Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

http://www.archive.org/details/discussionsineco01walkuoft

By FRANCIS A. WALKER

Late President Massachusetts Institute of Technology

PUBLISHED BY HENRY HOLT & CO., NEW YORK

ESSAYS ON ECONOMICS
Edited by Prof. D. R. Dewey. 2 vols. 8vo.

DISCUSSIONS IN EDUCATION
Edited by James Phinney Munroe. 8vo. $3.00 *net.*

INTERNATIONAL BIMETALLISM
12mo. $1.25.

THE WAGES QUESTION
A Treatise on Wages and the Wages Class. 12mo. $2.00.

MONEY
12mo. $2.00.

MONEY IN ITS RELATIONS TO TRADE AND INDUSTRY
12mo. $1.25.

POLITICAL ECONOMY
Advanced Course. $2.00 *net.*

POLITICAL ECONOMY
Briefer Course. $1.20 *net.*

POLITICAL ECONOMY
First Lessons. $1.00 *net.*

PUBLISHED BY LITTLE, BROWN & CO., BOSTON

LAND AND ITS RENT
18mo. 75 cents.

PUBLISHED BY CHARLES SCRIBNER'S SONS NEW YORK

HISTORY OF THE SECOND ARMY CORPS,
in the Army of the Potomac. 8vo. $2.00.

THE MAKING OF THE NATION
12mo. $1.25 *net.*

PUBLISHED BY D. APPLETON & CO., NEW YORK

GENERAL HANCOCK
12mo. $1.50.

H&CKoevoets N.Y.

Francis A. Walker

Econ W179d

DISCUSSIONS

IN

ECONOMICS AND STATISTICS

BY

FRANCIS A. masa WALKER, PH.D., LL.D.

EDITED BY

DAVIS R. DEWEY, PH.D.

In Two Volumes

VOLUME I.

FINANCE AND TAXATION, MONEY AND BIMETALLISM
ECONOMIC THEORY

WITH PORTRAIT

61064
13/10/03

NEW YORK
HENRY HOLT AND COMPANY
1899

Copyright, 1899,
BY
HENRY HOLT & CO.

ROBERT DRUMMOND, PRINTER, NEW YORK.

PREFACE

In the many positions which Mr. Walker held, official and academic, he was called upon to present the results of his experience and thought in various forms,—official report, address, lecture, or essay. The mass of material from which to draw, the product of a quarter of a century of intense intellectual activity, is extremely large; and it is therefore natural that in so much public contribution on the platform and in the magazine there should be repetition, both in description and in argument. In the preparation of the following volume, a number of Mr. Walker's essays and addresses have been set aside, and others have been used only in part as explanatory notes, appended to the principal articles reprinted. Further condensation would be easily possible, if preservation of fact and outline of argument were the only objects in making this collection; but it is believed that the value and interest of Mr. Walker's writings lie not only in the content of his thought, but also in the spirit which characterizes his work. Mr. Walker was always candid, direct, and vital in utterance; in his writings, as in his conscientious devotion to the daily work in hand, he never stinted himself, and often had difficulty to compress the full measure of his thought within narrow limits. His political economy was not merely a profession; he felt it and lived in it. The significance of this life of conviction and philosophy can only be gained by taking Mr. Walker's writings as he left them. The reader will therefore find familiar illustration reappearing in articles widely differing in subject-matter, and occasionally he will even note a repetition of paragraph. When omissions have been made, the fact is clearly indicated.

Mr. Walker left a considerable number of lectures in manuscript form. The substance of nearly all of these has been published; a small part of this material, however, has been utilized for this collection and now, for the first time, it is believed, is printed. Here especially may be noted a portion of a lecture on "Private Property"; a brief article, "Is Socialism Dangerous?"; and a long paper on "Savings-banks."

The papers have been grouped under the following subjects: Finance and Taxation, Money and Bimetallism, Economic Theory, Statistics, National Growth, and Social Economics. Within the limits of these several subjects, the papers, as a rule, are arranged chronologically. Brief notes have been inserted at the beginning of the several articles to indicate the occasion of the lecture or address. A complete bibliography of Mr. Walker's writings may be found in *Publications of the American Statistical Association*, vol. 5 (1897), pp. 276–290.

Passages quoted by the author have been carefully compared with their originals and in many instances page references have been inserted.

Periodicals which hold copyright privileges have cheerfully granted permission to reprint, and in each case due credit is given to the magazine from which the contribution is taken.

DAVIS R. DEWEY.

Massachusetts Institute of Technology,
BOSTON, April, 1899.

CONTENTS

FINANCE AND TAXATION

ON THE EXTINGUISHMENT OF THE NATIONAL DEBT, BY "POOR RICHARD"

Bankers' Magazine, VOL. 23 (1868), PP. 20–34

In addition to the following group of articles on Finance, the reader will find the subject treated by the author in "The Principles of Taxation," *Princeton Review*, vol. 6, N. S. (1880), pp. 92–114; in "Public Revenue," in *Lalor's Cyclopædia of Political Science*, vol. 3, pp. 618–29: in *Political Economy* (revised), pp. 475–516.

In *Lippincott's Magazine*, vol. 4 (1869), pp. 316–18, there is also a brief contribution on the subject, "The National Debt." This is so similar in spirit in its criticism of "the wretched infatuation of the fructification theory" that it is omitted from the present collection.

ON THE EXTINGUISHMENT OF THE NATIONAL DEBT.

BY "POOR RICHARD."

I. I DO not understand that the best way to pay the debt is either not to pay it, or indefinitely to put off its payment. The first of these propositions, no matter what its form, is one that gentlemen do not discuss. The second has a certain degree of plausibility and contains a certain amount of economic truth. It is likely, within another year, to become the main dividing line, financially, if not politically, throughout the country. It is, in fact, the real question in regard to the debt; all considerations of method are minor and insignificant in comparison. The plan indefinitely to postpone liquidation has not yet acquired popular force and currency, but is confined to the confidential exchange of opinion. It is certain, however, to assert itself in time, and to contest the control of the national policy. Believing its success would be mischievous, almost beyond expression, I beg leave to discuss it at whatever length.

The argument in its favor shall be stated candidly and respectfully. It claims that there is no use in paying off the debt; that, like England, we should content ourselves with promptly discharging the semi-annual interest, reduced, it may be, by a more advantageous negotiation of the principal; that the debt is a bond of union, as has been steadfastly believed in some countries, and even in our own, though, it must be confessed, it does not look much like it now; that it was contracted for the benefit of future generations, and that they should help to pay it; that our industry needs rest after the distractions of the great contest; that the proportion of value between the debt and the wealth of country is sure to change every year, to the advantage of ultimate rather than present payment,—the debt remaining stationary, wealth and productive population increasing in a prodigious ratio; that, in short, the nation had better let the mortgage remain on the estate, and use its borrowed capital in industrial and commercial enterprises, or rather, not to withdraw from existing enterprises the capital necessary to pay for what it has already borrowed and sunk.

With such a system, the principal of the debt, as it matured, would be provided for from the proceeds of other loans, with longer terms, which would themselves be discharged in new obligations. This is sure to be urged as the policy of the future, advocated by influential men, supported by party, and pushed by some of the strongest motives known to human nature. To the many who are not honest enough to bear their own proper burden, but desire to throw it off upon other men and other times; and to the many who, with the best intentions, are not wise enough to see the folly and injustice of such a course, will be added many, both honest and wise, who, while deprecating the result, will advocate this course on the ground that it is necessary to avoid a disgraceful and ruinous repudiation—arguing that if the nation is pressed for present or speedy payment, the popular impatience will be so stimulated, the party of dishonor so strengthened, that it is important to postpone all taxation, which is not absolutely imperative, and to sugar-coat what is left by every indirection and artifice.

Upon the political considerations, this is not a proper place to speak. But all of the above reasoning which assumes an economical basis must be met and answered here. Such a discussion is not only vital to the question, What is the best means of extinguishing the national debt? but in it will appear principles which will serve to make our work brief when we turn to the direct consideration of the subject.

We should pay our own debt for four reasons:

1st. It belongs to us to do so. We contracted it, and should discharge it. To say that it was undertaken for the benefit of future generations is pure nonsense. Let us hope it will prove to be for their benefit; but that was no reason why we did it. So our daily personal support is for the benefit of future generations, insomuch that it can be incontestably proved, that, but for it, our descendants never need come into being. Is that any reason why we should leave our meat-bills and rent for them to settle? A man may sometimes anticipate his earnings for a good, economical purpose; he may borrow of the future, within certain limits, on the credit of his willingness and ability to work it out. But if he lives to the ordinary age, he is simply a parasite if he does not make the account good. He has no right to leave the world poorer than he found it. So a generation of men may, upon a great emergency, borrow—but it should be substantially on its own credit, not that of posterity; and the debt should be discharged out of its own hard work.

What right have we to assume that we have undergone the great trial of centuries, and that all after this will be easy sailing and smooth water? So reasoned English statesmen, when called to arrest the aggrandizement of Louis XIV., and they left a debt of fifty millions sterling. So Pitt reasoned, in the Seven Years' War, and ran the debt up to a hundred and fifty millions. George III. reasoned in the same manner. Thus he writes:

> "Should America succeed in that [independence], the West Indies must follow them, not in independence, but must, for its own interest, be dependent on North America. Ireland would soon follow the same plan, and be a separate state. Then this island would be reduced to itself, and soon would be a poor island indeed, for, reduced in trade, merchants would retire with their wealth to climates more to their advantage, and shoals of manufacturers would leave this country for the new empire."

Having made out a satisfactory case, he came down on posterity with a bill for another hundred millions sterling for work done on its account—the valuable contribution he rendered it, 1775–83.

But when it came to pulling the Corsican usurper off the throne of France, then it was that blessings were showered upon future generations. England, between 1793 and 1815, did just 630 millions' worth (sterling) of good for coming times—say, in round numbers three thousand millions of dollars. Surely coming times will have abundant reason to resemble that brilliant young gentleman who, following his great father's example, was so ready to eat posterity's victuals and wear posterity's clothes, and all for posterity's good; "that," as Mr. Montague Tigg said, "is the cream of the thing."

2d. We ought to pay the debt, because, if it is suffered to remain, and it comes to be regarded as a permanent institution, it will certainly be increased, from time to time, without any absolute necessity. The principle of human nature under which this will take place is too simple to need repetition. If we should go to work like a brave and resolute people, and remove our gigantic debt by the close of the present century, with much sacrifice, and no little hardship, is it probable that any party or minister would take the responsibility, except on the plainest grounds of public necessity, of laying the foundation of another? Such great public lessons, once faithfully learned, have often lasted free peoples for generations. There would be a double security, both in the gratulation over our great and memorable achievement, and in the dread of a similar trial. Whether it would actually render it impossible for the nation to be dragged again into such embarrassments, or not—no one can deny that, at least, it would render such an occurrence much less profitable than if the debt were suffered to remain in all its original magnitude. In the latter case, how easy to slip on another $100,000,000, since we are actually "in for so much already." I do not mean to say that this increase would be made wantonly, but that it would be made unnecessarily. The difficulty of raising money for warlike operations or for high-sounding, fair-seeming commercial enterprise of any kind is a wholesome check. No nation can afford to do without it. There is no other security against recklessness and extravagance in the use of its resources, involving also it may be, great moral and social evil.

What has been the history of every national debt? Continual additions, on the most trivial occasions. Besides the funding of several issues of exchequer bills, even in wisely governed England, the debt has received five several additions since the close of the Napoleonic wars. So easy is it for ministers to satisfy themselves, and even to satisfy the people, of the exigency, if the whole burden of liquidation, or of eternal taxation, can be rolled off upon posterity! So it has been with other nations. So it will be with us. Every petty Indian war, every one of our territorial speculations, every grand industrial enterprise, telegraph, canal, breakwater, or railroad, will furnish an excuse for a new loan, just so long as the old one remains. Now, we cannot afford to put ourselves, as a people, in the way of such temptation. We have no right to assume any such degree of public virtue as will make our case an exception. There is an immense amount of human nature in Americans, on both the bad and the good side. To recognize human nature is the highest principle of law and policy.

3d. We should pay the debt, because debt is always and everywhere an evil.

A man may stand up against it, if he is resisting it, just as he can endure a high degree of cold when he struggles against it. But just as when he gives himself up to the latter, he will either be at once fatally benumbed, or he will feel the chill striking in through his members and laying the foundations of decline; so when he submits passively to debt he goes down hill to ruin very fast. It is the same with a people. The only attitude of man or nation toward debt should be that of aggression. Philosophers tell us that there is in morals nothing stationary; that we are always becoming better or worse—making improvement, or suffering deterioration. However that may be, it certainly is true in respect to economical virtues.

It is sometimes necessary for individuals and nations to create debts: but it should always be as the choice of evils, and there never should be any purpose but their immediate or speedy discharge. Of all horrid monsters that ever went around to devour helpless people, the worst is called Compound Interest. He never grows decrepit or loses his teeth, like the amiable old gentleman in Pilgrim's Progress. His is a hale and hearty old age, doubling himself every ten or twelve years, in a way to make a human being die of envy.

Of late there has come much into fashion a plea, that, instead of money being taken from the pockets of the people to pay debt, it should be allowed to "fructify" there, as a far more convenient and economical way of paying the interest. Of this wonderful discovery Lord Sydenham was, we believe, the author. Certainly he made the most use of it, and earned well his title as "Apostle of Fructification." Even John Stuart Mill a great many years ago put into his treatise on Political Economy the following bit of sophistry which sounds strangely enough from the author of the *System of Logic.*

"If renouncing a surplus revenue would enable us to dispense with a tax, we ought to consider the very worst of all our taxes as precisely the one which we are keeping up for the sake of ultimately abolishing taxes not so bad as itself."

The fallacy here is as plain as noonday. All taxes are bad, but that tax is worst which is imposed for the sake of getting rid of other taxes; therefore, it should be taken off. But it is evident that the further question is pertinent, whether these two taxes—the worse, and that which is not so bad—are both to be of equal duration: for if that which is the worse in itself is to be only temporary, but by it we get rid of that which, though not so oppressive at first, must otherwise last forever, we may be fully justified in choosing present sacrifice and denial, for the sake of future advantage.

Let Mr. Mill's reasoning be applied to another, but kindred subject: "Frugality, it is said, is denial of pleasure, for the sake of ultimate pleasure." Now, we ought to consider that pleasure, of which we deny ourselves, as the greatest of all our pleasures, and therefore choose it, rejecting the whole scheme of restraining ourselves at all, in the present, for the sake of a good to be continued through life and transmitted to posterity.

Let us see how this applies to our own position as a nation. The annual interest on our whole debt, if funded, would amount, at six per cent, to $150,000,000. Now, let unit represent the sum of $25,000,000. Then the interest will be represented by 6, and $175,000,000 will be represented by 7. What is for our advantage ? Is it to pay every year 6 portions for 33 years, and, at the end of that period, owe just as much, and be obliged to pay as much more every year for another 33 years, and so on forever ? Or is it to make one manful effort, and, by paying 7 portions for 33 years, to be then and finally rid of all debt whatever ? That is precisely the question ; for, by devoting $175,000,000 a year to the payment for 33 years, every penny of it can be cancelled. Which plan would become a prudent man ? Which would Benjamin Franklin have recommended ? Which is real American fashion ? If a slave had his choice to take six whippings a week all his life, with rest on Sundays, or seven whippings for only one week, but break the Sabbath that time, which would he probably prefer ? Well, that is just our relation to the debt. Is it worth while for us to make the great exertion and sacrifice of paying $150,000,000 a year, and have the same drag upon us and the nation forever, while, by putting down the other $25,000,000 for 33 years, we can have it over for good and for all ?

If we possibly can raise it. This introduces the sole limitation to the principle. It is no economy for a man to work so hard one day as to be unfit for work the next. It is no true frugality for him to pinch himself so much in food or clothing as to inflict permanent pain or disability. So of a nation, and so of our nation. We have no call, no right, so to crowd ourselves at first, as to disable ourselves for our duties subsequently. This said, all is said against the plan of immediately undertaking the payment of the debt.

Now, if it can be proved that the nation will bear the taxation of $150,000,000 and prosper—but that putting on $25,000,000 more will hamper its energies, depress its spirit, and embarrass its finances—why, then, there is only one reasonable line of policy. But we may fairly demand that the advocates of indefinite postponement shall show pretty conclusively that we can pay the one sum and cannot pay the other.

In one century, with our present debt, the country will pay fifteen thousand millions in interest ; and there will be the same sum to pay all over again the next century, and the next, and owe the principal then. If it is better to do this than to pay 825 millions in 33 years, in addition to the regular and inevitable interest for that time, and thus relieve the nation forever—if, we say, money will fructify faster than that in the pockets of the people, then, in the language of Mr. Gladstone, its fecundity and rapidity of generation must be something marvellous. And if it be true, all the wisdom of the ages is at fault upon the expediency of getting out of debt.

I think it was Mr. Laing, one of Lord Sydenham's Young Timothies, who told a story, in illustration of his theory, about meeting an old negro, when travelling in "the States," who had hired his time and had become very rich, but did not buy himself, because, as he said, the property was depreciating every year and the loss all fell on "massa." Though rather apocryphal, it is a very good story, but not for Mr. Laing to tell, since it admirably exposes the folly of the scheme of fructification. "Uncle Ned" had some sort of reason on his side, for he was actually wearing out ; but the absurdity of applying the same policy to "Uncle Sam," keeping him forever in the slavery of debt, is without palliation or relief.

