, but to threaten to lay the mills idle. It is not too much to say that, in addition to the ordinary business qualities, the large employer of to-day requires much of the nerve and resource of a war minister, for his is a double warfare with rivals outside and civil war at home.

# CHAPTER III

## THE EMPLOYER'S INTEREST IN KEEPING UP PRICES

*Employers, not being salaried officers, pursue primarily their own interests, and these immediate interests are two—to keep up price and to reduce cost. The former is scarcely within their power—unconscious as working men seem of the fact. The pressure from customers and their own constant competition induce cutting of price, and, independently of temporary cutting—which might bring its own remedy—the rapid superannuation of fixed capital by new processes and machinery makes reduction of prices possible, till demand overtakes and passes supply at the reduced price. This is strengthened by the metallic money standard, which keeps the supply of the "third commodity" always short. But the latter is the object of their incessant endeavour and demands particular investigation.*

It is unfortunate that the organised should entirely ignore the common interest they have with the organiser. Philosophic writers have often represented industry as a war against want, and spoken of the men as privates and the employers as officers of an industrial army.[1] But the analogy is far from perfect. Private

[1] "The blind Plugson: he was a Captain of Industry, born member of the Ultimate genuine Aristocracy of this Universe, could he have known it! These thousand men that span and toiled round him, they were a regiment whom he had enlisted, man by man; to make war on a very genuine enemy: Bareness of back, and disobedient Cotton-fibre, which will not, unless forced to it, consent to cover bare backs. Here is a most genuine enemy; over whom all creatures will wish him victory. He enlisted his thousand men; said to them, 'Come, brothers, let us have

The employer, in his own interest,

employers are neither officials of the State nor salaried servants of any body. The work of organising is one that they take on themselves; one that any man may take on himself. The defence of the nation is not left to private enterprise. Nor is the administration of its laws, nor its education, nor even its religious teaching. No man may make a will, or draw a lease, or trench on any function of the lawyer without exposing himself to prosecution: no one may practise medicine without special equipment and guarantees, on danger of being branded as a quack. But all men may assume the high office of organising the people to make their living, and interpret their duties very much as they please, so long as they keep within the Factory Acts. Seeing, then, that employers go into business, as other workers do, to make a living, we might expect to find that they have some interests which coincide with those of their workers, and some which coincide with those of the consumers generally, but others which are peculiarly their own. Our first business is to ask what are the methods taken by them when undisguisedly pursuing their own interests.

As has been said, employing is a risk from end to end. Employers live by their "chance," preferring the glorious uncertainty of profit to a salary.[1] Entering into a kind of sleeping partnership with working men and capitalists, they buy from them their share for fixed sums of wages and interest. That is, practically,

a dash at Cotton!' They follow with cheerful shout; they gain such a victory over Cotton as the Earth has to admire and clap hands at: but, alas. . . . Why, Plugson, even thy own host is all in mutiny: Cotton is conquered; but the bare backs are worse covered than ever!"—*Past and Present*, iii. 10.

[1] Note that the very word Profit now suggests its opposite.

they buy their share of the joint product for a fixed weekly or annual sum, and take the risk of selling it. Their wage is the difference between these amounts—the sum of the costs, and the price realised for the goods. Thus it is evident that they have two chief interests: one is to keep up the price of the goods they sell, the other is to keep down their cost.

wishes to keep up price.

But the pressure downward

The former, however, scarcely lies within their power. Cheap goods are what the consumer expects as the outcome of industrial progress. Even the conscientious buyer, who belongs to the Consumers' League and gets his clothes only from White List tailors, has no guidance and can have no guidance as regards his other purchases from retail shops, and a very little knowledge tells him that cheap goods are as likely to be evidence of high wages and good conditions of work as of sweating;[1] and when men and women have no other guide they buy the cheaper. To purvey these cheap goods the retail dealer presses on the warehouseman, assuring him of larger orders if he will only take a fraction off the price, or increase the discount, or extend the time of payment. To meet this, the warehouseman presses on the manufacturer to give concessions, and to the manufacturer the inducement is not only that of a large turn over, but that of the economies which attend large production.

This pressure from below is accompanied by the pressure from around. Of all workers, employers are

[1] "The finest and most expensive broadcloth, made in the west of England factories, is the product of worse-paid labour than the cheap tweeds of Dewsbury or Batley."—Webb, *Industrial Democracy*, ii. 672. In the West of Scotland, it is said that the ready-made clothes made in the Wholesale Co-operative Society, where the wages are high, are cutting out sweated "ready-mades."

probably the most individualistic. Unless under the strain of a great common danger, such, for instance, as was considered to threaten the entire engineering trade of the three kingdoms in 1897, they are least capable of combination. There is little publicity about their methods. Their accounts are not open to public inspection; nor, as a rule, are their prices: if the prices are, the discounts are not. They get orders by personal influence, by pushing, by meeting the wishes of customers, and so on; but none of these equals or can stand against the great inducement, a concession in price.

And, again, the employer lives by the continuity of his business. He must keep the wheels moving, whatever it costs. Hence if for the moment he does not get his price, he runs up stock. But, unless he has capital enough to allow him to hold back till he gets his price, this stock must be cleared, or there is a break in the continuous turn over, or rather return-flow of his capital from goods to money and from money to goods again, and he is compelled to sell at a loss. Hence the pressure on price is always downwards, and makers who once let down their price spoil their market, and generally give up hope of seeing it raised again. is irresistible.

There is a difference between a temporary "cutting" and a normal reduction of prices. If production processes remained stationary, as, for instance, in the hand-made paper trade, where strongly organised labour is the principal factor in cost, the cutting of prices might be severe enough, but it would be confined to those willing to make an initial loss to gain a footing, and would last only till they got a footing or lost enough money. But where much capital is employed and invention gets free scope, the new firm has one advantage over its rivals which may allow it to reduce prices without actual loss: it is the rapid superannuation of old plant and processes due to applied science. It is generally the case that the last comer has the cheaper cost, and, being the last comer and anxious to "get in," the first use made of this is to reduce prices. He is the man who could keep up prices: he is the man who is the readiest to cut them down.

Influence of the metallic standard.

There is, moreover, a special circumstance that makes the maintenance of prices almost a forlorn hope. It is the metallic standard. I have written a good deal on this subject already,[1] and have no mind to complicate the present inquiry by referring to the currency question more than is necessary. I shall say only that subsequent consideration confirms me in the view put forward by Sir Robert Giffen, that no probable additions to our metallic money would keep prices from falling. The fall is the natural consequence of expressing and measuring the values of a constantly and enormously increasing mass of commodities by one commodity or two.

The thesis I have consistently put forward is that the *general* fall in prices—as distinct from falls in particular prices—which is the characteristic of our monetary history since 1873, is not due to improvements in production. It could be so only if demand were to remain a constant quantity. But as every reduction of price calls out an increase of demand—being itself only the disguise of an increased supply—and as the population from which demand

[1] See *Studies in Economics*, p. 141.

(and supply) comes is always growing, this is not possible. On the other hand, as the belief and practice of mankind are to-day, we must have the basis of money in precious metal. However abundant the supply of precious metal, it is, after all, only one thing, and what it has to do is nothing less than to mirror all the exchanges and name all the exchanges of all things. But as the population of the world is increasing fast; as its wealth and the exchanges of that wealth are increasing faster; and as entire nations are rising faster still from barter and barbarism into exchanging communities, it is impossible that the increase of our precious metal money can be as great as the increase in the work that is being put upon it. The wonder is that the partial abandonment of one of the metals in which the world prices its goods has not had even greater results in fall of prices.

**But working men do not believe this.**

Unconscious of all this, employers are credited by working men—if the pronouncements of labour leaders are to be believed—with the power of raising prices at will. It is evidently an article of faith among coal-miners. Their case, indeed, is in one respect exceptional. Where the coal is sold for home consumption and carriage of the bulky article is a large element in price, the consumers can be "squeezed," as consumers of other articles cannot. But experience might by this time have taught the miners that it is generally their own action that makes rises in coal possible. If the South Wales miners come out on strike, it is very obvious why prices of coal go up; so we see Fife miners benefiting at the expense of Lanarkshire, Midlands at the expense of both. At such times prices of coal go up with a bound, but this has nothing to do with the will of employers; and, hampered as most coal-masters are by the long contracts inevitable to continuous industry, it is probably the miners who gain most of the rise. But the ordinary employer knows very well that a rise of prices is something that cometh not with observation; he is, of course, on the watch to embrace it when it does come, but, as a rule, he can do nothing to bring the chance to his door.

But, while it is almost impossible for the employer to keep up price, to reduce cost is very much within his power, and is indeed the object of his constant endeavour. If he can do so, there are two possibilities open to him. He may, in favourable circumstances, keep his price unchanged and have a larger margin of profit to himself. Or he may undersell his rivals; thus, on the one hand, getting a footing among new customers, and, on the other, enlarging his output and securing the economies of large production. Evidently our next business is to inquire more particularly into the methods of reducing cost.

# CHAPTER IV

## THE EMPLOYER'S INTEREST IN KEEPING DOWN COST: SUBSTITUTION

*The combinations of factors which may be used to produce the real National Income are endlessly various. These factors are set in rivalry by the person most interested in widening the margin between cost and price. The example of a well-planned factory shows how an improvement in one department will suggest the rearrangement of all the factors. The possible substitutions may be put in three groups:* (1) *Materials are substituted for materials, machinery for machinery, workers for workers;* (2) *machinery is substituted for labour, and labour for machinery;* (3) *the proportions in which machinery and labour are combined are constantly changing. The employer will use those factors and combinations of factors which are most efficient at the price.*

Goods may be made in an infinity of ways.

THE wider our knowledge of commodities and the processes which make them, the more disposed we shall be to think of the National Income as a sum of goods which may be made by endlessly various combinations of factors. There are some things which can be done only by certain factors, and, happily, there are great departments where the human factor has the monopoly. But there are few indispensable elements in the making of any commodity, and science is constantly bringing forward new competitors. We have seen greater wonders in manufacture than that of making a silken purse out of a sow's ear. This competition or factor with factor to produce similar results is made effective by the person who has the strongest motive for finding out and backing the most effective competitor, inasmuch as he thereby widens that margin between cost and price which goes to him, in the first instance, as profit.

In every industry there are a great many different kinds of capital employed; there are a good many different kinds of labour; and there are, besides, many different ways in which all these may be combined. A good organisation may be described as one where the capital of an employer is so distributed among these various factors that the most economical factors are employed and the most economical use is made of them.

The margin of profitableness

In an ideally planned twisting-mill,[1] for instance, there would be perfect proportion between the various parts of the process trom start to finish. The building would be of such breadth that each "minder" should have the maximum number of spindles which she could patrol and attend to; of such length that as many twisting-frames could be put in as the foreman in each flat could supervise and supply with yarn; and or such height and strength that the upper flats should have as much rigidity as the lower ones.

The total number of spindles being thus fixed, the

[1] Twisting, it may be explained, is the chief work of cotton-thread making, and is taken for illustration here simply as being the case with which I am practically acquainted. Usually the thread-maker buys the yarn as his raw material—although the larger manufacturers now spin a good deal of their yarn—and his function is first to twist two strands together and then to twist three of these two-ply strands into "six cord" thread. The twisting spindles are set in two-sided frames placed parallel across the flats, so that a minder patrols all day between two long lines of spindles, watching for the break of a thread, and piecing it while stopping the spindle with her toes.

exact power wanted would be calculated; the engine would provide just this power, no more and no less; the boilers would be calculated to raise sufficient steam for this power, and the gearing to transmit it. Otherwise, there would be some wage paid to minders and to foremen for doing nothing, or there would be waste of yarn for insufficiency of minding; there would be difference in quality between the output of one flat and that of another; there would be waste of coal and steam and extra wear and tear; or the maximum speed and output would not be got from the spindles. In Professor Marshall's technical words: "Each man taking account of his own means will push the investment of capital in his business in each several direction until what appears in his judgment to be the margin of profitableness is reached; that is, until there seems to him no good reason for thinking that the gains resulting from any further investment in that particular direction would compensate him for his outlay. The margin of profitableness is not to be regarded as a mere point on any fixed line of possible investment, but as a boundary line of irregular shape, cutting one after another every possible line of investment."[1]

**describes an irregular marginal line.**

That is to say, the employer arranges his expenditure on the various forms of capital and labour in such a way that he gets the greatest possible result with the least possible outlay. Thus if, in this ideal factory, he has a hundred minders, the marginal economic minder is the hundredth, and this one "pays." The addition of another minder would not pay. She would require another frame, and as there is no room for another in the flats, and as it could not be provided without

[1] *Principles of Economics*, 4th ed. p. 434.

lengthening the whole factory, four new frames and four minders would be required (assuming four flats), and, *ex hypothesi*, this would be beyond the power of the engine to drive and of the foremen to supervise.

Here then we have, we may suppose, an output of goods produced at the lowest possible cost for the moment, and this gives us a first hint of what will rise into prominence further on: that each worker is "worth his wage" to the employer, and that, if the employer is to be judge, the finished product is throwing back its value on the workers and justifying their wage as "produced" or "earned." For the product is the most economic possible; each group of factors is indispensable to the product; and each individual is indispensable to the group. These goods, at least, can be sold at the lowest price, and so the price justifies itself to the consumer; if he wants the product, he is warranted in paying this, as he cannot get it for less.

Each lowest cost is only temporary.

But it is only for the moment that this is the lowest cost. It is quite true that, once the factory is built and the plant put down, new combinations are limited, and the economy must take certain limited directions. A slight change in any one of the factors may indicate other combinations: for instance, an improvement in the twisting-frames may allow the number of revolutions per minute, and thus the output per spindle, to be increased, but this might increase the work of the minder so much that there would be more waste through broken ends than would justify the improvement, and the frames could not be economically worked without more minders, all the time that it is impossible by the arrangement of the flats to introduce more minders economically. But as factories are added to or new ones built, the new economies are embodied in new organisations. I do not suppose that any employer—or any architect, for that matter—ever "repeated" his plan. Thus the ideally planned factory of one year may be old-fashioned before the walls are dry. Similarly, economies in fuel, improvements in raising of steam, in transmission of power, in dovetailing of processes, etc., will counsel the substitution of expenditure on capital for expenditure on labour, or expenditure in supervision for expenditure in manual work, and will draw the jagged marginal line to cut each branch of expenditure at quite different points, the result being a lower total cost.

The general lines of substitution may be grouped into three classes:—

1. Materials are substituted for materials, machinery for machinery, workers for workers.

2. In a less degree, machinery is substituted for labour, and labour for machinery.

3. The proportions in which machinery and labour are combined are constantly changing.

**Substitution of other materials,**

(1) Iron ore is the basis of an innumerable number of commodities, and wood of innumerable others; but there is a wide margin where they overlap and compete; and aluminium, again, may be a rival of both. Coal, the great auxiliary raw material, finds a rival, to some extent, in oil, and though coal enters into the making of gas and electricity, these are, in some respects, also rivals to it. In the composition of alloyed metals the competition of various minerals is most obvious. In textiles there is a constant struggle whether the sheep or the worm or the plant shall pro-

vide the raw material of our clothing; there are many purposes for which wool, silk, flax, and cotton are rival materials, and the combination of wool with cotton and cotton with silk has emphasised this. In building, again, wood comes into competition with stone, stone with brick, and all of them with concrete.

of other machinery,

As regards plant, employers are constantly weighing the comparative value of steam, oil, and electricity as motors; of belt and rope-driving against gearing in the transmission of power; of related machinery in the same process, as ring-spinning against throstles; and, of course, of miscellaneous tools of all kinds.

of other labour.

Of the growing rivalry between women's labour and men's there is abundant evidence, though few statistics. Apart from this, the chief competition is on the margin between the exertion of labour and the supervision of labour. The function of a foreman is to see that the men under his charge work up to their full capacity, and that materials and conditions are given them which permit of this full capacity being realised. In an economically managed department there is no waiting for stuff between the various stages, no late arrivals after the engine starts, no excuse given for dawdling, nor yet is there any overworking. But there may be a waste in watching waste; it often happens that the saving which a foreman makes will not pay his wage. Suppose, for instance, a foreman can just get the most out of eight minders, and that there are ten minders in the flat, it is evident that it will be more profitable to wink at some waste than to put in a second foreman. In other words, the labour is divided between working and watching. The two are then comparable in terms of product, and there is a margin at which the employer will be in doubt whether to pay for more workers or for better watching of those he has. One employer will attain his end by increasing his workers, another by policing them.

Substitution of machinery for labour.

(2) The trend of factory industry generally, where machinery has gradually encroached on the former work of man, needs no illustration. One lifetime may have seen gangs of engineers dragging a heavy casting from the shop to the ship; later on, teams of horses harnessed to the same work; and, later still, the traction-engine superseding both: just as a couple of lives might have seen the sedan chair superseded by the "growler," the "growler" by the hansom, and the electric cab taking the place of both.

The case where men have taken over the work of machinery does not often stand by itself; it generally takes the form discussed under the next category.

New groupings of each.

(3) For man works less and less by himself, more and more with tools; and most of the recent substitution has taken the shape of new groupings and combinations of men and machinery.[1] Man is, we may hope, gradually becoming a better worker, with better

[1] "Compare, for instance, the rude implements of an Indian Ryot even of to-day with the equipment of a progressive Lowland farmer; and consider the brick-making, mortar-making, sawing, planing, moulding, and slotting machines of a modern builder, his steam-cranes and his electric light. And if we turn to the textile trades, or at least to those of them which make the simpler products, we find each operative in early times content with implements the cost of which was equivalent to but a few months of his labour; while in modern times it is estimated that for each man, woman, and child employed there is a capital in plant alone of about £200, or say the equivalent of five years' labour. Again, the cost of a steamship is perhaps equivalent to the labour for ten years or more of those who work her; while a capital of about £900,000,000 invested in railways in England and Wales is equivalent to the work for perhaps

general and technical education, with greater resources and versatility, with more perfect mastery of hand and eye. But just for this reason he works with more and finer tools; and machinery is probably improving even more rapidly—in power, in delicacy, in fineness of seizing and holding, in accuracy and repetition, etc. Hence arise the most difficult problems of modern industry; for while both the direct service of man and the service in which he uses his head in planning and organising are more valuable, the service in which he waits on machinery is more simple. The struggle of the employers in the engineering trade—as indeed in many other trades—is for liberty to replace skilled men by unskilled in the management of machinery which needs no skill or but little skill. The struggle in the bookbinding and in the tailoring trades particularly, is for liberty to replace men by women, and women by children, more and more of the actual work being taken over by machinery.

This, then, is the first method by which the employer reduces his total cost. It is the object of his constant endeavour to find out the factors and combinations of factors which are most efficient, and to work them to their full capacity.

It will not escape notice that there is an ambiguity in the expression "most efficient." Physically speaking, of two machines that one would be called the more efficient which did better work even without regard to time, or did more work in the same time. But, economically speaking, the quality or amount of

twenty years of the 300,000 people employed upon them."—Marshall, *Principles of Economics*, 4th ed. p. 302.

product and the time taken have always reference to cost, and that machine is the more efficient which does better work or more work for the same cost, or does the same work for a lower cost. In some cases the physical and the economic efficiency coincide, but in others they do not, and this raises the problem of "cheap labour," which will be better treated in a separate chapter. Meantime, it must be noted that substitution is not coincident with "cheap buying" of the factors. Substitution would remain a principal function of the employer although the prices of all the factors were fixed, for it relates not so much to the buying as to the combining of the factors. To give the substitutionary function scope, all that requires is that there should be progress in the usual economic sense: namely, the increasing of the power of man over the forces of Nature, so that a greater amount of product is turned out on the whole for a given amount of effort or sacrifice, however measured—as, for instance, when some improvement in engines saves some of the present 90 per cent of the escaping energy of coal, or when cross fertilisation or the fixation of nitrogen increases the yield of wheat.

All this independently of "cheap buying."

Unfortunately, there are only too many who cannot see the difference between the two. The rooted belief of the working classes is that employers are always scheming to cut down wages. A very slight examination shows that what is complained of is very often the re-grouping of factors, while each factor is paid its former price. The introduction of a coal cutter, for instance, does not involve the reduction of hewers' wages, but the replacement of a number of manual hewers by machinery; the machinery requiring two or three mechanics and a smaller number of men who need not have the technical qualities which make a good hewer. If the displaced hewers choose to take the lower place, it is they who are trying to "take the bread out of the mouths" of the less skilled men, and they cannot expect their former wage. If, however, the hewers crowd into the other pits where there are no coal cutters, and over-supply the market, it is not right to blame the employers for the reduction of wage which follows. In bookbinding, again, where the traditional lines of demarcation are breaking down, what the men call the "sweating of labour" is sometimes the better paying of female labour. Generally speaking, the introduction of machinery means a changed but an increased demand for labour,—a momentary loss of wages in some directions, more than balanced by increased wages in others.

# CHAPTER V

## THE DEFENCE OF SUBSTITUTION

*Is this method of the employer in the interest of the community? There is some likelihood that it is so from the fact that employers must ultimately meet the public wishes as to goods and price. The objection comes probably from those who identify the community with the working classes. But, after all, would a perfectly conscientious employer not find that his first duty was to the community rather than to his work-people? Illustration from a municipal industry. What would a Socialist officer do under similar circumstances? Would not his mandate be to favour no one class at the expense of others? And does the interest of everybody not lie in the increase of the real National Income?*

**Is it in the interests of the community?**

IT may be advisable to pause at this point and ask this question: Granted that this constant substitution is pursued in the selfish interest of the private employer, does it also tend to subserve the interests of the community? Or is the employer doing something which an enlightened public conscience, or a wiser communal direction, would disapprove or prohibit?

There is an *a priori* likelihood here that employers take their lead from no other masters than the community. Their energy and sacrifice finds its sole outlet in the goods they sell, and the goods they sell must meet the public demand. As a fact, employers interpret the public demand. In many cases they make to order; but in as many, perhaps, they make in anticipation of orders. But, in either case, if they do not meet the public demand as to kind and quality of goods and as to price, they suffer, and they suffer first. Their capital and their labour form the buffer which breaks the blow to the body of labour. If working men would so much believe in their own arguments as to start business on their own account with their Trade Union capital, they would better appreciate the importance of this to them.

which embraces not only working classes

But when doubt is expressed whether the employer's interest in this matter of substitution is parallel with that of the community, one may suspect that by "community" is meant "working classes." If men were found the more efficient factor, it is scarcely credible that objection would be taken to the substitution of men for machinery. The suggestion is that the constant arrangement and rearrangement of factors is inconsistent with the employer's assumed duty of securing his people continuous work and wages, and, particularly, that the displacement of men by machinery may more than balance the general gain in low prices.

Granting the considerable amount or truth in this,[1] it must again be pointed out that Carlyle's honourable name of Captains of Labour has given a misleading emphasis to one side of the employer's responsibilities. Is it not the case that a perfectly logical employer might come to the conclusion that his next duty, after attending to his own interests, was to serve the public rather than his work-people? Certainly the more conscientious any employer is, the more clearly will he see the two sides, and the some-

but consumers.

[1] See also p. 257.

times diverging interests, of producer and consumer. This comes out very clearly in municipal industry. To take an example from my own city. In 1894 the Corporation of Glasgow took over the tramways from the private company which had hitherto worked them. Various arguments were advanced by the Corporation for taking up an industry which it was evidently anxious to take up, but the one which probably weighed most with the public—who alone could give the mandate—was that, under Corporation management, the conditions of labour in the service would be improved. By 1896 there was a considerable surplus, and the question arose whether this should be spent in giving still better conditions of work and wages to the men or in giving a cheaper service. The answer was not for a moment doubtful. The tramway servants numbered 2400. The passengers carried were close on 100,000,000. Evidently the first duty was to the larger constituency.[1]

Now a private employer also has these two constituencies to consider. If he use part of his profit to make his factory into a place of work comparable in comfort to his own counting-house, and resolves to pay such wages that every workman will be content—if that were possible—he certainly has a reward in the approval of his own conscience, and may possibly win some recognition in the affectionate regard of the more enlightened of his work-people. But if he use the same sum to reduce his prices, he has very ample and immediate recognition and reward. The public respond—unless the article is a quite peculiar one—by increasing their purchases; this increases his output

[1] An increase of £5300 was, however, given in wages.

and gives him the economies of large production, so that, after all, there may be no sacrifice; and, moreover, he distances his rivals. Thus it is not difficult for him to think that being servant of the public is a more grateful thing than being a leader of men.

A parallel in Socialism.

This comes out most clearly of all if we suppose that the place of the employer were to be taken over, under a Socialist State, by a salaried official. He would then be appointed and paid by the people to do the people's behests, and he would be prevented from acting in the interests of any one class. Would he do otherwise than the private employer now does in this respect? Suppose he saw that, by some rearrangement of the factors, he could get a greater output of goods for the same cost, would it be his duty to shut his eyes and go on on the old lines? Suppose he put it to the community thus: Here is an improvement by which I can sell you a shilling's worth of goods for elevenpence. Would there be any doubt about the community's reply? But suppose he added: If I adopt this new arrangement I shall require one man less in each group of twelve. Would not the answer be: If you can give us the same result with eleven men, why pay another man? Is it not really paying a man for producing nothing? It is not as if you disabled the man; you merely say to him, go and find work—and add wealth—somewhere else.

A class argument,

Moreover, it may very well be objected to the argument based on the displacement of labour that it is, after all, a class argument. The engineer, for instance, naturally objects to be displaced by the unskilled man. But has not the unskilled man a similar grievance if he is not allowed to get a job better than he has had? Both of them again object to their work being taken over by machinery. But has the capitalist no claim to be considered?

**and one inimical to progress.**

To favour labour at the expense of machinery is to put very direct obstacles in the way of progress; it is to curtail the invention of machinery, the making of machinery, and the use of machinery. It is certainly to favour a certain class of labour at the expense of classes as deserving, namely, the machine-makers and the machine-tenders. It has passed into common language that the inventor is a man who deserves well of his country. How is this to be reconciled with a course of action which would penalise those who had educated themselves to work the inventions? And to favour manual labour at the expense of skilled or head labour is even worse. The object we are all aiming at nowadays is to educate our masters. But educated men revolt at doing unskilled work. The corollary of a rising standard of education should be a rise in the kind of work given our workers. If, then, we were, by a fair-wage clause in our contracts or otherwise, to give a preference to manual labour over skilled labour or head labour, where the two compete, we should be acting against our real convictions. The moment we admit that it is impossible to think of favouring one class of labour over another, we give away the case for interfering with the employers in their constant effort to substitute the more efficient factor for the less efficient.

Looking at these things, it must be granted that, in this method of substitution of the most economic factors, the private employer is doing exactly what his analogue, the official of a municipality or of a socialistic community organised in the interests of the entire body, would do. If the product were his own, no one in his senses would insist on using a poorer instrument of production if a better one was to be had for the same price, and a salaried official would not be allowed to consider vested interests and to stereotype industry to poor methods or poor tools. The cases of hardship which occur would occur in any case, and the argument is, as it would be then, that the interests of the community must come before the interests of any class.

For low prices mean abundant goods.

In all this we have fallen in with the familiar conception that the interest of the "community" is the interest of the consumer,[1] and that the interest of the consumer is in low prices. In days when "low prices" have some suspicion attached to them, it is well to remember that low price after all is the money expression of abundant goods. And this translation of abundance into terms of low money price is very misleading. If our total money income as a nation is steadily rising, while prices generally have steadily fallen from a level represented by the figure 100 in 1873 to a level represented by 62 in the present year, it means that the goods and services which the nation makes and buys have been increasing literally by leaps and bounds. It means that 20s. to-day, in anybody's hand,[2] buy as much living generally as 32s. 3d. did in 1873. And it may be noted, in passing,

[1] See, however, p. 258.

[2] I do not forget that the fall, evidenced by the Index Numbers, refers to wholesale prices, and that it is commonly asserted that retail prices have not fallen in the same proportion. It is confessedly difficult to get statistics of retail prices which will apply to the same place, the same class of purchasers, and the same quality of goods. But it is inconceivable to me that retailers generally should be earning a larger profit now than they

that by far the greater part of this gain has gone to the working classes; for, while agricultural rent, profits, and interest have fallen, wages have risen. Now in face of the fact already mentioned, that the average income per head of the Briton is no more than 14s. 6d. per week, it seems clear that the great body of the people have more to gain by the increasing of the National Income than by attempting any revolutionary scheme of redistributing it, and that the interest of the employers in choosing and using the most efficient factors is also the interest of the community.

A guarantee.

The position reached now in the argument is this: that in the substitutionary action of employers the community has a guarantee, within limits which will be discussed later, of the best factors being chosen for the production of that sum of goods called the National Income. Given these premisses: that competition between employers is active, that the pressure of self-interest is strong enough, and that employers are given a free hand to employ what factors they please, we may assume that at any moment the goods which constitute the National Income are, on the whole, made by that combination of factors which is most efficient for the

were twenty years ago, or that the expenses of distribution should have greatly increased in years marked by the rise and growth of great stores, co-operative and otherwise. In the usual comparison two things are forgotten: the general—though not universal—improvement in quality, and the fact that innumerable things are now within most people's reach which formerly were not to be had at all. Compare, *e.g.*, the old bicycle with the modern "safety." And I cannot help thinking that many compare retail prices now with the wholesale prices of twenty years ago, instead of with the retail prices of twenty years ago.

purpose. It is not a final distribution by any means, for the next month will show us some employer or other making a fresh arrangement with the view of substituting still more efficient factors; but at the moment the factors which are actually working are the most valuable towards the total product or total price. And we begin to see thus early that, if certain conditions are fulfilled, there is an *a priori* probability that each factor is actually paid according to the share it has in producing this total result.

# CHAPTER VI

## THE EMPLOYER'S INTEREST IN KEEPING DOWN COST: BUYING LABOUR CHEAP

*The employer buys everything else for his production process as cheaply as he can, and no one blames him. Why not his labour?—so long as he is a person working for his living and not a State official or civil servant. All the same, this is not to condemn the action of those who realise the ultimate dangers of low-paid labour, and try to prevent him buying it below a certain level.*

INDEPENDENTLY of the arranging and combining of the factors, the employer, acting in his own interest, buys all his factors as cheaply as he can, and among them, Labour.

We are so accustomed to the great controversy suggested by these simple words that we do not realise how singular it is that we should have to devote a special chapter to them. No one writing a treatise on the good housewife, and indicating what kind of joints were most economical for the family dinner, would think it necessary to say that she goes to the shop where she gets the best meat for the money. So in speaking of substitution it was assumed that the employer would not pay more than he required to, subject, of course, to the ordinary canons which forbid a man to lie or cheat or misrepresent. *Caveat emptor.* But there is no doubt whatever that the statement Why not?

which begins this chapter would in itself be considered by very many as an indictment against the employer, and, if taken seriously, would by some be considered to confirm their worst suspicions.

Why buy every other item in cost cheap?

For his raw material the employer watches the prospects of the crop, and holds back or buys far ahead according to his forecast. He makes his coal contracts in the same way, calculating the chances of peace or war in the labour world. For any addition to his buildings he gives out schedules, and generally accepts the lowest offer. Any addition to his machinery he will buy in this country, or in America, or from the Continent, just as he finds most profitable. He will charter his freight, arrange his insurance, fix his exchange, discount his bills, and finance his business, all on the same principle.

So far he meets no criticism. Those from whom he buys cannot object, for it is just what they themselves do. Up to this point the working man joins hands with his employer for the very good reason that his interests lie parallel. If the employer were the salaried officer or the commissioned agent of his workers, his duty in this respect would be exactly the same as that dictated by his own private interests, and if it were found that he was giving out a contract to a higher offer when a lower one of similar quality had been sent in, one may imagine the outcry of betrayal of trust. In his private capacity, again, the working man acts exactly as his employer does. It is for his consumption that the shops are filled with cheap boots and ready-made clothes—and this should not be forgotten when we hear the reckless accusations of "sweating." I have heard a hall full of tailors denouncing the paying of wages under the log, when every man among them was wearing ready-made clothes.

Why applaud cheap goods,

Indeed the community has openly congratulated itself on the steady cheapening of everything. Only a Royal Commission would have the hardihood to express its gratitude that food was likely to be dearer.[1] If the owners of land have been compelled to sell it instead of holding on for higher prices, or let it at reduced rents, nobody has suggested that they were being "exploited" or oppressed. We have seen capital generally offering itself for lower and lower rates, and nobody has raised a voice to say that it was a "weak bargainer" and must be protected. We have looked at the employer as a person whose position was constantly threatened, but we have not thought of him as a person unfairly treated on that account, nor even as a person to be pitied, recognising that the pressure on him, from below and around, was the economic means by which progress is made and prices are kept at cost. Indeed the Trade Unions themselves, by their own confession,[2] have openly played into the hands of the large organisations and looked on the ruin of the small employer as an incident in progress.

cheap land,

and cheap capital,

In all his ordinary purchase of factors, then, the

[1] "A satisfactory feature of the past year was the rise in the prices of grain."—*Royal Commission on Agricultural Depression*, Report, 1897, p. 41.