II. I shall feel justified, then, in proceeding in the further discussion on the principle that the only wise course for the nation, on both financial and economical grounds, is to put forth every energy, take every proper measure and submit to every sacrifice—which will not manifestly dwarf the industry of the country—in order to remove at once and forever the burden of our War Debt. What can be done ? What are the limits of taxation for this purpose ? What are the most safe and saving methods of applying our surplus revenue, whatever that may be ?

There are three preliminary observations which seem to deserve statement :

1st. We must not be discouraged by present distresses, or the necessity of "letting-up" for a short time, into the idea that everything must be suffered to go on as it is. Sound statesmanship adapts its measures neither to the worst nor to the best times or peoples. Not to the worst, for that is not brave. Not to the best, for that is not shrewd. We are not to cut our policy by the measure of our worst condition, but by a fair estimate of our general ability.

2d. We have no right to take the clamor of the manufacturing interests, or of any interests, for gospel in regard to their honest duties and capacities. Here is one of the main evils of our political system. It is just the same in the dispensation of justice as in the distribution of charity—the noisiest, the most obtrusive, the most shameless and generally the least needy carry off the shares of those who submit and say nothing. No matter what considerations urge the imposition of a certain tax, it can hardly be maintained against a determined effort on the part of the lobby to remove it. Those efforts, it is needless to say, are not always dictated by public motives or urged by patriotic means. To overbear the judgment of Congress, to corrupt some members, to intimidate others, has become a system and a science. To remove any tax, it is only necessary to produce a certain amount of noise in the city of Washington. Delegations, small armies, camp down in the national capital, with the express purpose of seeing the government well through the matter. The clamor of Willard's and of the lobbies is taken for the voice of the nation; and Congress gives way to the importunity of a few scores of greedy and unscrupulous men, who represent the sentiments of the community about as fairly as the claquers of a Parisian theatre represent the public taste.

3d. We are not to secure our result by nice methods and little items.

It is said that a French family will live on what an English family will waste. However this may be, it is apparent to the most casual observer that our American economy is more defective still. The traditional Yankee grows rich, not so much by frugality as by enterprise. He works prodigiously hard; he spends recklessly. He calculates wonderfully to make; he loses with just as much facility. He gains time, but wastes material. He invents labor-saving machines, but thinks it too much trouble to look after pieces.

In addition to this, we have the fact that our national finance is as yet experimental and uncertain. Our income rises and falls by tens of millions, on the most trivial causes. One branch of business is the source of immense revenue this year; the next it is perhaps almost abandoned. In such a state of things, minute calculations and close approximations are manifestly impossible. So much is left to accident that no safe statesmanship will confine itself closely to specific measures. The general industry of the country can, with some certainty, be estimated; particular enterprises spring up or fall away too rapidly to afford any basis for a substantial structure. The Chancellor of the English Exchequer can tell just the effect of raising or lowering a certain tax one farthing in the pound sterling, or one penny on a ton avoirdupois. But no such felicity is reserved for American Treasury officers. They must expect to see the shrewdest plans frustrated by the perversities of industry, and deficits appearing at most unlikely places. This is a very important element of the case. It prevents us from making those specific calculations in which European financiers delight and which are only possible with an older and more stable system than ours.

III. If the principles I have laid down are correctly drawn, the work will be comparatively brief in the direct question, How the national debt can best be paid.

Whatever the methods, the great agent must be honest, hard work and careful saving. There is no jugglery about finance. The six thousands of millions to be paid, if the debt is paid within thirty years—the fifteen thousand millions of interest every century it remains intact—can only be obtained by straightforward taxation, out of the avails of actual labor. There may be, will be, those who will promise to discover to the nation buried wealth of untold value; and they probably will, if human nature remains unchanged, draw many off into their schemes. These diviners will certainly be liars, and probably, in addition, thieves. There is a treasure hidden in our soil, and it is by digging for it and digging it out that we are to grow rich—there is no doubt about that. But it is in the shape of golden grains, not golden coins, that it is to come. No midnight invocations or charmed circles are needed to disclose it, but honest toil only and God's sunlight.

The notion that there is to be some magic in the matter—that there will come a flash and a light and a roar and a bang, and lo! the debt is gone, as happens in the bugaboo stories—this is likely to cause more mischief than anything else. "It seems to me," said a wise man, "that men know neither their acquirements nor their powers, but fancy their possessions greater and their faculties less than they are: whence, either valuing the received arts above measure, or else despising themselves too much, they exercise their talents upon lighter matters, without attempting the capital things of all." And he adds, "a false imagination of plenty is among the principal causes of want." Unquestionably the greatest help we could receive toward paying the national debt would be to have the right ideas diffused as to what the debt is; what its relations are to public industry; how it can be paid; how it can not be paid. We need, as a people, to realize more of the power of labor to free us from our burdens, and to place less confidence either in shorthand methods or elaborate schemes—finesse for finance.

Turn we, then, to the usual methods adopted for discharging public indebtedness:

1st. A Sinking-fund.—This was the old expedient for neutralizing, rather than paying, debt.

The natural manner of employing it was to set apart a certain portion of the surplus revenue for the purpose; and this, under the management of commissioners, was to be increased at compound interest, until it shall equal and cancel the entire debt. This was the plan of Earl Stanhope in the early part of the eighteenth century, and it was so far successful that, at last, its annual product was £1,000,000—which, as the debt of England then stood (£48,000,000, in 1727, interest at 4 per cent), put the nation in a fair way to get rid of its burdens.*

* This grand accumulation was, as is always to be expected, gobbled by some greedy minister "for necessary purposes," and nothing more was heard of Stanhope's sinking-fund. Such a fate is so much a matter of course that it hardly deserved to be mentioned in the text.

But Mr. Pitt, that brilliant financier, was not content with this slow-going kind of a sinking-fund. Larger things were in his line, both for getting the nation into debt and for geting it out again. Accordingly, he borrowed money by the hundred million to carry on his war against Napoleon ; and —can we believe it ?—borrowed money by the hundred million to put into his sinking-fund, to pay the other part of the debt !

This is the policy which Alison—the most unexceptionably false *of all men that ever lived, in his views of trade and currency*—extols as " speaking volumes, as to the wisdom of its financial system, and the wonders it would have effected toward the extinction of the debt, had it been adhered to by his successors." Let our readers imagine a farmer, a merchant, a company, a corporation, a city, in such a principle ! Loans to the extent of $1,000,000,000 were contracted only to be transferred to the commissioners of the sinking-fund. Of course this became a principal means of swelling the debt to its present gigantic size. The administration had now two excellent means of raising money, instead of one—for a while they would add to the debt, and when that became tedious they would plunder the sinking-fund, so that they were enabled to introduce a pleasing variety into their official duties, with the incidental effect of making people think that the debt was being in some wonderful way provided for. Either of these contrivances, I venture to think, is quite enough for any minister. He will probably spend all the money the nation can afford if he is limited to a single one.

And so the monstrous delusion went on in England—government now raising money as a loan for war expenses ; now raising as much more for the sinking-fund ; now borrowing it back from the sinking-fund—with the result, at the end of the war, of a debt raised somehow to the awful total of £850,000,000. Yet the pretence of the sinking-fund was still kept up, notwithstanding the severe blows dealt it by the Parliaments of 1816 and 1822, until in 1827 the whole machinery was thrown over, and the system was declared a failure.

No doubt we have brilliant young gentlemen of twenty-five or twenty-six nowadays who would be entirely capable of playing the *rôle* of Mr. Pitt after him ; and we could unquestionably find gentlemen who would give up their private interests to serve the nation as commissioners of a sinking-fund—but we want no such paltering with finance. The best way of sinking a debt is to call in and burn the obligations—not to go to work and build up an equal structure of credit. Even so long as it honestly keeps its purpose of payment, government can never manage the funds as satisfactorily as private enterprise could do. Moreover, it is certain to afford an overwhelming temptation to politicians and people alike to plunder it, in any real or supposed exigency of the public service.

2d. Whatever be our purpose, or our method—short of downright and immediate repudiation—our debt should be consolidated into a swift stock, bearing only one rate of interest. Mr. McCulloch's proposition for funding—always excepting his scheme for reserving one per cent interest, and paying it out to the several States, *pro rata* to population—is well enough ; that is, with a specie basis to the currency and to the general business of the country, the whole could probably be transferred, without any semblance of confiscation, into bonds bearing five per cent interest, free of taxation. But every measure of this kind must be a matter of experiment. There is nothing *a priori* about it. If we cannot fund at five per cent we must be content with six. The market is at present so much disturbed that it is hardly worth while to speculate on just the period or the methods necessary to reduce the interest on the debt. One thing is positive : we must come down to " hard-pan " in currency before anything can be done to advantage.

3d. The plan of the Secretary of the Treasury is to reserve one sixth of the interest (1 per cent) upon the bonds, and pay it out to the several States, twice a year, in proportion to population. By this means, he says, " a general distribution of them [would] be secured." Mr. McCulloch's recommendations are entitled to great respect. With some whimsies and some mistakes he has done a grand work in the treasury.

Though he has, perhaps, not accomplished much positively, he has at least rescued our finances from bewilderment—I might almost say bedevilment—and has set the nation in a way to soundness and health. But was ever a proposition so groundless as this, in regard to the interest ? What conceivable tendency can we find in it, for securing an equal distribution of the bonds among the different States and sections ?

Massachusetts, suppose, holds one hundred and fifty millions ; Indiana twenty-five millions. Yet, supposing the population to be exactly, as it is nearly, equal—each would receive the same sum in interest from the general government. Why should Indiana get so much if Massachusetts gets no more ? Why should Massachusetts get no more if Indiana gets so much ? But Mr. McCulloch assumes, that giving Indiana $836,727.81 yearly, for interest, will certainly bring $83,672,781 of bonds into Indiana. Captain Bunsby alone could furnish the steps to such a conclusion. Is that State, in a paroxysm of patriotic feeling, to purchase $58,672,-781 of bonds immediately, so that it may not receive $586,727.81 yearly interest for nothing ? Or are individual Hoosiers to rush on East and buy five-twenties, or whatever they may then be called, in order to bring up the quota of their State ? Why should sections that are deficient, secure their full share—is it to get the interest ? But they get the interest anyway ! This, unlike most financial schemes, adopts for its motive power something besides the desire of pecuniary gain ; it operates not on the purses but on the sensibilities of men.

What, then, should be done in this vexed matter of interest on the bonds ? It is a political rather than an economical question. Let me not be misunderstood. The non-taxation of any species of property, and the erection of a privileged class, is an economical as well as a political grievance. But the country is so heavily burdened, at present, by the difficulties attending the adjustment of its debt, that it is expedient to submit to the wrong—for such it is—rather than to reopen the question and complicate the decision, by taking up the matter of taxation at all. So much for the financial reasons.

But if political considerations become paramount—if, for example, it appears that the nation will be dissatisfied without a change in this particular, and that odium will thus be thrown upon the whole scheme, and government be obstructed—why, then, the politicians must do the best they can with it. Certainly no such compromises as that proposed by the Secretary will be effectual.

4th. I have here to set myself deliberately against accepted maxims of policy, and do so with no discount from the rule laid down that our action should be within the lines of well tested political science. What I shall propose is based on indisputable facts of human nature, and is verified by abundant experience; but, in this particular, governments have persistently acted against the best authenticated principles, with invariably disastrous results. A bonded debt generally has considerable limits of time, within which it is discretionary in government to pay it. This arrangement, wise or unwise, is founded on the consideration that special causes may, at any particular time, render it impossible to pay anything of the principal. War, commercial disaster, agricultural distress, may, it is said, employ all the energies and all the resources of the country. If, for example, a debt of $2,500,000,000 were to be paid in fifty years, a sound discretion would require that, instead of making yearly instalments obligatory, the whole time should be given, unconditionally, for its payment—inasmuch as, in one year, or in any one of several successive years, it might be impossible to raise the necessary sum, and the credit of the government would become dishonored. In accordance with this familiar principle, our bonds are actually made to run in that manner.

Now, this is a line of reasoning far more befitting a treasury officer than a statesman. It detects the convenience of finance. It fails to discern important laws of public conduct. It disregards the well-known tendency of individuals and of States, to put off the work of to-day, whenever any matter is left to discretion, and to let the future take care of itself. Men are always prone to think that there are special reasons for inaction or indulgence to-day, which will not be found to-morrow. If procrastination is not human, what is?

Individuals, nine out of ten, feel so ; and nations have the impulse stronger, because the sense of responsibility is almost infinitely attenuated in politics. We have seen something of this already, though the nation has submitted very creditably to sacrifices for the purpose of paying off the *floating* debt which was left by the war. But when it comes to paying off debt that is all nicely funded, bearing a premium, and valued by its possessors, the question will arise—" what for ? "—the impulse will be—" let well-enough alone."

A man in climbing a picket fence does not care how *long* it is, but how *high*—he little recks how many more unfortunates there is room for : he only speculates upon his own chances of being impaled. I fear this humble illustration has a bearing on the question we are now considering. The American people may not be found very unlike others, when the test of immediate exertion and sacrifice is imposed. In all this we must contemplate the certainty of a return—" peaceably if we can, forcibly if we must "—to lower prices and a more normal condition of business, when taxation will bear a larger proportion to the gross product than to-day : times when money will not be so easily got, or so lavishly spent as now.

It is to guard against such a tendency—a tendency which no one can deny or depreciate—a tendency under which half the nations of Europe have passed into hopeless slavery to debt—that I would propose that, on a careful survey of our resources, and with every fair allowance for accidents and exigencies, so much of the debt of the United States shall be made to fall due every year as constitutes that year's reasonable contribution to the great work of speedy extinguishment. It is not necessary to dwell further on the advantages of such a scheme. The only objection that ever was made to it—yet an objection that has shaped the course of nations—is that which has been already indicated, namely, that there may be circumstances which will sometimes render it impossible to pay anything in certain years. This may be good politics, but is poor statesmanship, for the following reasons :

(*a*) Every year in which the policy of annual redemption is pursued, it strengthens government and people, frees them from burden, and inspires self-confidence and hope. This alone could give impetus enough to carry the nation through many a difficulty that would stall a stationary or retrogressive government.

(*b*) Emergencies are not nearly so likely to occur. There is nothing like an honest business and an honorable hope, to keep man or people out of mischief. We should feel that it was not right to incur gigantic debt, if we were hard at work paying it; and should be very willing to mind our own concerns and keep the peace. Now would anything help to keep the peace for us so much as the spectacle of our energy and courage and resources displayed in discharging our obligations? It is the fact of our having paid off $250,000,000 in three years, far more than the military strength displayed in suppressing the rebellion, that makes the European powers so mightily respectful to us now. What one of the debt-drowned despots of the Continent wishes to measure swords or purses with us?

(*c*) It will be observed that it is only paying the principal of debts that becomes impossible in war. Interest is always made compulsory, and there is no danger about that. We do not stop to think that to pledge ourselves to pay $150,000,000 a year may become embarrassing. It is only paying 10, 20, or 30 million dollars more, in order to get rid of the principal, that becomes impracticable. If our war had lasted a year longer, and the total had run up to $3,500,000,000, these sage financiers would not have hesitated to pledge the government to pay the annual interest, though it would have amounted to a greater sum than would be necessary to discharge our present debt in a dozen years!

Such stuff is its own physic. If there were war, and if it went hard and if money came hard, does any sane man doubt that the people would as soon pay out $175,000,000 to keep a system of so great importance to them and the country, as to pay $150,000,000, to go into the bottomless pit of perpetual interest? Is there a philosopher so material as to affirm that what a man can do, without hope and courage, is to what he can do with hope and courage, as 6 is to 7?

(*d*) The fact that such a scheme had been adopted and persistently maintained, would give us the command of resources abroad ten times as great as would be necessary to discharge the annual installments. Who would hesitate to lend to such a government? Why was it Mr. Buchanan could not negotiate his twelve per cent loan? Because nobody had confidence that the government "meant business." Why was it we got so many hundred millions in 1864–65? Because there was known to be a people behind the government.

(*e*) The whole objection is founded on a misapprehension of facts. It is supposed that if it becomes actually impossible to pay the sum necessary for any single year, the credit of the nation must therefore be broken—whereas it is just as practicable to pass that item on, in the shape of *floating* debt, as any other one of the expenses of government. For example, in 1818 England applied £15,000,000 sterling out of the consolidated fund, to the reduction of the debt; and in consequence of an unusually large peace establishment, contracted £10,000,000 of temporary obligations. And so, in many instances, it has kept up a scheme of redemption, though forced to make other arrangements for the time being to meet its current expenses.

The difference between the two methods is this: In case the government pledges itself to redeem a certain portion every year, it will be done; and no minister or party will dare to take the responsibility of adding to the floating debt, for the purpose, unless there are the strongest and most obvious reasons which will justify them before the people. It becomes a test—a palpable, appreciable test—of good administration. In the other case, where government only pledges itself to do something, some time during the fifteen or thirty or fifty years, it becomes eminently everybody's business, and that is, proverbially, nobody's business, and consequently it is not done. That little difference may make the whole difference between eternal debt and a noble, economic freedom and progress.

5th. The decrements of the debt should be proportioned to the increase of population according to safe and moderate estimates.

It is possible that some great succession of unforeseen disasters—the introduction of some unknown forces—should throw the nation back in its course, and even produce a speedy decline of numbers and wealth. But this is not one of the contingencies for which sound and intelligent statesmanship is bound to provide. It has been shown that by devoting the fixed sum of $175,000,000 a year to the payment of interest and the reduction of the principal, the debt could be wholly removed in thirty-three years. That illustration was merely designed to exhibit the advantages of payment over postponement. There is no reason why a *rising scale* should not be adopted. Mr. McCulloch, in his report, suffers the population to increase, 1868–84, from 38 to 60 million, that is, three per cent per annum. Imposing taxation at the rate of $8.60 per capita would extinguish the debt in seventeen years.

Perhaps it would be safe to estimate the growth of the country at something less, reaching 60,000,000, say by 1890, when, according to the Secretary's calculation, it would be about 75,000,000. Extending thus the period of payment, twenty-three years might easily witness the extinguishment of the debt, with a less onerous degree of taxation, and with more room for contingencies.

6th. Some such particular scale government should adopt, announce, and pledge the nation to its maintenance. It is the only course befitting a great and growing people like this; the only course consistent with our dignity, prosperity, and happiness. It would give a death-blow to all the vile suggestions that are daily coming up from the more dishonorable parts of the body politic. Let the nation then declare its will, pronounce its policy, and give alike to the world, to its own domestic industry, irrevocable guarantee of its public honor and faith.

7th. I have for some time entertained the conviction that government should associate with its plan for paying the debt, a scheme of contingent annuities. No single agency could do more to assist the public industry or relieve the difficulties of the treasury.

(*a*) We actually need a grand scheme of annuities in this country independently of the debt. Annuities afford a most useful and humane provision for a large class of the community. There are thousands all over the land who have been left in straitened circumstances, with unknown years of life before them, yet with none to whom it is necessary their little property should descend. These can, by this method, secure a much greater sum for their yearly support than they could obtain at interest or by their own management; a sum, moreover, which has the rare advantage that it increases according as the person investing is in those circumstances of age and helplessness which make the need more pressing; inasmuch as the party receiving the deposit can afford to pay more as life is more precarious. It is, in fact, a species of life insurance, only reversed, and has the same benevolent and economical considerations in its favor. The industry of a nation, though resting mainly and primarily on the personal enterprise, personal labor, personal risk of the able-bodied, the courageous, the fortunate, is not complete without some such provision for the helpless, the dependent, the forlorn.

(*b*) The general government alone can establish such a scheme. The fleeting character of almost all our trust companies, the highly speculative tendencies of business, the continual defalcations that shock the public ear, and even the open and defiant repudiation of debt by some of our State governments, explain clearly enough why no impartial system of annuities has ever been established in this country. It is emphatically the nation which is the proper guardian of such a trust. Upon the public honor and upon the wealth of a whole people, the dependent and the helpless may assuredly rely.

(*c*) It would afford a large pecuniary saving to government. Like all species of insurance, this may be highly remunerative; and, when properly conducted, is for the benefit of both parties. The rates of yearly premium could be so adjusted, that while each annuitant should receive great advantage, the treasury would, on the whole, gain by the transaction. Taking a thousand lives together, it would be scientifically true that, while some might so "fly in the face of Providence," according to the expression of the dutiful Jonas Chuzzlewit, as to live beyond the bills, the variation to mortality for the whole would not be perceptible.

(*d*) The main objection against the assumption by government of such business enterprises would not apply in this case. If we were free from debt, and if the national treasury were to receive actual money which it did not want, and which it must employ somehow to secure profits enough to meet the yearly demands of annuitants, the plan would be wildly unreasonable. But in this case government gets no surplus treasure. The money has been had, and spent in war. It would amount merely to the transfer of so much of the public bonds to another species of obligation.

(*e*) Such a scheme would help the treasury in its difficult and doubtful negotiations. It would take off just so much from the amount of bonds to be put upon the market. It would call out a class of savings that would not respond to other invitations.

(*f*) Were such a scheme proposed by government, plausibly presented, advertised widely, and pushed with all the address, courage, and vigor which marked the later issues of the seven-thirty loans, there is no reason to doubt that it would have a marked, a prodigious success. The constituents of this class we have spoken of—the class who would profit by annuities—are far more numerous than is commonly imagined, and they would respond, we do not hesitate to say, with an amount of treasure, in small sums, and by scanty savings, which would shame the golden piles of the city, and the noisy wealth of trade.

Such, rudely presented, are the considerations which seem to me important to the question, How shall our national debt be extinguished? Such as they are, I respectfully submit them to those who believe in the good old fashion of paying honest debts bv honest work.

WHAT TO DO WITH THE SURPLUS

Atlantic Monthly, VOL. 25 (1870), PP. 72–86.

WHAT TO DO WITH THE SURPLUS.

The battle of the surplus has once before been fought on the floor of Congress. No constitutional or economical principle, it is true, could be settled by the mere fact of a temporary excess of receipts over expenditures: the right of the general government, under the Federal compact, to take stock in a turnpike would have been just as complete had the treasury exhibited a chronic deficit, instead of a handsome surplus, when Andrew Jackson vetoed the Maysville Road Bill; the policy of protection, on the grounds on which it was urged and combated in 1832, would have been just as beneficial or baleful had the Secretary not been able to make both ends meet at the close of the year; nor was the expediency of holding the public lands at a price somewhat above the cost of survey and agency discussed so much with a view to present as to prospective revenue. And yet it is certain that, in fact, the decision of each of these fiercely contested questions was greatly influenced, though in principle not affected at all, by the accident of a favorable balance of the treasury from 1830 to 1833; and that underneath all the arguments of party leaders, the most potential element of the case was the popular knowledge of a large and increasing surplus.

The relation of receipts and expenditures had indeed become sufficiently remarkable to influence very decidedly the determination of the questions, how revenues should be raised, and how disbursed. The advocates of extreme protection had not then learned how to make a tariff so high as to defeat the purposes of revenue; and to their infinite chagrin and embarrassment found the money pouring into the treasury in such unmistakable excess as to render the pretence of a governmental necessity impossible, and to reduce the question of protecting American industry to pure economical principles. Hence the desperate efforts of Mr. Clay and his friends to commit the general government to a wholesome scheme of internal improvements which should absorb this uncomfortable surplus; hence the angry protests of the Southern States against the alleged and most undoubted sectionalism of the scheme of protection; hence nullification, and hence the compromise act of Mr. Clay. Had the receipts of the treasury barely sufficed to meet the necessary expenses of the government, the opposition to the then existing tariff never could have attained a dangerous height; the scheme of a general subscription to incorporated companies all over the Union never would have been presented; and the propriety of deriving revenue from the public lands would have passed unchallenged. The whole complication of 1832–33 might have been avoided, had the advocates of the "American system" originally insisted on a rate of duties sufficiently high to defeat the purposes of revenue.

But at the time we write of, the philosophy of high duties was not so well understood as it is now. From 1828 to 1830 inclusive, three years, the revenue had stood at about twenty-four millions and three quarters. But in 1831 the receipts jumped to twenty-eight millions and a half. In 1832 they rose to thirty-one millions and three quarters; and in 1833 to thirty-four millions. Meanwhile the ordinary expenditures of the government had been but twelve millions and a half in 1829, rising in 1830 to thirteen and a quarter; in 1831 to thirteen and three quarters; 1832 to sixteen and a half; and in 1833 to the maximum, twenty-two millions and three quarters, leaving still a surplus of eleven millions and a quarter, or one third of the government revenue. Such a flourishing condition of the finances had of course allowed large payments upon the small debt of those days. Nine millions had been paid in 1828; nine and three quarters in 1829; nine and a half in 1830; fourteen and three quarters in 1831; and seventeen millions, or more than one half of the total receipts, in 1832.

Unfortunately, too, at this juncture, while the receipts from customs were obstinately increasing year by year, and the expenditures, notwithstanding the friendly services of a Congress acting in the spirit of Mr. Clay's famous resolution of 1807,* hung at the inconsiderable total of twenty millions or so, this great resource, the debt, began to fail. The surplus of the five preceding years had made quick work of it; and the beginning of 1833 found the entire principal at but a trifle above seven millions. In vain did Mr. Hemphill's committee, in 1831, in something like despair at the fast-accumulating surplus, resolve, "that it is expedient that the general government should continue to prosecute internal improvements by direct appropriations of money, or *by subscriptions for stock* in companies incorporated in the respective States." Turnpikes, in those primitive and slow old days, were unfortunately not expensive. Had there been railroads to build at $48,000 a mile (second mortgage), a different story might have been to be told. As a resource to absorb a surplus of fifteen millions, turnpikes were as futile as Mrs. Partington's mop against the incoming "Atlantical wave." The plan of general subscription to all "deserving" joint-stock companies for some reason did not hit the public fancy; the clamor for the reduction or removal of taxes which produced double the honest necessities of the government grew louder and fiercer; the extinction of the debt completed the discomfiture of the advocates of the existing tariff; South Carolina carried its exasperation to the point of insurrection; Mr. Clay introduced his compromise tariff; and the battle was over. As surely as any effect can be predicated of any cause, it was the surplus which broke the back of protection in 1832–33.

The same *embarras de richesses* is likely to set Congress by the ears the present session; and, with a longer or shorter period of agitation, to produce equally important changes in the fiscal policy of the government. It is difficult to fix

* "Resolved, that the Secretary of the Treasury be directed to prepare and report to the Senate at their next session, a plan for the application of such means as are within the power of Congress, to the purposes of opening roads and making canals, together with a statement of undertakings of that nature, which as objects of public improvement may require and deserve the aid of government." Fancy the Forty-first Congress advertising for jobs in that fashion! The lobby must have been very modest or very verdant in those days, to need such jogging.

exactly the surplus of the treasury for a single year, inasmuch as nations, like individuals, sometimes let little bills stand over; but it is fair to put the proper surplus of 1868–69 at fifty millions of dollars. This amount has been, in the main, well and properly applied to the reduction of the debt. Some may think that absolutely the best course was not pursued; but all will agree that, without so much as the outlines of a policy laid down by Congress, we are very fortunate in having no worse disposition of the annual surplus.

But when we come to calculate the probable receipts and expenditures of the present fiscal year, we find that we have a much more formidable surplus to deal with; one so enormous, in fact, as to render it almost impossible that the session should pass without substantial legislation for disposing of it. A surplus of fifty millions might perhaps be left to "run itself," without a policy, and even without any legal authority for dealing with it. But a surplus of one hundred or one hundred and twenty-five millions would be rather too large to be ignored by the most happy-go-lucky of politicians, with the largest faith in Providence, and the smallest acquaintance with finance. In 1868–69, there was paid on account of bounties the sum of eighteen millions and a half. But the bounties covered by existing laws are nearly all paid; and the disbursements on that account during the present year cannot exceed, if they reach, three millions. Last year we paid seven millions and a quarter for Alaska. If to the saving on these accounts we add the interest accruing from the sinking-fund, we have twenty-five millions added to the virtual resources of the treasury, irrespective of any decrease in the other expenditures of the government. But the reduction that has taken place in all the departments and services cannot reasonably be calculated at less than an equal amount. Indeed, the changes instituted, with so much courage and comprehension, in the army alone, would amply account for three fifths, if not two thirds, of this sum. The reduction from forty-five to twenty-five regiments of infantry —the annual cost of each regiment approximating a million of dollars—was, if we consider the extent of the reform, the many good, cowardly reasons that might have been urged against it, the instant seasonableness of the measure, and the effect which this example produced upon the whole service, one of the finest strokes of genius. An administrator of less courage than the present head of the army would have contented himself with dropping off half a dozen regiments this year and as many next year, protracting over four or five years what General Sherman effected within a week of inauguration day. It was in carrying out the details of this magnificent scheme of retrenchment that Secretary Rawlins was enabled to perform such signal service to the nation.

A proportionate saving was hardly to be expected in the navy, or in any branch of the civil service; but no establishment, except the diplomatic, has escaped sharp and severe reduction. The changes in the Washington offices alone will save the government millions of dollars; while the same tightening hand has been felt in the remotest branch of the revenue and postal organizations. It is probable, indeed, that the retrenchment which has already taken place has gone quite as far as the real interests of the public service will allow, and that further reduction would not be found to be true economy. The first efforts of the administration have, naturally and properly enough, been almost altogether of the lower and cheaper kind or retrenchment—the scrimping of men and supplies, and the putting of every service on an allowance with which it must get along as best it may. This is a kind of retrenchment which does not require large abilities, but only an unflinching purpose and a degree of obtuseness. In such retrenchment the most useful and least inflated establishments are commonly called upon to contribute as much as the less deserving; and considerable losses in efficiency must always be counted upon.

There is a higher kind of retrenchment, which requires comprehension and courage of no mean order; which consists, not in reducing offices to their minimum, but in consolidating establishments, detecting extensive duplications of power and agency, and bringing the force of government at every point close to its work. Without, however, dwelling on the extensive possibilities opened at this point, it is perfectly safe to assume a saving in all the services and establishments of the government of not less than twenty-five millions from the total of the last year, even if the diplomatic service should escape any appreciable reduction.

All this discussion has taken for granted that the revenue will stand fast at the figures of the last year, that is, at three hundred and seventy millions. But there is no reason to doubt that the revenue, under existing laws, should very nearly approach four hundred millions. In the first place, the natural annual growth of the revenue of the country—what the English economists improperly style "elasticity"—ought to make up a third of the difference, and even more at the present time, when the Southern States are so rapidly returning to productive industry and the consumption of dutiable articles. It is not growth alone, however, that we have to look to. The revenue never has been fairly collected. The early months of the present administration exhibited the first vigorous and intelligent effort to enforce the laws, with a resulting gain of many millions for every month General Grant has been in office. Without, however, attempting to fix the gain of the revenue for another year from this source, we shall have enough for the purposes of this argument if we have shown it to be reasonably probable that the receipts of 1869–70 would, with the present taxes, exceed the necessary expenditures of the government by a clear hundred millions, with a fair chance, or even a strong likelihood, of a surplus larger by many millions.

With a scheme of taxation constructed thus to yield easily a hundred millions over the demands of the government, no one, probably, would contend that the whole of that revenue could, as human and official nature goes, be safely harvested; or that some portion of what might be brought into the treasury would not be lightly and unnecessarily spent, unless that surplus were already in advance so far engaged to a particular object—as, for example, the payment of the debt, and that, too, by a public and formal declaration of the government through its highest organs—as to make such an appropriation almost, in effect, one of the necessary expenditures of the year. With taxes which might yield ninety millions of dollars, or, under a more careful and rigid collection, a hundred millions, it is safe to say that it would not be the larger of those amounts which would be collected; while, at the other end, with a revenue thus calculated to exceed expenditures by ninety, or it might be by only eighty, millions of dollars, it is fair to assume that the surplus at the close of the year would be found to be, not ninety, but eighty.

That is, with a scheme of taxation calculated to yield a surplus of one hundred millions under stringent collections and careful disbursements, that surplus remaining unappropriated, ten millions would be a moderate estimate for the loss caused by the inevitable and indeed unconscious relaxing of effort and watchfulness on the part of the whole body of officials, high and low, engaged in collecting the revenue; while another ten millions would probably not be an exaggerated statement of the increased expenditures, in all the departments of government, due to the general knowledge of an enormous surplus not expressly pledged to any use. In other words, with a certain revenue, the government could remit fifty millions of taxes and pay fifty millions of debt, while if it sought to appropriate the whole receipts to the latter object, the end of the year might well find no more than eighty millions of the debt paid. No one familiar with the collection and disbursement of public moneys will doubt this statement.

Nor is it enough that there should be a generally acknowledged duty, or a vaguely professed purpose, to devote whatever surplus might accrue to some particular object, as the payment of debt. Large surpluses are not collected on such conditions; nor are the revenues of a state administered to the best advantage with such latitude of operation. In a period of rare honesty and energy it might be possible, as in the splendid start made by the present administration, to apply a vague and uncertain surplus to such uses as scrupulously as if a scanty revenue were being made to answer the urgent necessities of government; but such exertions are not to be expected of average finance ministers in ordinary times. Nothing did more to continue the extravagant expenditures of the war period, and to postpone the time when a searching and painful retrenchment should be instituted, than the fact of a practically unlimited revenue—a revenue, that is, which no honest expenditure could begin to reach, and which even a wasteful administration of the finances could hardly exhaust. The proposition of Mr. Hooper of Massachusetts, to limit the prospective revenue strictly to three hundred millions, and then trust to the necessities of the situation to bring the expenditures within that mark, was at once a philosophical and a statesmanlike recognition of important laws of public conduct. We need to take one step farther, to make one more application of the same principle to the relations between receipts and expenditures in the immediate future. The relentless reduction of taxation has already borne excellent fruit in both the increased efficiency of collection and the heightened carefulness of disbursement; but the effect of that legislation is about exhausted. If we are to look for further improvement in the same direction, it must be by another turn of the same screw.