[2] "To the Trade Union, representing all the operatives, the sluggishness of the poor or stupid employers is a serious danger. The old-fashioned master spinners, with slow-going family concerns, complain bitterly of the harshness with which the Trade Union officials refuse to make any allowance for their relatively imperfect machinery, and even insist, as we have seen, on their paying positively a higher piecework rate if they do not work their mills as efficiently as their best-equipped competitors."—Webb, *Industrial Democracy*, i. 413.

and not cheap labour?

employer meets with no criticism when he buys in the cheapest market. But when he tries to buy his labour cheap . . . !

We are not concerned here with the argument of Trade Unionism; it will be discussed in its proper place. We are simply analysing what the employer does when acting, like any other worker, in his own interests. Even he may—and often does—agree that the consequences of paying low wages are so serious to the working classes and to the State that the workers are right in combining to sell their labour collectively. But this is not his affair; it is the workers'. He will represent that if all employers are put on the same footing as regards the buying of labour—that is, if no one can buy it cheaper than another—it will suit him quite well;[1] as in this case the public must pay the higher cost if it is to have the goods. But, unless this level is established—unless the cheapest labour obtainable by his rivals is that paid by the Trade Union rate—his objection to the restriction is a real one, and one that must be honestly faced—namely, that he is expected to pay the cost of it.

It is all a matter of business.

Hence it ought to be made quite clear that, unless the employer is to be judged by some other canon than is applied by us all in the ordinary working life, there is nothing dishonourable nor discreditable in the employer buying his labour as cheap as he can get it. If the employer is to be looked on as the statesman or, we may say in England, as the politician is—that is, as a man whose one guiding principle is the good of his fellow-citizens and not his own interests—the

[1] Except in so far as he is put at a disadvantage with the unrestricted employer abroad.

situation will be entirely different. But then we shall have to pay him a salary, as we pay our civil servants, or expect him to live from some other source than his business, as we expect of our members of Parliament. But, as things are, the employer has no mandate from society, or from any body higher than himself, to buy a man's work on any other principle than he buys an engine's work. He buys an engine's work and hopes to recoup himself out of the final product. He buys a man's work and hopes to recoup himself out of the final product. But he buys the work at one time and sells the final product at a later time; he takes his chance, in the one case as in the other, and expects to be recouped also for this risk. That is to say: when he buys labour he does not pay a price which is certain to be recouped in the product, any more than when he buys a horse he is certain to get his worth out of it. He buys an instrument of production, not a product. To him a man is valuable only as a means to an end. Wage accordingly is a "cost," to be treated as all other costs are. In short, labour with him is a factor to be combined as he sees to be most advantageous, and to be bought as cheaply as possible.

In all this there is nothing which should expose the employer to the reproach of being the enemy of labour. But there is nothing to attach to him the responsibility of being the special providence of labour. It is a very fine thing when the private employer rises to the dignity of his office and takes on himself the responsibilities which attach to the civil servant, but this is not in the bond. It is not a small thing, this employing of the nation. Perhaps none of the great services are comparable with it. One would agree with Carlyle thus far. But employing is not the work of a salaried official of the State, paid by the State. If it were so, the State might lay what conditions it pleased on the paying of labour. As it is, the employer does all his buying and selling as a matter of business, buying his labour with wages on the same principle as the wage-earner buys his goods with wages, and all on a speculation of profit or loss.

Of course, one knows what is at the bottom of all the outcry. It is the conviction that the employer is over-paid; that he manages somehow to get more than he is "worth"; that, accordingly, he has a fund out of which he can afford to pay higher wages than he requires to, without trenching on his "living wage"—whatever that may be. We shall see in due place what ground there is for this belief.

But while it is thus arguable that no blame can be attached to the employer in buying his labour as cheap as he can, this is not to condemn the action of labour in trying to sell it as dear as it can, nor even to assume that the employer may not welcome being relieved of the pressure to buy it cheap. There may be evils following on the cheap buying of labour, which do not affect the employer and do not appear at the moment.

Difference between substitution and paying low wages.

By substitution generally the National Income is produced for a smaller expenditure of effort, or is increased for the same amount of effort. If simple manual labour is replaced by the labour of machinery, and the manual labourers displaced find work in making and tending the machinery, no wage need be reduced —indeed wages may be raised—and yet the National Income will be increased; for unless the machinery were in the end to produce more than the manual labour for the same expense, there would be no motive to make the change. The net result here is that more is produced for the same wear and tear or humanity on the whole. The factor momentarily displaced finds another sphere, and his unchanged wage gives him a claim on an enlarged real National Income.

But when the employer induces or compels the worker to take a lower wage for the same work, he gets the worker to hand over to him the same amount of product as before for a smaller amount of money. Translated, this means that he gets the workman to add the same amount to the National Income in exchange for a smaller claim on that National Income. The claim taken from the workman goes to the employer, and may remain with him as income or disappear in reduced prices.[1]

Here the real National Income is not diminished, but it is not increased. The wear and tear of humanity is not increased, but it is not diminished. The worker, indeed, suffers, for he gets a smaller claim on the real income. In this, however—although it usually escapes notice and is not considered to deserve sympathy—he shares the same fate as the owner of capital when it is compelled to take a lower rate. But, indeed, the consequences may be

[1] If a shilling is taken from the worker's wage, and a corresponding reduction is made in the price of the commodity produced, both worker and employer lose this shilling's worth of claim. But those who have claims get so much more; that is, there is now a shilling's worth of unclaimed real National Income to be divided among the consumers. It is something like the burning of a bank-note, whereby the holder suffers and the bank shareholders gain.

very different.[1] If the wage is substantially reduced, it will cripple the efficiency, not, perhaps, or the labourer himself, but of labour, for it will tend to prevent the labourer from bringing up his family to the same efficiency as himself. The injury in this case is not to the worker only, but to the community. But this is to anticipate.

[1] See p. 210.

# CHAPTER VII

## THE APPEAL FROM THE INDIVIDUAL

*Recapitulation thus far: that as each good is the outcome of single organisations, its price is the limit payable to all in the organisation, and the employer, as paymaster of this price, assesses each factor as worth so much to him. Should or must either party, however, rest content with this assessment? Emphatically not. The determination of price and of wage is not now a matter of individual will or ability at all. The making of every good is divided among a number of organisations: beyond the factory is the trade, and therein lies an appeal both from the individual paymaster and from the individual workman.*

*Résumé* of the argument.

So far as we have gone the argument is this. From the previous book we brought forward the great phenomenon of 40,000,000 of people enjoying a living assessed in money at £1,500,000,000. Most of these people work; but, on the one hand, this income is not all the result of work, and, on the other, the work of a great many has no place in this income. The income falls not only to labourers in payment for their exertions, but to owners of land and owners of wealth for the co-operation of these factors. And such work as that of the majority of women is not paid for at all in money, although it is as necessary for what we call our "life" as the work that is paid for. The problem which concerns us now is the distribution of that part of the income which is assessed in money, *Résumé.* and the feature which gives the problem its urgency and its interest is the excessive inequality of that distribution. Is there any rational explanation of this inequality?

Looking at our categories of income receivers, it seemed that, if any such explanation is to be found, it would be in that field of industry where one person or one firm is the paymaster. The employer, at least, may be presumed to have some reason for and measure in his payments, and an examination of his actions and motives may explain why some incomes are paid in shillings and others in pounds. But a very little consideration showed us that the paying of labour, which bulks so largely in the imagination of many, is only one part of the employer's general function as the organiser of industry, and that it is impossible to find out from what purse he pays, or on what measurement of service he pays, without considering his action as a whole. Thus we found ourselves committed to a lengthy analysis of factory industry.

Here we have employers putting together the labour and capital of the country within single units of organisation, and focusing the efforts of these factors in a good or stream of goods. The employer comes, as it were, into a community of individuals, where each man is making his own living, and changes it into an organic body making its living. He organises the many individual bodies into one body with many members, each member doing its own little part of a total task. With his own capital, or with that of other people, he buys his men the proper equipment, proper conditions, and proper material. As the work goes on from week to week, while the product is not ready for

*Résumé.*

sale for perhaps months, he advances wages in faith and prospect of the product. When it is finished he takes it to market and sells it to others—either other employers or direct consumers as the case may be—recouping himself from the price for all the advances he has made, and taking the surplus to himself as his wage.

In all this his work is not primarily the distribution of income, but the organisation of production. He takes the peasant from his potato patch, and the weaver from his handloom, and puts them into farms and weaving sheds, not in order to give them work, but in order to grow more potatoes and weave more cloth. In the end they, and he with them, get a larger living; but, though the end is thus social, the method is individualistic. The organisation of which he is the centre is purely a private speculation. He is working towards the making of goods which will suit the public both as regards quality and price, but he is working for his own hand. The State does not pay him for a civil servant's work, nor do the workers pay him to organise them and hand over to them all but his own remuneration. He has no motive but the ordinary—and honourable—one of making his bread by the sweat of his brow, and we need not expect anything from him but the ordinary industrial action of pursuing his own interests. The principle, then, on which the employer pays is clear enough: he pays on a calculation of what the factors are "worth" to him. Presumably the inequality of income is due to inequality of service. What other test of the value of a machine is there than that of selling its product? What other test

*Résumé.* is there of the value of a man than that he should sell his services to the person whose aim it is to find the most efficient factors, put them in the most efficient combination, and sell the product for what the public will pay?

This, then, takes us so far in our search for an explanation or principle of the distribution of income. The incomes we are examining are payments made on account of services rendered.

The conclusion is not completely satisfactory, but it is not so unsatisfactory as some people think. It will not satisfy those, for instance, who are persuaded that there is some abstract standard of work other than that which tests it by sale, and think they know the value of their service better than those to whom they render it. If a man is obsessed with the idea that he is a born tragedian, he will never believe that he is being paid his worth as "general utility." Nor will it satisfy those who have a preconceived idea that wages are a compensation—an equivalent for pain endured or effort put forth; or those who have not learned the elementary principle of value, and make the urgency of certain wants the measure of value of that which satisfies them. "In a great house there are not only vessels of gold and of silver, but also of wood and of earth;" there are always those who consider the humble stewpan more "valuable" than the pretentious epergne, and argue that the boy who blacks the boots does a greater "service," and should have a larger wage, than the footman who waits the door. Was it not Adam Smith himself who said that a diamond had scarce any value in use?

But the conclusion will go a long way towards satisfying those who have accepted it for economic truth that the ultimate assessor of value is the public which buys the service or its embodiment. Just because they accept this, however, they will consider the answer far from complete. We shall have to examine further into the matter before we take the employer's word for it that his assessment corresponds with that of the public.

Attention now turned to the assessor.

The question which suggests itself, then, is whether either party should or must rest content with this distribution of income at the hands of the individual employer. In fairness to the employing class and to the wage-earners alike, the answer must be an emphatic No. The wage-earner is not bound to take it on trust that the wage paid him is the proper wage, however accurately it measures the service rendered to the paymaster, and however just the employer tries to be. *Quis custodiet ipsos custodes?* Why should wages be contingent on the good or bad management of the employer? An intelligent workman will ask if his employer has secured the best price for their joint product:[1] if he has put the workers' effort in combination with the best appliances and processes: if he has been able to buy all the other factors as cheap as they might be bought; and besides, if he has not an exaggerated estimate of what his own share should be.

The individual assessment cannot be accepted;

On the other hand, the employer should not take on himself the onus of professing that he pays the proper wage. His ability to pay may not in the

[1] The miners are always charging the coal-masters with sacrificing this interest.

least be a gauge of the ability of employers generally. The joint product may be sold under conditions where the price is not kept in check by normal competition. The employer may be a philanthropic person who surrenders his profits, or a monopolist to whose profits extra wages do not make much difference. Or he may be an employer whose gifts are as exceptional as meadow lands are in Connemara. To expect an employer to pay high wages because he is a rich man, or to hold him up to reprobation simply because he pays low ones, is to do the very worst service to labour, inasmuch as it perpetuates the idea we are only now getting rid of, that wages are a charity, instead of being the share in the National Income which the workman may honourably claim as the work of his own hands.

for neither price

The fact is that the determination of wage is not now a matter of individual will or ability at all. For (1), although the good is the outcome of single organisations, the price is not. It is not a matter of arrangement between the employer, or the employer and his workers, on the one hand, and the consumers on the other, but between all the employers in the particular trade on the one hand, and the consumers on the other. The employer is only the paymaster of a price determined for him. And (2), under modern conditions, the sharing of the price between the workers and the employer is not a matter of bargain between the workers and their individual employers, but is determined between all the workers in the trade on the one hand, and all the employers in the trade on the other. Both the price and the distribution are demonstrably the result

nor its distribution

is an individual matter.

of forces which are greater than those of any individual; forces, moreover, the action of which is frequent enough and observable enough to be reduced to law.

If a master, asked for a rise of wage, pleads that he is giving his men all they are worth to him, and shows his books to prove that, while he is selling his goods for the best price he can command, he is yet making nothing for himself, this does not and should not satisfy the men, provided that they can point to other factories in the same trade where wages are higher. Again, if a master proposes a reduction of wages to his workers, it is not to the point for the men to reply that they are "worth the wage" to him, inasmuch as he is *able* to pay them the former wages, take a good profit to himself, and still sell at the market price, so long as he can prove that they are getting more than their work is worth to the other employers in the same trade. In either case the complainant proves his contention in the same way: the workers go next door and find their work there "worth" the higher wage; the master goes next door and gets in other workers. The appeal is from one master to the body of masters, and from one man to the body of men.

**The appeal to the trade.**

The rationale of this is clear enough. It is that the single factory is only one member of a greater organisation. In the division of labour the making of every good is divided, not only into a number of processes, but among a number of makers. The true "dividend" is the price paid for the totality of this class of goods. Beyond the primary unit of the factory is the larger unit of the trade. Our attention, then, is lifted from the relations of master and man within the individual factory to the relations of masters on the one side and men on the other side within a trade, and the claim of payment according to services rendered takes higher ground.

# CHAPTER VIII

## MASTERS AND MEN

*Within a trade, and "thinking away" the factory walls, one must be struck by the difference of solidarity between masters and men, and this difference produces striking results. (1) Among the former, attracted by the speculative gain of profit, and themselves subject to substitution, there is intense rivalry, pressure on price, and so pressure on profits. (2) Among the latter the massing into factcries binds them into a class, and effects an implicit combination. Hence come mobility and wage levels, independent of, but fostered by, Trade Unions.*

In each trade masters and men confront each other.

A TRADE is a congeries of the rival organisations we have been considering, united in the common object of producing one section of the National Income. The production of yarn, for instance, is one industry divided over all the spinning-mills in the country. Such mills might be, and in many cases actually are, branches of one single organisation. But, as a rule, each trade is made up of a number of separate units, each with its own peculiar organisation. Hitherto we have been looking at the relations of masters with men and men with masters within these units. But many current phenomena, particularly the action of Trade Unions, bring before us another set of relations, namely, those of masters with masters and men with men within this greater unit of the trade. In taking the trade as its unit, Trade Unionism, if we may use the expression, "thinks away" the factory walls, and presents us with a number of masters and a number of men co-operating towards one end, the making, say, of a single kind of commodity, but, at the same time, confronting each other as two distinct bodies.

Looking at the two bodies as thus set over against each other, the difference of solidarity between them is very striking, and the difference leads to very striking results.

Among masters there is intense rivalry,

(1) As a rule, employers in the same trade regard each other as rivals, and their intense rivalry exerts the same pressure on themselves as they exert on the workers. The pressure is not indeed put in force by an outsider, but by an agency which directly pits them against each other; that is, the necessity of meeting and tempting the consumer. For, although they make for the consumer, they are not the agents of the consumer. To keep their place, as we have seen, they are continually pressed to use the potent argument of a concession in price, or in discount, or in terms of credit. Theoretically they have a common interest—to keep up prices; but this is the common interest they are least likely to acknowledge. If they abandon the cutting of prices and sell on a common list, they are thrown back on personal resources to sell their goods; and the weak men, finding the difficulty of this, inevitably begin to cut in underhand ways, till the stronger men break away openly.

bringing profits within limits.

Now this excessive individualism very definitely safeguards the public interest in that it brings profits within limits and law. The employer, as we have seen, is a functionary who does something, in the division of labour, which labour and capital cannot do for themselves. He puts the two together in an organisation, buys their services for fixed sums, and takes the risk of recouping himself out of the joint product. For all this he makes no fixed charge or salary. Profit is neither a wage nor an interest; it is a speculative gain. The attraction of it is the speculation. Where there are profits they are usually large, and the losses fall out of the reckoning both of the employers as a class and of the community. Many a man would not enter a trade for a fixed salary of £2000 a year, who is yet content to make £4000 one year and nothing the next. Such a speculation presents itself as an attraction to a man of resource and self-confidence; the payment depends on results, and it brings out the best that is in him economically as a salary would never do.

**For profit is neither "unearned"**

But for this very reason that it is not a fixed share but a margin, and a margin which depends more or less on a speculation, the employer is suspected of making sums which bear no proportion either to the work of organising or the risk underwritten. To the working man the employer is a person who does not require to take off his coat or soil his hands; therefore he is not paid for working. And of what risk means, the working man seems to know absolutely nothing. He hears enough about the large profits; he knows nothing about the losses—which indeed are and must be concealed; and so, considering "profit" synonymous with inordinate and unearned gains, he confuses the employer with the gambler.[1]

[1] He makes the same mistake about the merchant, whom he charges with the old crime of "engrossing" because he buys cheap and sells dear,

nor "inordinate."

If the idea of "unearned gains" disappears before the analysis of the employer's functions in the last few chapters, the idea of "inordinate gains" disappears when the proper way of calculating average profits is understood. "To find the average profits of a trade," says Professor Marshall, "we must not divide the aggregate profits made in it by the number of those who are reaping them, nor even by that number added to the number who have failed; but from the aggregate profits of the successful we must subtract the aggregate losses of those who have failed, and perhaps disappeared from the trade; and we must then divide the remainder by the sum of the numbers of those who have succeeded and those who have failed. It is probable that the excess of profits over interest is not on the average more than a half, and in some risky trades not more than a tenth part, of what it appears to be to persons who form their estimate of the profitableness of a trade by observation only of those who have secured its prizes."[1]

neglecting the fact that the person who buys on a large scale, divides the purchase out, and carries it to suit customers, is a real functionary in the division of labour, and no more a middleman than any other who comes between Nature and man. Witness the attitude of the co-operator towards the retail dealer, and witness also how often he deludes himself by making the "divi" stand in place of the quality (cf. p. 27).

[1] *Principles of Economics*, 4th ed. p. 702. Statistics of private businesses are, of course, not obtainable, but the following are usually accepted as the estimates of trustworthy men. In Worcester, Mass., Mr. J. H. Walker calculates that, of every hundred men in business there in 1845, twenty-five were out of business in five years, fifty in ten years, and sixty-seven in fifteen years; "and most of these disappearances mean simple failures." Of France, M. Leroy Beaulieu says that, out of every hundred new businesses, twenty disappear almost at once, fifty or sixty vegetate, neither rising nor falling, and only ten or fifteen succeed (*Répartition des Richesses*, ch. xi.) And Mr. D. A. Wells says that "there has long been

In a suggestive passage[1] the same writer shows that employers themselves are subject to the action of substitution through their own competition. Profits are constantly checked by comparison with the earnings of foremen and salaried managers; there is constant rivalry between large employers enjoying the economies of large production and small employers depending rather on personal and less divided energies; between those employing their own and those working with borrowed capital; and between the new man who, "by his quick resolutions and dexterous contrivances, and perhaps also a little by his natural recklessness, 'forces the pace,'" and the old-established firm relying on its reputation and long connections. Of late years, besides, the private employer has at least two powerful competitors. In the Joint Stock and Limited Liability Companies, which cover about a tenth of the total industry of the country, his place as organiser is taken by the directors, or the manager, or the secretary, or his functions are divided among them, and the risk is transferred to the owners of the capital, the shareholders. In the Co-operative Stores both organisation and risk fall upon the consuming members, and it would be difficult to say to what extent this movement may yet grow.

And among masters also substitution obtains.

On the whole, there is good reason to believe that the community gets its employing done for it more cheaply than it gets any other service, just because the speculation and the free life are very large elements in

a substantial agreement among those competent to form an opinion, that ninety per cent of all the men who try to do business on their own account fail of success" (*Recent Economic Changes*, p. 351).

[1] *Principles of Economics*, 4th ed. p. 682.

the real remuneration. I have several times tried to bring out that the functions performed by the private employer are very much the same as would be undertaken by the salaried servant, if working men appointed a leader over themselves and worked with their own capital; and, more than that, are very much the same functions as would be performed by the paid captains of industry in a Socialist State. To this it may now be added that if the employers are performing these functions for a remuneration that does not seem, on the average, more than a wage for their services, it comes very much to the same thing as if they were salaried servants of the community. The hope of a Socialism, one may suppose, is that under it wages would be maintained, interest would fall, and leaders would be paid by their cost of production. It is difficult to see much essential difference in these regards between this and the present system.

Among the men there is solidarity.

(2) The massing of men together in modern industry, subject, as regards work, conditions, and payment, to the will of a few powerful persons, and watched over by special government regulations, has tended to keep out of sight their opposing interests, bound them together in the loyalty of a class, and produced an implicit combination for many common purposes. And, for good or evil, the influence of Trade Unionism has been to make the working classes regard the employer as their natural enemy, in face of whom all little differences of their own have to be sunk. There is perhaps no name that the working man now dreads more than that of "blackleg"—the man who separates himself from his fellows and fights for his own hand.

As natural result of this solidarity comes the establishing of wage levels. A very slight glance at modern industry shows us that wages do not vary from man to man, but persist, rise, or fall over masses. Men doing similar work in a factory are paid similar wages or similar piece-work rates. Where time-work and piece-work are side by side the wages tend towards equality. When our sphere of observation takes in a group of factories engaged in similar work and congregated in one locality, we find that the time wage or the piece-work rate is very much the same over these factories. Its result—wage levels,

When we inquire into the reason of this we shall be told that it is due to the vigilance of Trade Unions, but it is very doubtful if anything more can be claimed by Trade Unionism than that it has fostered and confirmed the maintenance of levels which exist where there are no Unions, and might be maintained although Trade Unions never existed. Witness the fact that in many industries where women only are employed, as in the thread-mills, the levels are quite as marked.[1]

All that is necessary for the establishing of wage levels is mobility. If factories are within reach of each other, and the work is similar, the freedom and ability of each worker to go where the wage for the moment is better, and leave the place where for the moment it is worse, inevitably ends in levelling wages. Even if provided there is mobility.

[1] "The most autocratic and unfettered employer spontaneously adopts standard rates for classes of workmen, just as the large shopkeeper fixes his prices, not according to the higgling capacity of particular customers, but by a definite percentage on cost. . . . The modern employer of labour on a large scale cannot be bothered with precisely graduated special rates for each of his 1000 hands. It suits him better to adopt some common principle of payment, simple of application by his clerks and easily comprehended by his workmen."—Webb, *Industrial Democracy*, vol. i. p. 281.

there is no form of Friendly Society or Union, it is incredible that workers should not talk over the matter of wages, either at the bench, or on the way to and from their work, or after hours; and, if they do so, it is only human nature that they should stand together and take common action. If domestic servants—perhaps the most isolated of any class of workers—can always be counted on to know to a shilling what a place is worth, and what is the character of the house and the mistress, it is assuming too much to say that men, associating in the most intimate way every day, are as helpless as Trade Union theory makes them out to be. It is a testimony in the same direction that, unless the authors of *Industrial Democracy* are improving upon the instructions of their clients, the promotion of mobility within each trade is part of the Trade Union programme.[1]

But to the extent that mobility is imperfect there is not this tendency to levels of remuneration. And perhaps those of us who live in large manufacturing towns, where dozens of similar workshops and factories are crowded together in a small area, are apt to exaggerate the mobility that there is.[2]

[1] Webb, *Industrial Democracy*, vol. i. pt. i. ch. iii.

[2] That the actual amount of mobility remains an open question may be suggested by the following quotations from a debate in the House of Commons, 17th April 1899:—"I do not think I am exaggerating the facts when I say that mobile labour is the rule, and immobile labour the exception, among the industrial population" (*Mr. Asquith*). "I think this idea of the mobility of labour applies only to a fraction of the working classes. In the majority of trades and in the majority of towns the working classes are not mobile" (*Mr. Chamberlain*). "I do not agree with the last speaker. I have obtained some statistics from the Secretary of the Hearts of Oak Society, which show that out of its 220,000 members no fewer than 126,000 of its members have removed during the past year, an average of 500 removals per day" (*Mr. John Burns*).

# CHAPTER IX

## THE APPEAL TO THE TRADE

*There is thus a strong tendency within each trade bringing the remuneration of both parties under law. The price divided,* i.e. *the total divisible, is determined between all the employers in a trade and the public. In the division of the price, profit is kept down by the intercompetition of employers; while, as regards wage, there is an appeal from the employer to the body of employers, and from the workman to the body of workmen. Thus there is an escape on both sides from the arbitrariness of the individual.*

Emergence of law.

If the foregoing is an accurate analysis of the relations of masters to masters and men to men within a trade, we have in these relations a force tending to bring the remuneration of both under law.

The working man, as we have seen, is haunted by two distinct suspicions: one, that his employer is not getting the best price which he might for their joint output; the other, that the division of the price between him and his employer is arbitrary. As regards the first, we have found that price is not a thing for which the individual employer is responsible. It is seen to be a matter of determination between numbers of employers, using different methods and combinations of factors and driven to sell as cheaply as they can, and the whole body of consumers. As regards the second, we find that the division of this price is not a thing for which the individual employer can be held responsible, but a matter of determination between all the employers and all the workers employed. On the side of the employers, we see a fierce individualistic competition bringing profits within limits, and in fact, there is reason to believe, reducing them to a very low point. On the side of the men, we see an implicit combination of the regimented masses, resulting, where there is mobility, in the establishment of wage levels.

The escape from individual arbitrariness.

In all this we have an appeal from the tyranny of the single employer, and equally an appeal from the tyranny of the single workman. In the widening of the circle of interests which makes the unit factory into the member of a co-operating trade, both workmen and employers have a standard of comparison in the services and the payments of the other factories. If one takes a penny steamer from the Broomielaw Bridge at Glasgow and sails down the Clyde as far as Govan, the long line of ship-yards and the successive signboards bearing the words "Engineers and Shipbuilders," tell us that here, in one quarter, the appeal from master to master and from man to man is very real. We are reminded that the employer is not an independent unit, but one of many units all organised, on different plans, for the same purpose, and all competing with each other to get the best factors and serve the same public; and that the man is not an independent unit, but one of many fit for and competing with each other to do the same service. Thus the worker escapes from his dependence on the willingness or ability of his particular employer to pay, and the employer escapes from his dependence on the willingness or ability of his particular workmen to serve.

The point which we reach, then, in our present argument is: that the shifting of our point of view from the individual master and man to the trade advances us another stage towards bringing distribution under law; for every factor may now claim to be paid according to what its service is worth to the body of employers in the trade, and every employer may claim that his profit is no more than a closely cut wage. We have, in short, the emergence of the Representative Employer, settling the price of the goods with the public, and overruling the arbitrary payments of the single employer; and we have the consolidating of the workers into the Representative Worker, setting the standard of service and the claim of payment for the single worker.

# CHAPTER X

## THE APPEAL FROM TRADE TO TRADE

*Does the appeal of the individual factor against arbitrary payment extend beyond the trade? The answer again will depend on the mobility of the factors.*

Perfect mobility would level wages.

SUPPOSE that the National Income consisted exclusively of the products of one particular industry; that all the workers were of equal ability; and that transit was rapid and cheap,—say, not to make the illustration absurd, that the industry is farming, where one man in his time plays many parts. In such a case there would still be the pressure from beneath and around tending to reduce wage, but it would be like the pressure on water which slips away below it. Every farmer who tried to reduce the rate of wages would find himself short of workers, and every farmer who offered more would find applicants at his gate. Suppose also that competition had done its perfect work among the farmers, so that there was one price for the products made, and that profits were reduced to a minimum; then the mere knowledge that labour was able and ready to move would keep wages at one level, and the only question would be to what point this level could be pressed.

But if there were no such levelling influence among the farmers, and if workers were prevented, by distance or other obstacles, from appealing from farmer to farmer, profits and wages would not come under law: there would be nothing to indicate that the contributions of the various factors towards the National Income were being measured and assessed by anything higher than the willingness, or ability, or brute force of each individual employer organising his industry with a view to his own self-interest.

What seems to come into prominence, then, as the great security and safeguard against arbitrary incomes, is, on the one hand, the competition of the employers, and, on the other, the mobility of the workers.

But, as things are, the National Income is as far as possible from resembling this supposed case. It consists of an infinite variety of products made in an infinite number of trades by factors whose abilities are infinitely various. We have seen that, to the extent that there is mobility inside trades, there is a tendency to levels in the remuneration of the various factors employed, and that the arbitrariness of the individual payment tends to disappear. We have now to inquire if there is not some force that tends to bring the various trades together into a unit, as the various factories were brought to unity in a trade; if, in short, to retain our metaphor, the dividing walls of trades also may not be conceived of as broken down, leaving all labour, conscious of its common interest, facing the whole body of employers competing with each other. Or are trades like compartments within which the competition among employers and the mobility among workers are confined? If the latter is the case—and

**How far does trade mobility extend?**

Trade Union action distinctly tends that way—we are left with very great anomalies in distribution. It is notorious, for instance, that some of the less skilled but well-organised trades have attained a level of wage much higher than that of allied skilled trades where the organisation is weak. The question comes to this: What is the amount of mobility, among factors and among employers, from occupation to occupation?

# CHAPTER XI

## THE TRADE MOBILITY OF LABOUR

*Probably it is much greater than one would believe from personal observation. Between certain trades there can, of course, be no direct movement. But where machinery is much used, among the minders there is much mobility—one proof being the failure of Trade Unions to keep their organisations closed, another being the phenomena during the lock-out of* 1897-98. *But even where there is no movement of adult labourers, the possibility of movement due to improved communication, and, particularly, the coming forward of the young generation, lead to the same results. Thus the groups between which there is mobility are growing larger and the division lines thinner. All this applies with added emphasis to the employing class.*

**There is more mobility than we imagine.**

IF we ask ourselves how many people within our knowledge and in our own country have changed their trade, some of us might have difficulty in finding a single instance, unless, perhaps, where a domestic has changed, say, from house to tablemaid, or from coachman to gardener. And those who believe that social and ethical considerations demand that a man should not be a wanderer, but a centre of influence and affections, are predisposed to accept Mr. Davidson's generalisation that trade mobility generally spells degradation from the ranks of the skilled to the unskilled.[1]

[1] *The Bargain Theory of Wages*, p. 183. On the other hand, it has been argued plausibly that inventions are generally made by men who migrate from trade to trade.

But probably the mobility of labour which we are now considering—the power of free movement from trade to trade[1]—is greater than any empirical observation would suggest. No agricultural depression, of course, will ever drive farm-labourers into watch-making. But agricultural labourers take to the coal-pits when inducement is offered—so much so that, at a recent Trade Union Congress, the resolution was proposed that no man should be allowed to go down the pits unless he had already been a miner before the age of eighteen. And, by the nature of their work, watchmakers might pass freely enough into other occupations requiring fine fingering and the use of delicate tools.

**For much specialisation is specialisation in machine-tending.**

It is generally argued that the evident tendency of modern industry, as of modern scholarship, is towards specialisation, and that specialisation is an almost insuperable obstacle to mobility. But the case of workers in engineering shops is suggestive. Not many years ago it was a commonplace that a skilled millwright could turn his hand to anything. Later it was observed that this all-round workman was disappearing from the shops, and was being replaced by the man skilled in the handling of particular machine tools, and disinterested spectators began to lament that it would go hard with such men if they "lost their jobs." But the modern development of machine tools has brought an escape from this dreary outlook, in the fact that very much the same kind of skill is required for tending one

[1] It may be advisable to call attention to Mr. Davidson's reminder that there are two kinds of mobility: place mobility—the one we have been considering,—and trade mobility—the one with which we are now concerned.—*The Bargain Theory of Wages*, p. 181.

kind of machine tool as for tending another.[1] Witness, for instance, the movement which has taken place within the last eight years into the practically new trade of cycle manufacture. Witness again the generally accepted statement that during the great lock-out of 1897-98 the work in many shops was scarcely interrupted, the engineers' places being taken by apprentices and by labourers advanced to the post of machine-tending.