So much for a vague and unappropriated surplus. It is something for which we have to thank God, and not our own wisdom, if it be not plundered and wasted till little enough is left for the treasury or the public creditor. As it has happened, we have been compelled, since March, to try this method of reducing the debt, for want of a better; but there will be no excuse for us if we continue it through another season. When the present administration succeeded to power, nobody knew whether we were likely to have a surplus or not; and our legislators were perhaps excusable in declining to make provision for the disposal of it. But the first question of the present session unquestionably is the disposition of the surplus. It is not often in the history of the world that a legislature has had occasion to decide on the application of such an amount of revenue above all reasonable charges. No government ever before had the felicity of being enabled to dispose, on abstract principles, of a cool hundred millions of money.

And such legislation is not more a luxury than a necessity. The country, to speak plainly, will not submit to a scale of taxation calculated to yield such a surplus, without having it pretty distinctly agreed upon what is to be done with the money. The pressure of taxation is seriously felt; schemes for relief are popular; and the taxpayers are not in a humor to pay into the treasury a hundred millions to be used anyhow or nohow, according to circumstances or caprice. A moderate surplus is a strength to an administration; but, on the other hand, an excessive surplus excites discontent more quickly than the most unfavorable balance of the treasury; and nothing could be more threatening to the Republican ascendency than an attempt to maintain taxation admittedly disproportionate to the wants of the government, without at least as good a reason stated as the speedy extinguishment of the debt.

Is it, then, to be desired, on the most careful calculation of the resources of the country for the present and coming fiscal years, that the Secretary of the Treasury should be authorized to appropriate to the increase of the sinking-fund or to the cancellation of the bonds all the money (the larger the amount the better, whether it be seventy-five or a hundred or a hundred and twenty-five millions) which can be got from the people, and which is not required for ordinary expenses? Is debt an evil in such a sense and to such a degree that the maximum of taxation is desirable to remove it? Would such a course promote or impair the chances of a full, final liquidation? Does the industrial condition of the country at the present time permit of such an effort?

There is certainly no more proper object of taxation than the payment of debt. Within the limits of prudence and strength, no one of the expenditures of government is more commendable. In fact, it is about the only expenditure that is looked upon as a subject of positive congratulation. There is no end for which it better becomes a free people to submit to sacrifice than this. But next to the duty of making steady and equable exertions to such an end is the duty of refraining from everything that is spasmodic and extravagant. Our national resources should be carefully measured, and our efforts adapted at once to the object in view and to our own strength. It would be but a sorry sequel to the payment of a hundred millions in 1870, to pay nothing whatever in 1871; and though the total of the debt might be the same, at the beginning of 1872, as if an equable payment of fifty millions a year had been maintained, it is not at all likely that the disposition of the people to bear future taxation for the purpose would be as good. Now, we firmly believe that it would not be as well for the ultimate payment of the debt, to have the entire possible surplus of the current fiscal year appropriated in this way. Such an undue effort could not but prejudice the cause it sought to advance. There are so many advocates of national dishonor, and their schemes are of such number, variety, and plausibility, that the friends of an honest liquidation have to treat the subject with as much of prudence as of vigor.

Indeed, if there is any question to be made in the matter, it is, whether fifty millions be not a disproportionate and excessive contribution to this purpose. Six months ago, the most strenuous advocate of an early payment would have been glad to compromise for a reduction of twenty-five millions annually, to begin with. Would it be wise to allow ourselves to be so far led away by the splendid success of the revenue in the past six months, as now to deem fifty millions too little ? The administration no more owes the country a large reduction of the debt, than it owes the country a large reduction of taxation. If but one of the two things were possible, we should rather say that the latter should have preference. Now that both can be secured together, there can be no excuse for refusing the relief so earnestly demanded.

Unless, then, we have wholly mistaken the probabilities of the revenue for the coming year, and the temper of the country relative to taxation, a considerable part of the surplus, be it seventy-five or a hundred or a hundred and twenty-five millions, should be applied to the abatement or abolition of existing taxes. Which shall be the taxes to suffer this reduction, is a more complicated question—endless, indeed, if it were to be discussed on the merits of the several imposts, or their fitness to form a connected scheme of contribution; but we shall choose to view it as a matter of popular feeling and public opinion, asking rather which taxes are likely to be removed than which ought to be removed.

From this point of view, the first tax to be considered is unquestionably that upon incomes. It is, in fact, the only one in which a change is absolutely certain. The present law expires by limitation in 1870, so that, if the tax is again to be collected, it must be by a re-enactment; and there is no reason to believe that this can be effected without large modifications. Yet, after all, it is fairly a question whether such modifications as are likely to take place can be considered as a reduction of taxation. It is not in the least improbable that an income tax at three per cent, but without some of the present irrational exemptions, would bring nearly if not quite as much money into the treasury as the present duty of five per cent. The fact is, the tax is too high, as the whiskey tax was last year. Five per cent is a great deal for only one form of taxation, when it is remembered what a small margin at best is allowed by the necessary expenses of living in these days. What a man *must* have requires so large a part of the income of all but the wealthy, that very little is left for pleasure or leisure. Take a representative income of twenty-five hundred dollars, with thirteen hundred dollars of exemption. At five per cent the tax is sixty dollars. Yet how few heads of families of that income ever have a clear sixty dollars, which they feel able to devote to a distinctly luxurious expenditure! For incomes of this class it is not exaggeration to say that the tax absorbs the whole of what would otherwise be the pleasure-fund of the family; not a small sacrifice to make when it is remembered that the same taxpayer has already paid a hundred and fifty dollars, at the least, to the government in duties on foreign goods, while he has suffered from a general enhancement of prices, in consequence of State and Federal taxation, to twice that amount. And it is really not the best finance to maintain the income tax at such a point, in ordinary times, as to constitute a grievance. An income tax is properly a war tax. It is so regarded in England. It should be kept up in time of peace, but at its minimum, not its maximum.

Yet while the reduction of the rate from five to three per cent would afford a great relief to every man who now honestly pays to the full amount of his liability, it is highly probable that the receipts from this source would be diminished little if any, especially if the measure were accompanied by others restricting the effect of the several exemptions. A great many people who now do not suspect the fact would find that they had incomes; while many of those who pay at present would not exercise half as much ingenuity in making the exemptions cover the ground. There is nothing better established than that men generally do not like to cheat, evade the law, expose themselves to penalties, or swear to questionable statements. At the same time, it is very easy so to construct the law as to make it morally certain that every second man in the community will do these things. The case of the whiskey duty is in point. In the fiscal year 1868, the tax was two dollars a gallon, and the amount collected was thirteen millions. In 1869, the duty was reduced to fifty cents, and the receipts rose to thirty-one millions. So fully is this principle of revenue proved by all financial experience, that we feel at liberty to assume that the difference would at the worst be "halved" between the taxpayers and the treasury. Of the thirty-four millions received from this tax last year, nine millions came from the income of corporations. For these there should be no reduction. The twenty-five millions received from the incomes of individuals would indicate a clear taxable income of five hundred millions. On this amount three per cent would yield fifteen millions—a loss to the revenue of ten millions. But of this we may safely calculate that five millions would be recouped by a more honest assessment, provided the year were moderately favorable for industry.

Simultaneously, however, with the reduction of the rate, the present exemption of rent should be changed in an important degree. On general grounds there is no more reason why a man's rent should be free from taxation than his grocer's bill. Indeed, this exemption is peculiarly liable to objection, as giving the man who does not own his house an advantage over his neighbor who does, thus discouraging permanent investments, and in turn contributing to raise rents, already forced up almost beyond endurance by a combination of causes unfavorable to house-owning except for purposes of speculation.

But while the exemption of rent is thus theoretically false, it is practically advantageous up to a certain point, as affording the poorer classes a partial compensation against the grievous injustice of a non-graded tax. It is an anomaly: but many things are anomalies without being any the worse for it. The true idea of an income tax is that of the old Solonian law, which recognized five distinct grades of income, and assessed each at a different rate, according to the ability which it indicated in the citizen. But since this precious Constitution of ours, which is never heard of except to prevent some good thing from being done, is supposed to forbid graded taxation, we substantially effect the same result by allowing certain exemptions from gross income. The $1,000 exemption is of this kind. Under it, an income of $1,000 pays nothing, one of $1,500 pays $25, or one and one third per cent; one of $2,000 pays $50, or two and a half per cent; one of $3,000 pays $100, or three and a third per cent; one of $5,000 pays $200, or four per cent; one of $10,000 pays $450, or four and one half per cent. This is right, so far as it is carried. Now comes in the exemption of rent without limitation of amount. To the extent of two or three or possibly five hundred dollars, this also serves to reduce the injustice of a single rate of taxation. But when carried above this, the exemption becomes irrational and mischievous. There is no reason why a $1,000 or a $5,000 rent should be exempted. There is every reason why it should not. There is no more distinct form of luxury; none about which the person who indulges it is more at liberty to make his own choice as to the scale of expense; no kind of expenditure which it is less the interest of the state to encourage. Unfortunately we have no statistics whatever in regard to the income tax; but there is every reason to believe that the effect of this exemption is to reduce the revenue by many millions, and that its limitation to $500 would go far to counterbalance the reduction of the rate, while its limitation to $200 would actually increase the receipts.

It must not be supposed that, because we have figured out a loss to the revenue of but five millions or less on a present collection of thirty-four millions, the relief to the community is to be estimated in that ratio only. Under an onerous tax, it is doubtful which hates the law worse, the man who pays, or the man who is driven to fraud to escape payment. The present income tax is no more of a hardship (and it is much more of an injustice) than if it collected fifty millions. Under such a rate as we have proposed, those who now pay the first ten millions of the tax would probably pay but six ; those who pay the next ten millions would pay but eight ; those who pay the remaining fourteen millions (corporations, namely, and the class that rent brown-stone fronts) would pay about what they do now ; while six millions would be paid by those who now pay nothing, and hate the government for it a little worse than if they paid their share.

Incomes being thus disposed of, and whiskey and tobacco remaining, by the unanimous consent of all but the "rings," subject to their present reduced rates, the numerous minor taxes under the internal-revenue acts would call for an endless discussion if they were to be treated each on its merits. But the public opinion which has been forming for a long time, and has been taking shape very rapidly of late, is not inclined to consider them on their merits, or to consider them separately at all. These taxes are : general stamps for legal and commercial instruments, which yielded last year about eleven millions and three quarters ; proprietary stamps, to be affixed to patent medicines, matches, etc., yielding about four millions, one half from matches alone ; legacy and succession duties, which yielded last year about two millions and a half, and would yield twice as much but for the false appraisement of estates ; the tax on gas companies, yielding two millions ; taxes on articles in "Schedule A," that is, such luxuries as billiard-tables, gold watches, and silver plate, yielding less than one million ; the tax on the circulation and deposits of banks and bankers, which yielded above three millions in 1868–69 (the national banks paying directly into the treasury six millions of dollars in addition for their franchises); the tax on the gross receipts of corporations, like railroad, canal, and express companies, yielding six and a quarter millions; the tax on the premiums and assessments of insurance companies, yielding one million and a quarter ; and lastly, an immense body of "special taxes," which may be characterized by the single word *licenses*. The last taxes fall upon nearly all who exercise any art, profession, or calling, except preaching—upon civil engineers, assayers, pedlers, photographers, and opera singers. These taxes yielded, last year, nine millions. One million and a half of the receipts from internal revenue for 1868–69 were from taxes now abolished. The remaining, which we have enumerated, yielded forty-nine millions. Incomes, whiskey, and tobacco produced one hundred and eight millions and a half, making up the grand total of the internal revenue, one hundred and fifty-nine millions.

It will be seen that, taken together, these minor and miscellaneous taxes yield no inconsiderable portion of the internal revenue. But they have always been regarded as essentially war taxes. Some of them savor too much of inspection and inquisition to be agreeable to our democratic spirit, and they excite constant resistance in collection. There is no slight danger of their all going over together, on the plea that they are too vexatious for the amount they yield, and that they hinder the freedom of transport and traffic. The prejudice against them is unquestionably a growing one, and the demand for their abolition, in view of the revenue surplus, is likely to be urgent and peremptory. Not a few of the leading politicians of the country have already taken ground in favor of collecting the entire inland revenue under the general heads, income, whiskey, and tobacco. It is clear, however, that this demand is not sufficiently discriminating. Much of the present complicated system of internal taxation must be given up; but a clear distinction exists between those taxes which are in restraint of trade and meddle with private business, and those which affect only corporations enjoying special privileges, and are thus proper subjects for taxation. The duties on gross receipts, on legacies and successions, on banks and insurance companies, and on the gas monopolists of cities, as well as the general stamp duties, ought to be retained, in justice alike to the treasury and to individual taxpayers. These together yielded twenty-six millions and a half last year; and, as it always happens that when one of two taxes is repealed the proceeds of the other increase, something more than this sum might be expected from them. The whole system of licenses, of proprietary stamps, of taxes on sales, of duties on private carriages and family silver, might properly be given up to the demand for reduction and retrenchment. This would amount to a remission of twenty-two millions and a half, in addition to the two or three millions that might be lost by the changes indicated in the income tax.

It may be thought that, having made away with twenty-five millions of the surplus by the repeal or reduction of taxes under the internal-revenue system, we have not much left in hand with which to effect the needed reform in the customs duties of the country. But it must be borne in mind that the most senseless and mischievous specifications of the tariff are those from which practically no revenue is derived. Hundreds of articles might be added to the free list, without reducing the receipts from customs by a million of dollars; and thousands without reducing the revenue from this source so much as one fifth. The judicious application of twenty millions of the surplus to the simplification of the tariff, while it would leave the scale of duties still inexcusably high and rigorous, while it would leave the battle of protection still to be fought out on other grounds, would yet be sufficient to abolish all that may be called the nuisances of the system; would clear the frame of the existing tariff of all the absurdities with which the greediness of every petty industry or possibility of an industry has overlaid it. The general plan of our protective system is consistent and intelligible enough, founded, as it is, simply on the distrust of art, progress, and mutuality of services; but it has been stuck all over with the most fantastic and contradictory features. No one can study our customs duties without wonder. It is evidently no work of a finance minister. It is difficult to believe that it could have been the result of the actual sessions and consultations of a committee, even the most variously and inharmoniously constituted. No idea pervades the whole; proportion and relation are utterly discarded; incongruity and disorder appear in every part. Special legislation certainly did its worst when the existing tariff laws of the United States were enacted. Almost every article for which the ingenuity of man has found a name appears upon the list. Of nearly four thousand specifications contained in Ogden's Digest, twenty furnish half the revenue; three thousand five hundred at least are merely vexatious and mischievous.

Take the whole line of chemicals and drugs, for example. If any class of commodities should be made free of duty, these should. When used as medicines, they are the direst necessaries. Probably no expense that comes to a distressed family is more painfully felt that the outlay on this account. When used in the arts, they are the rawest of raw materials. Yet the existing tariff collects duties on hardly less than one thousand articles under this general head. Scarcely a single known substance, be it solid, liquid, or vapor, which can possibly be classed as a chemical, a drug, or a dye, escapes a tax, although there are hundreds of these articles which we do not ourselves produce, never did produce, and never shall produce. The total sum received from the entire class barely reaches four millions of dollars. A quarter of the specifications of the tariff are thus devoted to articles which yield one forty-fifth part of the revenue. For this purpose experts have to be kept at every important custom-house to ascertain whether pyroligneous acid be over or under 1.040 specific gravity; and an amount of testing and tasting, weighing and gauging, goes on which would be sufficient to collect the whole excise tax on whiskey, or the customs duties on sugar and molasses, which together produce thirty-five or forty millions a year. And all this annoyance is incurred by taxing articles which by every rational and consistent principle of protection ought to be admitted free of duty.

We dare say our "infant manufactures" would survive the shock should the acetate of ammonia cease to pay its annual contribution of two dollars and eighty cents, the acetate of baryta its one dollar and twenty, collodion its three dollars, aluminium its eighty cents, or benzine its forty cents. Can anything, indeed, surpass the absurdity of keeping up a tax for the purpose of collecting from forty millions of people such amounts as these, which are but ordinary instances of the character of many of the collections under the existing tariff? Is it not correct to call such impositions nuisances? What possible interests can be involved in them, except the grand interest of trade to have them all swept away? Suppose that powdered alabaster should abruptly cease to pay one dollar and forty cents into the treasury, what good thing would thereby cease from the earth? Is a tax of seventeen dollars and ten cents on glue absolutely necessary to sustain Mr. Spaulding in his patriotic and union-saving enterprise? Would not our Yankee hens continue to lay, should ostrich eggs escape the exaction of six dollars and ninety cents which they paid in 1868? Might not the revenue of six dollars odd, now yielded by sour-crout, be surrendered as a graceful concession to the national susceptibilities of our German fellow-citizens? Would not yeast rise overnight if the foreign article remained untaxed? Is the tax of one dollar and eighty cents on "heel-balls" designed for the encouragement of any particular branch of industry, and has it anything to do with the facility with which they are formed in damp snow? What effect had the collection of three dollars from apple-sauce, at our custom-houses, in 1868, upon the production of that delicious article of food? We could understand the duty on "Brazil bugs," if we supposed that this was some new and ferocious species of insect, straight from the Amazon, marching upon the wheat-fields of the West or the apple-orchards of the East; but as we the rather conceive them to belong to some curious and interesting variety, and to be preserved in a way that renders them incapable of extensive harm to American agriculture, we really think the revenue might give up the twenty dollars derived from this source, and dismiss the entomological or bug clerk at the New York Custom-house. How much would the "exportation of our soil" be hastened by remitting the six dollars or so now obtained from alizarine? And, speaking of the soil, is it not odd enough to find that the government derived as much as $47.80, in 1868, from the importation of "garden earth"? What sort of policy is this, pray, to prohibit the soil of other countries from coming to us! What kind of protection is it which forbids us to supply the "waste" and "exhaustion" produced by exporting our grain, from the countries which are thus draining us of the very vital juices of our land? Garden earth, certainly, if nothing else, should be made free of duty.

It is not alone these preposterous taxes, yielding from fifty cents to fifty dollars, which should be removed. There are many, yielding hundreds or thousands of dollars, which should go the same way. Trade cannot be worried for any such petty considerations. Impotent as these taxes are for good, they are yet capable of much mischief. Unquestionably government could raise the same revenue from fifty articles without disturbing the general values of the country half as much as by taxing four thousand articles.

High Prices is a milleped, an animal that goes upon a thousand small legs. Few of our readers but recollect when the horse-railroad companies all over the country put up their fares from five to six cents in consequence of the internal-revenue tax, amounting to an eighth or tenth of a cent per passenger carried. Horse-railroad directors are no worse than other people, notwithstanding they get so much abuse. Trade always revenges itself in this way for hinderances and vexations; and hence, every petty tax, every minor imposition, should be swept away, and only those suffered to remain for which a substantial reason can be shown.

There is also a class of articles, yielding a million and a quarter to the revenue, which stands in a peculiar relation to our native industry. Of every other article recognized in the tariff laws (except, perhaps, Brazil bugs) it can be said that if we are to consume it, it were desirable enough that we should produce it; the only question being whether protection is the best way of accomplishing the result. But of lumber this can, in the present state of our country, be absolutely and unequivocally denied. It is not desirable that all our lumber should be of native growth. It is not desirable that any of it should be, when a foreign article can possibly be afforded at the same price. It is, therefore, not desirable that any restriction should be imposed upon the foreign article, or any encouragement held out for the more rapid consumption of the domestic supply. There was a time when "the axe of the pioneer" was the proper emblem of our advancing civilization. That stage has been passed in almost all our territory; and there is now more reason to fear that our soil will be impoverished, and the just distribution of heat and moisture fatally disturbed, by cutting down our forests, than to desire the further clearing of the land. There are, it is true, large sections where there is yet no danger of an early exhaustion; but in those sections and the country which they supply there is no occasion for protecting that interest. Transportation is so great an element in the cost of lumber, that no timber-growing region needs to be fenced from the approach of the foreign article. It is in those sections which are equally distant from native and Canadian supply—indeed, so far as the cost of transportation is concerned, nearer the latter than the former—that the enhancement of price, consequent on the present exorbitant rates of duty, encourages the cutting of even the scant and insufficient covering of timber which nature has interposed to save the land from drought and sterility. Singular that philosophers who are so much afraid of having our "soil exported" should advocate a policy which would do more, in a generation, to exhaust the productive capability of the United States, than the export of a hundred millions of wheat annually to the end of time!

In such warfare upon nature, the all-devastating Spaniards have hitherto enjoyed an evil pre-eminence. They turned the valley of Mexico from a garden into something very like a desert by cutting down the timber, and thus drying up the lakes. They did the same bad work in some sections of the Pacific coast; and now, where the giant trunks of a former vegetation have scarcely rotted from the ground, there is not soil enough to bear the scantiest crop. They stripped the plains of even their own Castile of the noble forests that once covered them; and Castile has become comparatively fruitless under the curse of outraged nature. Hardly a European nation but has suffered, and is still suffering, from the same improvidence; hardly one but is striving at vast expense to repair the waste. France, Italy, Belgium, Switzerland, England, are planting trees for very life while we are "encouraging" the felling of the forests which secure the proper distribution of heat and moisture, provide for the irrigation of the soil, and conduct away in nourishing showers the angry elements of hail, lightning, and tornado. Even in India, England has established a bureau for the sole purpose of restoring the forests, having found by painful experience that Nature, while the harmony of her parts and forces remains undisturbed, will perform the office of irrigation somewhat more cheaply than an elaborate system of windmills, reservoirs, and canals. We certainly ought to profit by the experience of so many countries. Already there are few of the Northern and Western States that would not be the better for laws passed in restraint of "clearing"; yet Nature, with the most benevolent intentions, has placed an almost inexhaustible supply in the regions farther north, with a system of water-courses admirably adapted to bring the timber to our very shops.

The salt duty is another of those indefensible imposts which must give way under an accumulating odium, since there can no longer be urged any excuse for their continuance on the score of revenue. The damaging exposure of this monopoly which Commissioner Wells made in his annual report for 1868 must, we believe, kill the tax. The simple exhibit of the profits of the Syracuse company, by which they have been enabled to increase their capital tenfold in half as many years, through the monopoly of one of the commonest necessaries of life, makes all argument on the subject seem tame. It is not possible that anything more than an exposure of such a state of things is necessary to bring it to an end. The salt tax is one of the abominations of the present tariff, and must be given up. The attempt to retain it must involve the whole scheme in unnecessary odium, while it could hardly prevent the abolition of a duty so offensive and unjust. The million and a quarter of revenue derived from this source, at the expense of many millions in enhanced prices to the consumer, should be relinquished, as one of the first-fruits of the surplus.

It may be taken for granted that the duty on coal will be repealed during the present session. Whatever might be the economical reasons for imposing and maintaining such a tax, considerations of humanity alone ought to render it impossible, after the experience of the past few months. It is a familiar fact that there is actually more misery in our large cities every hard winter for want of fuel than for want of food. The destitution of the very poor takes the form of cold rather than of hunger. More protracted suffering, more permanent injury, and more coroners' cases are due to dear coal than to dear corn. Such a tax is, therefore, a most cruel and unjustifiable imposition. It is one of those things which no supposed economical considerations can excuse. We have no right to measure the interest of the capitalist class, or even of the able and well-to-do laboring class, against the necessities of the helpless and dependent classes.

But instead of finding any economical reason in contradiction of the plain dictates of humanity in this respect, we find the latter reinforced by the former. Coal is a raw material for almost every class of manufactures, but is also raw material in a peculiar sense. It is the raw material of power. Nothing could be more irrational than to impose such a tax in the interest of protection. But there is little reason to fear that the artifices and resources of a gigantic monopoly will avail to withstand the almost unanimous sentiment of the people in respect to the tax. The rise in coal last summer, through the unprincipled combinations of the railroads and the mining companies, has aroused a general and intense indignation, which can have but one logical result, namely, the utter abolition of the duty and the throwing open of our seaboard to the coal of the British provinces. The loss of revenue to the treasury by the repeal will not be large. The tax at present is almost prohibitory, being $1.25 upon two thousand pounds, or $1.40, in gold, on the proper ton of commerce, equal to $1.96 in currency at average rates. Such an addition to the wholesale price of bituminous coal practically cuts us off from that source of supply. Half a million will be well spent in bringing to consumers a relief that can only be measured by millions.

The recent thorough discussion as to the cost of making pig iron in the United States has entirely settled the point that an addition, unnecessary even to secure the production of that article here, is made to the market price of the metal, to the full extent of the present duty of nine dollars a ton. The tax, then, simply serves to secure higher profits to the manufacturers, by restricting the amount available for consumption within the country, to the capacity of the Pennsylvanian and a few other scattered furnaces. That is to say, the present profits are secured by diminishing the amount of iron which in the United States is cast, wrought, or converted into steel! There are scores of recognized industries which, in the number of workmen they unitedly support, far exceed the pig-iron establishments of the country, and which have to pay one third more for their material than they would but for this duty. Is this protecting American industry? Take the iron-bridge building interest, which is assuming so much importance. Unquestionably, but for the enhancement of the price of iron plates, rods, and bolts by the monopoly of iron, the demand for such things would be doubled. The difference between the cost of bridges made of wood and those made of iron is now just enough to determine nine boards of railroad directors out of ten, nine boards of selectmen out of ten, reluctantly to decide in favor of wood. Put it in the power of builders to offer to lay down iron bridges for twenty per cent less than at present, and in five years we should find that half the bridges being built were of that material. The same is true, in a greater degree, of iron-ship building. In 1868 just five iron vessels were built in the United States. England is building them by the thousand. England has cheap iron. We think it necessary to have dear iron.

It is in view of such facts, and not from the standpoint of free trade, that the pig-iron monopoly is being attacked. It is assailed by men who can prove, from the actual transactions of large establishments, that the metal can be produced at home without the duty, and that the enhanced price goes to increase profits and not wages. It is assailed by men who hold firmly by the principle of protection, and who are prepared to maintain the duties on all the higher manufactures of iron and steel at their present rates, but who insist on regarding pig metal not as finished product, but raw material, to be obtained as cheaply as possible in the best market. The duties now collected on this article amount to somewhat over a million of dollars.

It is not, of course, possible, nor desirable, in an article of this scope, to go through the four thousand specifications of the tariff, and show which five hundred or fifteen hundred or twenty-five hundred distinct taxes might be repealed without reducing the revenue below the actual honest requirements of the treasury, and without injuring, even temporarily, a single considerable industry of the country. That is properly the task of a committee. Such a reform would involve the removal of taxes like those on manufactured india-rubber and gutta-percha, which now yield a revenue of two hundred thousand dollars ; on raw hemp, jute, and flax, which yield half a million ; on gums, which yield about six hundred and twenty thousand dollars ; on hides and skins, which are now taxed to the extent of a million ; on leather, which yields a million and a quarter more ; on unmanufactured cork and potters' clay, each producing fifty thousand dollars, which the revenue could well spare ; on wools, with the loss of only a million and a quarter ; on paints for another half million ; on almost all the oils ; on all the seeds ; on all the spices except, perhaps, pepper, cloves, and cassia, which yield sums worth collecting; on hatters' furs, which yield nearly three hundred thousand, and other furs, dressed and undressed, which yield two hundred thousand more ; on oranges, lemons, dates, prunes and plums, figs and currants, and all the tropical fruits, retaining perhaps the duty on raisins as a convenient source of revenue to the extent of a million of dollars, and because they are not good for little boys. Human hair we would admit free of duty, at a loss of seventy-two thousand dollars, as also human bones, at a loss of two dollars and twenty cents. Honey, butter, and cheese together would cost the revenue but two hundred and fifty thousand dollars. Zinc should be made free, at a sacrifice of nearly as much more. Few would believe that the people of this country pay in duties on sardines and anchovies as much as a quarter of a million. For what earthly reason, since the treasury does not need the money ?

It will be seen that the removal of duties which we have indicated as especially vexatious and unnecessary would leave the main question of protection wholly undisturbed. We might still protect, if that were thought wise, all manufactures of iron and steel, paper, cotton, wool, flax, and silk—a larger circle of industries than Mr. Clay ever contemplated. Speaking with the utmost candor, we believe that, taking the whole line of protected industries together, the impositions specified hinder the employment of ten American workmen where they make room for the employment of one. Taxes upon raw materials, in the worst sense, they constitute a heavy drag upon all the higher manufacturing interests of the nation ; and, so far as they are operative, serve to defer or defeat the intended benefits of protection.

There is a very plain reason why we should not enter upon the dispute between the advocates of a revenue tariff and the funds of incidental protection, in a paper on the disposition of the immediate surplus. This reason is, that the reduction of the present scale of duties on the larger and more highly protected industries must be a matter of time, to be accomplished by degrees, while it is almost certain that the first effect of such a movement would be to stimulate receipts and still further increase the disposable surplus. A reduction of taxes in this interest is hence plainly no part of our subject. But, without any reference to the ideas of free trade, the tariff should be cleared of the absurdities, puerilities, and contradictions which now encumber it, and at least be made rational, intelligible, and consistent. Such a reform would afford a judicious and a popular employment for a portion of the surplus, and would leave the subsequent financial policy of the country to be contested on large and statesmanlike considerations, without prejudice from a scheme of taxation manifestly extortionate and burdensome. Such a reduction of taxes would strengthen the Republican supremacy, while it would undoubtedly prove favorable in the end to an early payment of the public debt.

THE REPORT OF THE SPECIAL COMMISSIONER

Lippincott's Magazine, VOL. 5 (1870), PP. 223–30.

THE REPORT OF THE SPECIAL COMMISSIONER.

The law creating the office of Special Commissioner of the Revenue provides that that functionary

"shall, from time to time, report, through the Secretary of the Treasury, to Congress, either in the form of a bill or otherwise, such modifications of the rates of taxation or the method of collecting the revenues, and such other facts pertaining to the trade, industry, commerce, or taxation of the country, as he may find, by actual observation of the operation of the law, to be conducive to the public interest."

The duties thus imposed upon the Commissioner do not constitute him the finance minister of the nation; but if the Secretary of the Treasury, in a time like the present, forbears to make recommendations concerning our industry, trade, currency or taxation, we do not very well see how the Special Commissioner is to escape the duty—certainly not a very pleasant one, nor separable from much abuse and calumny—of setting forth the true condition of the country, and proposing whatever legislation may appear to him necessary. It is hardly a question whether he will or not, but whether he can, hold his peace. Be it the right man or the wrong man, some one must be finance minister this year; and if the task is declined until the office of Special Commissioner is reached, the responsibility devolves with full weight upon him. Somebody must say something in times like these. The work cannot be done by clever pamphleteers, popular magazinists, or Washington correspondents of metropolitan journals. There must be some official, high or low, who shall tell the wants of the people and indicate the demands of the situation.

Mr. Wells has come to his present position by natural and easy steps. Three and two years ago he was simply a revenue expert engaged in making practical suggestions as to the precise rates of duty calculated to yield the largest absolute receipts, the relative efficiency of the stamp and the package system, and questions of a similar nature. Last year, the knowledge which he had been long accumulating upon the condition of the country, and the working of the existing scheme of taxation, fairly broke him down, made him a confessor in spite of himself, and constrained him to testify against policies and practices which a twelvemonth before he would not have presumed to have attacked, or even to criticise. This year, partly by the necessity of advance which urges on all reformers, partly by inspiration from the country, now thoroughly aroused, and partly because the discussion of currency and taxation has been practically declined by his superiors in office, the Special Commissioner of the Revenue, with a boldness which, in truth, has characterized none of his previous reports, assumes the position of finance minister of the republic. And such, in fact, he is. It matters little what the officer is called to whom the people look to indicate the financial and industrial policy of the country, and whose annual utterance—call it message or call it report—becomes the signal for a general engagement all along the line of opposing parties. Whoever, for want of a better, he may be, he is finance minister for the time; and a higher title or a seat in the cabinet would add little to his influence or his reputation.

But if the responsibilities and duties of such a position have come to Mr. Wells this year by something very like default, it is not too much to say that they have never been more ably and satisfactorily discharged. The report of the Special Commissioner, with some defects and perhaps a few extravagances, is certainly the most important state paper on the finances which has appeared since the inauguration of the present general scheme of currency and taxation. The evils that afflict the country are traced to their causes with an unerring hand, and the effectual remedies set forth with a directness and distinctness which hardly allow of improvement. Mr. Wells has shaken himself free alike from fears and from "soft regrets," and speaks with a courage and a conscious strength becoming the message he has to deliver and the vast constituency which he represents. Apparently, the Special Commissioner has ceased to be anxious to avoid giving offence. There is no touch of policy, from first to last, about the report; and it is well that its usefulness does not depend on its fitness to please the body to which it is addressed. But Mr. Wells knows perfectly that it is to the country he speaks, and that the battle is to be fought this winter, not upon the floor of Congress, but in the press and on the platform. He knows that he is making public opinion, which is hereafter not only to decide elections, but to control parties, and that he cannot afford to speak to so small an audience as the present Congress.

Undoubtedly the Special Commissioner is right—right as against the positive views of the Secretary's report and the complaisant acquiescence of the President's message—in declaring for a reduction of taxation; not incidentally or by implication, but as a distinct object, proper, just, and necessary in itself. It is not an unimportant point for officials aspiring to direct the policy of the country to differ about—whether the people really do or do not desire an abatement of taxes to the amount of fifty or eighty millions. Less differences on less important points have split cabinets, overturned administrations, and revolutionized governments. We do not anticipate any such formidable consequences in the present case. The difference will be adjusted in a much simpler way. Congress will ignore the Secretary's recommendation entirely, and proceed to reduce taxation just as if it had not been made. If any doubt as to the desire of the people for relief remained in the minds of our national legislators before their adjournment for the holidays, we have no idea that any considerable number of them have returned from their constituents to resume their congressional duties with the least question that a considerable abatement of taxes would be agreeable to the country, as well as conducive to their own re-election.

Just what does this proposition to postpone the question of taxation mean and amount to? Ever since the first of July the receipts of the treasury have been in excess of expenditures by the full sum of ten millions a month, or at the rate of one hundred and twenty millions a year; and this in the months of smallest revenue. The Special Commissioner estimates the surplus at one hundred and twenty-five millions; but the reasons he adduces for this would justify an estimate higher by fifteen or twenty-five millions. That is, the people are now paying into the treasury one hundred and twenty-five to one hundred and forty millions of dollars above the actual needs of the government. Whether this is well or not depends on the answer to the previous question—whether the industry of the country is in such a healthy and flourishing condition that it can bear so tremendous a contribution without suffering from it; and whether the consumers of the country, not themselves in turn engaged in direct production—the helpless and dependent classes, the salaried, retired, and pensioned classes—are so flush with money that they can without distress pay their share of this additional one hundred and twenty-five or one hundred and forty millions.