The fact seems to be that the universal spread of machinery requiring only skill in machine-minding tends to make labour more mobile, at the same time as it makes mobility more necessary. If one looks over the field of labour and sees the desperate efforts that are being made in most of the crafts to prevent the intrusion of outsiders who have never passed the recognised gate of apprenticeship, but yet are found quite capable of doing the work to which the Trade Union protests a "right,"[2]—even if we consider only

[1] "An engineering establishment will have in use a long array of different types of planing, drilling, boring, slotting, and milling machines, together with a bewildering variety of applications of the old-fashioned lathe. The precise degree of skill and trustworthiness required to work each of these machines, or even to execute different jobs upon one of them, is infinitely varied. The simple drilling-machine or the automatic lathe, continuously turning out identical copies of some minute portion of an engine, can be tended by a mere boy. Some work executed on an elaborate milling-machine, on the other hand, taxes the powers of the most accomplished mechanic. Yet so numerous are the intermediate types that the increase in difficulty from each machine to the next is comparatively small. Thus the youth or the labourer who begins by spending his whole day in 'minding' the simplest driller or automatic lathe may 'progress' from one process to another with little further instruction, until, by mere practice on a succession of machines, the sharp boy becomes insensibly a qualified turner or fitter."—Webb, *Industrial Democracy*, ii. p. 471.

[2] Many of the Unions, notably the London Society of Compositors

one part of the same movement, the pressing of women workers into trades hitherto held sacred to men,—it is difficult to resist the conclusion that in the near future the competition which will attract notice is not the competition between capital and labour, but the inter-competition of the various grades of labour.[1]

If, however, we looked for mobility only in the movement of adult labour, we should be disappointed. But there are other two considerations which must be taken into account.

Actual movement is not necessary.

(1) Where there is cheap and rapid transit, and where newspapers and other agencies keep people informed of the conditions of work and wages, there need not be actual movement to secure its levelling effects. After all, the meaning of mobility is power to move, and the threat of movement is sometimes enough to secure the worker against arbitrary payment.

Mobility through the young generation.

(2) Where there is no mobility of the labourer there may be and is mobility of labour. Perhaps it is not sufficiently realised that the supply of labour must be a continuous stream. To maintain its numbers every trade requires to be constantly recruited, and to meet the demands of growing population and growing wealth most trades require a constant addition to their numbers. In 1893 the Employers' Committee and the Iron Shipbuilders' Society came to an agreement whereby two apprentices — the term of indenture being five years — were allowed to every seven

and the Amalgamated Society of Engineers, have given up trying to fight against the tendency.—Webb, *Industrial Democracy*, ii. pp. 468-470.

[1] See further, p. 234.

men. The rationale of this proportion was that this number of apprentices would keep the supply of journeymen constant. But Dr. John Inglis, whose right to speak with authority will not be questioned on the Clyde at least, while agreeing, protested against the limit as quite insufficient to supply what one might expect to be the normal demand for journeymen in this trade.[1]

Remembering this constant need of accessions, it is clear that the direction of young workers to one group of occupations means actual decrease of numbers in the other groups, and the growing competition in one group has its counterpart in the slackening of competition in the others. At any moment the population under ten years of age is nearly a quarter of the whole. In times when riveters are "past their best" at the age of forty, and there are "no men available" in the shipbuilding industry after forty-five,[2] the effect of this stream of recruits constantly coming forward goes far to redress the immobility of the adult workers. It is true that 3 per cent or $3\frac{1}{2}$ per cent of the total population coming forward every year as new candidates for work cannot produce much effect if distributed over industry generally, nor will a total cutting-off of the supply of recruits from any one trade affect its numbers for a long time; but a small percentage of the

[1] *Transactions of the Philosophical Society of Glasgow*, 1893-94.

[2] "The reports of the men's union (Boilermakers and Iron and Steel Shipbuilders' Society) show that the average age at death is forty-five years. The number which continues at work after that age is so trifling, and we have to set off against these the greater number which does not so continue till death supervenes, that we may take it that there are, for practical purposes, no men available after forty-five."—Dr. John Inglis, *Ibid.*

new population coming into any one trade will have a very powerful effect indeed in levelling its wage.

It must be granted that the wisdom and unselfishness needed to guide the labour of young people into the most profitable channels have hitherto been sadly to seek. In the lower ranks parents generally yield to the temptation of increasing the household earnings by sending their children to earn a wage at any casual occupation which comes within their notice, such as selling papers and matches, or caddying at golf-courses. And any one with eyes can see what kind of training is being got by the "smart message boy" so often advertised for. Above this rank, children as a rule follow the occupation of their fathers, especially where the fact of the father being in a particular trade makes it easier to get the children into apprenticeship. But in proportion as the working classes rise to higher standards of life, the direction of this current of young labour will be better guided. Generally speaking—and within limits—the longer a child can be kept at school, the wider is the field of occupations thrown open to him, and the fact of his being kept longer at school is, in general, a proof that the parent is capable of judging what occupations are least congested or offer the better prospects.

It seems a fair generalisation that, while the groups which are self-contained and non-competing are becoming more confirmed in these characteristics, the mobility of labour as a whole is increasing, inasmuch as the tendency in all trades is to introduce more and more machinery, and to reduce the function of the great bulk of labour to machine-tending. At least we may say that, while labour generally is divided into groups which are comparatively non-competing, the lines of demarcation between many groups are getting thinner, and the groups are getting fewer and larger. But that mobility has not yet gone very far—perhaps that Trade Union restriction has prevented it going very far—is suggested by the fact that riveters on the Clyde (March 1899) are getting from 40s. to 80s. per week according to the job, while engineers get 36s. to 38s., and brassfinishers perhaps 35s.

Mobility among employers.

When we come, finally, to the class who organise labour and yet must be counted as the head labourers, the mobility is much more marked. It is evident that the employing class is not limited to capitalists. The increase of wealth generally, the spread of Limited Liability Companies, etc., seem to confirm Professor Marshall's statement that where there is organising ability there will be no lack of capital begging to be organised.[1] The more complex business becomes, the less specialised is the skill of the employer. He is the person who has knowledge of things and knowledge of men rather than technical training and knowledge of processes. Hence the area of competition for this occupation grows wider and wider. The numbers are recruited from the universities rather than from the technical schools. Here there is considerable mobility among adults, and increasing numbers of

[1] When the modern Socialist persists in making the "capitalist" his target for attack, it can only be that it suits him not to see that the owner of capital and the captain of industry are very often distinct persons, and that, in any case, the difficult and responsible labour of organising and taking risks is an entirely distinct function. If there is suffering, the owner of capital (or the employer *qua* owner of capital) suffers with the labourer from the power which tends to press down the remuneration of both.

young people are easily diverted into that occupation which presents not only a career for brains and an independent life, but the additional attraction of a speculative wage. It is mostly elderly men who would be willing to barter their talents for a fixed salary; the young will always be attracted by the risk of great fortunes even when balanced by the preponderant chance of great failures.

## CHAPTER XII

### THE MOBILITY OF CAPITAL

*Wealth does indeed tend to take fixed and specialised forms and so to become immobile. And we must not argue from the fact that interest is a rate to the conclusion that mobility is the cause of this equality of return. But capital as a whole is much more mobile than labour is.* (1) *Many of the larger forms may be converted.* (2) *Its mobility is secured by the new supply; for* (*a*) *the form it will take is determined by interested persons;* (*b*) *as it wears out, the replacement takes improved shapes. In all this there is a suggestive comparison with the case of labour. Thus we conclude that the appeal is very real.*

**Fixed capital is very immobile.**

In the case of capital, again, it is clear that under no exigency could the plant of a flour-mill be converted into machinery for making bicycles. It may be granted also that the complexity of industry and the hugeness of the tasks it undertakes lead to more and more of the country's wealth being invested in fixed and specialised capital and so made incapable of adaptation. Thus, comparing the respective mobilities, it is quite arguable that of the two, a labourer thrown out of a job and an employer boycotted by his work-people, the employer is the weaker. The former has indeed little or no reserve power of holding out, but he can at least take up his belongings and walk to the next town, while the latter is tied to the spot, and may in a week sustain loss—loss of profit and loss of customers—that puts his balance hopelessly on the wrong side. If statistics could be had of the cases where employers carry on simply because they cannot get their capital out, and continue spending with a smiling face because their credit cannot afford any sign of retrenchment, some of the sympathy so amply given to the wage-earner might be transferred to his master.

On the other hand, it is a commonplace that all investments of capital tend to an equality of return. As any stock exchange list will show, the slight differences between the return given by good industrial companies, railways, mines, and the like, are all accounted for by differences in their respective security. If wages tend to equality only where and as there is great mobility, how is it, in the circumstances above mentioned, that interest is so evidently a rate?

The rate of interest proves nothing here.

The paradox deserves an explanation which it does not always get. It may be said at once that this equality of rate has nothing necessarily to do with the mobility of capital. We easily assume a much closer parallel between "capital" and "labour" than really exists. Labour is confined within the skin of the labourer; whatever the disadvantages of his position, the owner of labour—the one who gets the wage—is one with the labour which earns the wage, and fixed labour is fixed ownership of labour. The labourer, that is to say, cannot sell his labour for what it will bring, and "cut the loss" by getting rid of the unfortunate investment for a smaller sum. When he appeals from employer to employer he drags the burden of his person with him.

But while labour is the labourer and wage goes to him alone, capital is not the capitalist, and it is the capitalist—the owner of capital—to whom interest goes. An employer, finding his concrete fixed capital unremunerative, may sell it to another person for a smaller sum of capital in general in the shape of money. Or—what is the same thing—he "calls down" his capital. In either case, what he calls "his" capital does not remain as it was: though the concrete forms remain unchanged, the *value* of the capital is written down—that is, part of it is wiped out of the calculation altogether. "When a man becomes worth only half his previous wage, we do not write him down as half a man; but if a factory brings its owner £25 instead of £50 a year, we say that his capital is only £500 instead of £1000." It might perhaps be put in this way: the unit of labour is the labourer; the unit of capital is, say, £100 *worth* of capital. In short, even if we were to assume that capital is no more mobile than labour is, interest would still be a rate.[1]

**The real mobility.** But capital itself as a whole is much more mobile than labour as a whole.

1. Though millstones will not make bicycles, many of the largest categories of capital may, within tolerably wide limits, be converted from one purpose to another; for instance, buildings, steam-engines, horses, etc.

**How it is secured by the new supply:** 2. The mobility of capital is secured from the side of the new supply, and here, again, we have a suggestive comparison between it and labour.

(*a*) Wealth is increasing very much faster than

[1] On the fallacy which contrasts the fall in the rate of interest with the rise in wages, see Cannan, *Theories of Production and Distribution*, chap. vii.

population,[1] and the form which this wealth will take as it comes into the world is in the hands of people who have every motive to give it the shape which will find the most profitable investment. The nation saves — that is, does not consume— £200,000,000 a year,[2] or close on a seventh of its annual income. Suppose that part of the saving is done by a person who cannot extend his business and prefers to acquire old capital rather than new. He allows the money to accumulate in a bank, and so gives the banker power to decide what form the new capital shall take. Or he buys consols and allows the seller to decide. And, again, there is always a fund of inchoate capital which can be materialised in any form wanted. The forges and machine shops of the country, for example, are full of stock—steel bars, plates, tubes, etc.—which may be directed, at a week's notice, to the making of any kind of machinery.

unlike labour.

But while capital can take any shape, labour can take only one. A man rises up, works, and lies down in his own skin. Labour, as was said, is always prisoned in the body of the labourer. But capital is wealth—any and every shape of wealth. It is not sown that grain which shall be; the body which it shall be depends on the wish of the sower. Even the fields can grow half a dozen kinds of grain, or support houses, or be simply pleasure-grounds, although once sown the seed can come up only what was sown. But

[1] "We are within the mark, then, in assuming that population since 1850 has increased at the rate of 1.3 per cent per annum, and industry and wealth at the rate of about 3 per cent per annum."—Giffen, *Essays in Finance*, p. 95 (written in 1872).

[2] This is Sir Robert Giffen's accepted figure. — *Essays in Finance*, chaps. vi. and vii.

man has only one seed, and that must come up the grain which was sown.

(*b*) As fixed capital wears out, its replacements need not take the old form. The progress of invention and improvement seldom allow that old machinery is replaced by machinery exactly the same. The worst that can happen to it is that it stops and is sold for what it will bring, and no more of that kind of capital is produced. But the labourer's children are made in his own image. He himself may indeed stop doing what he was doing, write down his own value, and turn to something else; analogous in this to a factory turned into a shed, or machinery used for old iron. But, though his sons may be superfluous, he does not stop producing the same kind of man as he himself was. Men, in short, produce men and nothing but men. Capital produces everything but man.

If, then, mobility is the condition of the appeal from arbitrary payment, capital has its full share of the advantages and disadvantages of such an appeal.

# CHAPTER XIII

## TAKING OUR RECKONING

*It was suggested that there might be a clearer connection between money income and services rendered than one would think. We find on analysis* (1) *that services rendered to employers are services rendered to the community and paid by the community in price;* (2) *that, in the division of this price, profits are not arbitrary, being subject to fierce inter-competition, and the remuneration of the factors is not arbitrary (although we cannot indeed apportion remuneration according to product), owing to the appeal—where and to the extent that there is mobility—from the individual to the trade. To this extent there is a tendency towards equal payments for equal services. And this mobility is seen to extend beyond trades and bring an equalising influence into all incomes. But, assuming this as true, the pressure downwards remains: is there any point at which it must stop?*

"I AM always willing," said Adam Smith, "to run some hazard of being tedious in order to be sure that I am perspicuous." As the present argument is a very long one, it is perhaps advisable at this point, at the "hazard of being tedious," to pause and take our reckoning.

Our subject is the distribution of the £1,500,000,000 which represent the real income produced year by year. All the positive knowledge most of us have about this distribution is that it is very unequal, and most people are ready to say that it is very bad. But many of us must have had a suspicion that a good deal of the inequality may, after all, be due to an inequality of deserts; that there may be more truth than one thinks in the rough and ready generalisation of experience that "most men earn just about what they are worth." And, as it happened, the analysis on which we entered, as apparently the most promising, suggested that there might be a clearer connection between the money incomes paid to each factor and the services rendered by that factor than appears on the surface.

**Beginning with industry under employers,**

We started with incomes earned in factory industry under private employers, where one man is visibly the direct paymaster of many incomes, and indirectly the paymaster of his own. It seemed probable that, if we were to find any principle in distribution, it would be in the study of the employer's actions. He is the centre of those organisations in which the greater part of the National Income is made. He at least knows for what he pays, and why he pays so much to this and so much to that factor. Is it not possible, it was suggested, that employers generally may be so controlled in their acts by economic circumstances, that the services, rendered primarily to the individual employer and by the individual employer, may really be found services rendered to the community, and that the payments made by the individual employer to the factors and to himself may also be found determined by the community?

**we found that they organise services**

The first part of our expectation justified itself. We find the employer to be virtually the agent who carries out the public wishes. The community demand goods for their living. They ask that they and their resources be organised to produce them. The employer takes the task and the risk on himself.

He selects and combines the various factors to his best ability, his great interest being in reducing the cost. He takes the goods as they come from the hands of his factors and sells them, distributing the price in payments to the factors and to himself.

The reason why he pays is, of course, that certain services are rendered to himself and by himself. But evidently we cannot stop at this statement. Everything is thrown forward on the price of the goods produced: it is the fount of payment: and this price is paid by the consumers of the goods. The employers are seen to be intermediaries acting unconsciously for the consumers. We are reminded of the microcosm of industry presented in the former book, where each organisation of labour and capital, acting through its employer, throws its product—its service embodied in goods—into the pool, and takes away in exchange a claim on the pool in the shape of money. Thus there is always a real income—a pool filled with goods,—and a money income—the claims on these goods. But the real payment of the factors for their services is not made till the claims are cashed: when they are cashed, it is seen that the services rendered to the pool have been paid out of the pool. Each producer of goods is paid by other goods: it is a great co-operation of mutual service. Thus we find that the services rendered to single employers are synonymous with services done to the whole body of the buyers—that is, the community.

for the community:

If we found out nothing else about distribution than this, it is always something to know that the factors are not paid out of employers' pockets, nor out of any pre-existing fund or purse, but out of goods sold by the employer on account of himself and his factors; that the community is the ultimate receiver of these services. We have indeed need of everything that may tend to raise the dignity of labour, and nothing is more likely to do so than the conception that the humblest worker is the servant of the State.

But all that this tells us is that the community recognises the services of the factors by buying the goods in which they are embodied, and paying a sum, not for each service, but for the totality of services embodied in the goods. The distribution of the price thus far is left with the employer. But may we not hope that the distribution of the price also is subject to the control of this ultimate paymaster; that the payments made by the single employer are controlled by forces greater than his own? This second part of our expectation we also saw beginning to justify itself. First we found that no employer stands alone in determining his prices—the total divisible,—and in determining his payments—the sharing of that total; and then we found that no worker stands alone in claiming his share of the price.

**—services paid in price.**

**But in distributing this price,**

The suspicion that haunts most men—we may as well put it in words—is that the power in the hands of employers is too absolute. But our analysis of the motive and work and method of payment of the employing class showed us that their services are constantly being compared and checked and pressed to a maximum, and their "profit" to a minimum, by the rivalry among themselves to sell to the public. However great the power of the employer may be, it does not extend to securing himself an exorbitant share of the price. Profit, the word understood by so many as the

**granted that employers do not get too much,**

gain of exploitation, is better interpreted as the correlative of loss.

is enough left from the price adequately to pay wages?

But while we may be satisfied that the employers are not getting too much, it does not follow that the employed may not be getting too little. Granted, that is to say, that, out of the price realised, the employer is obliged to pay over to the factors all but a minimum wage called profit; what protects the price from being driven too low? And this brings us to the "loose end" which troubles us all through the question of wages.

In this competition which reduces profit to a minimum, one prominent feature is that the employer is always casting about to find the most efficient factors. But with him "most efficient" means "most efficient at the price." Of two factors doing the same amount and quality of work in the same time, that one is the more efficient which is the cheaper. And, as we saw, he is forced, whatever his inclinations may be, to buy his labour as he buys other commodities; that is, as cheaply as he can. The question which seems naturally to present itself is: What proof is there that the remuneration thus beaten down represents a proper equivalent for the service rendered?

A "fair equivalent" of service

If the question is pressed in this form, I am afraid no answer can be given to it. It is quite true that we cannot well shake ourselves clear of the idea that there is a "fair equivalent," if only we could find the means of determining it. Possibly it has come down to us from times when men individually produced from the fields, and counted what they took for their consumption as the work of their own hands; or it comes from our fancy that there must have been some such stage in history. With all our recognition of the difference between the work of a tiller of the soil in an unoccupied world, and that of a whole co-operating community where no factor is more than the smallest tooth in an insignificant wheel, we sometimes dream that it must be possible to determine wages simply by product, as one might contract to pay a labourer the extra produce which he saved from being wasted, or as a mistress might—and could—afford to pay a housekeeper if she could prevent the under servants from "breaking." And the idea gets strong support when we look through the complex working of the industrial machine, and find that, at bottom, every act of production is the giving of a *quid pro quo*, an outlay of human life or of realised wealth, or of both, as against the receiving of more life or wealth, or both. If this is so, one is ready to argue, Why should it be impossible to attach an equivalent in return to every given amount of service?

**is indeed impossible of determination.**

It is well to put it down once for all, that if we base our hopes of a "fair wage" on any such idea we shall be disappointed. As we have amply seen, no such criterion is possible in our divided industry. In the seamless garment of price the material contribution which the several factors have had in the making of the goods is lost.

**But arbitrary payments are eliminated where there is mobility.**

All the same we are not left to the conclusion that the worth of the factor's service is just what its employer may pay for it. Few factors are dependent on the will or ability or force of the individual employer. In the case of the factors which are supplied by capital this is quite clear. Fixed capital, indeed, is less mobile than almost any labour, but other forms of capital move easily wherever there are ships or trains to take them, and, beyond this, the increasing flood of new capital can be determined easily into any channels which show an advantage. Thus in the case of capital there is a very real appeal from the tyranny of the individual employer. In the case of labour, again, if the workers within a trade are informed, and are willing and free to move, there is an appeal from the single employer to the body of employers in this trade,[1] and, in this case also, the new generation of workers is readily determined into the more profitable occupations. This possibility of movement out of some places and callings and into others, which we call Mobility, secures—well, let us be quite clear what it does secure.

Mobility secures wage levels

Suppose a single spinning master intimates a reduction of wages for next fortnight from 12s. to 11s. It does not follow that next fortnight will find the wheels idle because the workers have betaken themselves elsewhere. On the one hand, there is nothing to show that other employers can take in more workers; on the other, there may be enough unemployed workers glad to be taken on at the lower wage. All we can say is that there will be a tendency to move to other factories where the wage is still 12s., if a place can be found in these factories, and that the new recruits, as they pass out of half-time, will be directed

[1] We speak here as if the appeal was always against the employer—as if the "lowest price" paid to workers is likely to be lower than corresponds with the service rendered—and this certainly is the danger. But in the text it was noted that the "tyranny of the individual" may be the other way, and that the employer, also in virtue of this mobility, is equally safeguarded against paying more than the services rendered would warrant. See p. 155.

towards the higher wage. In time, then, there will be a shortness of hands in the lower paid factory, and this will tend to raise the wage again. But, at the same time and as counterpart, there will be an over-supply of applicants at the gates of the higher paid factories. Thus wage may fall in these latter from 12s. to 11s. 6d., and rise again in the former from 11s. to 11s. 6d. There will always be the tendency towards a level, but the level may fall. If several tanks of viscous fluid are connected by a pipe, there will be a steady pressure of the fluid towards one level; but if there is a leak in one of the tanks the level will fall. There is nothing, then, in this to secure that the "lowest price" may not be too low.

But, granting all this, mobility is something. It is an appeal from one man's payment to the payment of others. If the loss of workers who know the place and its ways is a thing with which the employer has to reckon, he will think twice before he risks it. Not all employers wish to reduce wage, and not all at one time. On the other hand, mobility enables the worker to take advantage of the chance when a better wage is open to him. Possibly we have left this aspect of the matter too much on one side, because of the prevalence, at the present time, of a phenomenon of which we have to speak later—the tendency for machinery to take over much of the work hitherto done by men, and the consequent pitting of the capital factor against the human factor. But at all times the worker has something to sell which the employer, if he is to remain an employer, must buy; and it is, moreover, as we shall see later, a thing whose value to the employer may increase with a rise in

by the appeal from the individual to the trade.

wages out of all proportion to the rise. A wise employer may make more out of a high wage than an average one out of a low wage. Thus, although Trade Union action rather tends to keep this in the background, there is a real competition to buy labour, which tends to raise its price as surely as the competition to sell labour lowers it. In these conditions, mobility secures and rewards the appeal from the employer who wishes to reduce wage to the employer who is willing to maintain or to raise it.

Thus what mobility does within each trade is to secure the factors against arbitrary payment, and to give the conditions for the working of those forces which tend to raise wages as against those which tend to press them down. While then, as we have seen, there is a tendency within each trade to reduce all employers to a normal standard as regards the payment of wages, this mobility tends towards securing that equal services are equally rewarded.[1]

**And mobility sometimes extends from trade to trade.**

And now the question comes, if this mobility, with its equalising tendency, does not extend beyond individual trades. Unquestionably it does so as regards capital, and an examination of the conditions of mobility seemed to show that it does to some extent as regards labour. There are certain tendencies which make it easier than it was to pass from one trade to another. One is the universal introduction of machinery and the tendency to reduce the great body

[1] It is scarcely necessary to say that by tendency towards equality is not meant any tendency towards equal money wages, but towards equal net advantage wages; and, moreover, that it is not a tendency towards equal remunerations of efficient and inefficient labour, but towards the establishing of wage levels for similar efficiencies.

of labour to machine-tending. Another, and a greater perhaps, is the steady rise in the standard of the labourer: increasing comfort gives increasing time for general and technical education and training. This does not indeed affect the adult workers to any great extent, but it does affect the class through whom mobility for the most part works, the children. It is, of course, most notable in the best-educated classes, and thus we see the greatest mobility of all among the employers themselves—the employers here coming into line with the workers generally. But it is a quite well-marked phenomenon of all classes above the very lowest ranks, that the children, as a rule, tend to pass into a somewhat higher grade of labour than their fathers. And every step taken by governments and corporate bodies to give better education to the children of the poor, and make the ascent from the board school to the university possible to the most promising, tends strongly in this direction.

**But it does not prevent the pressing down of the levels.**

This finishes the argument so far as we have gone. The fact seems to be beyond question that incomes, in this kind of industry, are very far from being arbitrary; that they are payments for services whose value is being compared and tested in all sorts of ways; and that, as result, there is a tendency, strong in the case of capital, much weaker in the case of labour, towards the establishing of levels in the remuneration of all the factors. But in this establishing of levels we do not get rid of the pressure downwards exerted by and on employers. The question which seems to emerge, then, is: Is there any point at which this pressure must stop?

# CHAPTER XIV

## SUBSISTENCE WAGES

*Is there not a lowest level of wages in Subsistence? But what is subsistence? With the Physiocrats it was one thing—an observation of facts: with Ricardo, another—an inconsistent deduction. We must distinguish between the subsistence of labour and that of the human being. Modern labour, infinitely graded, making demands on intellect, nervous energy, and resource, is not one thing, with a physiological minimum of food, clothing, and shelter. It is a force embodied and transmitted, brought to a high efficiency level by education, organisation, and surroundings. Its subsistence, then, involves reproduction of all this; its "cost of production" means the expense of bringing up a continuous succession of home-grown, educated, trained workers.*

Is there any point at which the pressure downwards, exerted by and on employers, must stop? The answer which rises to the lips of any one acquainted with economic theory is that, as regards wages, there is such a level in Subsistence. "Though millions have died of starvation," says Mr. Cannan, "it has always been an accepted maxim that a man must live."[1]

When wages were at Subsistence point.

Simple as the conception of Subsistence Wages might seem to be, the history of theory shows very diverging accounts both of what it is and of what induces it. In the first theory of distribution, that of the Physiocrats, subsistence was not so much the minimum as the ordinary rate of wages, and not so much an economic theory as an economic

[1] *Theories of Production and Distribution*, 1776-1848, p. 232.

statement of facts. The force which kept the French peasant at subsistence level was taxation—not taxation as we know it, but taxation to support a privileged class, who did not pay taxes, but who had the destinies of France in their hand, and had ambitions and ideals of national life which the peasants' taxation made possible of realisation. Owing very much to a policy, scarcely now conceivable, which surrounded each province with a protective tariff wall against its neighbouring provinces, France was miserably poor, and its population was decreasing; but the government expenditure was enormous. War was the amusement of the court, but it was not defrayed by the court. In eighteen years the national debt ran up from about £6,000,000 to £130,000,000. How could the peasant expect more than his subsistence when the unhappy king and court could not even get as much, but had to run into debt? And the system of taxation was calculated to keep men poor. It was levied on the district, and was farmed out to *fermiers généraux*, the consequence being that those who could pay had to make up for those who could not. What was the use of toiling when anything made by the cultivator over subsistence was taken by the tax-gatherer?

It needs scarcely be said that the position of the English working man to-day is as different from this as possible. He pays no direct imperial taxes. If he abstains from liquor, tobacco, and tea, he escapes even the indirect ones. If he does pay taxation in this form, it is not to support a privileged or idle class with ambitions and national ideas different from his own; his taxation is simply payment for what he and the citizens as a body consider value received in service rendered to them. It is a contribution taken from the people to be returned to the people in doing them services they can best do for themselves by this particular organisation.

Ricardo. If, then, economic theory had continued to be based on observed facts, the subsistence theory would have been relegated to the limbo of rash generalisations. But the strong deductive bent of Ricardo gave it a scientific basis which was not so easy to shake. There were two things from which Ricardo could not escape. One was the Malthusian demonstration of the power of the sexual impulse in face of the limited powers of land: when market wages rose, marriages increased and births increased, and, before the new flood of population, wages fell to their "natural" level of the "food, necessaries, and conveniences required for the support of the labourer and his family." The other was the fact that wages, "in an improving society," might for an indefinite period be constantly above subsistence.

The attempt to steer between these led Ricardo to strangely inconsistent statements. "Subsistence," he said, "varies at different times in the same country, and very materially differs in different countries." An English labourer would "consider" potatoes for food and a mud cabin for housing below subsistence level. Subsistence, thus, is a thing of "habits and customs." But in the same chapter he has just said that, when the labourers' price falls below their natural price, privation "reduces their number," thus identifying subsistence with the physiological minimum. It is impossible to reconcile such statements, and succeeding economists, who accepted Ricardo as in the line of the economic succession, took whichever of them suited their purpose. Ricardian theory, accordingly, is claimed as the original authority for the Iron Law of the Socialists, and for the modern doctrine that wages depend on the Standard of Comfort of the time.

**The Iron Law and the Standard of Comfort.**

In speaking of Subsistence Wages we must carefully distinguish between two things which are sufficiently vague without being confused: the subsistence of the labourer as a human being, and the subsistence of the human being as a labourer; or, more shortly, between the subsistence level of the labourer, and the subsistence level of labour.

**Subsistence of the labourer.**

The difference had not emerged prominently when economic theory was being formulated. The subsistence of a Scots ploughman in the old days might almost be put in terms of oatmeal.[1] Where dinner was reduced to a mere incident of life—as it is among some vegetarians one meets, instead of being the stately function never to be omitted by the Englishman—subsistence was fairly calculable. The greatest Frenchman among the early economists passed his apprenticeship to statecraft in the Limousin among peasants whose food for one half the year was chestnuts. And one remembers Adam Smith's terrible testimony to the poverty of the Highlands in his days: "It is not uncommon, I have been frequently told, for a mother who has borne twenty children not to have

[1] "What do you get for breakfast?" "Get! what should I get but parritch?" "Ay, and what for dinner?" "Parritch, sin' ye maun hae't." "Some change for supper, surely?" "Just parritch tae, and glad to see them a' times o' the day." "Is it possible that you feed on nothing but porridge, morning, noon, and night?" "Hey, Jock, here's a man thinks every day a New'rday!"—*Laird of Logan.*

two alive." Probably the conception of subsistence as a minimum would never have arisen except in a society where it was the ordinary wage.

But these were the days before steam; when men had to do work that now is done—and better done—by tools and machinery. Consequently they were days when comparatively little strain was put on the nervous system and the intellect in the commoner tasks of life. In modern industry it is evident that a different subsistence is required for work that is mostly indoor, is always done in collaboration with machinery of a more or less complex kind, and where brute strength is little required. But whenever we look above the lower levels of labour—without looking at all at pure brain work—the surroundings of the worker come into consideration, and we find that a great deal of the most ordinary work requires a certain resource and reserve force that can be got only where there is a considerable degree of home comfort, leisure, education, and recreation. It is not possible to speak of "labour" as if it were one definite thing, and of its "subsistence" as a simple minimum expenditure of food, clothing, and shelter. Subsistence, in short, in its simplest shape as a physiological minimum, is a very vague conception.

Subsistence of labour.

It is, however, a mistake to confuse labour with man. Labour is a force embodied in the single man, educated in his life, transmitted to his children, and therefore a force which depends very greatly on its surroundings; but it is also a force capable of indefinite extension when put in its proper setting and collaboration. In Professor Marshall's *Principles* the "supply of labour" is considered as depending, not only on the numbers of labourers, but on the intensity, the education, and the organisation of their labour. Labour, in short, is an abstraction. It is the service of the labourer, and the increasing labourers may do more individually; they may do better individually; and they may collectively do still more and better. Hence the subsistence level of modern labour is not the subsistence that will keep men alive and allow them to perpetuate their race, but the subsistence that will maintain the stream of labour at the efficiency level to which it has been brought by more generous provision, education, and free institutions. The lowest level of labour is not that at which the labourer dies for want of necessaries, but that at which his labour becomes inefficient and unprofitable; where the labourer is cut off by the employer as "not worth his meat." Or, if we put it in terms of the labourer, we must look on the labourer as he is—a machine brought to great perfection, not of strength, indeed, but of delicacy and complexity, in the making of which much capital has been sunk and risked. The question is not between starving and not starving the labourer, but between letting a fine machine go to rust and keeping it in first-rate working order.

**Subsistence of labour and capital compared.**

In this, then, there is an essential difference between capital and labour. No calculation, or dieting, or medical skill will turn out children as machinery turns out needles and pins. Every worker is born unequal, inasmuch as he is the converging point of ancestries as old as human life; and, once he is born, he is differently susceptible to the influences of his surroundings, even if these surroundings were equal. As a worker he is, accordingly, infinitely graded by very nature;

and, what is more, the more complex our civilisation, the more this difference of grade will come out and defy calculation. Thus the idle, dreamy, sickly boy who was practically of no use to former generations—was, in fact, a burden on them—will be the most highly graded as a worker now if he have the divine gift of song. The division of labour, it must be remembered, is a co-operation also of consumption; thanks to it, if people are limited to making one thing or few things, they are permitted by it to get anything they demand. Hence the division of labour becomes based on two things—capacity to work, and capacity to meet a want; and, as wants increase and diversify, the capacity to produce "wealth" becomes infinitely increased.

But an industrial production process has just this difference from the human production process, that it does not transmit an ancestry. It only gives a shape. And, when the thing is produced, it gets no further; it begins to decay. Hence its efficiency is predetermined for it, and it is predetermined simply by its cost. It is predetermined for it: it has no development before it; it never becomes more valuable as a labourer does, but steadily less. It is predetermined by its cost: it has no unequal ancestors, and so never surprises us by doing work not expected of it. So what one child of capital can do, another can do. Nature here obeys her masters, and turns out her products, as we say, "machine made."

What the subsistence of labour really involves.

This subsistence of labour, then, involves much more than appears on the surface. It is not only the cost of maintaining the labourer in such conditions as prevent deterioration of the strength and skill embodied in him; it is the cost of conditions that allow the worker to develop what is in him and take advantage of his surroundings; and it is as well the cost of reproducing such labour. We need not be deterred, as some economists have been, by the assumed brutality of speaking of a "cost of production" of human beings as one might speak of the cost of producing draught-horses.[1] For the chief feature in this cost is not the expense of marrying and keeping a wife and family in bread and butter, but the cost of keeping the wife at home attending to her house and family, the cost of keeping the children at school till well into their 'teens, and giving them technical training or unpaid apprenticeship afterwards, and, besides, the cost of keeping the whole household in sanitary, moral, invigorating, and developing circumstances.

If the wage is less than will allow this for a family of the average size, we have either the phenomenon, with which France has made us familiar, of a severely restricted supply of labourers, or a reduction in the quality of the labour, due to the children being insufficiently fed and educated, and being turned out prematurely into the streets or factories to add to the household wage. The wage sufficient to bring up children who get to work in the fields at the age of ten is a different amount from the wage that will keep

[1] There is no use shutting our eyes to the fact that both marriage-rate and birth-rate are affected by economic considerations, and perhaps it would be well if they were more so affected. To refuse consideration to a theory which assumes that there is a cost of production of human beings, is very much to accuse man of having no more foresight and reason in the most responsible actions of his life than the birds who pair as the spring comes round.

the child at school till he is thirteen. The wage that will support a family in the country is different from that which will support it in health and strength in the city. Both, again, are too low to keep the child at home till his apprenticeship is past: unless the wage is sufficient for this, there is likely not to be enough skilled labour in the next generation. It is, indeed, only now that we are beginning to understand that varied diet, sanitary conditions, leisure, and amusement have a money equivalent in the work produced, and there is reason to think that we have a long way to go before the ordinary wage is enough to produce that best labour-saving machine, the willing and conscientious worker; he will be the product of much more education and much better conditions of life than we are yet apparently able to afford. Any mistress of a household can calculate how much higher a wage it would "pay" her to give if the domestics would only regard her property as carefully as they do their own.[1]

A careless generalisation.

To sum up. The idea of a level of wages determined by subsistence is the result of a careless generalisation about labour, as if humanity was run

[1] What is to be said for the now favourite doctrine of the Living Wage rests on this basis. So long as we regard the Living Wage as a forced concession, wrung from unwilling employers and based only on the fact of our increasing national wealth, there is little to be said in defence of it, and not much to be hoped of its permanence. But the moment we acknowledge that a perfectly healthy, decently educated, and reliable workman cannot be *produced* unless a certain sum is paid to the head of the household, the Living Wage takes on a new aspect; it is seen to be what employers would gladly pay if they were as much interested in the future of labour and its productive force as, say, slave-owners would be. But, of course, the practical danger of a stated minimum is that it may prove a maximum. Cf. "A Living Wage," in *Studies in Economics*.

into one mould of living machines requiring for their maintenance so much food, so much clothing, and so much shelter. This could be true only if the work thrown on man was of one kind, and that a kind which could be supported on a little oatmeal. But the more powerful in production the machine is, the more necessary is it that labour should be unlike it; and the first form of the unlikeness is in the variety of tasks which it can do, and the varying degrees of intensity with which it may do them. Now each task makes its own demand on manual strength, nervous energy, intellect, and that result of heredity, education, and good surroundings which we call "resource," and so each task has its own subsistence wage. And there is no labourer but may develop unsuspected powers and intensity of labour if his subsistence is increased, or varied, or seasoned by hope. The second form of the unlikeness is that the maintenance of labour is not only the maintenance of the labourer as he is, but the bringing forward of a continuous flow of hereditary skill and aptitude, and this depends on conditions of family, social, and political life which are not attainable by any physiological minimum.

## CHAPTER XV

### THE SUBSISTENCE OF CAPITAL

*Physiocratic theory assumed also that there was a return below which capital would begin to disappear; that is, a subsistence interest: and the conception seems legitimate enough. But what capital is it that disappears? Is it the annual addition that slows down, or the stock of wealth that begins to go out of existence? Whichever it be, it would be difficult to name the vanishing point. Interest will probably fall below the present rate, but it is not probable that the annual accumulation will decrease, inasmuch as the people who will save—the rich—will then, presumably, be richer. But the lower level is still more vague. Even negative interest would not check saving, for wealth once made must be kept in existence by use. Thus a fall in wages is much more serious than a fall in interest. But the full difficulty of putting capital and labour in parallels emerges when we realise that, in speaking of the rate of interest, we make the return relative, not to concrete capital, but to the value of capital, whereas wages are relative to the labourer.*

The Physiocrat vanishing point.

IN the Physiocratic theory of distribution it was assumed that if the price realised for commodities did not cover a sufficient remuneration to capital, capital would disappear, and that in one of two ways:—(1) Instead of being used for production it would be directly consumed—like seed-corn which may be eaten. (2) It would take flight to other countries where the rate of interest was higher. It was, in short, assumed that capital, like labour, had its subsistence level.

The application of the word subsistence to "dead capital" may seem inappropriate. But it becomes increasingly evident that capital and labour, both in production and distribution, must be put in parallel columns. If it becomes clearer that labour has no vested interest in the production of the National Income, it is also clear that the owner of capital has not the same claim on our sympathies as regards its distribution, and there is the more necessity to be clear as to the extent of the parallelism. In modern industry there emerges the phenomenon, not so obvious in simpler times, that capital is not a mere auxiliary to labour, but a serious rival in doing the same work. We are apparently far from the time—if it ever comes—when the spheres of each will be defined and separate; meanwhile, in some fields of industry they are fighting for almost exclusive possession, and in others they are fighting for the position of predominant partner. The employer makes use of either indifferently as suits him, replacing the one by the other, and buying both as cheaply as he can. The fact that the employer very often is a capitalist should not blind us to the fact that, in economic conception, he is the employer of other men's capital. His personal object is not the lending of capital to obtain interest, but the using of capital to make profit. In this point of view, then, the question as to the subsistence level of interest is quite as reasonable as the question of subsistence wage.

**A legitimate conception.**

The second part of the Physiocratic assumption remains true enough. If the mobility of capital was notorious even in these early times, it is no less so now. Between 1875 and 1885 our foreign investments increased at the rate of not less than £30,000,000 a year,[1] and no proof has ever been advanced for the

**The emigration of capital is true enough.**

[1] Giffen, *The Growth of Capital*, p. 41.

assertion of some protectionists that we are selling our foreign securities. But people, as a rule, would rather keep their money under their own eye if that is possible, and it is safe to assume that this money has gone abroad because it was offered a higher rate of interest there than the state of things in this country allows.

The vanishing point of what?

About the first part of the assumption there is more doubt. The calculation of Sir Robert Giffen puts the annual saving of this country at some £200,000,000; that is, an annual addition of that sum to our total wealth. This question then arises: Do we mean that, when the interest rate falls to a certain point, the present annual *addition* will fall off, or that the whole body of capital will begin to disappear? For there is no less than £200,000,000 of difference between them. But, whichever of these views we adopt, the assumed point of disappearance is of the vaguest description.

—the present annual addition to capital?

We have every reason to think that interest will progressively fall below its present low rate. The date fixed by Mr. Goschen for the change in the interest on Consols to 2½ per cent (1903), and the limited guarantee of that rate to the twenty years succeeding, are sufficient proof of this. We have little reason to believe that the reduction will affect our annual savings. Saving is not made when people are poor, but when they are rich. Early accumulations may have deserved the name of "sacrifice," but it is not so easy to justify the term in these days of general comfort and occasional extravagance. We cannot expect a working man at 20s. a week to save; perhaps it is better for society if he does not, but spends it all in the better upbringing of his family at the time when a shilling or two a week will make the difference between stunting and developing the young generation. At any rate, it is not this class that makes use of the savings banks; and, again, it is not the savings-bank class that make the great accumulations, but the people whose saving is not sacrifice but investment. As the nation, then, may be presumed to continue growing richer year by year, it is entirely guesswork to indicate a point where the rate of accumulation will slow down.[1]

—or the body of capital?

But the lower level, that at which not the annual addition but the body of capital begins to disappear, is infinitely more shadowy. Capital once made must be kept in existence; only those who forget that capital is not money, but the whole sum of more or less perishable wealth in the country, can think otherwise. If a man makes a fortune, his anxiety is to keep it, and the only way to keep it, when he is past using it or is disinclined to use it himself, is to get others to use it for him. The demand for capital is still so great that other people will keep it and pay him for keeping it; but, if it were not so, the capitalist would rather pay

[1] That many people trench on their capital is notorious enough, but that they do so because they would rather consume it than accept the interest offered is very doubtful indeed. It is not a case of liking; if people of moderate means get a very small interest they cannot live on it, and therefore may draw on their principal. If this were a widely spread or important phenomenon, it would amount to this: that there is a level of interest where the steady accumulation of capital, characteristic of a growing country, is checked. But the people who trench on their capital because they cannot live on their interest are not the people who would ordinarily keep up the accumulation. On the other hand, when interest sinks, sensible people do not trench on their capital, but work harder or work for a longer period of their lives than they would otherwise have done.

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to get it used and kept than be compelled to keep it himself. When Pope's father retired from business, he took a chest of guineas to his villa at Twickenham, and took out his household expenses as he needed them. No one would do this nowadays. He would at worst put his chest in the National Safe Deposit, and pay "negative interest" for the safeguarding of it. And no one would be deterred from making a fortune for his old age and his family because he could get nothing by the lending of it.

A false parallel.

There is, indeed, one false parallel which we are apt to draw between capital and labour. We speak as if the capitalist had no means of living but from his capital, just as the labourer presumably has no means of living but by his labour; we think of the instrument of production which every man has in his own body as in the same position with the instrument of production which some men have in their pocket. In reality, the man who has capital presumably has two means of making a living. If he has plenty of capital he need not work; if he has not plenty he can work to supplement his interest. Thus it is not of the same importance to the capitalist that his interest goes down as it is to the labourer that his wage goes down. The one is an auxiliary; the other may be a matter of life or death.

We may be prepared, then, to find that any pressure which brings down the level of wages and of interest to subsistence point, however subsistence may be conceived, has, in the long-run, different effects in the two cases, and may be so much more serious in the case of labour that we may have to separate the interest of the employer from the interest of the nation. If the supply of capital be for the moment checked by the fall of interest to its lowest level, the inevitable rise to subsistence point will again and immediately bring out the best-appointed factories and plant of any sort wanted. But if the supply of labour be checked by the fall of wages to starvation point, the rise of wages to efficiency point again will not restore vigour to the limbs and training to the young, nor will it replace the developing influence of heredity and surroundings for many a year. And all this is independent of the fact that man is the end of all labour, and never only a tool of production.

**Wage is relative to the concrete labourer,**

But, indeed, there is an ambiguity in the whole question which ought to be dragged to light; it has already been referred to on page 182. It is comparatively easy to speak of the subsistence of labour, for labour has always one concrete representative—the human being who exerts the labour. If the subsistence of "labour," as we saw, is vague, the amount which will "feed, clothe, and house the labourer" has at least some definiteness. But capital has no one representative. When the man in the street speaks of it he means money, and one writer identifies it with credit. But if we look through the writings of various economists, we may suspect that with one machinery is the typical form, with another it is railways, while a third has generally "trade capital" in his mind. But these types are only aids—perhaps misleading aids—to thought; for, if capital is "wealth from which one derives an income," it is difficult to select any one form as typical of this infinite range of things.

**but interest to the value of capital.**

But the deeper difficulty emerges when we realise that in speaking of the "rate of interest" we are putting capital into terms of value: we are speaking, not of concrete capital, but of, say, £100 *worth* of capital; while wages, on the other hand, are always relative, not to a certain value of labour, but to the concrete labourer. To put it in a nutshell: capital in its value form may be reduced by one-half, while the machinery, railways, or other instruments of production it represents remain exactly as they were, the same in outward form, the same in their power of producing other commodities. If we grant this, we shall see that a reduction or increase of capital in the one sense has no necessary connection with a reduction or increase of capital in the other. Thus the question at what point the body of capital begins to disappear has no relation with the question at what point the rate of interest will cease to encourage saving.

Enough has been said, perhaps, to show that subsistence interest is at least as vague and elusive as subsistence wage. Perhaps we may find in succeeding chapters that it is not of importance, for our present purpose, that we should do more than indicate the difficulties which attach to both conceptions.

# CHAPTER XVI

## THE WEAKNESS OF A SUBSISTENCE THEORY OF DISTRIBUTION

*The analysis of the last two chapters is of importance only as showing how little can be expected of any theory based on so vague a conception as that of subsistence. The attractiveness of the Iron Law was its apparent definiteness. But if "subsistence" is taken to mean subsistence of Efficiency—as seems the only reasonable reading—the definiteness disappears. We get a well-rounded theory, incapable of disproof, but equally incapable of proof. The man in the street, who knows nothing of Ricardo or the Iron Law, has some reason when he asks what is the importance of a theory which explains the inevitableness of falling or constant wages when our experience is altogether of rising ones. But, even if efficiency level were perfectly definite, will efficiency alone sustain wages against the pressure downwards?*

THE subject of the last two chapters was forced upon us by the line of investigation followed. If we accept the statement that the employer is at once the organiser and the paymaster of the factors which contribute to make the National Income, it is to his activity we must refer for the explanation of the organisation and of the payment. Here the feature always before us has been the constant pressure on wages and interest; and the economist, if for nothing else, is bound to give consideration to the thesis which has such respectable sponsors as Turgot and Ricardo, and such vehement propagandists as the Socialists of last generation,—

that the pressure does not cease till subsistence level is reached.

The vagueness of "subsistence" as applied to labour,

But the attempt to attach a definite meaning to a word so readily used seems to end in failure. The subsistence of labour would be definite enough if we could figure labour as a plough horse which will go on working for so many years, provided it gets sufficient oats and hay and a dry stable. But the labour which works along with capital in modern industry is as far as possible from this. Any satisfactory conception of the subsistence of labour must mean the maintenance of a continuous stream of labourers, in whom is embodied a hereditary and increasing efficiency for an infinitely various kind of work. But if we mean this we cut away the feet from the contention: we can scarcely say that wages tend to fall to this level, but will not fall below it, when everything points to the conclusion that it is only of late years, and that in the most favoured portions of the world, that they have yet risen to it. Most of us would agree with Professor Marshall that "over a great part of the world wages are governed nearly after the so-called iron or brazen law, which ties them close to cost of rearing and sustaining a rather inefficient class of labourers."[1]

and to capital,

Nor do we meet with any more success in trying to define the subsistence level of capital. What we know empirically about capital is that a certain minimum rate is obtained for its use where the security is perfect, and to this extent it might possibly be conceived of as one thing—a conception almost impossible in the case of an instrument of production so endlessly various and cumulative in efficiency as man. But we have

[1] *Principles of Economics*, 4th ed. p. 602.

had no experience of a rate below 2½ per cent, and this rate—although a steadily falling one—shows no sign of checking even the enormous annual additions to capital. To go beyond that; to translate capital out of its value form, with a unit, say, of £100 worth of capital, and discuss the possible decrease, in quantity or quality, of the concrete forms, is no more than an academic exercise.

Once we are persuaded of the extreme looseness of this idea of subsistence, it seems to me that its attractiveness, from the point of view of economic theory, disappears. It was the craving for definiteness—for some one fixed share in distribution—that induced Socialists of last generation to turn Ricardo's conception of Natural Wage into an Iron Law of wages. Similarly, many of us have been haunted by the possibility of a rounded theory of distribution which would connect prices of goods directly with the cost of production[1] of their factors.

**takes away the attractive definiteness of a subsistence theory.**

[1] Every economist is familiar with Cairnes' rehabilitation of the word Cost with its literal meaning of Sacrifice. Mill, he said, in speaking of cost of production as determining value, meant no more than the money expenses incurred by employers, while, in reality, there could be no greater contrast than that between cost, the sacrifice incurred by man in productive industry, and wages, the return made by nature to man upon that sacrifice. It was, however, reserved for the Austrian economists to bring out the full meaning of the word, as indicating the sacrifice of wealth as well as the sacrifice of human energy. The "cost" of any factor, in this sense, means what the bringing to birth of that factor costs the community, either in realised wealth, or in realised human life, or in both. Production always costs something, although this is hidden from us by the rapid recuperation of nature, just as the mother forgets her pain "for joy that a man child is born into the world." Even in the case of that most durable of all instruments, the earth, every crop carries away and deprives it of so much of its wealth-giving constituents. Every day's work "takes it out of" a man, although he does not notice

This would be the case if it could be shown that the remuneration of all factors tended to be crushed down to the amount necessary to "subsist" these factors. So long as "subsistence" was thought of as the physiological minimum necessary to sustain life, this was evidently hopeless. It came into rude collision with everyday facts, and it confused "labour" with an imaginary normal labourer.

And applied to efficiency it is still more vague.

But some economists of late seem to have thought that they had met this difficulty by changing subsistence into "the amount necessary to sustain the efficiency of labour." Certainly by this they manage to evade direct disproof. It is possible to show that the labourer at 20s. a week has something over after keeping himself in life; and, if 20s. is the average wage of the manual labourer, it is *ipso facto* disproved that his wages are at subsistence level in the old sense of the term. If, again, any one likes to affirm that 35s. a week is the lowest wage which will sustain a continuous stream of thoroughly efficient skilled labour, and if 35s. is the average wage of skilled labour in this country, it is impossible to disprove the statement that wages are at "subsistence level." And the further advantage is gained that if wages rise to 70s. a week it will still be possible to argue that they are not above what is necessary for the peculiarly efficient labour that will then, presumably, be forthcoming. Thus, if we are content to overlook the looseness and indefiniteness of

this, nature giving it back again to him in food, etc. So the final cost of production of any factor is what it takes out of the world to bring this factor into it—the wealth, material and personal, it consumes while it is being brought to efficiency; and evidently this real cost of production is as applicable to men as to things, seeing that the making of the one consumes as truly as the making of the other does.

the word "efficiency," we may say that wages are now at their lowest level, because, if they went lower, the efficiency of labour would suffer. And, similarly, we may say that interest is at its lowest level, because, if it went lower, capital would not be forthcoming in sufficient quantity to give the most efficient co-operation to labour. By this means we may maintain that prices tend to be "cost prices," because wages and interest tend always to the cost of production of labour and capital. But, in this case, what becomes of the definiteness which was the attraction of the Iron Law? Once this is understood, who would pin his faith to a theory which said that interest was at its lowest because it had never been lower, and that wages were at their lowest although they had never been higher?

**But why theorise about an inevitable fall when wages are steadily rising?**

But, having paid our economic debt of deference to Ricardo and Socialist theory, it is perhaps time that we paid a little more deference to common sense. The man in the street breaks in upon all our theorising with this question: "Is it true that wages now show any tendency, or promise to develop any tendency, towards subsistence level? It is, of course, preposterous to say that they are anywhere near physical subsistence level. But did not the last Royal Commission (that on Agricultural Depression) declare that, while the value of agricultural land had fallen by £1,000,000,000, or 50 per cent, and farming profits, never very high, had also fallen, wages, in that most backward of all industries, had not fallen, but in some places had definitely risen? And is it not notorious that, outside of agriculture, wages have been steadily rising for the last generation?"

"Is there not a suspicion," he might continue, "that, having proved to your own satisfaction that wages cannot rise, you have now to explain the fact that they are rising? Is it not the case that, to preserve even an appearance of probability, you have had to change the simple and definite conception of subsistence into a conception so indefinite that it may cover anything—what you call 'Subsistence of Efficiency'? You have to defend a thesis which declares that wages tend to fall, and you do so by asserting that they are falling to a rising level: something which no one can define, or connect, or measure, called Efficiency. But suppose you were able to express any man's efficiency level in so many shillings a week, would this efficiency prove a 'dyke' on which the pressure of employers beats in vain?"

# CHAPTER XVII

## THE FAILURE OF EFFICIENCY TO SUSTAIN WAGES

*Will Efficiency by itself sustain the remuneration of any factor? If new machinery, requiring only unskilled labour at an efficiency wage of 25s., takes the place of machinery which required skilled labour at 35s., will the skilled efficiency prevent wages coming down? Even if Trade Union action managed it for a time, it could be only for a time—and Trade Union action is not efficiency by itself. Granted, however, that this is true in individual trades, is efficiency once gained not a valuable possession, commanding a wage in related trades? Perhaps: but what if, in the mechanical trades, high efficiency is not needed in the future?*

THE suggestion made in last chapter was that the Efficiency of any factor by itself will not sustain its remuneration. If this can be proved, we shall have a final argument for denying the conception of subsistence any useful place in the theory of distribution.

Of rival factors,

Machinery, the representative form of concrete capital, is the ally of labour in so far as the interests of both lie in the production of a great National Income of goods. It is the rival of labour in so far as this National Income is produced indifferently by either. The employer uses either as suits him, but only so long as suits him. It is his interest to get as much as he can out of them, and pay them as little as possible for it. It is he who puts them together: it is he who pits them against each other, using their rivalry for his own ends.

Let us assume, then, that the various levels of efficiency subsistence are as definite as they actually are vague; and let us suppose that one grade of skilled labour, working along with certain machinery, requires for its full efficiency a wage of 35s. per week. Suppose that this wage has been forthcoming, as the wage which the consumers must pay in the price of the goods if they are to get the goods at all: that, in other words, 35s. is a "cost price," in the literal sense of the term, of this skilled labour.

**suppose that one is found dispensable.**

But suppose it is found that this particular labour is not indispensable; that machinery is invented which is more automatic and requires only unskilled labour to tend it; and that unskilled labour requires, for its full efficiency, only 25s. per week. Let us follow out what might happen in such a case: it will be recognised as having a resemblance to one with which we were familiar in the year 1897.

**Can skilled wage be paid for unskilled work?**

"We have no objection whatever to the new machines," says the voice of labour, "and we have no objection that they should be worked by unskilled labour, but we demand that the minder be paid 35s."

The position, then, is that any number of men are willing to take the work at, say, 25s.; that this would be an actual advance of wages to them; but that the employers are to be compelled to pay 35s. It would be difficult for any one but a Trade Unionist leader to extract the rationale from this. The employer here is not beating down wages: indeed, he is purposing to raise the wages of one class. He is only asking liberty to employ the kind of labour which he needs—the efficiency he requires; that is, he is exercising his recognised function of employing what are, indisputably, the most efficient factors for the purpose.

If this policy were successful, the result practically would be that, compelled to choose between skilled and unskilled labour at the same wage, the employer would choose the skilled labourer, and the new principle would be introduced; that, whatever the change in the character of the work, only skilled labour, at skilled labourers' wage, shall be employed wherever skilled labour has once been employed. It is not quite correct to represent this as hostility to the introduction of machinery generally: it is hostility only to the introduction of one kind of machinery—namely, that which takes the direction of *simplification* of machines. The only improvements permissible, on this view, would be those which require skilled labour to attend to them—a contention which would, for instance, approve of the typewriter and condemn the calculating machine, and, logically followed, would forbid all improvements which do away altogether with labour.

Consequences.

The consequences would be, of course, (1) that the invention of machinery is limited and discouraged; (2) that, this reduction of cost being barred, prices of machine products are kept up in price; (3) products being kept up in price, there is no increase in the demand for them, except from the increase of population; (4) there is not the natural increase in the making of machinery with its attendant demand for capital and labour; (5) the work which would naturally fall to men with a standard of efficiency of 25s. is curtailed, and these men are to lose their chance of bettering their position. Thus the loss falls on three classes, the consumers, the makers of machinery, and the unskilled labourers; all to keep up the wage of skilled men doing work that requires no skill.

It seems to stand to reason that the Union which counselled such things would stand condemned, and that the employers who rebelled against the Union in this would have the sympathy of the public. In the old fight between organised and unorganised labour, the victory would be with the latter; Trade Unionism would be proportionately discredited; and in the end the labourer at 35s. would be displaced by the labourer at 25s. Efficiency, even when backed by a strong Union, is not sufficient to maintain wages.

But is not skill once acquired always a valuable thing?

But, it will be objected, this may be true as regards the individual worker or even the individual trade. But is not this acquired skill a desirable and valuable thing in many trades besides that in which it was acquired? This also must be considered in detail.

Temporary loss of employment may, indeed, be considered as a painful incident of progress which is being mitigated by the growing mobility of capital and labour. We are reminded of the hand-loom revolution where the wise workers passed into power-loom weavers, to the great advantage of their position. Mr. and Mrs. Webb have given us a striking instance of what may happen, on different lines, to preserve the skill and wage of the worker displaced by machinery, and it is full of hope and suggestion. When the application of the sewing-machine to bootmaking in the middle of the century began to revolutionise the trade, the old Amalgamated Society of Cordwainers, instead of adapting themselves to the new processes, kept up their rate, and devoted themselves to the old handicraft; with the result that, while the cheap boot has created a new and increasing demand for itself, the hand-made boot has kept its place among those willing to pay the price. "The handicraftsmen have become a select body, not because they have closed their ranks, but because none but men of long training and exceptional skill can find employment at the recognised scale, or do the highly finished work which the employers require in return for such high rates. Competition between the handicraftsmen takes, in fact, the form of a continuous elimination of the less skilled among them, who are encouraged, in their youth, to go into the machine trade. The result has been that the skilled hand bootmakers, whilst somewhat diminishing in numbers, have positively improved their scale of prices and average earnings, and more than maintained their level of skill. Finally, notwithstanding a continuous improvement in the efficiency of bootmaking machinery, the hand-made boot still remains an ideal to which inventors and factory managers are perpetually striving to approximate their commoner product." A similar phenomenon is found in the paper trade, where the demand for the superior hand-made paper has actually increased, and there has "never been a reduction of wages"; while, at the same time, "the production of machine-made paper has advanced by leaps and bounds, to the great advantage of the public in the cheapening of the article for common use."[1]

**How can it be, if there remains no field in which it is wanted?**

If these were typical cases; if, to the openings in other industries, were added the possibility of preserving another form of the same industry; if skilled workers, replaced by unskilled machinemen, could find

[1] Webb, *Industrial Democracy*, i. 419.

employment and a sale for their goods in making some product where there was still a demand for skill, there would be no problem. But what if this is not a typical case: what if, in great groups of industry, the area of skilled employment is actually narrowing?

A distinguished colleague in my own university, who has every means of judging of the position from the side of the construction of machinery, and practical experience of it from the side or the workers, concludes that we are only at the beginning of another economic revolution; that, in engineering, machinery is becoming so perfect and so automatic that not even the "setting" will be a skilled job, and that, accordingly, in the great field of engineering industry the demand for labour will be a demand for machine-minders with a minimum of skill.[1]

Nor can we flatter ourselves that the skill formerly employed in tending machines may be transferred to the making of machines, so that the skilled engineer thrown out of employment by the unskilled minder has only to transfer himself to the shops where the lathes, planing and slotting machines, etc., are made, and will there find a new demand for his skill at the old 35s. wage. For the same phenomenon—the improved machinery requiring only unskilled labour—presents itself in the shops where machines and machine tools are made.

[1] Dr. Archibald Barr, the Professor or Civil Engineering and Mechanics. Concurrently with this, there will necessarily arise, in his opinion, a demand for a new class of skilled mechanics—namely, men who will not be called upon to exercise skill of hand, but to bring their ingenuity and experience to bear on the process of manufacture in devising the most economical methods and systems of putting work through the shops.

If this is a true diagnosis, it seems enough to prove the contention of our man in the street that efficiency by itself will not maintain the remuneration of any factor.[1] It would not be difficult to show that the same happens in the lowest ranks of labour when machinery takes its place. No efficiency of hand work, for instance, will save the seamstresses in their unhappy contest with machine-made goods. There is every prospect that capital has a future in the making of almost everything that is now made by pure manual labour.

[1] Perhaps, in case of misunderstanding, it should be said that efficiency undoubtedly has a place in sustaining real wage. The efficiency of labour is reflected in an increasing National Income, and, to this extent, efficiency does sustain wages. But here we are speaking of individual wages, or wages of groups of labour, not of the share which goes to labour as a whole.

# CHAPTER XVIII

## A WRONG SCENT

*In the last few chapters it seems that we have gone off on a wrong scent: the pressure on employers to buy services as cheaply as they can, easily led us into the by-way of a theory which finds an arrest of the pressure in Subsistence. But this is to appeal from demand price—a remuneration according to services rendered,—to supply price—a remuneration which has no such connection. Having now made it clear that no remuneration is at or near any intelligible subsistence point, we are free to take up the thread of our argument and inquire as to the "dyke" which labour seems to have erected against the pressure downwards.*

In the early part of the present book we saw that the opinions commonly held as to the "badness" or "injustice" of the distribution of wealth seemed very much based on some vague preconceived notion of what the distribution should be,—as if inequality was itself sufficient condemnation, or as if it argued that deserts were not recognised as having anything to do with remuneration. An exhaustive examination of factory industry, however, where single employers divide a realised price among the contributing factors, suggested that the service rendered played at least a great part in determining incomes. Perhaps the only thing that would altogether satisfy our aspirations after economic justice would be a distribution according to and demonstrably in the measure of services rendered to the *making* of the National Income. But, short of this, we seemed to be coming to a tolerable approximation to it when, on taking our reckoning in Chapter XIII., we found that the incomes paid by the private employer are so controlled by economic circumstances that the apparent arbitrariness of payment disappears. He is controlled by the price: he is controlled by his competitors: he is controlled by the demands of his factors. The services rendered primarily to him are paid for at a rate determined by all the employers, at the same time as the employers are found to be no more than the channels through which these payments come from the larger body, the consumers. We had seen arbitrariness disappearing;

If this is not a payment demonstrably according to service rendered—and as we went on it seemed to grow clearer that no such measure could be applied—this, at any rate, must be said for it: that the stress of economic circumstances prevents the employer from taking an exorbitant share of the price; and that, if prices are pressed too low, and too little apparently is left, after profit is deducted, to pay the other factors adequately, at least they get the other advantage when they come to cash their claims by spending their money remuneration.

But at this point we went off on what must be pronounced a wrong scent. When demonstrating how, under modern conditions, the individual workman appealed from the arbitrariness of the single employer, we found that mobility was a necessary condition of the appeal. But we are apt to think that mobility is more powerful than it is. It cannot of itself keep up or raise wage. It only affords a necessary condition for doing so when the other conditions are favourable, but, in spite of mobility, and it brings wages over the area of mobility to a level. That is to say: suppose the tendency of prices is downwards, it is true that mobility allows the single worker to appeal from the persons who are anxious to reduce them to the persons who have not the same need of reducing them, and thus it makes the former employers think twice about taking strong measures. But it also gives the latter employers more power to reduce, by widening the field of their supply. Thus our attention was again drawn to the constant pressure downwards exerted by and through the employer.

**the pressure remained. So we turned aside to consider subsistence as a "dyke."**

At this point we came across a theory which seeks to escape the arbitrariness of payment altogether, but in a different way: the theory which says that there is a level that brings the pressure to a stop, namely, subsistence. It suggested that what we called "cost price," and defined as the cost to the representative employer, was really the cloak of a true "cost of production price," meaning by this the cost of production *of the factors*—what it costs the world to bring them into life and keep them in life.

No doubt this would have been a very satisfactorily rounded theory indeed. The present distribution would have gone far to justify itself in the sight of all men,—at least if we take subsistence as meaning efficiency-subsistence. The factors employed would, in the opinion of the representatives of the community, be the most efficient factors—those which should be employed. They would be paid according to their efficiency, in that they would be paid the sum which that efficiency needed to bring it into and keep it in being. Thus all prices would be pressed down to and remain as complexes of this cost, and the price would be a necessary one; one without which the goods could not be got. The payments would be the utmost which the total sum realised—the price which the community was willing to pay for the goods—permitted to be paid; for the fund from which they were paid would be exhausted by the payments. And while the factors would thus be getting their maximum, they would also be getting their minimum, for payment could not go lower than this cost of production level. It would be the most the workers could get, as well as the least they could take.

But, on examining this theory, it seemed to break down at all points, or else to persist by taking up positions equally capable of disproof and of proof; the final weakness being evident when it was seen that "efficiency" had little of the resisting power credited to physical subsistence.