It must be upon this point that the observations of the Commissioner diverge from those made by the Secretary and the President in their summer travels. If industry and trade are indeed in a flourishing and fortunate condition; if the great manufactures—wool, cotton, iron, and paper—are full of business and "coining money"; if the minor trades, employing even larger numbers, are active and advancing; if the artisan and the factory-hand find it easy to get work and easy to live on ruling wages; if capitalists are receiving a handsome return for outlay and investment, and are therefore ready to undertake new enterprises which shall employ the constantly increasing forces of labor; if all these happy conditions unite in our present economical state, then a hundred or a hundred and fifty millions may possibly not be an excessive surplus for the national government at the present time. It is a mere question of proportion—of the relation between burden and strength—to be decided by officials charged with making financial recommendations according to their lights, and by officials charged with voting supplies and taxes upon their responsibility to their constituents.

The readers of *Lippincott* will never find a word in these columns in disparagement of any judicious effort to reduce the principle of the debt. We fully believe in the propriety of an early payment, and in the rightfulness and expediency of taxing the nation year by year according to its strength for that purpose. But while we urge such principles at all times, we do not hold ourselves concluded thereby to accept any measure of annual liquidation that may be proposed. It is a good thing for a laboring man to free himself from debt, but it is not a good thing for him to work so hard one day as to lay himself up for three days after. It is a good thing for a young farmer to clear the mortgage off his land, but it is not a good thing so to starve his land as to destroy any of its productive power. Those who believe that the United States can just as well as not pay one hundred and twenty-five millions this year and one hundred and fifty next, toward the liquidation of the debt, have their whole case to prove.

To our mind, the proposal to pass by the question of taxation this winter, thereby, in effect, continuing the present scale until the first of July, 1871, is both bad politics and bad finance. With the former consideration this is not the place to deal ; but that the Special Commissioner is right in asserting that the condition of our industry and the necessities of unprotected consumers are such as to require all the concessions which are consistent with meeting the current expenses of government, after discharging fifty millions of the war debt, we believe there are few persons in the United States, besides the Secretary of the Treasury, to deny. We cannot but regard it as unfortunate that this officer—for whom in his personal and public character we have great respect—should have committed the undoubted blunder of proposing to continue taxation at its present rates. It is unfortunate that he should have allowed himself to assume a position on which another officer of the government, with an amount of knowledge on such subjects far exceeding his own, could not but take issue with him—a controversy in which it was not even conceivable that he should be supported by a respectable minority in Congress or through the country.

This is not good government. It is anything but good government.

It is not our purpose to follow Mr. Wells in his inquiries into the subject of customs reform. The results at which he arrives with respect to any particular impost may or may not be correct. It is a good thing to have such inquiries made. The contumely with which the Special Commissioner has been treated whenever he has ventured upon the discussion of these and similar questions is the strongest proof that could be given of the necessity of such an office and such an officer. Personal abuse like this generally shows the existence of public abuses. And if a gentleman rarely gifted for such inquiries, and bringing to them a degree of authority such as belongs to no other citizen, can hardly sustain himself against the assaults of highly organized and aggressive interests, what, we ask, is the probability of the average politician having either the disinterestedness or the courage to encounter such hostility? If it be treason to inquire into the elements of the cost of making salt or pig iron, in order to ascertain whether the taxes now laid upon the consumers of these articles in favor of the producers are or are not excessive, then it is quite time for a revolution in the state which shall transfer our allegiance from the capitalist class to the people. Such investigations can hurt no honest interest. It has, we believe, never been complained that Mr. Wells' inquiries were wanting in acuteness or technical knowledge; and, with half the members of the Ways and Means Committee personally interested in the industries affected, his recommendations, if unwarranted by his facts, will hardly be adopted.

But wholly apart from the main question of protection lies the subject of reforming the customs, with a view to making the present tariff consistent and rational, and relieving trade from vexatious imposts and restrictions for which no sufficient reason in any interest can be assigned. This is by far the weakest point in the Presidential message. The recommendation that the tariff be allowed to stand over for another year without modification was perhaps the only recommendation on the subject which could not possibly be adopted—which could suit no party or section, and could find support from no point of view. The recommendation is as little likely to do harm as good, except as it is unfortunate that the President should have injured the effect of a generally well-considered and judicious message by such a hopeless and useless suggestion.

The only thing that has saved the tariff, for some time past, from extensive modification, with the full approbation of all parties to the question of protection, has been the reluctance of the advocates of high duties to have the subject opened at all. This is now accepted as inevitable. The extreme protectionists find themselves in the condition of the later emperors, and feel the necessity of withdrawing from the remoter provinces and concentrating their forces for the defence of the capital. They are, therefore, quite willing to take the initiative of movement and anticipate their expulsion from territory which for their own good they ought never to have occupied. Hence it is that we find the proposition for customs reform originating with the Ways and Means Committee, and hence the singular inconsequence of the recommendation to postpone legislation. As it is certain that it will not be acted on, and as it does not profess to contain any principle, it had better not have been made.

One word on this subject of Mr. Wells' tariff views. Neither his friends nor his enemies appear to appreciate the full significance of his position. The "American system," even in the eyes of its strongest supporters, has no validity except as affording necessary protection to new and feeble industries against the better established and more highly endowed manufactures of the Old World. It is a defensive system purely, and has no meaning in any other point of view. Mr. Wells is not, and never has been, a free-trader, since free-traders deny the rightfulness or expediency of protection, even as a condition of establishing manufactures or supporting them against foreign competition; whereas the whole record of the Special Commissioner shows that he acquiesces fully in the propriety of retaining any impost that is necessary to maintain an important industry in being. The explanation, then, of his present position is, that from a study of the manufactures of the Old and the New World, such as no other living man has made, he is fully persuaded, and would persuade the American people, that we are *past* the stage of general protection; that, instead of being at a disadvantage in competition with Europe, we have opportunities and endowments which give us a clear superiority; and that therefore it is the greatest possible mistake for us to remain behind our barriers, instead of pushing forward to conquer and rule in the markets of the world. Upon this question of fact none of those who have vilified the Special Commissioner have shown any disposition to join issue with him.

The whole effort of our protective legislation has been to diminish our imports; the object Mr. Wells would have us seek is to increase our exports; and as the one plan is mere negation, implies our permanent national inferiority and operates solely by obstructing or destroying commerce, the great agent of civilization and peace, we say without hesitation that the other plan is the hopeful, the self-respectful one; that it is certain to be the plan of the future; and that any man not talking idly or ignorantly, who argues its present feasibility and urges its immediate or gradual adoption, is entitled to a candid and a grateful hearing; and the attempt to put him down by personal slander or political proscription is cruel and cowardly—cruel, that is, if he cares anything about it: cowardly, anyhow.

If it be true that we are persisting in a defensive policy, although our magnificent natural advantages and our industrial genius as a people amply qualify us to encounter the best nations of the Old World in the struggle for commercial and maritime supremacy, then we certainly are stultifying ourselves by remaining within our works and declining the stern but salutary competitions of trade. And if there is any reasonable probability that such a state of things exists, or is likely soon to occur, then the fullest discussion of our industrial condition is wholesome and proper; and the imputations of unworthy motives must not lie against those who court such investigations, but against those who seek to avoid them.

Upon the far more important question of the currency, we are heartily glad that Mr. Wells has the comprehension and the courage to pronounce for "contraction pure and simple, without artifice or indirection." Is it not, after all, rather humiliating to reflect that for two years the friends of sound currency, instead of advocating their principles, have been devising expedients which should disguise the single salutary measure of relief, and bring the country back to specie payments "without knowing it"? Unquestionably their intentions in this have been for the best, but it is not a part which it is agreeable to dwell upon; and those have most reason for selfish congratulation who have kept themselves most scrupulously out of it. And now that these schemes have met the fate of all compromises and artifices, the better sense of the country is returning to the original plan of contraction, deliberate and direct.

There is but one way back to health and soundness. Expansion has unsettled all industrial relations, demoralized labor, exaggerated prices, engendered the most ruinous and far-reaching speculations, given the domestic money market completely into the power of greedy and insolent combinations, and cut our export trade up by the roots. Nothing but contraction, with all the proper incidents and effects of contraction, will enable us to enter again with success into the competitions of general commerce, put a final stop to the "locking-up" game, reduce speculation to insignificance by removing the element of gambling from honest trade, restore prices to an international standard, and return the country again to hard work and equable protection. There is something pitiful, at the best, in the idea of trying to hoodwink a great nation and bring it around by a circuitous path. But we might submit to the indignity were it not certain that all such indirection and artifice must be futile, and that the very first effects of contraction thus produced would be resisted with a blind terror, in which the natural fear of contraction would be increased to panic by the feeling that the degree and direction of the forces operating could neither be anticipated nor measured.

The Special Commissioner has no such concessions to make to supposed expediency. After the clearest exposition we remember to have seen of the nature and uses of money, the effects of credit currency in perverting and corrupting the body industrial and commercial, he declares that

> "Contraction, direct and undisguised, is the one necessity of the situation; the only remedy for existing evils, so far as the currency has relation to them; and that the nation cannot emerge from its embarrassments and difficulties until the makers and administrators of the law have the honesty and courage to take it up and carry it forward to the end."

At the point thus reached is the true place for all the advocates of sound currency to stand. They are stronger here than they can be in any other position; and by something like a great moral law the country is nearer to them here than when they go out of their way to meet the country. Whenever the fulness of time shall really come, the nation will find it just as easy to accept contraction without evasion or disguise; and meanwhile the economist or the statesman will better command the respect of those who differ from him, and better command his own respect, by standing firmly on the true principles of finance and awaiting the ripened convictions of the people.

The estimates which Mr. Wells makes in regard to the present amount and annual rate of increase of the national wealth are especially interesting and timely. It will be two or three years before the census will give the results of a new enumeration; and meanwhile it is of prime importance that some reliable and authoritative statement should be substituted for vague conjecture and foolish declamation about the industrial greatness of our country. It forms a curious commentary on the condition of financial and economical science in the United States that the Secretary of the Treasury should set the wealth of the nation as high as fifty thousand millions, while another officer, specially charged with investigating the capability of the country for taxation and production, should reach a total so low as twenty-three and a half thousand millions.

That Mr. Wells takes a rate of annual increase (eight per cent) which is sufficiently high, we have no doubt. It is another question whether he has not somewhat exaggerated the expense and the effects of the war. All the sums paid out by government certainly did not represent waste or destruction. What was paid to officers and soldiers of the army and navy did not go out of the country: contractors made enormous fortunes out of the government, but the United States, as a whole, was neither richer nor poorer for the profits of a class. Again, the interest charge of the debt is not properly to be included in the cost of the war.

In this portion of his estimate we deem Mr. Wells' calculations at fault. If we suppose fifteen hundred millions of dollars to be added on all these accounts to the present national wealth, the total will still be but twenty-five thousand millions of dollars, against a popular and even an official estimate of fifty thousand millions of dollars. A remarkable discrepancy! But the conclusions of the Commissioner are strongly founded, and, at least as against the loose conjectures to which they are at present opposed, must be accepted as authoritative and correct. They cannot well be discredited until some one equally qualified by study and observation to pronounce a judgment shall present a statement in detail of the items of the national wealth. The idea that after all the tangible elements have been calculated and included there still remains to be added some vast and undefined amount, all because we are "a great and growing people," or that the American eagle by himself is worth fifteen or twenty thousand millions of dollars, must be utterly discarded. Our national wealth is just the sum of our individual properties, reduced by the amount of the big mortgage laid upon them by the rebellion. The gold and silver, the houses and lands, the railroads and shops, which we hold as the net results of our labor as a people, are worth just as much as the shops, railroads, lands, houses, silver and gold of the unhappy subjects of absolute or limited monarchies, and no more. The notion that there is anything in our character or destiny as a nation which puts us out of the categories of the logical understanding, and enables us to transcend the ordinary conditions of industrial growth and progress, will do for the Jefferson Bricks and Elijah Pograms of the stump, the press, and Congress; but this country is now quite old enough to have economists and politicians who are capable of better things.

In fact, to any one who soberly considers, there appears something essentially shallow about the more popular estimates of the national wealth. Nothing, for instance, more impresses the imagination and influences the mind in this direction than the surprising advance in wealth over sections which are opened to civilization and settlement by the extension of our railroad system in the new States and Territories. We see land which had absolutely no market price a year ago suddenly becoming worth from five to fifteen dollars an acre; and we suffer a sort of illusion that somewhat the same rate of increase is obtaining through all the property of the country. Whereas, the fact is, this advance takes place there once for all. The worth of the land for wheat-raising purposes is realized almost as soon as the rails are laid; and whatever enhanced value it may subsequently acquire is due chiefly to accidents of location—small portions bearing a high price because population and trade are determined to their neighborhood—the great part, however, remaining absolutely stationary.

This rapid increase of values upon the border of settlement and along the lines of railway is not unlike the phenomenon which was exhibited so strikingly in the progress of the Pacific Railroad across the continent. Wherever the western terminus of that road was temporarily fixed there would spring up a city almost in a night, a population of thousands would gather, and speculation in corner lots became almost as interesting as in Chicago. Another fortnight would find another city built fifty miles farther on the path to the Pacific—another busy human hive swarming with life and industry. And so the whole route of that wonderful advance was marked by new cities, each certain to be "a great railroad centre," and guaranteed to possess all the elements of metropolitan grandeur. Yet the traveller returning along that line finds many of these places already deserted, and the sites of some hardly more distinctly marked than the former camping-grounds of a great army. In reality, all these cities were but one city; their populations, reputable and disreputable, were the same; and all were but passing phases of a great industrial enterprise. Very much of this kind is the Aladdin-like growth in wealth which characterizes each new section brought within the scope of settlement and civilization through the opening of railroads by the application of Eastern capital.

And in the older sections of the country the same compensations are observable. Our cities are increasing rapidly, but the hill towns of New England and the Middle States are absolutely declining in population; and thousands of farms that for one and two hundred years have been cultivated by native American labor—nay, the very farms from which were sent forth the men by whom the Great West is built up—are passing rapidly into the hands of the Irish, the Canadian French, and the least intelligent and capable of the German population. Even among the cities themselves the same changes are taking place: some are growing rapidly, others are declining either absolutely or relatively. Salem, New Bedford, and Charleston are just as much facts in the national situation as New York or Chicago.

In the name of Common Sense—that divinity so rarely invoked in controversies of this kind—why should our growth transcend all human limitations and conditions? Is it from the superior quality of our labor? Well, our labor is superior in quality to that of other nations; and we only wish that some people we know of realized that fact, and would trust the American workman a little more. But this advantage is only measurable; the superiority is one of percentage merely. Is it the greater abundance of capital, of tools and machinery? The very reverse is incontestably true. Our labor is hindered and embarrassed at every point by necessities for which our realized wealth does not afford a supply. Is it our national habits of frugality and economy? Notoriously we suffer greatly in such a comparison with any other people. The American, whether as producer or consumer, is the most wasteful being on the face of the earth. Hence, to assume for our industry a growth out of all proportion to that of the most highly organized and best-equipped societies of the Old World is something that would be preposterous even if the testimony of our senses and the consent of all statistical evidence did not directly establish the contrary.

The propriety of such investigations and inquiries as the Special Commissioner is charged to make does not depend on the merits or qualifications of any particular man. Mr. Wells is not a necessity of the office. If he is not the proper man for the place, let another selection be made. But it is to be hoped that the valuable results already attained will move Congress to establish the Revenue Commission as a permanent agency of the general government.

INCIDENCE OF TAXATION

Letter in *The Nation*, June 11, 1874, vol. 18, pp. 378–79.

This letter is in criticism of some statements made in a paper read by Mr. David A. Wells before the Social Science Association. The letter in *The Nation* is signed "G. F." Mr. Walker in his scrap-book makes the following note: "I can give no explanation regarding this signature. The article certainly is mine word for word."

MR. D. A. WELLS AND THE INCIDENCE OF TAXATION.

MR. WELLS' paper, read before the Social Science Association, is calculated to secure general attention as a strong and in the main a fair statement of the deficiencies and incongruities of the existing scheme of State and municipal taxation. These faults are so evident, and, when applied to a body of taxes which collect upwards of three hundred millions annually, produce such undeniable injustice between citizens, and work such extensive injury to trade, that some of the commercial and manufacturing States may yet be driven, in a choice between evils, to the adoption of Mr. Wells' plan, which would confine taxation to "tangible property and fixed signs of property." Meanwhile, the investigation into the defects of the present system cannot fail to be of use, either in the amendment of that system or the substitution of a better. But when Mr. Wells seeks to give to his plan of a State and municipal revenue, to be derived through the taxation of a limited portion of the property of the State and of the city, a scientific basis, by assuming as axiomatic the diffusion of taxes proportionately and equitably throughout the community, by the natural course of exchange, we think he seriously misrepresents the tendency of modern economical thought.