We found, in fact, that, as no factor had a vested interest in production, but was always one of many competing for the same work, there was no level which would ensure the subsistence of any factor. At the same time, what was gradually coming into prominence all through our discussion was that neither the capital factors nor the labour factors showed any sign, over the whole, of approximating to a subsistence remuneration. And the notorious fact as to wages was that they were everywhere rising.

Probably it was not till we came to this point —the failure of the pressure to keep wages from rising — that we noticed that we had gone off on a wrong scent: that in seeking a measure of payment in *subsistence* we were appealing to a totally different principle from that which seeks it in *service*.

But, up till then, we had been finding a principle in demand price,

The line of investigation consistently followed from the start had been the tracing of the connection between product, or contribution to product, and remuneration. We had seen that, in factory industry at least, the factors were paid because of services rendered, and the employer had been considered as paying according to his estimate of the factor's service. The "demand" for the factors had come through him, but not of him. What the employer pays for is what the workers can give him,—what they can produce under his guidance. The more the worker can give—can add to the National Income—the more is he worth; his demand price, then, rises with the amount of the service he renders in quantity or quality, or both, because it is the expression and equivalent of this service. The explanation of payment and the measure of payment were both from the side of Demand—the demand made for the worker's service because his product was demanded by the community. In short, we had up till that time been looking at distribution altogether from the side of demand: the price paid by the employer to each factor was a Demand Price.

not in a despair supply price.

But to seek the explanation and principle of remuneration in subsistence is to appeal to a different principle altogether. It is to conceive that the factors are paid, not according to the service they render, but according to what it costs to bring them into being and keep them in being. It is the principle of slave labour, not of free labour: the principle on which we feed horses to enable them to draw the plough, not the principle on which we pay factors which can assert their claim to an increasing total product. To make this the claim of wage in a community whose *dividendum* is increasing about twice as fast as its divisors, is almost a claim of despair. It is to confess that the worker cannot get a wage commensurate to what he has produced—to what his services are worth as demanded by the community. Failing this, and as the only means of securing a wage at all, the worker puts forward the last argument: that unless he is paid enough to produce him and his labour, the employer will not get him or his service. It is cutting the knot by appealing from demand price to Supply Price.

But all our investigation up to the point at which we came across this theory gave us no reason why we should thus cut the knot. We had found the microcosm of our industrial organism in a community of persons making their living out of the ground; their wages increasing as their crops increased; the efficiency of their labour reflected in and paid by the increase in product. When such a community submits itself to organisation, the one fact, the increase of crop, is not altered: why should the other, the increased share, be altered? If the organiser shows it how to grow larger crops, these crops should, one would think, represent larger wages to the worker and a larger wage to the organiser. The factors generally hand over their products to the employers to get them back from the employers: the demand of the employer for their labour should automatically increase with the increased product which the factors hand over to him. It is a distribution according to service rendered; that is, according to product. The production process and the distribution process are one: it is the sharing in the production that gives a claim to the distribution.

Why, then, should we abandon the line of investigation which followed closely the current phenomena of industry and connected remuneration with service, to appeal to a theory whose chief merit is that it does not depend on any support from facts?

As we shall see later, this discussion, although following a wrong scent, has not been without results. It has at least reminded us that, as demand for goods has no meaning, economically, apart from the consideration of supply, so the actual demand price of factors is inevitably influenced by their possible supply price; and it has suggested the Trade Union position—the refusal of workers in combination to supply themselves and their services for less than a certain price.

**To hark back.**

Meantime we take up the argument very much where we left it on p. 195. The great fact at the back of all distribution is that what is being distributed is a growing sum. It follows that the absolute amount which falls to capital and the absolute amount which falls to labour are likely both to be increasing. How the two aggregates stand relatively to each other in this increase, it would, I suppose, be impossible to say without a statistical inquiry very difficult to make. As we have seen, the rate of interest tells us nothing on this head. We may safely say that capital has not been reduced to the despair price of subsistence. On the other hand, there is no doubt that wages—even money wages—are increasing. Here, then, we return to Demand Price. The suggestion is: either that labour has managed to set up an artificial "dyke" against the pressure downwards, or that there is no dyke in the question, but only the natural result of the unfettered action of supply and demand.

# CHAPTER XIX

## A SUPPOSITITIOUS CASE AND ITS LESSONS

*A supposititious case: that the universal introduction of machinery reduces labour generally to unskilled minding of machines, wages coming together at a compromise between present skilled and unskilled rates. Wages here come down because there is an over-supply of men competing with capital for the same work. But the greater the consequent increase of goods, the sooner comes the demand for men: capital is in over-supply, and wages rise. The lesson is: that what ultimately determines the remuneration of any factor is its indispensableness, efficiency having its due place as tending to make the factor indispensable. This is confirmed by the appeal to cases where man is still competing with capital, instead of complementing it. The hardships involved in the transition should not blind us to the inevitable, and to the ultimate escape of man which it promises.*

Suppose that for the moment machinery replaces man,

LET us suppose that the forecast on p. 224, as regards the engineering trade, proves a true one. Let us go further, and assume that the same phenomenon occurs in all other departments of factory industry. Then the position is that, skill not being required, the wages of skilled labour have fallen and the wages of unskilled have risen, to meet at one level of machine-minding — say 25s. per week. The population is being crowded into factories and yards, and set to monotonous, uninspiring, undeveloping toil, which only the few escape to be the undertakers and managers in this giant grinding-mill. The standard of man has fallen, and his degradation is cumulative, inasmuch as the unskilled man brings up children made in his own image. But the cost of production is lower; prices of goods are lower; and so the gain to the consumer is greater. It is nobody's fault: it is only the consequence of applied science taking over much of the work which man has been doing, and replacing the dexterity of finger and eye and brain by the automatic action of machinery.

What, we ask in this case, has brought down wages? There is no doubt about the answer: it is that the supply of man has outrun the employer's demand for it, and, to get work at all, man has had to lower his price.[1]

But will this continue? No, for one perfectly definite reason: that, sooner or later, the point is reached where capital no longer replaces man but demands man. It never, indeed, could do without man, but, for the moment, the capital presumably found more than enough of men to co-operate with it. But this comes to an end.

By hypothesis, cost is reduced, and, as cost is reduced, prices are reduced, and with reduction of price goes inevitably increase of demand for

the demand for man will ccme again,

[1] It must be noted that this *is* a supposititious case. But if it seems to violate legitimate canons by putting forward an altogether absurd supposition, we may profitably remember that we are only at the beginning of the machine age; that we are introducing everywhere this rival to man; that the need for man is for the moment becoming less in all fields where machinery is entering. The work formerly done by nature and man is now being done more by nature and less by man. Man's work is found in invention (of further machinery), in planning, in managing, and in minding: the first three take up a small number of men, the latter takes up the majority.

goods. With increased demand goes further multiplication of machinery; with this goes increased demand for the men who are to mind the machines. Whence is this demand to be met? There is no field of unskilled labour from which it can be drawn, for all are employed at the lower level of machine-minders. The only field is the natural increase of population. But population in this country does not increase more than half as fast as wealth does. Therefore, as capital pours into the world, the demand for man becomes more and more urgent; he is indispensable; he can command a higher wage. Capital is no longer flooding in to take his place; it is clamouring to be employed by him, and a new state of affairs has arisen. It is capital that is now in over-supply.

and that permanently.

To put this more concretely. Suppose that our forecast proves true: that the skilled engineer is no longer wanted, and that the shop of the future is one where there are dozens of automatic machines and a few minders. This looks very formidable for a time, and it is disastrous enough for a time. Hundreds of men, in a small locality let us say, are growing up to be engineers, and these men find no field for their labour but that of machine-minders. But it is not so formidable if we look forward a little to the doubling and trebling of the shops. If we suppose that capital and labour, in this one locality, preserve the proportions which they bear over the whole field, then, for every man who comes forward, there is double the value of machinery—not necessarily double the number of machines, but double the value of machines. It seems clear that in time these engineers will all find employment. But, it is objected, at the reduced rate of wage?

Yes, for the moment. But let the tendency continue, let the value of machinery quadruple for every doubling of the numbers of men, and men rapidly acquire a monopoly value. The employer is still the combiner and paymaster; he introduces machinery wherever he can; but there comes a point where the man is indispensable. It may be at the third machine, or the fourth, or the sixth, but it comes. Then the employer finds that an absolute bar is put to the further introduction of machinery unless he can get men. But men are scarce, labour is at a premium, and wages begin steadily to rise—not that labour does any more, not that it is more skilled, but that it is more indispensable.

Thus far of our supposititious case. The first part of it seemed to demonstrate that, however steady the upward movement of wages had been in the past, there would inevitably be a check and a set back if the perfecting of machinery enabled the employer to put it in direct rivalry with skilled human effort; the second part seemed to demonstrate that wages would resume their upward movement when the increase of the perfected machinery made the co-operation of the human factor indispensable.

**The real "dyke" is indispensableness.**

The case has been put as strongly as possible to bring out the contention that, in the last resort, what protects the remuneration of any factor from falling before the pressure of employers is neither subsistence nor efficiency, but—to use a clumsy word—its indispensableness. Factors are paid by the employer, not in the measure of their service as assessed by any abstract standard, but according as that service is accompanied by or reflected in the need he has of them. It has already been noted that the service rendered by any factor is not to be measured by its material product, nor by the amount, or quality, or utility of its contribution. We have now to emphasise that the economic "efficiency" of a factor, and therefore its payment, is not to be measured by what it can do, but by what it alone can do—by the need that other factors have of it in the co-operation of production.

It is another of the Protean expressions of the formula of value. There is no absolute value: value is rooted in demand, but demand itself depends on supply, as desire, the root of demand, varies with attained or attainable satisfaction. So things which are of most "use," when measured by ordinary standards, may be of least value, and value disappears altogether in presence of superfluity. Applied to the factors of production, it takes this form: efficiency must be conditioned by scarcity; the demand for a factor depends on what it can do—its efficiency—relative to the supply of the factor offering itself.

**The true place of efficiency.**

Here at last we get efficiency put into its proper place, and find the root of that universal conviction as to its importance which elevated it into an untenable position in the subsistence theory. After all it is a guiding conception, inasmuch as, the more efficient a factor is, the more likely it is to be indispensable. If, for instance, all the young generation were diverted into medicine and became highly qualified physicians and surgeons, all their efficiency would not secure that they got as good a wage as the man who supplied them with potatoes. But, all the same, the medical man could divert his energies into the digging of potatoes, while no amount of inducement could turn the potato digger into a qualified medical man.

A concrete case.

It has been hinted that the supposititious case is not all supposititious. Let us ask, then, how far it applies to modern phenomena, and see if the results agree with our conclusion. Not so many years ago Glasgow was a centre for power-loom weaving. If one asks to-day why weaving is for the moment a dying trade, the answer is perfectly simple. It is that the Glasgow weavers up till quite lately have resolutely refused to take charge of more than two looms. In vain have the friends of the women workers shown them their danger. In vain have employers tempted the workers with higher wages at a lower piece-work rate, if they would try the three looms. Nowhere are there better weavers than in Glasgow, and they cannot understand why employers should ask them to accept lower rates. The reason simply is that Lancashire long ago accepted the inevitable and adopted the three and four loom system. Possibly the product was not quite so good. Possibly, too, where fine work is demanded by the public, the price obtainable still keeps the Glasgow weavers in some sort of employment. But, whether first class or not, the work done in Lancashire meets the great demand at the price. The contrast of price is such that more and more demand falls on the cheap Lancashire goods, and less and less on the dear Glasgow ones. No more capital is invested in Glasgow mills. More and more capital finds its way to Lancashire. Glasgow wages fall. Lancashire wages rise.

The correspondence with our supposititious case is obvious. For the moment, capital, getting more abundant and cheaper, has forced its way into the weaving trade, bringing down the wages of labour till the point is reached—say at the fourth loom—where capital can go no further; women's labour acquires a monopoly value, and the wage, which hitherto tended to fall, begins to rise. In Glasgow, on the other hand, the influx of capital has been prevented by the action of the weavers—yet the inevitable happens all the same.

There is only too much reason to fear that this is not an isolated case. If capital were capable of taking over all the work of man in industry, there would be a steady replacement of man till there was no room for him in the industrial organism at all. This, of course, is absurd. But the actual case is this: that, owing to developments undreamt of by our ancestors, capital is bound to take over many tasks that have fallen to man, but would never fall to man if we could begin the division of labour all over again. "Things are in the saddle and ride mankind" still, because things and men have not yet agreed upon the two spheres where they do not rival but complement each other. The proper service of mankind is man—the doing of what machinery cannot do. Where he tries to do what machinery can do as well, his remuneration is bound to fall.

A parallel in the international division of labour.

The coming problem is similar to that which meets our own nation as other nations rise to more equal industrial power, and countries which formerly imported goods largely from us are found capable of making many such goods at home, and even of exporting them. The wealth of all the nations is increasing; the wealth of each nation is increasing; yet great groups of industry are thrown idle and men find themselves out of employment. The reason is that our country has been doing things it would never have begun to do if the nations had started all abreast. Thus our farmers are worsted in growing wheat, because we never should have made wheat our staple crop if we had had America within reach. Thus, on the larger scale, we have sunk much of our capital and specialised much of our labour in farming, when it should have been devoted to other things—if we had foreseen what was going to happen.

So is it with capital and labour. We have two factors, like two countries, which have been doing each other's work. Now one proves the more powerful. Capital lowers its standard wage, and so long as man competes he must follow suit. But when the point is reached where capital can no longer tread in man's footsteps, and man is found indispensable to allow capital to earn even its subsistence wage, then the demand for man is unaffected by its competition, and, as capital increases, the demand for this indispensable factor increases, employers compete to get labour, and wages rise.

This, then, is the answer to the question put at the end of last chapter, why labour, on the whole, has been able to hold its own and increase its claims on the National Income. It has nothing to do with subsistence. It is its relative indispensableness to the employers of the nation. The demand for labour, as compared with the supply of it, has been such that the interest of the employer in beating down wage has been overborne by his interest in getting labour.

Is machinery our Frankenstein?

The supposititious case has, however, another purpose besides that just served. It is to indicate what amount of reason there is for the fear that machinery is the Frankenstein of our civilisation.

If the forecast on p. 224 has any large amount of truth in it, we have troublous times before us. The working classes have not the slightest idea that wages may react for a time from purely economic causes. It is one of the bad effects of the appreciation of our standard money that they do not know how great the rise has been since 1873—the rise in money wage accompanied by the great fall of prices. What they do know is that the wealth of the country is increasing hand over hand, and they regard a steady rise in money wages as the due accompaniment and expression of this. At a representative meeting in Glasgow of working men, called to consider the effect of women's cheap labour on men's wages, one of the delegates remarked that he was not aware that there had been any change in the wages of his trade of late years, adding naïvely, as an afterthought, "except, of course, a rise now and then." So rooted is this conviction that the greatest Union in the country lately staked all its funds, and cost the nation many millions of money, in the demand for an Eight Hours' Day "without reduction of wage."[1] If, then, we are called to pass through a time when the money wages of skilled labour will actually fall, we may prepare for still greater disturbances. The world is still, it is to be feared, under the domination of what Professor Marshall has aptly called the Fixed Work Fund fallacy, and there may even be a savage outbreak of the working classes against this machinery which, they think, is taking away their living.

That skill should become superfluous is a very great evil.

But, quite apart from a reduction of wage, the degradation of man, implied in making skill and training superfluous, is much more serious, even if, by some new compulsion on the part of government, the children are prevented from sharing their parents' fall. If skilled occupations are lost, and men trained to a vigorous use of their faculties are relegated to labour that makes less call on them as rational beings, men who have only one life to live are losing it; the gain of posterity is not our gain; and it is merely foolish to counsel resignation. Personally, I sincerely hope that the first part of my supposititious case will remain supposititious.[1] The experience I have had, first as a large employer of labour, and then as a professional man, has given me the firmest belief in the essential joy of work. I base, for instance, a good deal on the indisputable fact that no professional man or woman would tolerate a legal restriction on the hours of his or her labour. But admitting the difference between such work and the work of factory operatives—particularly in the freedom to do one's

[1] It must be remembered that the phenomenon which gives the supposititious case its strength is the appearance in the engineering trades of machines which demand skill only in the "setting." It is quite possible that this may not be typical of machinery generally, or may be only a passing stage; that the machine of the future may be still more complex and require a high degree of skill even in the ordinary minding. The linotype, for instance, it is said, demands more skill and a higher standard of education than is demanded even of that highly skilled workman, the compositor at case.

work at one's own time—I have always hoped that some new development would open up a future where most work would be skilled and would be congenial; and where, accordingly, the mighty reserve forces of labour, working under the stimulus of hope and love of one's work, would be added to the material resources which science is putting at our disposal.

The human tool has one essential difference from any other. When one buys a machine one knows the best of it. It may be indefinitely deteriorated by misuse, but it will not improve by the most considerate use. But many a man would be dear at 20s. and may be cheap at 35s., just as many a girl, who has never done a hand's turn at home, suddenly becomes an energetic, resourceful manager when she gets a house of her own. It is most regrettable if we have yet for some time to face a great readjustment before we begin the ascent again. It is no business of economists to make light of such hardships; the world would probably listen more readily to them if they were not so eager to point out the ultimate good that they seem to overlook the present evil. And this evil is very great.

But the set back is temporary.

But when all is said on this side, it remains for the economist to warn his audience against trying to oppose the pressure of economic forces which are in the lines of the world's evolution, and to plead that sympathy with present suffering should not be allowed to stand in the way of the ultimate good.[1] For, after all, the end of our supposititious case is, not

[1] As, for instance, I am persuaded is the case in allowing women working at home, in vain competition with factory industry, to escape the beneficent sweep of the Factory Acts.

the degradation of man to be the servant of machinery, but the escape of man from its tyranny. The present state of things is that in many departments men are trying to retain work which either machinery or man can do, and where it is only a question of which can do it more cheaply. It is singular that, in spite of this, the demand for human skill has been such that wages have not fallen, but, on the whole, risen. One may hope that this may continue; that the work of machine-minding in the future may be divided between much highly specialised skill and little unskilled labour, rather than between little specialised skill and much unskilled labour. But, in the worst case, after a period of transition and hardship, capital, from its very abundance, will fall into its proper place, not as the rival of man, but as the servant of man; and, when this happens, two things will come out very clearly which are already coming out dimly:—

**Allowing for the utmost extension of machinery,**

(1) That machinery always requires setting and tending on the lower plane, and planning and organising on the higher.

(2) That in direct service there is an unlimited field for human activity.

If it is true that wages ultimately cannot be kept from rising in fields where capital has its full share and is introduced to the possible limit, this makes clear what is the position of man in occupations where machinery cannot intrude at all. If there is a monopoly value attached to man even in the fields of machine industry, his monopoly value in other occupations, particularly where brains are indispensable, is evident.

there is an infinite field for the human factor.

The fact is that growing wealth, as it has brought the evil, will also bring the remedy. For many a year yet the great majority of the population will increase their demand automatically for machine-made goods, as the cost of such goods comes down. But growing wealth means growing wants—wants that did not emerge at all on the lower stage, but rise into prominence and urgency when the lower wants are better satisfied; and these wants cannot be altogether met by machine-made goods. What, for instance, is it that has made the wages of domestics rise but the demand which instantly emerges, whenever people get a little easier in their circumstances, for the domestic services. Who that knows the working classes but recognises the satisfaction expressed in the statement, "we keep a girl now"? This has often been interpreted by economists as the ambition for social distinction, as if people asserted their new wealth by having some one "beneath them"; and perhaps the natural resentment at such an attitude has something to do with the unpopularity of "service" among the class from whom we might expect domestic service to be recruited. It is, however, more obviously and more honourably interpreted as the demand for services which men and women alone can render, asserting itself immediately that the lower wants are satisfied.

*Sic itur ad astra.*

To overlook this evolution of a nation is to forget the essential nature of man. His stomach and his digestion are limited. The shelter and warmth he needs are a fixed quantity.[1] The fixed quantity, indeed, is so far from being supplied among the masses that, as was said, there is an enormous field still for

[1] See *Studies in Economics*, pp. 193, 272.

the supply of the commonest class of machine-made necessaries. But once these necessary wants are satisfied in any man, the field of his desires extends to the satisfaction of his senses, of his intellect, of his taste. He wants more books and newspapers, and, although these are immediately produced for him by factories and workshops working under the factory system, yet the mediate demand is for more thinkers, more poets, more travellers, more collectors of news and information generally. He wants more of the goods that satisfy the sense of beauty; he wants more amusements; he wants more teachers. In fact, in this latter field there is room for an infinite number of human beings, for the field is as infinite as knowledge itself. He does not, of course, want endless board schools: there is a limit to this kind of education. But, based on this, comes the demand for secondary schools and for universities. Universities, indeed, are now too much the tools of the professional man—in Scotland at least—but the demand for education that has no goal but education, is bound to extend among the cultured classes generally. One may hope to see the day—even in thrifty Scotland—when a university education will be demanded as the entrance to all the higher posts of business life, and when, moreover, the university shall find a place and an utterance for every man who has special knowledge of something, however remote it be from the "bread and butter sciences." At every step upwards in wealth, while the demand for capital and machinery increases, the demand for man as man still more increases.

# CHAPTER XX

## TRADE UNIONISM: FOR AND AGAINST CHEAP LABOUR

*The basis of Trade Unionism is the conviction that the workman is a "weak seller." By way of introduction, let us (1) ask why the employer should not buy labour as cheap as he can, and (2) try to see the rationale of the workman's refusal to sell at the individual employer's price. 1. Wages not being charity, why should an employer, who uses labour only as one of his instruments, and cannot himself get more than the market price for his goods or his own services, be expected to treat labour exceptionally, and pay more than the market rate? Or, if he has the means of paying more, is he to be a "blackleg" to his class? But, again, what is "cheap labour" as distinguished from the market price of labour? 2. Granted that the uncombated liberty of the employer to buy labour as cheaply as he can will result in a great National Income, a certain claim on a possibly smaller income may be better than a possible claim on a certainly larger income, and, like the inventor who takes out his patent rights, the worker must assert his claim at the point where he has the best chance of enforcing it.*

UP to this point we have looked at the relations of workers to employers as unaffected by the restrictions or interference of any stronger combination than is involved in the solidarity of regimented masses. We have now to consider the effects of the conscious combination of workers in the policy called Trade Unionism. How does it affect the activity of employers, and, therefore, the distribution of wealth which they make in the form of wages?

Trade Unionism is based on the conviction that the worker, as an individual, is not in the same strong position to sell his labour as his employer is to buy it, and that, accordingly, unless supported and strengthened by common action, he always sells it too cheaply. The basis of Trade Unionism.

This argument seems to have struck our forefathers very much as if their plough-horses had turned round and complained that they were not in a position to secure their proper feed of oats and hay. The tone of employers, even a generation ago, was that they were the only judges of what a man was worth; a request for a rise of wages was resented as an impertinence[1]—not that any employer ever thought of giving an advance without it; and the man who made it was often enough cast out with the brand upon him, so that other employers, seeing it, might beware of him. How it struck our ancestors.

We have learned a good deal since then. We know the treachery of the argument, "if he doesn't like the wage he needn't take the work," in a world where industry is all organised, and no man, turned from the gate of his trade, can employ himself. The organising of a nation to earn its living is seen to be a matter for the nation; to be left to private enterprise if private enterprise can do it better than any other system, but not a moment longer.[2]

[1] As it is still, I am afraid, in the unorganised women's trades.

[2] Economic science generally insisted on this *caveat* as regards the holders of land, even when other employments were held sacred. If this is no longer so prominent as it was, it is because cheap freights have reduced the importance of agricultural land by taking the monopoly of the people's food out of landowners' hands. Hence we have the distinct tendency among economists to group land and capital together; and we have the recognition that employers in both spheres must find their interests as best they can in the interests of those they employ. In fact, as was hinted,

Indeed, we are in danger of going much too far, and forgetting the essential truth of what earlier economists put in too absolute and forbidding a form. Assuming that to grant the right of workers to combine, with the view of selling their labour as dear as they can, involves the denial of the employer's right to pay as little as he needs,—not seeing, that is to say, that the two "rights" are perfectly compatible—public opinion seems inclined to treat the economist who would seriously defend the buying of labour in the cheapest market as merely a curious survival of a "discredited Political Economy." It is a singular testimony to the power of the Trade Union idea over the common consciousness that it should be so.

*Advocatus Diaboli.*

Perhaps, however, it will not be a bad introduction to the study of the Trade Union argument, and may recall some things that should not be "discredited," if, for the moment, we ask, in supplement of the argument in Chapter VI., why the employer should not buy his labour as he buys his other factors.

**Charity in wage-paying.**

There is still a mysterious suggestion of charity or benevolence connected with the paying of wages. To say nothing of the frequent assertion that workmen are "ungrateful fellows," meaning by this that they do not accept the wages offered them without question, there is no doubt that employers, both public and domestic, think it a fine thing when they pay above the market rate, and that workers do not resent it, even when they know that they are getting more than other

we have something like the dim idea that employing is a kind of State function; the duties of a civil servant seem expected of the employer even without the guarantee of a civil servant's salary.

employers regard them as "worth." But wage is an equivalent for work done: the worker has no more reason to say "thank you" for his wage than the employer to say "thank you" for the service he gets. And what is the meaning of that recognised rate-in-aid called Tips? It is either a reflection on the employer, suggesting that he is not paying what he ought, or it is a kind of charity, or, worse still, it is a purchase of civility which should be given gratis. Surely the tone of an independent worker should be "pay me what thou owest," without adding "and as much more as you please." A shopkeeper would resent being offered more than the price he asked; why does not the working man?

**The employer also works for his living.**

The longer one looks at it, the more puzzling does it seem that an employer should be expected to pay or be praised for paying more than he requires to. He engages labour, not for itself, but solely because labour is a factor in the production of the commodities he wishes to make. He wishes to make these commodities, not because he wants them for himself, or because he is ordered by a benevolent State to make them, but because he wants the things to sell. And he wants to sell them simply and solely that he may make a living by it. The "living" is the motive and end of the whole business; and, if the working man does not see that it is any part of his concern to give up part of his living in order that the employer may have a profit, why should the employer sacrifice anything of his living to give the working man a wage? It is thought—and justly—that it is a disgraceful thing for a man to be idle; when he engages in the public service as an employer, why should he be expected to become a philanthropist? Why should he treat labour otherwise than as he treats raw material or machinery? Or, rather, who is to guarantee him his "living wage" if he treats it differently?

There is something at the back of all this. It is undoubtedly the conviction that the employer normally makes more than he ought—however vague may be the idea underlying the "ought"; in short, that he has the means of paying more if he liked.

But, if our analysis was correct, the employer is not a free agent in this respect. It is notorious that, if a man with means takes his money out of a safe security at a small interest, and embarks it in industry under his own eye, he takes on himself labour and anxiety that he need not undertake, and he runs very considerable risk, not only of getting nothing for his work, but of getting even less for his capital than what the safe security yielded him. It is unreasonable to think that he is bound to be swayed by other than industrial motives. But when he thus risks his means as an employer, he pays and is paid out of price. If he manages to raise prices and pays an extra wage out of the raised price, he is really paying out of the public purse by charging it on to the consumers. But this raising of price is almost out of his power. He himself is overruled by circumstances. The worth of the employer, *qua* employer, is tested probably more severely than that of any other class, and he cannot, on the whole, make more than a wage that compares badly with the wage for similar work in other departments of labour. If so, it is not possible for him to pay higher wages than he requires to; and, once this is recognised, the paying of extra wage falls under the category it never should fall under, that of charity.

Is he to be a "black-leg"?

But let us take the exceptional case where he individually has an extra profit, or, rather, where he is obtaining what is properly called "rent" in addition to his profit, and is sacrificing some of this rent. In industry, as we have abundantly seen, no individual stands alone. In the factory there is an ebb and flow of labour which keeps up the level of labour while changing the personnel of the labourers. A rise of wages, then, given by one employer of his own good will, is the starting-point of a demand for a rise in all related industries. But, *ex hypothesi*, to give this rise will deprive the average employer of his living. Has the exceptional employer in this case no responsibility to his class—those who work hardly for their living and get their living paid them in the wage called profit? Is the conception of "blackleg" to be confined to the working classes?[1]

If, lastly, he has no extra profits or rent, and yet pays his men more than he needs must—perhaps because he has other resources on which he can live—it comes to the same thing. It is like a municipality building houses for the poor and underselling the private builders. If the private builders are discouraged and cease building, the municipality will soon have enough to do, although, probably, the new drain on the ratepayers' pockets will have the effect which is absent when a private employer does the supplementing out of his own pocket.

It may very well be contended, then, that, in acting according to his own interests, the employer is over-

[1] In time, of course, this will have to right itself, unless the benevolent employer in question is able to absorb all the trade of his crushed-out rivals.

ruled to do the best he can for the largest national interest, the interest of the consumer. The end of his activity is the making of the two blades to grow where one grew before—the increasing of that mass of goods over which the pounds, shillings, or pence paid as wage are a claim. To the extent that he is successful, the money which the worker gets buys more and more of these goods; and, without paying more than he needs to pay, he fills his place as a necessary servant of the community.

What is "cheap labour"?

But, beyond this, we may very well ask what is the meaning of "cheap labour." It is amazing how long people will go on confidently using a word without noticing its ambiguity. What are cheap goods? Are they "cheap" in comparison with what one would pay "rather than go without" them?[1] Or with what one would pay in ordinary circumstances? Or with what one used to pay? Or with their importance to our physical needs? Is aluminium "cheap" at 1s. 3d. a lb. because it has valuable qualities that are not combined in other metals of similar price, or because it was 5s. 3d. a lb. in 1883? Cheapness is opposed to dearness, and both terms are relative to some norm. But if one asks the economist what "normal price" is, he will ask, "Which normal?" and will refer the inquirer to Professor Marshall's *Principles* for an answer—if he agrees with Professor Marshall.

But the cheapness of a service or of an instrument of production is more difficult still. We are not allowed, it seems, to speak of the manufacturer or tradesman as

[1] The difference between this and what one "actually does pay" is Marshall's definition of Consumers' Rent, or rather Consumers' Surplus.

selling his services for "less than they are worth": their "worth" is admittedly what they will fetch. The working man's labour, however, seems to have two worths: one, what it will fetch if bought and sold freely; the other—well, what is the other? Is it the Trade Union price? But that is begging the very question. Is it the price of "subsistence"? But it is scarcely conceivable that any one who makes a grievance of "cheap labour" would refer to subsistence price as forming the norm. Labour is not valuable in itself; only for what it does in the production of something that is considered valuable enough to buy. Therefore the criterion of what labour is worth is the price which the consumer will pay. To say, then, that labour is cheap would seem to say that it is embodied in goods that sell for a low price. But if this low price is all the consumers will pay, why call the goods cheap, and what becomes of the contention that the labour is cheap? It amounts to the old charge that the employers bring down the price of goods; that they sell more cheaply than they might. Certainly they do; but, unless we are ready to adopt a subsistence theory, and say that wages must determine price, we must say that the reduction of price is what we expect of the employer; and, carrying the war home, we may say that the working classes are the first to grumble if prices are raised against them, and the first to beat down prices all they can.

Need any more be said to show that, before the word "cheap labour" is put forward as carrying condemnation of the thing, it would be as well to define what the complainants mean by "cheap"?

The Trade Union answer.

Thus far of the argument which the "survival of a discredited political economy" might advance for the action that Trade Unionism exists to oppose. Let us now, still by way of introduction, look equally fairly at the Trade Union answer.

If a Socialist State, falling heir to the outward form and methods of individualism, were to appoint its own officers, and instruct them that the one end they must keep in view was the production of the greatest sum of wealth from the resources, material and human, of the community, there would be no combinations of labour; the workers would resign themselves to be treated simply as productive factors, their weekly wages to be paid according to the estimate of the employers as to their worth in the co-operation—the employer having no private interest in the matter. But in this case the payment of wages would be only the first instalment of the real remuneration. There would be a balance of payment to be made them subsequently. Whether it took the form of State expenditure for common objects, or extra payments to the workers on some other ground of deserts, or of wants, or of this or that, the whole of the second blade would go to the workers.

The worker must make his claim where he can enforce it.

But under the present system the first instalment is all that the workers can be sure of; the second blade goes indeed somewhere, but there is no guarantee that it goes to those who have produced it. Now this, as was said, is practically to get the worker to add the greatest amount to the National Income, while inducing him to take the lowest claim on the National Income; for, as was proved in the earlier part of this book, the production of the National

Income is at the same time the distribution of it. Of course, it is a great thing to increase the income, but if, in the production, the distribution is determined—if the worker's share of it is determined as he produces it—he is bound to ask that the production-distribution process gives him his due claim on the total income.

To use an analogy: the inventor is not content to know that his new machine will reduce prices, and that he will have his share in the cheap goods. Nor is he content to earn his remuneration by making and selling it. He takes out his patent rights; that is, he puts in his claim at the point where he can enforce it. Similarly, granting that a large National Income is desirable, the workers have no guarantee of their share unless they put in their claim at the point where they can enforce it, and that is when their labour is needed to produce the income. In short, while cheap goods are a very good thing, what is the worker advantaged if his wages are reduced in the same proportion as the goods are cheapened?