The doctrine is not a new one. In his speech on the resolution asserting the right to tax America with which the Ministry in 1766 sought to cover its retreat from the stamp tax, Lord Mansfield asserted the entire indifference of the place of imposition.

"I hold it to be true," he said, "that a tax laid in any place is like a pebble falling into and making a circle in a lake, till one circle produces and gives motion to another, and the whole circumference is agitated from the centre."

This image of Lord Mansfield, though quite otherwise meant, is perhaps the most perfect which could be adduced against the theory of the uniform diffusion of taxation. The whole circumference may, it is true, be agitated from the centre, but the violence of that agitation will diminish at every successive point from centre to circumference. Even were the water of the lake "mathematical water," a perfect fluid, with absolute mobility and elasticity, it would still be true that in the natural course of radiation the impulse received by every drop would be inversely as the square of its distance from the centre. But inasmuch as no chemist has yet been able to obtain by filtration or distillation so much as a pint of mathematical water for the pettiest laboratory experiment, it happens that when an actual pebble is dropped into an actual lake the impulse is lost even more rapidly than is implied in the mathematical law of radiation.

The only tenable position respecting the incidence of taxation is that stated by Thorold Rogers, viz. :

"that taxes tend to remain upon the person who immediately pays them; or, in other words, that it requires an effort, which is made with varying degrees of ease or difficulty, to shift a tax, which is paid by the first payer, to the shoulders of another." (*Cobden and Public Opinion*, pp. 83, 84.)

In the statement that an effort is made is implied the fact of resistance; and resistance is indeed everywhere opposed to the propagation of the impulse of taxation. That resistance may be powerful, intelligent, tenacious, or it may be weak, ignorant, spasmodic. Hence the "varying degrees of ease or difficulty" of which Professor Rogers speaks. In other words, while every man who is taxed makes an effort to throw the whole or a part of the burden upon another, that other makes an effort—it may be more decided; it may be less decided; it may be from a position of advantage; it may be from one of disadvantage—to prevent him from doing so. The result will depend on the relative strength of the two parties; and as the two parties to this contest are never the same in the case of two taxes, or two forms of the same tax, it must make a difference upon what subjects duties are laid, what is the severity of the imposition, and at what stages of production or of exchange the tax is collected.

Nor is the range from the highest effect to the lowest inconsiderable. It often happens that one class of producers or exchangers, having a position of economical advantage, will not only repay themselves out of the general community for the whole amount of special taxation to which they are subject, but will also revenge themselves for the annoyance, in the shape of delay or inquisition, by heavy additional charges upon consumers. It is not often that such a class can indemnify itself so liberally as did the horse-railroad companies during the war ; but, in a degree, this overcharge of taxation upon the general community is sure to occur wherever the class directly taxed is in a position of economic superiority.

As a recent illustration, we extract the following paragraph from a letter of the Paris correspondent of the London *Economist,* having reference to the effect on retail prices of the late augmentation in the excise duties :

> "For one and a half centimes per litre on wine, the rise has been a sou or five centimes; for five centimes per litre on brandy, cafés charge an additional sou per glass, equal to two francs per litre; for a centime and a half per pound of sugar, five centimes additional are charged; while for coffee the three centimes per pound become twenty, or a sou per quarter for the working classes, who purchase in small quantities."

The writer remarks : "Prices will no doubt eventually recover their balance." This may prove so ; it may prove otherwise. So long ago as the issue of the first edition of his *Political Economy,* Mr. Mill wrote :

> "I believe it will often be found in Continental Europe that prices and charges of some or of all sorts are much higher in some places than in others not far distant, without its being possible to assign any other cause than that it has always been so."

Since this was written, Professor Cairnes, Mr. Ollerenshaw, Professor Rogers, Sir Bartle Frere and others have drawn attention to similar phenomena on a large scale and extending over large periods, in early England, in India, and in Australia. The power of custom in regulating prices, wages, and rents is only second to that of competition, while in some countries custom dominates almost unchecked, the effects of competition being reduced to a minimum. Ireland is perhaps the only country in the world where competition alone has determined rents. Professor Rogers, an ardent advocate of land reform, admits that custom and public opinion have left rents in England below the point to which competition unhindered would have carried them. In Italy, local usage respecting land has proved for many a generation more imperative than the accepted "laws of trade," while in India competition, as an element in the problem of rents, may be said to disappear entirely.

It is undoubtedly true that freedom of movement and of contract, absence of an hereditary pauper class, and the ever-open resort to agriculture, go far to constitute our own people an exceptionally good medium for the transmission of economical force; but even were human nature to be perfected within finite conditions, it would still remain true that taxation would fail to diffuse itself with absolute equity through the community; while in the highest social and industrial state yet attained by men, the inequalities of taxation, on any other scheme than that of levying upon the whole of each man's income, or the whole of each man's accumulated wealth, must remain serious and oftentimes oppressive.

We cannot regard Mr. Wells as fortunate in his illustrations of the diffusion theory:

> "If taxes," he says, "are assessed primarily upon Mr. Astor, he adds them to his rents; if upon Mr. Stewart, he adds them to his goods; if upon Mr. Vanderbilt, he adds them to the price of his capital, whether sold on the street or invested in railroads."

As Mr. Wells proposes that Mr. Stewart shall not be taxed upon his stock of goods, or Mr. Vanderbilt upon his stock of money, we will only consider the case of the landlord.

Taxation being confined to "tangible property and fixed signs of property," an owner of real estate in the city of New

York would necessarily be charged more heavily than under the present mixed system. The first question naturally arising is that which Mr. Wells answers with confidence in the affirmative: Will the proprietor reimburse himself for his excessive contributions to the public revenue through increased rents charged to his tenants? The second question, which Mr. Wells does not fairly meet, is quite as important, viz.: Will this reimbursement be accomplished equitably, as between the several individuals or classes found among the tenants?

As to the first point, inasmuch as a proprietor of real estate in a crowded and rapidly growing city is in a position of marked economical advantage, the quantity of land being absolutely limited, while the demand for land necessarily increases in some ratio to the increase of population, we agree with Mr. Wells that the landlord in question will reimburse himself for the additional burden laid upon him; indeed, we are disposed to believe that he may more than make himself good, charging a profit, as importers are supposed to do alike on the cost of their goods and on the duty paid. In the latter case the equity of taxation is quite as seriously impaired as if the landlord were, in a degree corresponding, unable to recover his advances to the government.

But it is in respect to the second point that the theory of Mr. Wells must undergo its real trial. The proprietor of real estate standing in a certain position of advantage or disadvantage towards his tenants, do they occupy towards him a position of economic advantage which can be taken as equal among themselves individually or in classes? Can we assume them to be alike in the ability to seek the best market, to move family and property to the most favorable location, to secure the benefits of credit for a temporary provision? The landlord will of course seek to throw his burden upon his tenants; are they equally well situated and qualified for defending themselves against an unjust imposition? To ask these questions is to answer them. Families of means who are disposed to resent the raising of their rents can move over to New Jersey or Long Island; they can go up into Westchester or Connecticut. But the laborer with a large family, small means, and no credit, bound moreover to infallible punctuality in attendance at his work at an early hour every morning, may be utterly unable to remove. He must take the terms offered him, and will in consequence pay a higher rent and live thereafter a little more meanly in all other respects. The proprietor thus, if he finds it impossible to reimburse himself out of the better class of his tenants who can run away, will make himself good at the expense of those who cannot run away. To deny this is to deny that the effort of the first payer of taxes to shift his burden may be made with "varying degrees of ease or difficulty," and that the intended subjects of the impositions may be found to possess varying degrees of economic strength and advantage for resistance.

We have said that some of the commercial and manufacturing States may yet be brought to adopt the plan of taxing tangible property only, but it will be in a choice between evils, and not because such a system promises to secure substantial, much less theoretical, equity of taxation. In assuming a uniform diffusion of taxes through the natural course of exchange, Mr. Wells has misapprehended the tendency of modern economic thought on this subject as well as overlooked facts of common observation.

THE BASES OF TAXATION

Political Science Quarterly, VOL. 3 (1888), PP. 1–16.

THE BASES OF TAXATION.

In his article on the "Taxation of Labor," in the *Political Science Quarterly* for September, 1886, Dr. Spahr opened his discussion with the declaration that "the system of taxation which the great mass of Americans instinctively accept is this : The equal taxation of all property, the non-taxation of labor."

I do not cite this assertion with a view to confuting it. Whether the acceptance, by Americans generally, of such a principle be instinctive or be merely traditional ; whether it be due to a natural feeling of equity, or to a deliberate working out of the question in the national mind, or to mere lack of thinking on the subject, or to defects or vices of political education, or to a conscious purpose of spoliation, or wholly to the force of inherited usage, it is unquestionably true that the American of the period immediately preceding the civil war did look upon wealth as the proper subject for the imposition of taxes to the full extent, or nearly so, of the needs of government. Dr. Spahr issues from his discussion of the equities of contribution with the conclusion that this view of taxation is the only right and proper one. The tendency which he notes as proceeding rapidly, during the last twenty-six or twenty-seven years, toward the imposition of considerable and still-increasing taxes upon the wages of labor (through imposts upon articles of common consumption), he views as the result of political degeneration, or as the effect of the selfish encroachments of capital. It will be my object in this paper, first, to examine into the justice of what Dr. Spahr calls the American—or, as he elsewhere terms it, the democratic—principle of taxation ; and then to consider the possible bases of taxation, from the point of view of political equity.

Perhaps it will be as well to open the subject at once, without circumlocution, by the peremptory assertion, first, that to lay the entire burdens of government upon property is a policy so inequitable as to become flagrantly iniquitous; and secondly, that the imposition of any tax at all upon property is subject to the gravest impeachment on the ground of right, and is only to be justified, if at all, in a closely limited degree and by virtue of a single consideration, which will be adduced in the further course of this discussion.

But, first, let it be said that this is not a question between the rich and the poor. It would make no difference with the equities of the case if it were. In fact, however, the issue between taxing property and taxing labor is no more an issue between the rich man and the poor man, than between one poor man and another. I have before me, as I write, the valuation and tax list of a representative New England township, containing, perhaps, twenty square miles; covered with farms whose soil is generally poor, whose surface is generally irregular and largely rocky; having a flourishing manufacturing village at the centre. From this list I select a typical example. C. B. R. is taxed upon 4 horses, 5 cows, one two-year old, 3 yearlings, 3 swine, a house, a barn, a shop, and 72 acres of land. The total assessment is $2,280; and upon this, C. B. R. is taxed to the amount including his poll-tax, of $25.94. With such a farm, so stocked, C. B. R. is an exceptionally fortunate New England farmer if the total proceeds of his land, labor, and capital, fairly and fully estimated, reach $800 a year. Yet all around him, on the tax list, above and below, are the names of manufacturing operatives and mechanics, the least skilled of whom earns two dollars a day, while others receive as much as two and a half and even three dollars, but who, because they have never let their earnings take the form of savings, are only assessed for a poll-tax of $2.00 each. Even this small contribution to the support of government is not exacted from the mere laborer in most of the American States.

Pursuing this subject, I have analyzed the first 480 names on this tax list, comprising all the names from A to D inclusive. I find that (*a*) 266 pay only a poll-tax; (*b*) 122 are taxed in an amount, including their polls, of less than twenty dollars each ; (*c*) 65 are taxed in an amount between $20 and $50 ; (*d*) 22 pay taxes between $50 and $100 ; (*e*) 4 pay taxes between $100 and $150 ; (*f*) one, a successful manufacturer, pays a very large property tax. Now of these 480 persons, only 5 can be called, in any sense, rich; only 27 can be considered well-off or well-to-do. The 187 persons comprising classes *b* and *c* are poor—as poor, doubtless, on the average, as the 266 forming class *a*. The 122 persons comprising class *b* are on the average distinctly poorer, in the sense of having less freedom of expenditure than those of the first class ; yet they are taxed in amounts two, four, six, eight, or ten times as large as the petty poll-tax assessed on the members of that class, and not even then collected save as a condition of voting at elections.

Such facts as those given above are not exceptional. Wherever the principle of a property tax prevails, persons will be found, in great numbers, paying taxes greater, perhaps several times greater, than others whose ability to contribute to the public support is superior to their own. I think I am justified, by such an exhibit, in repeating the assertion that the question of taxes on property or taxes on labor is not an issue between the rich man and the poor man.

The fatal fault in a property tax, that which must cause it to be condemned both ethically and economically, is that it constitutes a penalty upon saving. Whether we assume that revenue as such, the income of the wealthy and well-to-do and the earnings of labor, have first been taxed, or have been allowed to pass free of toll, taxes on property are alike inequitable. If revenue, as such, be taxed, a portion of revenue is by a property tax twice excised : once as earned and again as saved. If revenue, as such, be not taxed, the injustice becomes far greater, since all the burdens of society are laid upon that portion of revenue which is reserved for future use, for provision against old age, for the education of children, for the building up of homes, for the increase of the agencies and instrumentalities available to promote the future production of wealth. If a man's income belongs to him to spend, it belongs to him to save ; and, on the ground of equity, the state cannot lay its hands upon that which represents the double virtue of industry and frugality, while sparing that which represents the single virtue of industry. Economically considered, there cannot be a moment's question that the policy of laying the burdens of the state upon that portion of the product of industry which has escaped the maw of appetite, which is presumably reserved for useful employment, which is, in a sense, consecrated by worthy social ambitions, and which represents the courage, prudence, and faith requisite to subordinate the present to the future, is thoroughly vicious.

Is any qualification required of the condemnation pronounced upon property taxes, from the point of view of political equity? I answer, there is one consideration, already hinted at, which may be regarded as justifying the imposition of some, not large, part of the burden of supporting government upon the possessors of realized wealth, as such. This is found in the decided probability that some part of the wealth of the rich and some part of the poverty of the poor are due to the state's own negligence or wrong-doing, to its sins of omission or of commission. One cannot doubt that the line between those who have and those who have not, between those who have much and those who have little, is somewhat differently drawn from what it would be but for the laches or the positive acts of government. Government springs from injustice and must, in the nature of the case, perpetrate more or less of injustice. By the unwisdom of its laws, by the incompetence of its executive officers, or through decisions which sacrifice the individual to the supposed general good, some men are made richer and some poorer. It is of the very essence of tariffs, embargoes, and wars to enrich the holders of certain kinds of property and correspondingly impoverish others. Delays and failures of criminal justice, the wrongful decisions of judges and juries, the incapacity of police and fire departments, the bungling over fraudulent bankruptcies—all these have to do with placing men higher or lower upon the scale of wealth.

Now, so far as the state's own acts have such an effect on the distribution of the product of industry and upon the security of savings, it seems to me not unreasonable that government should take this fact into account in assessing its subjects for compulsory contribution to the treasury. If this view be correct, some part of the taxes of the state may, not-inequitably, be levied upon the holders of property, as such. Among the holders of property it will, of course, be impossible to discriminate between those who have received such unearned gains and those who have not; and yet it may be more equitable that the property owners of the community, as a body, should make some contribution to the public funds than that they should not. The range of this consideration, is, however, not very wide, in comparison with the entire field to be covered by taxation. The main reason why one man has and another has not, is still to be found in the energy, prudence, frugality, and temperance of some individuals and the absence of these qualities in others; and so long as this effect is due to such causes, the state cannot, without flagrant wrong, without usurping functions which belong to no human government, make the possession of property the sole or even the chief ground of assessment and compulsory contribution.

In this view of the subject, how can we explain the fact, which Dr. Spahr correctly states, of the almost universal acceptance, by the people of early America, of the policy of the taxation of property? I am disposed to believe that the reason is found in the character and social conditions of our ancestors, by which it came about that accumulated wealth, in those times, bore to revenue or income,* in no slight degree, the relation of effect to cause. If I correctly understand Dr. Spahr, he holds that this relationship is universal, declaring that the "property tax is the only just income tax." However that may be, it certainly came very near to being true in early New England and early America. So stalwart was the virtue of those times, so common and so strong was the instinct for acquiring property, so large was the return upon capital, and so great was the social importance attached to its possession, that it may almost be said that, barring the

* After the deduction of the cost of bare subsistence, as hereinafter explained.

effects of intemperance (a failing regarding which the best of our ancestors had too much reason to be tolerant), every able-bodied man, in those days, was willing to work hard that he might earn, and to live frugally, perhaps even painfully, that he might save. Not only was this so in the case of almost every man working for himself, on his own farm or in his own shop, but it was not less distinctly so in the case of hired laborers. A young man who, "going out to work," even at the very small wages which industrial conditions then allowed to be paid, did not save a considerable proportion of his aggregate wages, against the time when he should marry and undertake the responsibilities of a family, would have been considered, in those times, a very unpromising subject; people would have had their own opinion of him, which would have been that he was not far from a black sheep. In a state of society where frugality thus went hand in hand with industry, and where individual ambition concurred with public sentiment in promoting the accumulation of property on the part of the entire mass of the people, wealth became no bad measure of producing capacity. In such a state of things, indeed, a property tax might have one advantage over a revenue tax, in the matter of political equity; namely, it would afford opportunity for deductions, on account of an unusually large number of children, or protracted illness in the family, or exceptional hard fortune on the part of individuals, for which it is difficult, if not impossible, to make allowance in a proper revenue or income tax.