**Good wages *versus* cheap goods.**

There is, continues the argument, a fallacy in the current idea that low wages have an adequate compensation in cheap goods. There is no doubt that some logically minded people conceive that, as wages go down and goods get cheaper and cheaper, the workers are as well off in getting low prices as they would be in getting good wages, and better off, perhaps, if they are thus deprived of their power of striking. They say that, so long as the productiveness of labour and capital is not impaired, industry produces an undiminished National Income whatever wages are paid, and they are apt to think that the distribution is equally unaffected. One way of distribution is in low wage and cheap prices; the other is in high wage and high prices. If the two are in proportion, the worker gets the same amount of living out of his wages in either case. A poor woman making 11½d. a day at stitching up ready-made clothing is not a pleasant object, nor yet is a whole family making up match-boxes at 2¼d. the gross (themselves providing the paste). But see how wonderfully things work out: the former household can buy a complete boy's suit for 4s., and the latter can get two boxes of matches for a halfpenny!

The fallacy here lies in the assumption that the benefit of low prices goes to the workers alone. The workers are only one section of the community and they are individually small consumers, while the low prices spread their gain over the other and more extravagant sections as well.[1] No doubt the consumers are the larger body, inasmuch as they embrace paupers, criminals, invalids, children, women, and idle persons. But the interests of invalids, children, and women are bound up with the interests of the men who support them; the interests of paupers and criminals are quite subordinate to the interests of those who work; and for the sake of idle persons it is not wise to sacrifice the interests of the industrious. It is the producing consumer or consuming producer whose interests are paramount; his interests are the most real and far-reaching interests of the community.

[1] It is estimated by the Fabian Society that, although the wage-earners of the United Kingdom number four-fifths of the population, they consume only between one-third and two-fifths of the annual aggregate of products and services. It would be more satisfactory, however, if this estimate were given by the Statistical Society.

The workers, then, are right in preferring to put in their claim at the point where they have the best chance of getting it duly honoured.

This, I think, may be accepted as the rationale of the Trade Union answer to the claim of the employer to buy labour as cheaply as he can.[1] Even if it were proved that the quickest way to a large dividendum is to allow employers this freedom, it is contended that this is not enough, seeing that there is no security that, in the division of it, the working classes will get their due share. Better a smaller income, if, by asserting their claim at the proper place, they can secure a larger share of it.

This, it must be understood, is not by any means the argument which an economist would advance as the final contention of Trade Unionism, but it is, so far as I can see, the workman's answer to the claim of "free trade in labour."

The "loose end."

The point which interests us here in Trade Unionism is its treatment of what we have called the "loose end" of the wages question—the equivalence between service and remuneration. It does not profess to have any opinion on the equivalence except the conviction that

[1] How far it is proper to "put words into the mouth" of Trade Unionism, and find principles for action unconscious of a principle, is a question. But if Mr. and Mrs. Webb had not done so, *Industrial Democracy* would never have been written, as it proceeds all through on the basis that the Trade Unions have "builded better than they knew," and it remains yet to see how far Trade Unions will homologate their interpretation. In the present case it is evident enough that Trade Unions are not guided by any conscious principle, but aim, to use the frank words of their sponsors, simply at getting by Collective Bargaining something better than they would get by Individual Bargaining.—i. p. 321.

labour is always underpaid. It says that the Trade Unions have opposed an effectual "dyke" against the otherwise overwhelming pressure of the employers; and, if pressed on the point, it would probably say that increasing national wealth warrants a better subsistence. But it is not possible to discuss this "dyke" without entering to some extent on the general argument and method of Trade Unionism. We may begin with the arguments used to prove the alleged weakness in the "strategic position" of the workers as compared with that of the employer.

# CHAPTER XXI

## TRADE UNIONISM: THE POWERLESSNESS OF THE INDIVIDUAL

*It is argued that employers are themselves the victims of irresistible pressure from below and around to reduce wages. The isolated workman, on the other hand, has no reserve funds to enable him to look for another job or remove his household to another locality, and he has always the enemy within the gate; so he accepts the reduction, and the reduction spreads. The remedy is common action within a trade; the exigencies of particular workers and particular employers being "ruled out," the wage contract is determined between a body of labourers and a body of employers.*

**Employers themselves are powerless.**

PUTTING aside the baser imputations somewhat recklessly made against employers as taking advantage of workers' necessities,[1] the argument is that the best employers are themselves the victims of irresistible pressure. As we have seen, they are pressed on by the public and they press on one another, the last comer, as setting the pace, being always the best appointed. Thus there are always employers who,

[1] It is painful to observe how ready workers are to charge their employers —men whom they confess to be honourable in other relations of life— with acts which, one hopes, they would not believe of their own class, and it would be incredible to any one who had not moved in Trade Union circles. I do not refer to the paying of low wages, but to such accusations as breaking faith, deliberate falsehood, using false weights and measures in assessing workers' product, and the like.

having done all they can to reduce cost in other ways, and finding that their rivals can undersell them, think it not unreasonable that their workers should assist them to keep the wheels moving by taking a smaller wage.

The labourer has no reserve price,

What is the position of the working man as against this pressure? It is that he is generally not strong enough to challenge it by throwing up his place. A man whose utmost saving can be but a few pounds is not in a position to lose time, and, as he must throw up one job before he even looks for another,—for employment must be sought during business hours,—he necessarily loses time in seeking for the other. Nor is he generally in a position to face the expense of removing himself, his family, and his belongings to another locality; and, when it is remembered that in the best times the proportion of unemployed in the organised trades is 3 to 5 per cent, it is assuming too much to think that another job is always waiting him in the same locality. Thus he has always to calculate whether it is not cheaper to lose, say, a shilling a week, rather than incur an immediate expense which will probably run into pounds.

and the unemployed are at the gate.

Besides this, if the men do not work together, a man's foes are those of his own household. A man will think twice before he gives up his job, when he knows that unemployed men, who have, presumably, been round all the other places in the locality looking for work, are at the mill gate waiting to take it. Thus, if he stands by himself, there is every likelihood that he will rather put up with the reduced wage. But if wages are reduced in one factory, the example is set to all the employers in the district, and wages will follow the course of prices generally; they will steadily go down.

The "ruling out" of the individual.

To protect the working man against this pressure downwards, the obvious method, says the argument, is union and common action of men engaged in similar work. By this united action the unit of labour becomes the body of workmen in each particular trade. The exigencies of the particular workman in a single establishment, in a single district, in a single trade, are "ruled out." At the same time the exigencies of particular employers are ruled out. The wealthiest contractor and the builder on the brink of bankruptcy, the firm crowded with orders and the firm standing practically idle, are placed on a uniform footing. The wage contract is concluded between a collective body of workers and a representative employer, and in the best unions the interpretation of the bargain is made by "professional experts who devote their whole time to the service respectively of the Employers' Association and the Trade Union."[1]

[1] *Industrial Democracy*, i. p. 195.

## CHAPTER XXII

### TRADE UNIONISM: COLLECTIVE BARGAINING AND THE STANDARD RATE

*Collective Bargaining is an outcome of modern conditions. Its objects are many, and many of them have passed into universal acceptance. But the chief is the securing of a Standard Rate; not an equal wage, but an equal rate of wages; not an equal rate from trade to trade, but a separate rate for a separate trade; not a maximum or an average, but a minimum; and not a high wage for poor work. To Collective Bargaining and the maintenance of the Standard Rate, all Trade Union action is subordinate. Even the Friendly Society becomes a mere adventitious aid, and its funds are not sacred against an attempt to cut down the Rate.*

The outcome of modern conditions.

COLLECTIVE Bargaining, on the whole, is an outcome of modern conditions. It has come with the break of the personal tie which was possible when men had access to their masters, but is impossible in the huge factories and varied industry of to-day. Granting that there should be a bargain, and not merely an acceptance by one party of the other party's terms, it is clear that in many trades individual bargaining is almost impossible. In some it is the size of the organisation that is the obstacle; in others it is the character of the work; and the obstacle is entirely unsurmountable when the employer is a public company. "It is not too much to say that, so far as concerns the personal life of the 50,000 employés of the London and North-Western Railway, the

55,000 ordinary shareholders, who own that vast enterprise, are even more ignorant, more inaccessible, and more irresponsible than the millions of passengers whom they serve."[1] In such trades as bootmaking, again, where little changes are constantly being made, even if there were the freest access to the employer, no workman can know what his work is worth. If there is no Collective Bargaining and the machinery for interpreting it, he must either trust himself to the good will of the employer or make guesses at the worth of his services. Here the only alternative to the Collective Bargain seems to be a customary wage. As a fact, in every industry where there is constant change, however free it be from Trade Union interference, there is Collective Bargaining; at every new detail the foreman and a knot of men, smaller or larger, must agree on a price—especially if it be a piece-work job—and the formal Collective Bargain is no more than an extension of the agreement which would be come to in any case. The contention, then, is that, individual bargaining being impossible, the only alternative to acceptance of the employers' terms is the Collective Bargain.

**Objects of Collective Bargaining.**

The objects of Collective Bargaining are many. They embrace hours of beginning and leaving off work, arrangements for holidays, accommodation for meals and taking charge of valuable tools, arrangements and payment for overtime and for piece-work, notice required for terminating engagements, questions of allowances for extras, matters connected with apprenticeship, etc.

In most of these it is obvious that the interests

[1] *Industrial Democracy*, ii. p. 691.

involved are common to large groups of workers, and could not in any case reasonably be the subject of bargaining between employers and individuals. Among these objects, again, are some once bitterly opposed, but now accepted by every one. Such are the limitation and regulation of the hours of labour, by law in the case of women and children, by agreement in the case of adults, and the numerous provisions on the statute-book for safety, health, and comfortable conditions. When the question under discussion is Trade Unionism as a whole, it should be counted to it for righteousness that in the past it has fought for and obtained these reforms, in the teeth of vested interests, capitalist opposition, and even mistaken philanthropy.

The Standard Rate

But the chief object of Collective Bargaining—the "practically universal regulation and indispensable requisite" among Trade Unions—is the securing of a standard minimum rate of wages for similar work within certain groups. We must be careful that we understand what exactly this Standard Rate is.

is an equal rate

(1) What it means to secure is not equality of wage, but equality of rate of wages. Sometimes, as in the largest and most powerful Trade Unions, notably the Coal-miners, Cotton-spinners, Cotton-weavers, and Boot and Shoe Operatives, this is secured by elaborate piece-work lists, usually necessitating the constant work of highly paid experts; sometimes by a fixed time wage, as with the Engineers, Carpenters, Stone-masons, and Bricklayers; sometimes by a combination of the two, as in the case of the United Society of Boilermakers and Iron Shipbuilders, and the Compositors.[1] But,

[1] "What is aimed at is uniformity in the rate. In some industries this can be maintained only by insisting on time wages. In others,

whatever method is adopted, the end aimed at is uniformity of payment for equal work—"identical pay for identical effort."

(2) It is not equality of rate from trade to trade. "There is, in the Trade Union world of to-day, absolutely no trace of any desire for equality of wage. The card-room operatives in a Lancashire cotton-mill, earning from 10s. to 20s. a week, will unhesitatingly come out on strike to assist the cotton-spinners to maintain a Standard Rate paid out of the products of the combined labour of the two sections averaging 40s. a week." It is simply equality of rate within each trade. Even this expression "within the trade" must be qualified. It is, naturally, an aspiration of the Unions that the "trade" should mean the entire trade over the country; but hitherto "Trade Unionism cannot be said to have progressed beyond the securing of a local Standard Rate . . . : directly the cost of living becomes appreciably different, even the strongest Unions admit variations in local rates." London rates, for instance, are usually about 10 per cent higher than provincial.[1] within trades only;

(3) It is a minimum, not a maximum. Thus, wherever the employer finds it advantageous to pay a higher rate, "the Trade Union cordially encourages a minimum rate;

time wages would produce just the opposite result, and Trade Unionists accordingly insist, with equal determination, on payment by the piece." For the reasons why time wages in some trades and piece-work in others make the maintenance of a Standard Rate difficult or impossible, and are therefore opposed by different classes of workers, see *Industrial Democracy*, i. p. 288.

[1] *Ibid.* i. ii. v. The equality sought, indeed, is still more indeterminate. Whether it should be equality of nominal wages or equality of real wages "has never been settled in principle." As regards women, while "the resentment and abhorrence with which the average working man regards

the practice." Still the authors of *Industrial Democracy* confess that, "although the Standard Rate is a minimum, not a maximum, the establishment of this minimum necessarily results in a nearer approximation to equality of rates than would otherwise prevail"—and this is particularly true of time-work.

And, again, they are candid enough to acknowledge that "a considerable section of the wage-earning class have a deeply rooted conviction that the conscientious, industrious, and slow mechanic ought in equity to receive no less pay than his quicker but equally meritorious neighbour."[1]

and for the good worker only.

(4) It is not a demand of high wage for poor work. It prevents the paying of lower wage, but not because it demands that the poor worker be paid above his value. It does not put forward any claim that the poor worker should be taken on at all. But, if he is taken on, it demands that he be paid the rate, on the

the idea of women entering his trade" are acknowledged, the futility of prohibition has become evident, and the Trade Unions have changed their front, demanding that women also should become subject to the Standard Rate. "But it is unfair, and even cruel, to the vast army of women workers, to uphold the fiction of the equality of the sexes in the industrial world," and an examination of what happens among the Lancashire weavers, "where there has never been any sex distinction," shows that there is a real though unobtrusive segregation, the heavy trade falling to the men, the comparatively light work (paid for at lower rates) to the women. On this Mr. and Mrs. Webb base the opinion that, from the Trade Union point of view, there must be frank recognition of classification of work, each with its own Standard Rate. "The essential thing is that there should be no under-bidding of individuals of one sex by individuals of the other. So long as the competition of men is virtually confined to the men's jobs, and the competition of women to women's jobs, the fact that the women sell their labour at a low price does not endanger the men's Standard Rate."—ii. x. (d), p. 506.

[1] *Industrial Democracy*, i. ii. v. p. 285.

ground that it is better that the employer should suffer in having to pay him a full wage, than that his weakness should be used to pull down the wage of all the others.[1]

There is, indeed, a premiss in the argument which needs bringing out. It is that the average labourer is "worth" the rate which his Union demands. Probably most of us, inadvertently taking the Trade Unionist's view for the Trade Union view, do some injustice to the argument here. It seldom, indeed, enters into the head of the workman that his labour is valuable as a tool and only as a tool. Even where it does dawn upon him, he thinks that his labour is always worth a wage. But, beyond this, he has been so accustomed to the steady rise in wages, that he is firmly convinced that labour steadily grows more and more valuable, and he naturally concludes that he is at all times worth at least the wage of his trade.

But the theory of Trade Unionism on this point is sound enough. It does not hold that wages must always rise and never fall.[2] It professes to take as its rate the sum which, between employers and workmen, is agreed on as an adequate remuneration for the services

[1] If labour were so scarce that all Trade Unionists were always in demand, would it not be the case that some men would be paid a high wage for poor work? The Trade Union answer is (1) that there are always some 3 per cent of unemployed in the best Unions; and (2) that, as above, the Unions do not admit any but men confessedly worth the wage.

[2] "The cotton-spinners, for instance, whose standard earnings are determined by an exceptionally stable National Agreement, have, during the last twenty years, agreed to twelve alterations of this standard, five times upward and seven downward."—*Industrial Democracy*, i. p. 256. The popular contention of the coal-miners that price must follow wages is not a recognised Trade Union contention, and is not likely to be.

of an average workman in the circumstances of his trade, and it admits no man into its ranks who is under this average standard.[1] We are prevented from seeing that the assumed premiss is a perfectly fair one, only by the common conviction that the "ca' canny" principle, adopted by certain Unions, is a part of Trade Unionism.

To Collective Bargaining and the maintenance of the Standard Rate, all Trade Union action subordinates itself, and in their defence it gives up many things, admirable in other respects except that they tend to cut workmen off from each other. This is the reason of the sullen dislike or active hostility to outside friendly societies, sick and burial clubs, to profit-sharing schemes, sliding scales, and all lines of "vertical cleavage"—to say nothing of Home Work and the Small Master system.

Subordination of the provident function

This also explains, if it does not justify, the peculiar position in which the mutual insurance part of the Trade Union function stands. A Trade Union cannot be sued; it does not enter into any legally binding contract; and, probably as consequence, the Friendly Society, from the actuarial point of view, is about as bad as bad could be. It "does not rest on any actuarial basis"; it "represents at best the empirical guesswork of the members";[2]

[1] The question, of course, remains whether workers once admitted to the Union continue worth the rate, and whether adequate measures are taken to expel members who become inefficient.

[2] "No Trade Union has deliberately desired bankruptcy; but many Trade Unions have persistently voted for scales of contributions and benefits which have inevitably resulted in bankruptcy."—*Industrial Democracy*, p. 61. This unsoundness is sometimes due to rival societies

it "does not profess to afford its members any legal security or certain guarantee against destitution, sickness, or old age"; men who have paid in their subscriptions for a lifetime are liable, without appeal to law, to be expelled and forfeit all claim if they voluntarily withdraw, for there is no surrender value; the scale of payment may be arbitrarily changed and the benefits reduced or abolished altogether. Moreover, the whole funds are available for three purposes,—for out-of-work pay, for strike pay, and for sickness and superannuation; but the punctual discharge of the sick and superannuation liabilities is "a distinctly secondary consideration," and more than once great Trade Unions have been reduced to absolute beggary through exhausting their funds in the two former.[1]

These are the statements, not of an outsider, but of the champions of Trade Unionism. To my mind, they barely manage to clear "experienced Trade Union officials" of something which bears an ugly name, when it is hinted that their "persistent advocacy of sick pay and superannuation allowance is based on the adventitious aid it brings to working-class organisations, namely, the potent attraction which the prospect of support in sickness or unemployment has to the young man just out of his time."

But this questionable policy is explained, if not excused, once it is realised that the Friendly Society function, although the oldest part of Trade Union activity, and a part which has secured such universal approval as to make many critics a little blind to

which overlap each other, as *e.g.* in engineering, and bid against each other for members.—*Industrial Democracy*, p. 112.

[1] *Ibid.* i. ii. 1, *passim.*

abuses of the other parts, is now quite subordinate to the protective function. The benefits are a "powerful instrument for maintaining discipline and for enforcing upon all the decisions of the majority. If expulsion carries with it the loss of valuable prospective benefit, such, for instance, as superannuation, it becomes a penalty of great severity." It is, moreover, an instrument against the independence of the branches. "Thus the addition of friendly benefits has been, on the whole, a great consolidating force in Trade Unionism."

The true inwardness of the Friendly Society side comes out clearly in the out-of-work provision. Of course, in itself this is an admirable and much-needed form of insurance, and it is noteworthy that "no other organisation, whether commercial or philanthropic, has yet come forward to protect the wage-earner against the destitution arising from lack of employment"—for the reason that "this pay cannot be properly administered except by bodies of men belonging to the same trade and even working in the same establishment."[1] Consequently one can hardly object when it is stated that "it is the out-of-work benefit which takes the most important place in the mutual insurance business, its limits being extended in many instances whilst others are cut down."

[1] This suggests the real need there is for the Friendly Society function. "The great industrial insurance companies and collecting societies, with their millions of working-class customers, and their ubiquitous network of paid officials, but without a jury system, find it financially impossible to undertake to give even sick pay, let alone out-of-work benefit. The Prudential Assurance Company, the largest and best managed of them all, began to do so, but had to abandon it after five years' experience—unable to cope with the fraud that was practised."—*Industrial Democracy*, p. 101.

But this out-of-work pay is used almost purely for the maintenance of the Standard Rate. Its object is to prevent the man "from accepting employment on terms which, in the common judgment of the trade, would be injurious to its interests." "A member is not only permitted to refuse job after job, if these are offered to him below the Standard Rate, he is absolutely forbidden to accept work on any but the conditions satisfactory to his branch." Thus "the whole Friendly Society business of a Trade Union is only an adventitious adjunct, strictly subordinate to its main function of securing for its members better conditions of employment. In pursuit of these better conditions the Trade Union must be free, in any emergency, to use every penny of its funds in the fight. . . . The insecurity of the Friendly Society side of Trade Unionism is, in fact, inherent in the conjunction of trade and friendly purposes."[1]

to the protective.

The authors of *Industrial Democracy* seem resolved that we shall not accept Trade Unionism without knowing its "seamy side."

[1] *Industrial Democracy*, ii. p. 531; *ibid.* i. ii. *passim.*

# CHAPTER XXIII

## TRADE UNIONISM: ITS DISCLAIMER

*In separating off the practice of Trade Unions from the pure theory of Trade Unionism—very necessary now when public opinion is so much irritated—we find the following are disclaimed:* (1) *Interference with substitution generally, particularly with the introduction of machinery and improved processes;* (2) *the vested right of any class to a particular trade;* (3) *insistence on apprenticeship and limitation of apprentices;* (4) *the objection to piece-work;* (5) *maximum work;* (6) *picketing;* (7) *interference with management.*

**Seven abuses are disclaimed officially.**

BEFORE we go on to discuss the restrictions which Trade Unionism puts on the activity of the employer, it will be as well to clear out of the way some restrictions which, rightly or wrongly, individual Trade Unions are charged with imposing.

The last half century has seen a great change in the attitude of economists, as well as of the public, towards Trade Unionism. The active hostility of employers has gradually passed into at least passive endurance. The suspicion of the economists in the same time has passed into half-hearted apology. All men now see the root of good in what they thought the thing evil. It is acknowledged that there must be Trade Unions. It is even said, and by employers who do not love them, "better a strong Union than a weak one."

But if this tolerant attitude is not to turn again into hearty denunciation, it will only be by clearly separating off the pure theory from the practice, the accidents, and the abuses—just as we sometimes separate off Christianity from the practice of Christians. It is evident that at present educated opinion is intensely irritated against the Unions. Their crass refusal to look on foreign competition as anything but a convenient "bogey" set up by the employers; the incessant paralysis of large industries at a time when our country has yet a chance of recovering its position among the progressive nations,—these are disquieting accompaniments to a foreign policy which keeps running up the British flag over old countries and new ones, and to a national economic policy which opens their ports and invites the competition of every other nation under heaven. As for the arrogant meddling with important matters of management, and the more irritating interference with unimportant details—a long-suffering public wishes to know if these are integral parts of the system or not. If they are done without the approval of official Trade Unionism, it is suspected that they are not done without its knowledge; and the question begins to be asked, how it is that official Trade Unionism does not take itself seriously, and protest against them. A little more, and an attempt may be made in earnest, and in honest conviction, to "smash the Unions," followed, of course, by a determination of the Unions to revenge themselves—an economic Alsace and Lorraine which may cost us dear.

In *Industrial Democracy*,[1] however, we have the

[1] By Sidney and Beatrice Webb. London: Longmans, Green and Co., 1897.

voicing by two economists of the inarticulate sense of men whose position prevents them doing justice to their own cause, and we may accept the following disclaimer as official.

Prevention of substitution of the most efficient factors;

(1) Trade Unionism professes not to interfere with the action of the employer in substituting one factor for another. It does not object to the substitution of machinery for labour, nor to any particular combination of factors in organisation, nor to the substitution of members belonging to one group of workers for members belonging to another group. Nor, further, does it object to the substitution of one member of the group for another member, provided that no member is paid under the Standard Rate. All that it does is to take its stand on the minimum wage for the group, and forbid the substitution of one member in that group for another member in the same group at anything below this wage.

particularly of machinery.

In fact, the introduction of new processes and machinery is not only not discouraged but is actually a part of Trade Union policy, and it is claimed that the limitation put on the labour supply by the Standard Rate gives a strong inducement to the employer to substitute machinery for men.[1] Nothing can be more satisfactory than the frank declaration: "Thoughtful workmen in the staple trades have become convinced, by their own experience no less than by the repeated arguments of the economists, that a rising standard of

[1] "The fact is that Trade Unionism on this subject has changed its attitude. . . . Resistance to machinery no longer forms part of the procedure of British Trade Unionism. . . . The change has even gone so far that there are now instances of trouble being caused by Trade Unions putting pressure on old-fashioned employers to compel them to adopt the newest inventions."—*Industrial Democracy*, ii. pp. 393-96.

wages and other conditions of employment must depend ultimately on the productivity of labour, and therefore upon the most efficient and economical use of credit, capital, and capacity. . . . If any of the methods and regulations of Trade Unionism result in the choice of less efficient factors of production than would otherwise have been used, that part of Trade Unionism, however advantageous it may seem to particular sections of workmen, will stand condemned."[1]

(2) The Right to or Vested Interest in a Trade, based on cumbrous and arbitrary lines of "demarcation" between overlapping occupations—where "trivial disputes sometimes blaze up into industrial wars of the first magnitude"—is abandoned as an "obsolete doctrine."[2] The exclusive right to a trade.

(3) The Restriction of Numbers, by insisting on apprenticeship qualifications while limiting the number of apprentices, is said to be "undemocratic in its scope, unscientific in its educational methods, and fundamentally unsound in its financial aspects."[3] Limitation of numbers.

(4) The objection to Piece-work is not characteristic of Trade Unionism as a whole. It is, as a fact, either Refusal of piece-work.

[1] *Industrial Democracy*, ii. pp. 548, 702.

[2] *Ibid.* ii. p. 527. "In the advanced industrial communities of our time, the circumstances are so complex and so perpetually changing that it passes the wit of man to define the 'right to a trade' in any way that will not produce the most palpable absurdities."—*Ibid.* ii. p. 516.

[3] *Ibid.* ii. p. 481. Contrary to common belief, "so far from apprenticeship regulations forming a necessary part of Trade Unionism, a positive majority of the Trade Unionists now belong to occupations in which no shadow of apprenticeship has ever existed." 900,000, or three-fifths of the whole membership, in no way restrict apprenticeship or the learning of their members' occupations by newcomers: 500,000 nominally retain apprenticeship regulations, but have practically thrown their trades open: only 90,000 actually enforce apprenticeship regulations.—*Ibid.* ii. p. 474.

willingly accepted or positively insisted on by the majority of Trade Unions, and this majority includes the largest and most powerful among them. In the trades where piece-work is objected to, it is on the same grounds as, in other trades, time wages are objected to: where it is found inconsistent with Collective Bargaining and the Standard Rate.[1]

A maximum of work.

(5) The occasional dictation of the maximum work to be done for the Standard Rate is explained to be a defensive measure against the practice, in some time-work trades, of bribing particular workmen to act as "bell horses"; that is, to work at exceptional speed in order to force the pace of the others. And, while this is not condemned in some cases, it is pointed out that it may "easily work out so as to be a fraud on the employer."[2] At the same time the "ca' canny" principle is described as an "adulteration of labour" which may "easily bring about the final ruin of personal character."[3]

Picketing.

(6) "Picketing," which so easily passes from the legal "attending at or near a place in order merely to

[1] *Industrial Democracy*, i. pp. 288, 303.

[2] "He has contracted for his labour at an all-round rate on the assumption that he receives a normal average of work. In the group of workmen there will, of course, be some of average speed, together with a few quicker men and a few slower. Any regulations which tend to restrict the quick workers necessarily lowers the average of the whole, upon which the collective bargain has by implication been based."—*Ibid.* i. p. 306.

[3] "The sub-contractor's practice of 'driving,' the constant pressure upon a man to work always at the very top of his speed, will quickly break down the health of the worker, and impoverish the nation by inducing premature old age. On the other hand, systematic loitering will destroy the character and efficiency of even the most resolute worker. In adulterating the product you adulterate the man."—*Ibid.* i. p. 308.

obtain or communicate information," through the illegal "watching and besetting," into violent intimidation, is "a mark not of Trade Unionism but of its imperfection."[1]

Interference with management.

(7) Finally, the interference with management, which played so large a part in the case for the employers in the lock-out of 1897, was strenuously denied by individual branches, and disclaimed in the official manifestoes. It also must be added to the disclaimer of Trade Unionism.

I repeat that this is the disclaimer contained in the pages of what has been hailed as the Gospel of Trade Unionism. Many of us have, no doubt, rubbed our eyes on reading it, and some, before accepting it as official, will probably want to see if, in the future practice of Trade Unionism, the disclaimer is not itself disclaimed. But, in view of this disclaimer, it would be manifestly unfair to speak of any of these seven abuses as parts of the policy called Trade Unionism.

[1] *Industrial Democracy*, ii. p. 857. "The most powerful Unions of the present day, the most exacting in their demands on the employers, have laid aside the whole system of picketing with its intangible annoyance and easy transition into breaches of public order. In the great five months' strike of the cotton-spinners in 1893, and in the gigantic stoppage of the Miners' Federation in 1894, practically no pickets were posted or needed. 'It is not worth the risk, trouble, or expense,' writes a leading Trade Union official."

## CHAPTER XXIV

### TRADE UNIONISM: ITS DIRECT EFFECT ON WAGES

*If the Standard Rate is the essence of Trade Unionism, is the restriction, after all, so very serious? Does it not put a premium on the best employer? But, for this very reason, we may question if the direct influence of Trade Unions on wages has been very great. Can it be that they have kept wages from falling to subsistence point? The "home" industries, indeed, give point to the* a priori *contention. But these are not factory industries, and, besides, the argument from women's industries is a weak one. Suppose, however, we admitted its strength, it altogether neglects the "demand price" of the worker, and the appeal to history and to facts gives it no support.*

It stands or falls with the Standard Rate.

AFTER this disclaimer we seem bound to the conclusion that Trade Unionism stands or falls with the Standard Rate secured by Collective Bargaining. It is the consolidation of the individual workers, with their individual interests, into groups of workers each with a single interest. These groups are larger or smaller according to the extension of the policy of solidarity, but the group aimed at is the Trade. Each trade, or each trade within a district, aims at having and maintaining a Standard Rate of wages.

By this method of Collective Bargaining and the Standard Rate, it is contended, the employer is prevented from taking advantage of the competition of the starving man on the one hand, and that of the exceptional workman on the other, to beat down the earnings of the other workmen. "The starving man gets his job at the same piece-work rate as the workman who could afford to stand out for his usual earnings. The superior craftsman retains all his advantages over his fellows, but without allowing his superiority to be made the means of reducing the weekly wage of the ordinary worker." At the same time "the employer of superior business ability or technical knowledge, and the firm enjoying the best machinery or plant, preserve, it is claimed, every fraction of their advantage over their competitors."[1]

What restriction does it put on the employer?

When we come, then, to the question with which we are concerned, and ask what effect this policy has had on the distribution of income, we have to look for its direct effects in the restriction which it puts on the free activity of the employer-paymaster. Confessedly, it is an artificial "dyke" thrown up against the pressure exerted on and through the employer.[2] It prevents him buying the labour of any trade or group under a certain price. He may measure capital against labour as competing factors, or men of one trade as against men of a related trade, or selected workers against average workers in the same trade, and pay them according to their worth to him; but he cannot offer less than the Standard Rate of the particular trade to any man in that trade.

It is not objected to by the strong employer.

I have asked many employers what objections they had to Trade Unions. It is significant that they almost invariably pitch upon the actions which Mr.

[1] *Industrial Democracy*, i. pp. 174, 175.

[2] "Artificial," that is to say, as compared with the economic dyke which the indispensableness of the labour factor to the employer's demand would oppose.

and Mrs. Webb assert to be the mistakes, accidents, or abuses of Trade Unionism, and that the provision to which they have perhaps least objection is that of the standard wage. So far as Trade Unionism gives them an average day's work for the standard wage, and does not prevent them getting more or better work for more wage, the restriction is scarcely felt by the strong employer. This point has been put in the background by some too zealous opponents of all restriction. As there are people who protest in an academic way even against the Factory Acts,—not that they would wish them abrogated, but that they resent interference with liberty in any form,—so there are critics who speak as if an employer's life is not worth living unless he is allowed to pay low wages. But this is to put the argument on the wrong track, and to identify the freedom from restriction with one of its accidental results. No employer wishes to employ inferior workers, and few employers would care to confess that they wished liberty to pay low wages to good workers. Many an employer, indeed, wishes to be allowed to keep on faithful servants when they are past their best and are not worth the Standard Rate, paying them, of course, a lower wage. But this is kindliness; "it is not business"; and it is not allowed by the Trade Unions. "Business," on the other hand, will dismiss a man whenever his hair grows grey or he needs spectacles, and this the Trade Unions do not condemn. But no opponent of Collective Bargaining and the Standard Rate, who is worth reckoning with, bases anything on the desirableness of low wage, either in itself or as tending to cheap goods. Far from this, what such an opponent contends is that it prevents the best workmen from getting their full deserts, and, moreover, prevents the average wage from being as high as it might be.[1]

The real objection which I find among employers —and it is very bitterly expressed—is that the minimum tends to become the usual wage, owing to the jealous dread of the majority that the better work of the better man should reflect too strongly on the average man:[2] what acts as a stimulus to emulation among educated people acts in the opposite way among the less educated. To this extent the

The real objection.

[1] See particularly the incisive pamphlets of Mr. T. S. Cree—*A Criticism of the Theory of Trade Unions*, and *Evils of Collective Bargaining*. Mr. Cree's chief argument is that Collective Bargaining does not secure a true "economic" (or, as he calls it, "just") price for labour, as it takes away the only means of arriving at such a price, "the higgling of the market in many dealings," and, universalised, would end in a bargain between capital and labour based simply on the strength of the two. But he does not say that this economic price would be lower than the present: indeed, he says that it would probably be higher, and that, at any rate, the price of labour outside the Unions would be higher. I think it right to emphasise this point, as Mr. Cree has been held up to considerable odium on the assumption—from which his character as an employer of labour might have protected him—that a man who writes against Trade Unions must hold a brief for capital. But indeed the economist who criticises Trade Unionism with anything but a view to defend it will generally meet the same fate.

[2] Are employers not asking too much when they expect that a high wage is sufficient to make a man exert himself up to the limit of his capacity? Are there no people among the cultured classes who are content with a small income and an easy life? And, however hard workers professional people are, do they care to keep up high pressure, day in day out, between 6 A.M. and 5 P.M.? So long as the day's work is mechanical and calls for none of the higher qualities of the human being, I confess I do not like to see a workman, compelled by fear of losing his place, or tempted by a higher wage, so exhausting himself in his wage-earning that he has no energy left for anything more Godlike after hours.

policy does limit the activity of the employer. Perhaps, however, the evil is due, not to the Standard Rate, but to the massing and solidarity of labour of which Trade Unionism is the result. It might be found on inquiry that the same phenomenon was as prominent in great establishments where Trade Unionism has no footing.

If, then, Trade Unionism does not claim high wage, or indeed any wage, for poor work, but only good wage for good work, is the restriction, after all, so serious?

It puts a premium on the strong employer.

There is, indeed, something in the argument that Trade Union restriction puts a premium on the strong employer. Once we get rid of the idea that the chief economy of the employer is the cutting down of wages, and see that far more lies in his combination of the proper factors, in the securing his results by the best and often the most expensive processes, and by large production, this becomes clear enough. To such an employer, indeed, it is a very distinct advantage that he should be secured against his rivals "cutting" their wage cost. In consideration of this, the restriction of being compelled to pay the Standard Rate does not seem very severe.

Again, there is a great deal in the argument—although, of course, it is open to the "last straw" answer—that employers already have immensely more stringent restrictions put on them, and that they do not, all the same, find these to stand in the way either of their own profits or of the national advantage. The provision of ventilation, cubic space, degrees of humidity and temperature, water supply, sanitary conveniences, the regulations as to stoppage for cleaning, the fencing of machinery, special appliances in the dangerous trades, to say nothing of Employers' Liability and Workmen's Compensation Acts—all these may be assumed already to put them at a disadvantage as compared with foreign competitors. But these restrictions are found to work in the same way as the Standard Rate; namely, that they stimulate the strong employer, and only tell against the employer who has not the brains and resource to make the larger economies—that is, the one who has the least claim either on the worker or on the community.[1]

The Trade Unions' claim,

But, for the very reason that the restriction is so limited, one begins to suspect that Trade Unionism has acted, through its professional advocates, very much as the medical man who assures us that, if he had not been called in just at the last moment, the patient would have been beyond human aid.

that, but for them, wages would have been at subsistence level,

The Unions claim that they have gained for the working man all the advantage he has now as compared with what he had in the bad old times when combination was still illegal. They do not merely assert that money wages would not have risen—which might have been compatible with a very real rise due to the falling prices of commodities; they assert that they would have fallen

[1] "The girls in a London jam factory are still puzzled as to why the Government should compel their employer to provide them with costly sanitary conveniences, and yet permit him to go on paying wages quite inadequate for their healthy subsistence. . . . If Colonel Dyer and Mr. Livesey could for a moment rid themselves of their metaphysical horror of any legal regulation of wages, they would admit that the elaborate Factory Act requirements in the way of sanitation and safety, and any limitation of the hours of labour, constitute a far greater impediment to their management of their own business in the way they think best than would any National Minimum of wages for the lowest grade of labour."—*Industrial Democracy*, i. p. 361; ii. p. 777.

to subsistence point, by which we must understand not only low money wages, but a money wage so low that, in spite of cheapening commodities, it cannot purchase more than keep soul and body together.[1] The arguments relied on are the ignorance of the isolated worker, his want of reserve power, the perishable nature of the commodity he has to sell, his want of skill in bargaining, his liability to be pitted against his fellows, the indeterminateness of the contract in everything but nominal wage.[2]

supported though it is by the facts in home industries,

There is one field of industry which, unhappily, gives point to this contention: it is the so-called "sweated industries" where warehouses give out work to women to be done at home. Taking on persons in extreme poverty, acting on their ignorance as to the rates paid to others, working on their fears of being left without a job, the employers are able, if they like to take full advantage, to reduce wages down to the rate that will just support life. There seems no doubt that in such industries there are no levels of wage,[3] and they have a strong case

[1] "Where there is no combination of any kind, the strategic weakness of the individual wage-earner, unable to put a reserve price on his labour, forces him to accept the lowest possible terms. . . . If he refuses the foreman's terms, even for a day, he irrevocably loses his whole day's subsistence. If he has absolutely no other resources than his labour, hunger brings him to his knees the very next morning. Even if he has a little hoard or a couple of rooms full of furniture, he and his family can only exist by the immediate sacrifice of their cherished provision against calamity or the stripping of their home. Sooner or later he must come to terms, on pain of starvation or the workhouse."—*Industrial Democracy*, ii. p. 656.

[2] The arguments have been put in the strongest way in the chapter on the "Higgling of the Market," *ibid.* ii. p. 654.

[3] In a very able Report on *Home Work among Women*, I. *Shirt-making, Shirt-finishing, and Kindred Trades*, presented to and printed by the Glasgow

who contend that this is an evasion in fact of the purpose of the Factory Acts, which it would be more merciful to put a stop to. The workers are generally keeping up a perfectly hopeless struggle against machinery and organised labour. If shirt-makers, working with their needle, are competing with shirt factories, it is the old story of the hand-loom weaver and the power-loom. In such circumstances the best employer could not give more wages than he does if he gives out home work at all, and there does not seem

Council for Women's Trades, by a trained investigator, Miss Margaret H. Irwin, occurs the following:—"As in most other industries followed by women, there is an absence of any standard or uniform rate of payment for the same class of work throughout the trade. One shop may pay 1s. 8d. per dozen for making pinafores, while another pays 10d. a dozen, both taking fourteen hours' work per day. Blouses paid at 2s. a dozen by one house are paid at 1s. a dozen by another, the same time being required per dozen in both cases. Some good-paying houses will give 2s. 6d. for the making of certain garments that others pay 1s. and 1s. 6d. for. Again, one house will pay 2s. 1d. where another pays 2s. 7d. Undoubtedly this system, or want of system, lends itself to irregular competition on the part of both employers and workers, with disastrous results to both. Rival firms in competition with each other continue to outbid one another in taking contracts at still lower and lower rates, and in too many cases it is to be feared the temptation to recoup themselves by reductions in wages is irresistible. The workers, on the other hand, having no organisation among themselves to fix and maintain a standard and uniform rate, are obliged to accept the reductions pressed upon them by less scrupulous or necessitous employers, until, in so many cases, wages have been sunk below the actual 'starvation level' and have to be supplemented by public or private charities. In the case of a factory prosecution in a town in the West of Scotland some little time ago, an employer pleaded justification for working his employees at an illegal time on the ground that most of his workers were in receipt of parochial relief and needed the extra time to make up a wage." This *reductio ad absurdum* of low wages recalls Miss Collet's remark in Mr. Booth's first volume: "Many women, I am convinced, only take the work in order to make an appearance of industry, and so qualify themselves for charitable assistance."

much reason in throwing the blame on the employers. Probably there are few of them who would not be quite as well pleased if this kind of labour were impossible.[1]

But surely the obvious answer to the use of this as a general illustration is that it is *not* factory industry, but the dying struggle against it; that in factory industry is conspicuously absent the possibility which is here prominent, the attack in detail on workers whose helpless circumstances are known, and who have none of the solidarity involved in regimented labour.

In fact, any argument borrowed from women's industries is a weak one when extended beyond that sphere. As is now well understood, women's trades have, up till lately at least, lain outside men's industries as non-competing groups. The field itself is a limited one. For many reasons, which I have written on elsewhere,[2] women are peculiarly helpless; and, as compared with men generally, may even in many cases be called hopelessly non-efficient. As regards their trades, then, I should be disposed to agree with the contention just adduced; or, rather, to say that where the level of women's wages stands above what may be called the physiological minimum, it is due to custom and perhaps to the pressure of public opinion rather than to anything else.[3]

But suppose that we admitted the truth of all this

[1] See "Employers' Views," p. 12 of same Report.

[2] *Studies in Economics*, "Women's Wages," p. 107.

[3] Particularly in the larger women's industries is it evident that a level of wage prevails which is wholly customary, and which no employer ever thinks of beating down.—*Ibid.* p. 127.

highly *a priori* argument as regards men's industries, and admitted, moreover, that employers are scarcely aware of their tremendous power to press down wages, simply because few of them have ever cared to exert it, there is surely another side. It is that labour is not a tool which may be used or may not, but a factor whose co-operation with capital is indispensable, and, in many cases, a tool which cannot be replaced by any other factor whatever. Is there no such thing as competition for the services of this tool? But to go further in this answer would take us over the whole course of our previous argument: that the wages of labour have been determined by and have risen with the increase of the National Income, and that the explanation is to be found in the fact that they are a demand price, not, as the Trade Union argument assumes, a supply price.

**neglects the demand price,**

What justification, then, have the Trade Unions for this extreme claim that, but for them, wages would have been kept at subsistence level? Do they appeal to history? Well, history tells us of a time when wages were at starvation point, but it was in France in last century, and it was due much more to political than to economic reasons. More to the point is the reference to the earlier years of this century, when capital was beginning to increase, but labour was still abundant, there being no restriction on the hours of men and women, and no restriction on the labour of children. Between the upper millstone of the employers' pressure and the nether of abundant labour, wages were kept low enough, although it does not appear historically accurate to say that they remained at subsistence level.

**and has no support from history.**

But the situation is fundamentally changed when the flood of wealth far outstrips the flood of population and when the most distinguished of our young statisticians can argue that a mere continuance of changes actually at work between 1875 and 1895 would bring the increase of population in England and Wales to an end in the middle of next century.[1] Why appeal to a time when the conditions were essentially different, and ignore the history of the last thirty years?

The conclusion seems to be that in this regard Trade Unionism must lower its claim. If it be granted that the restriction which the Standard Rate puts on the employer is after all so small, and has so many points which do not affect the strong employer at all, its defence must be put on other grounds than that it has compelled unwilling employers to pay a high and increasing wage.

[1] Mr. Edwin Cannan, *Economic Journal*, December 1895.

# CHAPTER XXV

## TRADE UNIONISM: ITS INDIRECT EFFECT ON WAGES

*Especially in view of the international character of trade, we must ask if Trade Unionism may fairly be regarded as promoting the permanent efficiency of the community. Perhaps its best service is the elimination of the person who is subject to the temptation to pay low wages, the weak employer. For low wages contain a double danger: they tend not only to inefficient labour in the present, but to an enfeebling of the race. Scarcely less important is the premium it puts on the good workman, excluding from Trade Union advantages those who do not come up to the Union standard of efficiency. Thus, indirectly, its influence on wages may be considerable.*

"THE economist and the statesman will judge of Trade Unionism, not by its results in improving the position of a particular section of workmen at a particular time, but by its effects on the permanent efficiency of the nation."[1]

The challenge.

To most people, perhaps, the defence of Trade Unionism has not an absorbing interest. It is quite evident that it has come to stay. It is the analogue among the industrial classes of what one sees all around: that individual competition has its limits; that the instinct of every individual is to build up a private little dyke

[1] *Industrial Democracy*, ii. p. 702.

of his own against competition;[1] that combination is as much a characteristic of this century as competition. It was inevitable that Trade Unionism should assert itself when the new order abolished what made the old order supportable—the personal tie. The worker in former times had an appeal to the reason or the humanity of the employer. But there is little personal tie in the latest growth of industry, the joint-stock company; or, if there is, it is a survival. We might as well argue against the progress of democracy, of which indeed Trade Unionism is a phenomenon and incident. The old order changeth, and all the wise man cares to see is that the wisdom of the old order is incorporated in the new.

Foreign competition.

All the same, there is one matter in which it is important that we should know the true bearings of Trade Unionism: it is as regards foreign competition. The thoughtful Englishman may well be appalled by the difficulties of the task which this Free Trade country has set itself. Our highly paid industry has to meet two distinct and formidable competitions. One is the similar competition of countries with capital as great and men as good as ours. The other is the competition of new countries where labour gets as many pence as our labour gets shillings, where there are no Factory Acts for restriction of hours and no expensive sanitary requirements, and where industry is headed by British capital and managed by British brains. In face of these two competitions, the first impulse of

[1] The reader is referred to the admirable passages where Mr. and Mrs. Webb show in detail the various dykes built by propertied, learned, and professional classes in defence of their various interests.—*Industrial Democracy*, ii. p. 566.

our employers is to meet their rivals with their own weapons and reduce wages.

The Trade Unionist, of course, considers it a matter for pride that he prevents this. If he thinks about the matter at all apart from his own immediate interests, he perhaps quotes Sir Robert Giffen that "the labour and capital engaged in foreign manufacturing is only a fraction of our whole industry. England might still be a great and prosperous country even if the whole of that fraction were to be at once swept away."[1] But this does not satisfy those who fear not only for our foreign but for our home trade, and who look on the protective policies of countries like America with comparative complacency, only because they know that if these countries should adopt Free Trade, our home market itself would be in some danger. On the other hand, one may very well believe that any general reduction of wages, based on the impossibility of competing with other countries, would lead the electoral majority to follow the example of these countries, and endeavour to keep wages high by Protection.

It is principally in view of this that we must take up the challenge which heads this chapter, and ask if Trade Unionism may fairly be regarded as promoting the efficiency of labour. For if it does, it has a strong indirect effect on wages, and we need have little fear of foreign competition.[2] Evidently it is one thing to

[1] *Essays in Finance*, p. 146.

[2] It is significant that the trades which contribute three-fourths of our exports, namely, textiles, shipbuilding, machine-making, and coal-mining, are the trades in which Trade Unionism is most prominent.—*Industrial Democracy*, ii. p. 760.

regard Trade Unionism as a mere device for obtaining an increase in the standard of comfort, and quite another to regard it as a means for increasing the producing power of the worker.

We have already seen that Trade Unionism may fairly be regarded as putting a premium on the strong employer. Placing all employers on an equal footing as to the rate at which they obtain labour, it acts against the weak employers, and puts the destinies of the working classes in the hands of those who are best able to allow labour an increasing share, and least tempted to reduce wage; and it throws the energies of such employers into reducing their cost by the introduction of the most efficient machinery, processes, and organisation.

The elimination of the weak employer.

Now it may be questioned if the best service of Trade Unionism to the permanent efficiency of the community does not lie in the implication of this—the tendency to eliminate all but the strong employers. Trade Unionism here is hard—even cruel. Many have been inclined to think that the workman did not know what was his own interest when he ignored the community of interest between him and his employer, and threw in his lot instead with his fellow-workers. It meant the deathblow to the old-fashioned personal relation, and very often it meant the deathblow to the old-fashioned employer. But here again it seems to be the case that Trade Unionism has "builded better than it knew," when it frankly, if unconsciously, embraced the "cash nexus" as the one appropriate to the times. After all, the employer exists for the employed—the few for the many—and the employers of last generation, however generous and well meaning, put the relation the other way about. But when this is recognised, and the abolition of the personal tie makes the interests of both more clearly separable, it is seen that the weak employer is a danger to the workman and to the community. It is the man working with insufficient capital, smaller output, and less perfect plant, or the man who has not the brains and resource to make the larger economies, who is open to the temptation of reducing wage. Indeed, as we saw, many employers would make their weakness a reason or excuse for reducing wage. It is quite true that they cannot "afford" to pay good wages. But is this a matter for the worker to consider at all? If the labour is the same why should not the wage be the same? What reason has the worker to suffer because the employer is weak? Thus, although the strong employer is not likely to pay low wages either under Trade Unionism or when free to buy his labour as he likes, the weak employer, unless prevented by Trade Union action,[1] is; and we must bring out the fact, which might otherwise escape us, that low wages are a social danger with far-reaching economic consequences.

**The interests of the children.**

What soothes the consciences of many people about low wages, and persuades them that they have no responsibility in the matter, is that, at the worst, there is a certain compensation in the cheap goods which

[1] It may be quite true that this is to throw an extra burden on those who are under the Trade Union level. But the Trade Union answer probably would be that this, after all, tends to the elimination of the unfit, and that the permanent interests of the nation lie in forcing every worker up to the standard efficiency of some Trade Union.

these underpaid workers are assumed to produce. But there is one thing that is not likely to be compensated. It is the injury done to the children. The one good thing in slavery was the interest of the master in the future of his workers. The children of the slaves were the master's property. They were always at least a valuable asset; if the owner sunk capital in training them, that capital was not lost, seeing that the young slave could be sold. The slave was in the position of the work horse, and his children in the position of the young foals. Thus, if our employers were slave-owners, they would never subsist their slaves below the level that would secure a due supply of healthy children and allow the parents to educate and train them to the same grade of efficiency—any more than they would put hard work on their cattle at breeding time or shear their lambs prematurely. But there is no such continuity in the relation between the employer and his human cattle. The best-intentioned employer cannot be expected to be much concerned about the efficient upkeep of the workman's child when the child is free to go where he likes. With us the future of the child is in the hands of the father, not in those of the employer. The interest of the child is the same as that of the young slave, namely, that he should get a subsistence, education, and training that will bring him up to the efficiency of the father's trade. But, unfortunately, even the father has little direct interest in giving the child such a training. He will not benefit by it any more than the employer would. Thus the sacrifice is made by the person who will not benefit, and the benefit is gained by the person who makes no sacrifice. The community indeed is wakening up to the appreciation that this is a national question; but, meanwhile, the child's future is bound up with the father's wage. The wage may be enough, even when low, to support the father's efficiency, but it is not necessarily enough to keep up the efficiency of the young labour on which the future depends.[1]

And, as it happens, this weak point in our system did come out in the early part of the century, when children, unprotected by a father's high wage, were pressed into industrial service without restriction, to meet the growing demands of machinery. It was the time when Mrs. Browning wrote her "Cry of the Children," and Carlyle shouted, "Deliver me these rickety perishing souls of infants, and let our Cotton-trade take its chance."[2]

Scarcely less important is the premium which Trade Union restriction puts on the good worker. When an employer is forced to pay a certain wage, whatever men he takes on, he naturally takes good care that those he employs shall be worth it. And when workmen, competing for a job, are compelled to stand out for a certain minimum, their best chance of being taken on is to show that they are worth more than the wage they ask. The competition of workers

**The premium on the good worker.**

[1] It is one of the best dialectical scores that Mr. and Mrs. Webb make when they point out that the English farmer has always been able to hire his labour practically at bare subsistence, and is free to exact unlimited hours of work; and that, as consequence, nemesis has fallen upon him, and he can get no more out of his labourers than the worth of their wage, inasmuch as he has to rely on them and on the families they bring up.—*Industrial Democracy*, ii. p. 762.

[2] *Past and Present*, iv. iii.

among themselves is not checked, but put on a higher level—transferred, in short, from price to quality, just as it is in the case of goods where combination or custom prevents underselling.[1] It is quite true, as a rule, that Union men are the *élite* of their trade. To the extent that the Union is a strong one, for a worker not to belong to it is a presumption that he is not fit for it. Although this presumption may be denied, it is something in favour of its general validity that a wise Trade Union does not take on men who are likely to come on its hands for out-of-work benefits, as they are sure to do if employers do find them not up to the standard: a Trade Union may surely be credited with so much attention to its own interests.

Here the defence of Trade Unionism is that it has gone on the same lines as individualistic action, and has tended to the survival of the most efficient workman. At the same time it may claim to have softened some of the worst evils of individual competition. It has prevented the employers doing with labour what they do, and may without harm do, with the other factors—introducing violent changes without regard to the persons immediately injured. Even granted

[1] I was for many years in a trade where the prices, discounts, and terms among the leading firms were fixed by agreement at one level. The agreement stipulated that travellers and agents were to give "neither money nor money's worth" as an inducement, a box of cigars or a turkey at Christmas even being counted a breach of faith. And—what is not quite common in all combinations—the agreement was kept, because one of the firms was rich enough and resolute enough to punish its breach by an immediate break up of the combination, and a 30 per cent reduction of price. All this did not prevent the keenest competition between the firms, in quality, in "get up," in suiting customers' wishes; nor did it prevent the trade from being entirely redistributed among the firms.

that in this it may have kept back the progress of material wealth to some degree, it may be argued that, if the community had had the issues fairly put before it, it would have declared for the slower growth, on the ground that it is a doubtful kind of wealth which saps the foundations of well-being.

The Trade Union action, then, which insists that every worker employed shall be employed on his merits, and irrespective of the necessities of the employer, is one that tends to maintain the efficiency of the worker, and hurts only that employer who in some respects is a danger to the community.

The effect on distribution.

To sum up this part of our subject. As the restriction which Trade Unionism puts on the liberty of the employer is not very serious, its direct effect on the distribution of income does not seem very great. At least it does not amount to more than securing, by an artificial "dyke," the share which, with more or less friction, would have gone to labour without it. But, indirectly, its effect on wages seems to be considerable, inasmuch as it tends to maintain the efficiency of the stream of labour by favouring the strong employer and putting a premium on the good worker. This conclusion, however, assumes that we are considering ideal Trade Unionism, apart from its accidents, mistakes, and abuses.

# CHAPTER XXVI

## RENT

*The familiar Ricardian demonstration showed us Rent emerging as consequence of a differential quality in the factors of supply where demand could not be met from the most productive quality available, and owed its strength to the correspondence of this with the character of land and the demand for food. We now see that rent is only "one species of a large genus"; that there are rents and quasi-rents from all factors of supply. Here we have the important modification of what has preceded; that, in the case of most goods, while the ordinary factors are paid according to their services, the price leaves a surplus which may be diverted but cannot be eliminated.*

ALL this time one question must have been on the lips of the reader. Suppose that the tendencies which we have looked at had free course. Suppose that all the goods and services which constitute the National Income were goods made under employers and on the factory system. Then this Income would be made up of goods at what might fairly be called cost prices, the price of every good being a sum of wages, interest, and profit calculated at the cost to the representative employer. But where in all this is Rent?

The Ricardian Law.

We may approach the subject most easily from the old Ricardian demonstration. Here is wheat grown on fields which pay, perhaps, £2 per acre of rent. There is wheat grown on fields which pay no rent at all. And the price of the wheat in either case is

40s. per quarter. We say that the price of the wheat is determined by the expenses of production on the field which pays no rent, and that the rent of £2 per acre on the other field is paid because there it costs less to produce this wheat. The greater the margin between cost and price, the greater the rent; the less the margin, the less the rent; rent disappearing altogether where the cost and the price are one.

**Its essentials.** According to this demonstration, two things are involved in the emergence of rent. (1) There must be difference in the quality of the land employed. The difference may be in the chemical constituents of the soil, or in its freedom from unproductive elements, or in its exposure, or in its situation generally, but, however it be, there must be differential elements in the factor. (2) There must be so much demand that the poorer qualities have to be drawn on for supply. Now the strength of Ricardo's demonstration is that it deals with grain—a necessary of life which people must have whatever the price; and that this necessary of life can be grown only on a factor of production of differential quality. If grain were not a food, the demand for it would not necessarily increase; and if the factors which produced it were any but land, the supply of the good qualities would be increased till the demands were met without having resort to the poorer qualities. Given these conditions, and the famous conclusion follows: "Corn is not high because a rent is paid, but a rent is paid because corn is high. . . . That corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter in the least degree as a component part of its price."

Care must, however, be taken that this principle, of which Ricardo said, and all economists have echoed him in saying, that "its clear understanding is of the utmost importance to the science of political economy," is correctly rendered. I have found students reading the proposition that rent does not enter into price as if it meant that price did not cover and yield rent; as if rent was not paid out of price.[1] Evidently the landlord is paid, not out of a part of the crop reserved for him, but out of the price obtained for the whole quantity of crop sold off the land owned by him. The price may cover rent or it may not. The same 40s. price of wheat pays the £2 of rent on one field and leaves no rent for the other. The truth is that, although the price may or may not cover rent—yield rent—the price is not *determined* by the rent, but the rent by the price. Or, to put it another way, rent does not enter into the determination of price, but it is the same force which presses up the price that makes the rent.

It has lost one importance,

But as soon as it was clearly seen that the phenomenon of land rent depended on these two things, necessary demand and differential supply, the old doctrine lost one importance and gained another. It was seen (1) that though food is a necessary of life, its strict necessity is not one that grows with the increase of wealth, but only with the increase of population. The more mouths, the more food needed certainly, but each mouth asks no more than the others—all the time that the demand for almost every other form of wealth is seen to be unlimited. The first effect of wealth on the

[1] What puzzles the student is to say that rent does not "enter into" price, and yet that price "covers" rent—as if price gave up that which was not in it.

working classes, for instance, is not necessarily to increase their baker's bill, but to throw an increased demand on to all the other bills. It was seen (2) that land as given us by Nature is a very different tool of production from the land of a civilised people. Scientific farming, with its reclamation, manuring, variety of crops and rotation of crops, levels up the differences in land and makes it impossible to predicate absolute fertility or infertility of any land, or grade land as first class, second class, etc. And when steam began to draw the world together, it became evident that although the area of food-growing land is limited, yet it may be enough to meet the limited demand for food for some generations yet. In consequence, not only did the old law lose the importance it had when man was pictured as prisoned on a rocky island with a hungry family growing up in progressive ratio, but short-sighted economists mistook the historical accidents of Ricardo's demonstration for essentials, and denied his law the place it held unquestioned for many years.

**and gained another.**

Once, however, the doctrine was stripped of everything adventitious, and rent remained as the payment for a necessary and limited differential factor, its application was seen to extend much beyond land. In Professor Marshall's words, rent became only a species of a very large genus. Wherever there is a differential supply of any factor, and the demand for that factor cannot be met from its most efficient portion, there is a payment of rent. And the real importance of that less-noticed proposition of Ricardo was seen: "The exchangeable value of *all* commodities, whether they be manufactured, or the produce of the mines, or the produce of land, is always regulated . . . by the greater quantity of labour necessarily bestowed on their production by those who continue to produce them under the most unfavourable circumstances, meaning by 'most unfavourable circumstances' the most unfavourable under which the quantity of produce required renders it necessary to carry on the production."

The National Income contains rents.

Thus we come to this important modification of all we have said. Suppose all the goods in the National Income are goods whose prices are determined by cost—are in fact sums of costs—all the same these prices are divided out, so much to labour, so much to capital, so much to organisation,—and so much to the owners of the differential factor whose payment is rent. To put it concretely. Suppose the National Income contain so many million quarters of wheat at 40s., there is no doubt that this is a cost price, but it leaves a large amount to be distributed as rent. It is "cost at the margin of cultivation," as we say. The demand for wheat is so much. The cost on the best lands—say of this country—is so much; and, according to the tendencies already expounded, price will be pressed down till the demand price is met by this supply price and can get no lower. But if, at this point, more wheat is still demanded and cannot be got, even from these best lands, without the cost per quarter being raised, the price must rise to cover this cost.

As in land,

But it is not only the price of this last-produced wheat that rises, but the price of all wheat, seeing there cannot be two prices for the same quality of goods in one market, and seeing that the only possible one price is the higher. In this case there is an extra got from the growing and selling of some of the wheat —that formerly grown—and this extra, wherever it goes, is rent. It may for the moment go to the farmer, or even to the labourers; but as, in such a case there will be a transfer or a new supply of labour and capital into this more profitable occupation, the level of farmers' profit or of wage will be pressed down again, and ultimately the rent goes only to the owner of that factor which cannot be increased in supply—the land.

so in manufacture.

Or to take a concrete instance of the more difficult case, that of manufacture. Suppose that half a dozen mills in one trade control the market for their products, and that these mills are fully employed. Suppose that, owing to the lapse of time and the steady progress of science which always makes the last-built mill the one with the lowest cost, there is a gradation of cost between the mills from A mill down to F; then the cost in A, as the oldest mill, and, presumably, the most expensive to work, will regulate the price of the total product. In this mill labour will get its wage, capital its interest, and the payment of organisation will be a simple wage of superintendence and premium for risk. But every other mill will earn a surplus rising from B to F. If now another mill is built, say G, there will for the moment be an over-supply, and this will bring down the price. At this new price, A will fall below the margin; it will not pay wages, interest, and salary; and it will be closed. But the price will still be regulated by the cost in that mill which works under the most unfavourable circumstances—only this marginal mill will now be B. And still, at the new cost price, C, D, E, F, and G will show a differential surplus or rent.

Quasi-Rent.

The extension made by Professor Marshall is well known. He takes the case of any stock of goods for which the demand suddenly increases. If the stock cannot quickly be increased, price rises, and the owner of the stock gets a surplus of the nature of a rent. If the demand continues, and a call is made on the factors for extra product which is not forthcoming, the surplus may be transferred, in part or whole, to the factors, and they will be earning a rent. To this he gives the name of "Quasi-Rent"—not meaning that it is something like rent, but that it is a temporary rent. For if the demand continues, and the factors can be increased, the extra remuneration will cause them to be increased—transferred from other fields or got from new labour and capital coming forward; and in time the surplus will gradually disappear. The price of the goods, then, which for the moment was governed mainly by demand, and not by supply price of the factors, will be reduced till it comes down to be a sum of supply prices, and this will be the true or long period normal price. But if the factors *cannot* be increased, then the price is governed in the same way as land produce. It will be a price determined by the cost of the most costly portion which must still be produced to meet the demand; and though in the marginal factories this price is divided out altogether in wages, interest, and profits calculated at cost price, the price will cover a rent in all factories above the margin. It will not be a pure cost of production price like the other.

What remains to be added is that rent is inevitable. Land rent is, as Ricardo said, the result of the niggardliness of Nature, which has not given us an infinite amount of land of the best quality, but has given us so little land and that of so mixed a quality that we cannot get all the produce we want without paying for it in a heavy cost of labour and capital. Similarly, we may add, if any factor for which there is a demand could be increased at will, there would be no rent; for supply would be brought forward till it drowned out any surplus earned. There is only one way, then, to eliminate it; that is, to get at the secret of creation and make every factor of production after the image of the machine which can be turned out, to an unlimited amount, of the same pattern and quality, and at the same cost.[1]

**Rent may be diverted, but not eliminated.**

But while rent cannot be eliminated it does not follow that it might not be diverted. It is quite possible and logical to argue that rent is no hardship, inasmuch as it is a surplus over the level of wages, interest, and profits. The farmer and his men work just as hard on the fields which pay no rent as on the fields which pay £5 an acre. But what must be added as regards land rent is that if the possession of this differential factor had never been allowed into private hands, the rent would have gone to the State, and been perhaps applied in the payment of other services.[2] At least, life would have been easier for the

[1] Professor Patten suggests how rent may be limited absolutely by throwing the demand on to crops which make less drain on the soil, and relatively by reclamation and scientific rotation, thus eliminating its inequalities.—*The Premises of Political Economy*, and *The Economic Basis of Protection*.

[2] What is sometimes forgotten is that the gain to the nation in such a case would not be so great as appears at first sight. If land is taken from private owners it is no longer assessable for taxation. Again, the hardship (or "injustice," as some people who know not Plato are ready to call it) of rent is plausibly put as if it consisted in allowing land-

rest of us. But, while this is true of land rent, it is not easy to see how other forms of rent could have been similarly diverted.

Rent enters into all shares.

If, then, rent is due to differential quality in the factors of supply, and is true rent or quasi-rent according as the supply is incapable of increase or capable of but slow increase, then evidently rent enters more or less into the remuneration of every factor. It enters into wages, (1) because the human factor is naturally differentiated; (2) because it takes a considerable time before any particular class of labour can be produced, educated, or trained to increase the supply. It enters into capital, though less prominently, wherever any concrete form has secured a patent right or other monopoly which prevents its quick increase, although here the supply is likely to come from substitutes.

The National Income, then, is a sum of prices calculated at margins where there is no rent. But these prices may, and generally do, contain rent and provide rents of all kinds. Thus the prices of the goods which constitute the National Income are divided out in such a way that each factor subject to competition gets its minimum, while other factors, in proportion as they escape from competition in supply and are yet indispensable, get more than this minimum.

owners to live without working—without that personal contribution to the National Income which is considered a duty in the abstract and is resented as an impertinence in the concrete when it comes to adding another rival to a market already suffering from "over-production." But it has to be proved that landowners, as a class, are any more idle than others of the capitalist class, or more than working people would be if they had the chance.

# CHAPTER XXVII

## PROFESSIONAL INCOMES

*A purely tentative chapter. In Medicine and Law, prices are prescribed by scales of fees according to the ability of the employer to pay. Salaries in Teaching and in the Church. From these data only three general conclusions may be drawn:* (1) *that supply price and* (2) *that scarcity or monopoly play a great part in these incomes;* (3) *that professional incomes are based on and regulated by competition with industrial incomes.*

Up to this point we have considered nothing but incomes earned under employers. If the National Income consisted only of goods made under the factory system, we might perhaps claim to have a fairly definite principle of remuneration. But Schedules D and E of the Income Tax remind us of other incomes, the chief being professional incomes and incomes earned under governments and municipalities. In the following I limit myself to the former. Here, however, we enter a sphere which has scarcely been touched by economists, and I must guard myself against being supposed to do anything more than make a beginning.

In 1863 a Committee appointed by the Faculty of Physicians and Surgeons, the Medical Society, and the Medico-Chirurgical Society of Glasgow, found that "the rate of charges for professional services is in (In Medicine.)

every locality based upon the presumed annual income of the patient or employer"; and, acting on this, "divided society into five classes," and drew up a scale of differential fees, "as indicating the remuneration to which every qualified medical practitioner is entitled, however junior his position or limited his practice."

The five classes are: (i.) incomes exceeding £1000; (ii.) from £500 to £1000; (iii.) from £250 to £500; (iv.) from £100 to £250; (v.) under £100. A single visit between 9 A.M. and 8 P.M. to classes i. and ii. costs the patient a guinea; to iii. 10s. 6d.; to iv. 5s.; to v. 2s. 6d. "A few visits" are charged, respectively, 10s. 6d., 7s., 5s., 3s. 6d., 2s. 6d.; "prolonged attendance," 7s., 5s., 3s. 6d., 2s. 6d., 2s. 6d. But before or after the usual visiting hours, fee and a half is charged; night visits from 10 P.M. to 7 A.M. cost double and treble; and country visits cost double. The scale is to be found in every medical practitioner's desk—though not on his walls—and regulates the charges up till this day.

A payment according to ability to pay.

Here the employer, to use the word candidly adopted in the above, pays his employé, the medical man, for services rendered, but the fee is measured by the employer's presumed income. This is not a little startling when one realises it. It is as if an ordinary employer paid his work-people, not according to what they gave him in service—in product or contribution to product; nor according to the price expected to be realised for the service when embodied in goods; nor yet according to what the work-people needed for subsistence; but according to whether the employer was worth £500 a year or £5000. It is, it will be observed, the same principle as is now generally recognised to measure taxation, namely, the ability of the citizen to pay; as a municipality charges for water according to house rent, and government according to a degressive income tax. But the principle here is less disguised than in taxation. For, while it might be argued that a man with a large house is likely to have more baths and water-taps than one with a small, and that a man with £5000 a year is likely to have more to protect than one with £500, it can scarcely be argued that the life and health of a rich man are more precious than the life and health of a poor one. It follows, in fact, the principle only adopted in our death duties,—the principle of graduated taxation.

It is difficult to reduce this particular income to any common basis with industrial income. The relation is turned the other way about: many employers employ one person, instead of one employer employing many. The employer is not a middleman or agent for either producer or consumer: he is the consumer himself. The wage paid does not depend on any realised price: it comes straight out of the employer's pocket; and, indeed, it depends on the depth of the employer's pocket. All the incomes we have looked at had one fundamental resemblance—that there was one price to rich and poor for similar goods in the same market. But here the same service has a different price from employer to employer: it is dearer to rich, cheaper to poor.

The price of legal services in Scotland is regulated by a table adjusted and approved in 1876 by the Society of Writers to Her Majesty's Signet, the **In Law.**

Society of Solicitors in the Supreme Courts of Scotland, and the Faculty of Procurators in Glasgow. This table contains elaborate lists of fees for Conveyancing and General Business, fees for Enrolled Law Agents in the Supreme Courts of Scotland, fees for Agents practising before the Sheriff Courts, etc. In these very varied fees, perhaps the only general one is that intended to cover business not otherwise provided for: that an agent's charge for time is, in town, 10s. each hour, and, out of town, £5 : 5s. per day, plus travelling and "reasonable expenses."

It is, however, significant that the fees here prescribed are maximum charges.[1] An agent may charge the maximum to a rich or an occasional client, but will charge less for regular family business, and a good deal less in the case of a poor client. For this reason the actual charges are regulated, after all, very much by the same principle as obtains in the medical profession. They vary with the income of the "employer."

These two are quite peculiar.

These are the two great professions whose incomes might be expected to show some evident relation to the incomes earned in industry, inasmuch as the services rendered are sold individually at so much per visit, or per hour, or per folio. But they are not only peculiar in their method of charging, but they are peculiar in occupying a category almost by themselves. Among painters, for instance, the principle of employing is the

[1] A notable thing to one brought up in industrial circles is that, although there is so much latitude, there is little intentional cutting of prices—at least in family business. The explanation probably is that the inducement which makes a man take his business to one lawyer in preference to another is greatly personal.

same: that there are many employers to one worker. And the measure of payment is sometimes, perhaps, similar, as when the bargain—a very blind bargain—is made beforehand between the artist and his "patron" (this being the suggestive term by which the worker designates his employer). But this measure does not hold where the artist puts his pictures into exhibitions and shops, and sells them at one price to any buyer. In authorship, again, while the principle is the same, the measure of payment is not differential, but is the ordinary commercial one.

The theatrical and musical professions, on the other hand, conform to the commercial type. Here the manager or *entrepreneur* is simply an employer, although the actor-manager doubles his part with that of head worker. As employer, he puts the goods of his company on sale every evening. But although stalls are half-a-guinea and pit half-a-crown, the prices are not differential. The manager here sells two commodities, namely, artistic productions, and comfort in enjoying them; the differently priced seats are similar to the differently priced classes in a railway train.

Other professions, as a rule, are paid by salaries. Perhaps the most measurable of these is the important profession of teaching.

**In Teaching.**

In the Public or State-aided Schools of Scotland, the average salary of a head master (1896-97) is £169:15:5; of an assistant master, £103:7:9. The average salary of a head mistress (principal or sole teacher) is £77:1:8; of an assistant mistress, £64:13:8. Fifty per cent of the head masters receive under £150; 84 per cent of the head mistresses, under £100. The salaries of both sexes show a steady and considerable rise since 1872, but this statement must be qualified by noting the increasing proportions of the under-paid sex. There were, for instance, 54 fewer head masters in 1896-97 than in 1889-90, while there were 160 more head mistresses. At present women teachers form 56.6 per cent of the total staff, as against 50.6 in 1889-90. The prizes are urban posts, such as the minimum in Glasgow and Edinburgh of £230 and the maximum of £500; the blanks are the rural posts under £75 for head masters and under £50 for head mistresses.

The only deduction I feel inclined to make from these figures is that there is not a very close relation between the service rendered and the income either absolutely or comparatively. For a rural head master or mistress, with, say, 50 scholars and no assistance, to keep children of all standards intellectually active for four or five hours, while imparting to them a very definite amount of very definite instruction, is good work for the community and hard work for the teacher; and it is much heavier than that of an urban assistant, who has to deal with the work of a single standard and yet is better paid. Indeed it may be questioned if the work of such a rural teacher, to whose enterprise and generalship much is left, is not quite as heavy as that of a head master in an elementary urban school, since in the latter case both management and organisation are in the hands of the Education Department and the School Boards.

In the Scots Universities, while the salaries of old chairs show a very wide range of difference, bearing some little proportion to the number of students taught, the principle has been laid down by the late Commission that no new chair should be founded under an endowment which with other funds would yield less than £600 a year; and, as in other cases, the minimum is likely to prove a maximum. But it is questionable if anything is to be deduced from incomes of this sort; the unmeasured elements in wage are more prominent here than in almost any other occupation. The services rendered, the cost of training, and the ability required are probably such as would command a very much higher remuneration in industry. But the tenure is *ad vitam aut culpam:* the teaching session is a very short one:[1] the position is a very honourable one; and the work is, or ought to be, entirely congenial. It is no doubt true that such a salary commands the candidatures of first-class men from all quarters of the kingdom, and would command the candidature of first-class men from all Europe if foreigners had any chance in the competition. But, again, perhaps a lower salary would command the same men; and it is questionable if better men would be forthcoming if the salary were £1000.

In the Free Church of Scotland, of its 1130 ministers In the Church.

| | | | | |
|---|---|---|---|---|
| 44 | have | less than | £160 | per annum |
| 390 | ,, | ,, | £180 | ,, |
| 79 | ,, | ,, | £200 | ,, |

[1] The salary looks higher than it is, from the popular conception that it is "a year's payment for six months' work"—as some people think the payment for a book is payment for the time taken in actually writing it. Of course the teacher has to take in as well as give out: the six months' recess are spent in preparing for the six months' session. A teacher is not a cistern of which one turns the tap for so many months; if he were he would soon be empty enough.

| | | | | |
|---|---|---|---|---|
| 278 | have | between | £200 and £300 | per annum, generally with manses. |
| 119 | ,, | ,, | £300 and £400 | |
| 65 | ,, | ,, | £400 and £500 | per annum. |
| 23 | ,, | ,, | £500 and £600 | ,, |
| 8 | ,, | ,, | £600 and £700 | ,, |
| 5 | ,, | ,, | £700 and £800 | ,, |
| 1 | has | ,, | £800 and £900 | ,, |

In the United Presbyterian Church of Scotland

| | | | | |
|---|---|---|---|---|
| 15 | have | less than | £160 | per annum. |
| 60 | ,, | between | £160 and £180 | per annum. |
| 163 | ,, | ,, | £180 and £200 | ,, |
| 147 | ,, | ,, | £200 and £300 | ,, |
| 52 | ,, | ,, | £300 and £400 | ,, |
| 22 | ,, | ,, | £400 and £500 | ,, |
| 27 | ,, | ,, | £500 and £600 | ,, |
| 3 | ,, | ,, | £600 and £700 | ,, |
| 2 | ,, | ,, | £700 and £800 | ,, |
| 1 | has | ,, | £800 and £900 | ,, |
| 1 | ,, | ,, | £900 and £1000 | ,, |

In the Established Church of Scotland

| | | | | |
|---|---|---|---|---|
| 187 | have | less than | £160 | per annum.[1] |
| 51 | ,, | between | £160 and £180 | per annum. |
| 82 | ,, | ,, | £180 and £200 | ,, |
| 388 | ,, | ,, | £200 and £300 | ,, |
| 341 | ,, | ,, | £300 and £400 | ,, |
| 91 | ,, | ,, | £400 and £500 | ,, |
| 28 | ,, | ,, | £500 and £600 | ,, |
| 10 | ,, | ,, | £600 and £700 | ,, |
| 5 | ,, | ,, | £700 and £800 | ,, |
| 2 | ,, | ,, | £800 and £900 | ,, |
| 3 | ,, | ,, | £900 and £1000 | ,, |

[1] These are mostly Mission charges.

The above data, slight as they are, seem to afford ground for three very general conclusions.

They have some relation to supply price.

(1) One is that supply price has a good deal to do with professional income. When a boy has to be supported at school and college, and heavy fees have to be paid to corporations for examinations, degrees, and leave to practise, it is inevitable that the charge for the services should bear some proportion to the cost of production.

A Scots medical student has to spend five years in his professional course alone (and he should, of course, have a basis of general university education before that), and usually takes a year or two of unpaid hospital practice thereafter. During these years he will pay from 18s. to 24s. a week for board and lodgings during session, plus clothes, pocket-money, etc. The fees and absolutely necessary charges for medical education alone of, say, an M.B. C.M. of Glasgow are these :—Education and examination fees, £126 : registration as practitioner, £5 : necessary apparatus, £6 : books, £10 : in all, £147. This is a fairly cheap school, and the items mentioned are minimum charges ; but the lowest estimate for other schools would probably not be below £120, while it may go indefinitely above that. If, thereafter, the student becomes a member of the larger colleges, the extra is somewhat heavy ; for instance, the membership of the Faculty costs fifty guineas, of the Royal College of Physicians and Surgeons, £86 : 10s. The figures given above, however, are the lowest at which a student can become a "legally qualified registered medical practitioner." Such a cost of production, it is obvious, has something to do with the average income of medical men in Scotland being about £300 a year.

A law student in Glasgow, again, after taking his Arts degree, has to pass through a three years' apprenticeship at a salary successively of £10, £15, and £20; or, if he takes no degree, has to go through a five years' apprenticeship at £10, £15, £20, £25, and £30. After passing his law examinations there is a stamp duty of £55 to the Inland Revenue, and thereafter an annual attorney licence of £6. He is then qualified to do ordinary practice. But, to get a good footing in the profession, he may think it advisable to join one or other of the great societies or faculties, which charge considerable entrance fees. The Faculty of Procurators in Glasgow, for instance, charges fifty guineas.

In the salaries of the Board School teachers just quoted, it would be difficult to see any connection between remuneration and cost of production. But there is one thing here that does influence the supply,—the bonus offered to young teachers. Boys and girls becoming pupil teachers get their education and generally their books free, and, besides, get salaries of from £8 to £20 (girls), and £10 to £25 (boys), for work which gratifies their vanity, gives them a superior position, and does not interfere with their education. Certainly there is no lack of candidates. But when the pupil teacher has passed this stage and gone forward to the two years of very stiff training at the Normal Colleges, he is ready to declare that these six years represent rather a high cost of production for all he gets. It is curious to see how all this echoes Adam Smith's remarks about the Church over a century ago.[1]

[1] "It has been considered of so much importance that a proper number of young people should be educated for certain professions that sometimes the public, and sometimes the piety of private founders have

A divinity student in any of the three Presbyterian Churches of Scotland has practically to take the Arts degree, involving at least a three years' course. In the Established and United Presbyterian Churches the theological course which follows takes three years; in the Free Church, four years. The expenses of this education are very small; perhaps £5 to £10 a year would cover them, and there are few extras. It may be suggested that the lower cost is reflected in the lower salaries of this profession; but, of course, the unassessed real wages of social standing and congenial work are very considerable.

They are to some extent monopoly prices.

(2) The second is that the element of scarcity or monopoly enters largely into these incomes. Entrance to most of the professions is severely limited by the qualifications demanded of the candidate by public bodies—no man becomes a lawyer or a doctor when he is old; and the expenses of production limit the number of entrants. It is not true to say that the professions have erected a "private dyke" of their own against competition, and aimed consciously at keeping up incomes by limiting numbers. The great professions certainly are ruled by people who limit the numbers, but they do so through the natural means of

established many pensions, scholarships, exhibitions, bursaries, etc., for this purpose, which draw many more people into those trades than could otherwise pretend to follow them. Very few churchmen are educated altogether at their own expense. The long, tedious, and expensive education, therefore, of those who are, will not always procure them a suitable reward, the Church being crowded with people who, in order to get employment, are willing to accept of a much smaller remuneration than what such an occupation would otherwise have entitled them to; and in this manner the competition of the poor takes away the reward of the rich."—*Wealth of Nations*, bk. i. ch. x. pt. 2.

erecting barriers against the unqualified. And, however much a command of capital may assist the able student to get into a profession, the limitation ot numbers will not prevent him starving after he has got in if he cannot command a practice.

They are based on industrial incomes.

(3) The third is that professional incomes, whether paid by salaries or fees, are based on and regulated by competition with industrial income. This is not to say that any direct comparison is made between the services for which professional fees are charged and other services, but between the total incomes obtainable in each. The tendency towards establishing equality of "net-advantage" wage from trade to trade, which depends on the mobility of labour from trade to trade, extends from the trades to the professions through the mobility of the young generation. The new recruits are indeed directed into professional channels very largely by considerations that are other than economic, but there is undoubtedly a constant comparison being made between the "living" to be got in the one group and that to be got in the other. We seem to have an instructive analogy in Co-operation. The prices charged for goods in Co-operative Stores are confessedly the prices of the retail shops round about; there is no other way of determining the Store prices; Co-operation thus is based on competition. Similarly, in the professions, we seem to find that the prices charged for the human factors of the immaterial goods produced are based on the prices got by similar and more measurable services in ordinary industry. If one asks why a medical man's income should run into thousands, the proximate answer is that his fees are high. But when we turn to the fees and ask why they

are high, we have difficulty in getting an answer, except that, comparing the industrial world with the professional, a certain income is necessary to tempt men into this profession, and this income must be paid by the demand of the public.

In some professions the comparison is more direct. A physician's services are compared with and his income kept in check by the services of the druggist. The druggist is very often the physician of the poor, or rather, perhaps, of the lower middle classes. The "advice" is paid for and comprised in the price of the "bottle." Even rich people do not call in a doctor for little ailments when the druggist is able to indicate what remedies are usually taken.

In the case of a dentist, again, I am told that the fee is regulated primarily by the corresponding medical fee, and, as a rule, varies with the ability of the patient to pay; but in a large part of dentistry there comes in the charge for mechanical aids and material. A dentist in large practice has necessarily a workshop of his own; is, in fact, a small employer, using tools, making teeth, preparing stopping, etc.

"They offer themselves in any number," said an eminent dentist, speaking of his women assistants, "at 5s. a week to start; that is what they get in the telephone service. I don't pay them that, of course. I give them 12s. a week at once: I cannot afford more. And," he added, pathetically and parenthetically, "they aren't worth it." The statement suggests: (1) that the wage of such assistants is determined by direct comparison with wages in ordinary industry, and the "cost price" of the dentist's services is to this extent determined by industrial phenomena; (2) that this practitioner had an idea in his mind of how much he should make per year as income, and regulated his demand price for assistance, and to this extent his income, according to that idea.

They are not derived incomes.

We must not, however, fall into the mistake of regarding professional incomes as "derived incomes"; as if the income of material goods was the real and only income, and all others no more than a tax on these—even if it be regarded as an inevitable tax. The Income Tax Commissioners do not tax wealth twice in bringing these incomes under their schedules. There are certain professions which contribute to the health, education, and efficiency of the workers, and in this case the material National Income is increased by these services. There are others which contribute to the security and general wellbeing of life, to the security of property, and to the efficiency of organised industry. Here also the material income is larger than it would otherwise be. There are other occupations which produce wealth directly, but are ignorantly considered parasitic; such as the services of those who purvey art, letters, amusement, etc. So long as the public demand and will pay for these services, they are as direct contributions to the National Income as bread and butter, and this is the advantage of the nomenclature with which we started, namely, that the National Income is a complex of Services, whether embodied in material forms or not. From the point of view which we have been taking, the difference is that they are not subject to the same comparisons and checks as industrial incomes. The "goods" are not thrown off in similar form by the thousand and the million, but are, to a large extent, particular products.

This makes it more difficult to find a general principle in the incomes got by such producers, but does not constitute a difference *in natura.* And what I suggest is that, in the long-run, these incomes come under law through the mobility of the young generation.

But as regards this whole chapter, I must repeat that it is to be taken rather as a contribution of raw material for others to work on than as anything in the least exhaustive.

# CHAPTER XXVIII

## IS IT A "BAD DISTRIBUTION"?

*It is easy to say that the present distribution is "bad" only so long as we do not define our measure. In our examination of distribution something like a rough justice has emerged. In divided industry the factors make their final appeal to Demand, and accept Price as the outside limit. If we are asked to prove that this price is "justly" divided, all we can do is to show how far arbitrary division is eliminated. Now as regards Labour, this is done in the great industries by the appeal to the Trade, and the appeal is made possible by mobility; only so far as the mobility is imperfect does the worker fail to secure his demand price. This mobility, again, does extend to a considerable degree from occupation to occupation, with the same results. But this is not to say that the distribution is "unjust" where there is imperfect mobility and where workers over-populate their particular compartment. As regards Employers, arbitrary payment is eliminated by their mutual competition, and, as regards Capital, by the excessive mobility of the rapidly increasing supply. But the claim of justice, be it remembered, assumes private ownership and free transfer. Under such a system there must be inequality of start. The protest against this comes from the right to Rent which private ownership carries, and is strengthened by the possibilities of Land Rent. But it is weakened: (1) by the present phenomena of land rent; (2) by the widening of rent as an economic category; and (3) by the fall in the rate of interest. Finally, the distribution of the money income does not exhaust the possibilities of real but undivided income.*

In the first chapter of this second book it was said that "the soberest statesman or publicist has seldom any hesitation in speaking of the 'bad' or even the 'unjust' distribution of wealth." In view of what the subsequent chapters have brought out, is it possible to acquiesce in this condemnation?

A kind of justice in the distribution,

Once we divest ourselves of the impression that equality of income is the ideal, and accept the principle that, in a world comparatively so poor, a man must pay for his footing and justify his right to be here at all, there emerges something curiously like a rough justice in the distribution. At least it is not a distribution to idlers; nor a distribution by force or fraud; nor a distribution due to favour of the distributers, or to patronage, or to privilege. It is in some sense a distribution according to product and is based on mutual service. And if we had lived in past centuries, and some one had told us of a country where men as a rule enjoyed an income because they rendered services to the community, however rough and ready the measurement of such services, we should have counted it a fortunate country. Perhaps we should have counted it a dream; for men's ideas of Utopia, even a century ago, were very humble. Did not Adam Smith himself say that "to expect that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it"? [1]

as it measures payment roughly by service.

We shall never, however, understand or acknowledge this so long as we cling to an abstract idea of how "service" is to be measured. Its measurement is, indeed, a very difficult matter. It seems easy only so long as we do not define what measure we are using; as, for instance, when we say that distribution is "bad," meaning that it is unequal, or "unjust," meaning that the man who sweats from morn till eve does not

[1] *Wealth of Nations*, bk. iv. ch. ii.

get more than 20s. a week. It is so difficult, in fact, that attempts to assess service by any other than the measure we have applied generally materialise into claims of compensation for effort or pain (which, of course, is an implicit abandonment of the very idea of service) and end in a subsistence theory (which is the frank abandonment of it).

At least payments are not arbitrary

In divided industry—that is, industry where labour and capital give up their individual efforts and prospects in view of the increased return which inevitably accrues —the factors of production throw their products on the market and appeal to the last court, that of demand. They practically say that they will accept as payment for their services what demand dictates as the value of their goods. That is to say, they accept *price* as the outside limit of the distribution. No consideration of effort or pain will get anything beyond this. To put it concretely: if the total retail price realised by the sale of cotton thread is ten millions sterling, these millions are the limit of what *can* be paid to all the factors which have contributed to putting this cotton thread in the homes of the people. This being so, we are directed to inquire as to the division of this price among the contributaries. Here all we can do, to establish our rough justice, is to point out to what extent arbitrary division is eliminated, embracing in the term "arbitrary" that division which would give too much as well as that which would give too little; for there is only one sum of goods in which the money incomes can cash their claim, and to give too much to one is to force too little on another.

where there is mobility.

Here we find that the individual worker is one of many, and the individual paymaster one of many.

Within each great trade, in virtue of the regimenting of industry, there is mobility; and, to the extent that there is mobility, there is an appeal from the payment of one master to the payment of masters generally. In the customary levels of the great women's industries and the standard rate levels of organised industries, we find the proof that the appeal is very real, and that employers are by it reduced to paying as one representative employer. To the extent, however, that there is not mobility, the sections of a trade become shut in compartments, within which the level is not determined so much by the demand of employers for services as by the subsistence which to some extent prevents the remuneration falling lower. But it is only where want of mobility thus shuts labour into compartments that any approach to what may be called subsistence wage is seen. In all others the remuneration has risen with the increase of the National Income.

Beyond this, to the extent that there is mobility from trade to trade or trade to profession, the same tendency to a level—the same elimination of arbitrary payment—is seen. And that there is considerable mobility even here is manifest in the steady opening up of all trades and professions to children who are fit for the work required—just as, for instance, the absence or abolition of patronage in the Scots churches has opened up the ministry to any youth who can get supported at school and college, and has notoriously established a real mobility between even the manual occupations and this particular profession.

It would, however, be too much to say that this claim of rough justice breaks down where mobility is imperfect, just as, in the opposite direction, it would be too much to say that the claim is satisfied when Trade Union action counteracts the want of mobility by keeping up wage within the immobile area. In the division of labour, society makes no contract, even an implicit one, guaranteeing that, if too many workers come into a trade and refuse or are unable to move out of it, it will give them the same wage as it gives to those who wisely go where there is call for their energies; and the fall of such wages, even below subsistence point, will not appear to the person trained in economics as a convincing argument against this distribution. Ever since man breathed the air around him and attached no payment to its "use," he has been familiar with such commonplaces as "too much of anything is good for nothing," and it should not appear unreasonable to him when the factors which make wealth receive the same treatment, as regards payment, as all men give to the finished goods which these factors make.

As regards employers, again, to show that labour has an appeal from one to another, and that employers generally are thus made to pay according to the ability of the representative employer, is to show that, so far, the arbitrariness of their remuneration is checked. But, beyond this, what solidarity has done for regimented labour, competition does among the employing class. The relentless struggle to find and keep markets prevents the arbitrariness of profits, and tends to press them down to a level which has perhaps more claim to the name of "subsistence of efficiency" than is the case with any other factor.

As regards the remaining factor, capital, the levelling influence is not that of solidarity, but of mobility pure and simple; and the results are seen perhaps in the fact that it is possible to speak of a "rate" of interest in a sense which is not predicable of any other remuneration. Mobility here, however, has the effect which must be expected when the supply increases so rapidly that there is difficulty in getting employment for it; that is to say, the mobility becomes a weapon in the hands of employers to crush down its remuneration. Those of us who have to do with trust estates, for instance, and are familiar with the intimation that "Mr. So-and-so gives notice that he will pay up his 3½ per cent bond unless you renew it at 2¾ or 3 per cent," can bear witness to this. It is simply that capital is pressing at the door of investment.

Everywhere we have found levels of remuneration.

Thus, all through, we have found ourselves dealing with levels, not with individual payments. At each step the suspicion of arbitrariness has retired further into the background, and the reign of economic law has seemed more stern. We find this reflected in the contention of those who inveigh most strongly against the present distribution, the Socialists, that it is out of the power of the best-intentioned individual to remedy matters even in his own little field; that the system so hangs together that it can be cured only by a complete overturn. But, unlike them, as we advance in knowledge of its complexity and coherence, we are almost ready to say, with Adam Smith, that in industry the individual is "led by an invisible hand to promote an end which was no part of his intention"; or at least to repeat with some appreciation the words which follow: "Nor is it always the worse for the society that it was no part of his intention. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it."[1]

**But we assume private property and free transfer.**

There is, however, one modification—to use a colourless term—that must be made in this claim of rough justice.[2] It is such justice as we can have under a system of private property and free transfer of property. The payment by service which we have accepted as more or less a translation of "payment by deserts," is a payment for the services of factors of production. Now we have seen that industrial processes take little account of whether these factors

[1] *Wealth of Nations*, bk. iv. ch. ii.

[2] An economist will naturally suspect the appeal to justice in an economic treatise. It suggests to him that the author is going beyond the province of economic science. With this feeling I entirely sympathise. But one is reminded of Mill's words: that, while the laws and conditions of the production of wealth partake of the character of physical truths, the distribution of wealth is a matter of human institution only; and, this being so, the economist, almost in spite of himself, is generally called to express an opinion on the results of distribution which, disguise it as he may, amounts very much to an ethical judgment. Certain it is that no human institution will permanently stand if once people are convinced that it is unjust. In this, at any rate, he may take shelter beneath the ægis of an authority whose utterances, alike in ethics and economics, command the deepest respect:—"The conclusions of economic science have always been supposed to relate ultimately—however qualified and supplemented—to actual human beings; and actual human beings will not permanently acquiesce in a social order that common moral opinion condemns as unjust."—*The Principles of Political Economy*, Henry Sidgwick, 2nd edit. p. 500.

are flesh and blood or stone and iron, so long as they compete for each other's work. The payment for labour is perhaps a payment by personal deserts; but the payment for capital is a payment for the deserts of a factor which does not take and enjoy its own pay, but hands it over to its owner. The idea of personal desert, then, as a principle of distribution must be given up: we speak only of the desert of a factor of production.

If it be objected *in limine* that no justice is possible under private property and free transfer of property, then, of course, there is no more to be said; although we might, with some propriety, ask to see how justice is to be secured in a Socialist community, and refuse the ordinary answer that it is time enough to think out details when such a society becomes possible. For the justice, if there is any, must be determined by these details. But perhaps we, in turn, might ask what is to be understood as a "just" distribution. Is it something like a poll-tax that takes no account of the natural and inevitable difficulties in distribution, or one that takes nature as it is and man as he is?

If, indeed, we demand payment according to personal desert,

But even suppose we give the fullest weight to the objection that private property and free transfer destroy the idea of personal desert with which justice is assumed to be bound up, it may reconcile us to the inevitable if we see that this payment according to the deserts of factors is the result of a right which seems innocent enough, and one without which liberty would be but a limited thing—the right to the enjoyment of what one makes by his own labour.

we cannot have it without overturning our present system,

What does this right mean? Presumably the right to spend what one has made; for otherwise it would be hollow enough. But it could scarcely be said that a father was allowed the "enjoyment" of what he had made by his own labour if he was prevented enjoying it in company with his family. If he is allowed to enjoy it thus, what is this but giving it to his family? If the right is allowed as regards the family, why not as regards the poor relation? and if the poor relation, why not the friend? But if people, when living, are allowed to hand over wealth to other people, it is not reason to prevent them handing it over when they can no longer hold it themselves; at any rate the prohibition would lead only to giving it during life.

where we pay according to product.

But if we allow this liberty—and it seems bound up with the very existence of that which is usually supposed to bind society together and make it possible, the family—there emerges full blown the system under which we live: that some men start life with land, some with capital, others with nothing but their muscles and brains. Now if one man has land, and another capital, and a third has labour only, and we are disposed to pay the man a wage because, and only because, his labour produces that which we and others want, how can we draw a line and say that nothing shall be given as wage to the land or as wage to the capital? The result is the same—product. What difference does it make whether it is a human factor that produces for us, or a mud-and-manure factor, or a stone-and-iron one? What we want—what we demand industry for—is product.

Undoubtedly what gives force to the argument against private property is that it carries with it not so much the obtaining of interest as the obtaining of rent. Rent, again, had an artificial prominence given to it, in past circumstances and in past economics, by its limitation to the return from land. And land rent, in turn, had an artificial prominence given to it by the easy assumption that land, as a rule, has passed down in families from the time of William the Conqueror, and that the present landowners hold the "unearned increment" of centuries. How far this coincides with the familiar statement that one half of the land of Scotland is for sale in the hands of a single Edinburgh lawyer, and that huge tracts everywhere are unsaleable and unlettable, may be left to economists who are still young enough and fresh enough to be interested in the Morrison's Pill school of reformers.

The stumbling-block of rent

It is enough here to say that the continual sale and re-sale of land as an "investment," the drawing together of the world and its food and mineral products by cheap and rapid transit, and the spreading out of the town into the country by cheap motors, is steadily reducing land, in economic assessment, to the rank of a special form of capital. At the same time the general acceptance of Professor Marshall's thesis that "the rent of land is not a thing by itself, but the leading species of a large genus," and that there must be rent so long as there are differential qualities in any agent of product, labour being included, forbids us to regard rent as in itself a strong argument against private property.

and interest.

The objection to capital, as giving its owner a claim in the distribution apart from rent, would be much stronger if it were not the case that capital as capital gives a person so little power unless he has a very large amount of it. The possession of £100 will not give even the working man more than 50s. a year. And, again, it must be considered that this low remuneration of capital puts it freely at the disposal of any one who has brains to use it. The true advantage that capital gives is the start it allows to the children of those who have it, in affording them time for education and training, and this advantage is somewhat altruistic. If we put this aside, the rewarding of every £100 of capital with 50s. per year for the work it makes possible does not seem an overwhelming injustice to those who work with it.

**The undivided increment.** Finally, it will be noted that what we have been engaged with is the distribution of the money income, and of the real income which it represents, not the extra income described in Book I. Chap. XI.[1] Thus we are reminded that, beyond what passes to the various servants of the community as income, there is always something being added to the wealth of classes or of the whole community—an amount of comfort and wellbeing which is enjoyed, though not divided. In recognition of the good of this, and in approval of the increase of it, we may join hands with Socialism.

**Conclusion.** When all these considerations are given their due weight, it seems to me that, given private property, the free transfer of property, and the inequality of start which the possession of two factors of production or of a differential factor gives, there is a good deal to be said for the present distribution as a Distribution

[1] Cf. *Studies in Economics*, p. 219.

according to Service. At least there is enough of "rough justice" in it to make even those of us who feel its imperfections most keenly think twice before we give our countenance to any rival scheme which has yet been proposed.

# INDEX

THE END

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