The simplest statement of the foregoing conditions shows how utterly unfit is a property tax, nowadays, to secure the result of excising incomes, or earnings, with any approach towards justice. In the New England and America of to-day, frugality is not the rule, but the exception. Scarcely one family in two saves to any amount worth speaking of; not one family in five saves as much as it might, or even as much as is plainly required by a reasonable regard for the interests of the family; while in the case of unmarried young men saving has very largely gone out of fashion. In a town where many a common laborer is supporting a family on a dollar or a dollar and a quarter a day, many a skilled mechanic, earning two dollars or two dollars and a half, is not three months ahead in the world, if, indeed, failure of employment for a month would not require him to seek credit from the butcher or charity from his fellow workmen. I do not write in ignorance of the statistics of the savings-banks of our country, having frequently had occasion to analyze them. I am well aware of the large amount of saving which actually takes place; yet, in comparison with the ability to save, that amount falls far, very far, short of what was the rule thirty, fifty, and seventy years ago. There is not the same interest in saving on the part of the majority of producers; there is almost infinitely less of a sense of duty regarding saving; there is, practically, no public sentiment whatever operating to induce or enforce saving. Men receiving wages, such as were not dreamed of by their fathers, are content to live in hired houses all their lives, spending a week's wages every week or, at the most, extremely well satisfied with a small savings-bank deposit.

In such a state of things, a property tax ceases to be "the only just income tax"; it fails to be even a tolerably just income tax. To excise realized wealth alone, in such a community, is not merely to encourage extravagance and to discourage frugality; it is a policy fraught with the grossest injustice between man and man. As I said before, if a man's income belongs to him to spend, it equally belongs to him to save. Indeed, one might say not equally but doubly, since saving is itself an act of good citizenship, universally so recognized except only in our tax laws.

If, then, as Dr. Spahr notes with disapprobation, there has been a marked and increasing tendency during the last thirty years, not perhaps to tax property less, but to tax expenditure more, that movement is in the direction of political justice. As before remarked, the question of a property tax does not raise an issue wholly between the rich man and the poor man. That issue is equally between one poor man and another. So long as one set of laborers earn twice and even three times as much as the least skilled or capable or fortunate of their own class, and so long as the highest social and industrial interests are involved in the promotion of general frugality among the working people, a property tax, as the sole means of raising the revenue of the state, would be economically injurious and politically unjust.

Dr. Spahr rightly treats the great majority of existing (national) taxes on expenditure, reaching, as they do, articles of ordinary consumption, as a veiled or disguised tax on the wages of labor. Speaking generally,* however, these taxes do not, in the United States, reach that portion of wages which represents the bare subsistence of the laborer, since, in spite of nominal import duties on the corresponding foreign products, bread, meat, and vegetables are, with us, not excised. That the righteous demand of the state for a contribution out of that portion of the wages of labor which is in excess of bare subsistence† should have to be veiled or disguised, by reason of the political cowardice of the age, is properly the subject of deep regret; but the theme is too familiar to justify taking space for it here. Nor is the matter of practical importance, at the present time. Lament, as we will, the lack of political courage on the part of legislators and executives, and the lack of political virtue in the constituencies, which have caused nearly all popular governments to abandon the attempt to levy taxes on the wages of labor, every one must recognize the uselessness of talking about the matter with any view to immediate effect. Whatever we may think worth while to say about it, must be regarded either as a protest, by which we reserve our right to deal with the subject in a better time, or as seed sown for a distant, probably a very distant, harvest: not as when one plants a vine, seeking from it fruit before the next frost, but as when he plants an acorn, in the expectation of an oak. For one, I do not deem it unreasonable to look forward to the time when, through the

* Our duties on salt, on coal, on cloth, and on materials entering into the construction of houses, are subject to impeachment as taxes upon the absolute necessaries of life.

† Mr. David A. Wells, indeed, denounces any degree of exemption from taxation as, in a degree, confiscation. In this, however, Mr. Wells is clearly in error. Economically speaking, it is not possible for the treasury to derive revenue from a laborer who earns only the cost of bare subsistence. If the state takes anything from such a man as a taxpayer, it must, with the other hand, return it to him as a pauper.

thorough instruction of our children in civics, ethics, and economics, and through the long-continued enjoyment of political franchises, governments shall be found, immediately subject to popular control, which shall yet be able to collect by direct assessment and exaction that tenth or that fifth part of the laborer's wages which is now conveyed away from him by disguised imposts upon the decencies, comforts, and luxuries of life.

We have now reached a point in our discussion where we are called upon to deal with a very pretentious and not unplausible theory of taxation, which, though far from new, being, indeed, one of the oldest in economic literature, has come largely into vogue during the present generation—the theory, namely, which regards taxes on expenditure, not as a device, legitimate, perhaps, under the circumstances, for reaching revenues which the state lacks the courage or the skill to touch directly, but as the sole, proper, and equitable form of public contribution. Sir William Petty wrote, two hundred years ago:

> "It is generally allowed by all that men should contribute to the public charge but according to the share and interest they have in the public peace, that is, according to their estates or riches. Now, there are two sorts of riches, one actual, and the other potential. A man is actually and truly rich according to what he eateth, drinketh, weareth, or any other way actually enjoyeth. Others are but potentially or imaginatively rich, who, though they have power overmuch, make little use of it, these being rather stewards and exchangers for the other sort, than owners for themselves. Concluding, therefore, that every man ought to contribute according to what he taketh to himself and actually enjoyeth, the first thing to be done."

The same view of public contribution was a favorite one with Arthur Young a century later. In writing of Holland and Zealand, he says:

> "Nor do they tax according to what men gain, but [*i.e.*, except] in extraordinary cases; but always according to what men spend."

At various points in his writings the same suggestion occurs;

and in his *Travels in France* he undertakes the formal statement of this doctrine of taxation. After stating that it is

"absolutely necessary that every individual in the society contribute to the wants of the state in proportion to his ability, provided such contribution does not impede the progress of his industry,"

he adds:

"By ability must not be understood either capital or income, but that super-lucration, as Davenant* called it, which melts into consumption. . . . If a landlord farm his own estate and expend the income on improvements, living on but a small portion of the profits, it is sufficiently clear that the taxes ought not to affect one shilling of the expenditure on his land. They can reach, with propriety, the expenses of his living only. If they touch any other part of his expenditure, they deprive him of *those tools that are working the business of the state.*"

He concludes:

"A man paying, therefore, 'according to his ability,' must be understood in a restrained sense."

One of the best modern statements of this theory is in a pamphlet from the pen of Mr. William Minot, Jr.. of Boston. Mr. Minot issues in the conclusion that

"Every man ought to be taxed on all that property which he consumes or appropriates to his exclusive use."

The doctrine that taxes on expenditure, or consumption, constitute the only just form of public contribution, is liable to three grave objections.

(1) The underlying notion that wealth can, with justice, be taxed only as it passes into consumption, inasmuch as only then does it become the subject of a selfish or exclusive appropriation, involves a misconception of the reason which exists for imposing any taxes at all. If the personal consumption of wealth were the most unselfish act conceivable,

* This is Dr. Charles Davenant, an eminent writer on finance and political arithmetic, between 1695 and 1712.

if men ate, drank, and wore clothes only from the sternest sense of duty, the right of the state to a contribution from a mass of wealth so disposed of would be no less and no other than it is when that mass of wealth is contemplated as consumed for the indulgence of appetite and as a means to pleasure. If the aggregate annual revenue of a community is one thousand millions of dollars, and the state has need of one hundred millions for its purposes, the smaller revenue should come out of the larger, on grounds alike of equity and of economics. I do not say that every one thousand dollars of private revenue should yield one hundred dollars of public revenue: that is a distinct and subsequent question. The state must, as we have seen, exempt the cost of bare subsistence, a thing which, of itself, destroys the strict proportionality of contribution. The state may even, it is held by many publicists of reputation, without injustice introduce, in some measure, the principle of progression into taxation, assuming that the ability to contribute to the public support increases somewhat more rapidly than does the wealth in individual possession. This is a question far too large to be entered upon here. Again, the state may, from considerations of economic expediency, seek to promote the application of revenue to productive uses by diminishing somewhat the burden upon the portion of revenue so reserved. But I confess that I see no ground for the assumption that the state has no rights of revenue whatsoever over that portion of the annual product which the individual does not choose to apply to personal expenditure. Subject to at least one, and perhaps more, of the three qualifications noted, the revenue of the government should be contemplated as drawn from the revenue of the community; and, subject to the exceptions noted, the revenue rights of the state attach equally to every portion of private revenue, irrespective of the consideration whether any such portion is to be spent or to be saved.

(2) But, again, the assumption that wealth is only selfishly appropriated or individually enjoyed when it is consumed, seems to me altogether unwarranted. The fact is, the selfish and exclusive enjoyment of wealth, in some degree, is inseparable from its possession. The pride of ownership, the social

distinction which attends wealth, the power it confers, are additional to the merely sensual pleasure derived from the expenditure of a portion of the revenue from a rapidly accumulating property. Do I resent the interference of the government, or of my neighbors, in the management of my property ? What is this but proof of a personal appropriation, an exclusive appropriation of that wealth ? My resentment springs out of the deep feeling that the management of my own property is my right, and that he who deprives me of it robs me of what is as truly mine as the right to eat, drink, wear, or otherwise consume or enjoy any portion of it; that, short of mental incapacity, it is my privilege to control my own estate, even though not to the highest advantage of the community or of myself. In other words, I feel and know that I am not a trustee, but a proprietor; not a "steward or exchanger for others," but an owner for myself.

(3) If wealth not devoted to personal expenditure is to be exempt from taxation on the ground that it is to be used for the public good, it unmistakably is the right, and it might even become the duty, of the state, to see to it that such wealth is, in fact, in all respects and at all times put to the best possible use. Indeed, if any citizen protests against taxation on the ground that his tools "are working the business of the state," how can the state, without injustice to all other citizens, excuse him from contribution without requiring that he shall exhibit satisfactory evidence, not only that his tools are really working its business, but that they are doing this in the most thorough, efficient, and economical manner ? If this is not socialism of the rankest sort, I should be troubled to define socialism.

Nay, if the citizen is to be exempted from contribution on the ground that he is, in respect to all the wealth which he does not personally consume, only a trustee, merely a steward for others, then society may, without wrong, carry away all the property which is in excess of what would be necessary to support his actual expenditure; the real beneficiary may at any time enter and dispossess the trustee, if any substantial reason exists for dissatisfaction as to the management of the property, or, indeed, for that matter, merely because it chooses to do so; the state may take the tools into its own hands and "work its business" for itself.

The frightfully socialistic character of this doctrine of taxation has always made it, to me, a matter of amazement that it should be held by some who have openly and strenuously advocated it. Anything more dangerous, in the present state of public opinion, it would be difficult to conceive. I trust I have shown that it is, also, without foundation either in equity or in economics.

But, while we thus dismiss expenditure as the theoretical basis of taxation, we have to admit that, in a degree, and in an increasing degree, it becomes a useful agency in reaching* those revenues which the state, either from political cowardice or because of the opportunities which exist on every side for concealment or evasion, cannot, or will not, reach. Dr. Spahr is probably right in his conclusion that the existing body of national taxes rests with disproportionate weight upon the poorer classes of the country; but I am disposed to question whether that result is properly attributable to the encroachments of capital, in its own behalf. The taxes on salt, on coal, on clothing, and on the materials entering into the construction of dwellings, while they violate the very first rule of justice and economics by enhancing the necessary cost of subsistence, are imposed as an integral part of a protective system which I, for one, though a free-trader, believe to have been established† honestly, however mistakenly, in the interest of the working classes. With much more confidence can it be claimed that the taxes on the decencies, comforts, and luxuries of life, under our present tariff, were genuinely intended to preserve the wages of American labor from a dangerous competition with the "pauper labor of Europe." If,

* As in the case of progressive taxation, on a previous page, I here pass by a nice and difficult question in taxation; namely, the ultimate incidence of taxes on consumption. It is not from an indisposition to meet the issue, but from want of space, that I omit all discussion of this question.

† This, while fully recognizing that our successive tariffs have been largely *shaped* by class or sectional interests, with an obtrusion, at times, of mean motives which were simply disgusting, as in the Tariff of Abominations, 1828.

then, our national taxes on expenditure press with undue weight on our laboring classes, this is not to be charged to conscious and purposed encroachments of capital. It is, rather, the price which the working classes have themselves chosen to pay for securing the promised blessings of protection.

We have thus far spoken, in succession, of three possible bases of taxation: (1) property or capital or realized wealth; (2) revenue or income; (3) consumption or expenditure. There remains but one other * possible basis of taxation, namely, *faculty*, or native or acquired power of production. We shall readily find a faculty tax to be the most equitable form of public contribution, if we compare it with the revenue tax. We saw that, as between two persons acquiring equal revenues, a property tax lays the burdens of government upon that one who exhibits the virtue of frugality in addition to the virtue of industry, thus grossly violating the principles of equity. We are now to see that even the revenue tax works injustice, though in a lower degree than the property tax; since, as between two men of equal natural powers, the revenue tax lays the heavier burden upon him who most fully and diligently uses his abilities and opportunities. It even accepts indolence, shiftlessness, and worthlessness as a sufficient ground for excuse from public contribution.

* It may be asked: What of *land?* What of rent-bearing land? I answer, first, a tax on all lands is primarily a tax on produce, and, in its results, becomes an addition to the cost of subsistence. Secondly, the assumption, or usurpation, as we may choose to regard it, by the state of a part or the whole of economic rent,—the "unearned increment of land," to use Mr. Mill's phrase,—does not appear to me strictly a form of taxation, but rather one of the lucrative prerogatives of the state, the natural proprietor of all lands. I think Mr. Mill is right in saying that "it is the same thing as being untaxed to pay to the state only what would have been paid to private landlords, if the land were appropriated." I attach the name of Mr. Mill to this doctrine, and not that of Mr. Henry George, because in the latter's proposals regarding land, there is not one original feature except only the rascally suggestion that the value of the land, at the time such a public policy should go into effect, be appropriated by the state without compensation to existing owners.

Here are two men of equal natural powers. One is active, energetic, industrious. Toiling early and late, he realizes a considerable revenue, on a portion of which the state lays its hands. The other lets his powers run to waste; trifles with life, shirks duty; wrongs his family and the community by living squalidly and meanly. Producing no more than is necessary to subsistence, he would, under a pure revenue tax, escape contribution altogether. Yet his duty to contribute to the state is not less clear in kind, or lower in degree, than that of the other. His social and industrial delinquency, so far from excusing him from any portion of his obligation, would, the rather, justify heavier burdens being laid upon him, in compensation for the injury which his ill example and evil behavior have inflicted upon the community.

We must, I think, conclude that, while to tax wealth instead of revenue is to put a premium upon self-indulgence in the form of expenditure for present enjoyment, to tax revenue instead of faculty is to put a premium upon self-indulgence in the form of indolence, the waste of opportunities, the abuse of natural powers; and that a faculty tax constitutes the only theoretically just form of taxation, men being required to serve the state in the degree in which they have ability to serve themselves. This is the form of contribution to which all primitive communities instinctively resort. It is the tax which, but for purely practical difficulties, would at all times and in all places afford a perfectly satisfactory measure of the obligation of every citizen to contribute to the support or defence of his government. Any mode of taxation which departs in essence from this, involves a greater or smaller sacrifice of the equities of contribution; and every mode of taxation, which departs from this in form, is almost certain to involve a greater or smaller departure in essence.

It seems to me that the economists and financiers make a serious mistake when they drop faculty as the theoretical basis of taxation. It is true that in a state of highly complicated interests and industries, a faculty tax is no longer practicable* as a sole or chief form of contribution; but this

* The greatest tax of modern times, the requirement of compulsory

constitutes no reason why it should not be held in view, as furnishing the line from which to measure all departures from the equities of contribution, as one or another form of taxation, more suited to the exigencies of modern society, comes to be adopted for meeting the wants of government.

military service, throughout all the nations of continental Europe, is, however, still assessed and collected essentially on this basis.

PROTECTION AND PROTECTIONISTS

Quarterly Journal of Economics, VOL. 4 (1890), PP. 245–75.

PROTECTION AND PROTECTIONISTS.

What is protection? The word means preservation from death, loss, injury, annoyance; or, concretely, that which so preserves a thing or person or community. The word itself has always a favorable meaning. If used in any other sense it is used illegitimately.

But this word "protection" is applied to something regarding which there is fairly question whether it is good or bad, whether its action on its subject is favorable or unfavorable. It is clear, then, that those who advocate or defend this thing, protection, are entitled to no benefit whatever from the favorable significance of the term they use, to no presumption arising from the fact that protection, in the proper sense of the word, is always to be desired and approved. Any advantage which the thing, protection, may have derived from the use of the word has been illegitimate, as distinctly so as the advantage which the Democratic party has unquestionably derived from the use of its very popular and taking name. The protectionist is bound to prove his case as completely and as conclusively, from beginning to end, as if the word applied to his doctrine had habitually a bad significance. It was the proper self-assertion of an anti-protectionist against an illegitimate presumption, which gave its title to the very able book of Colonel Grosvenor, *Does Protection Protect?*

We have seen what the word "protection" means. The thing, protection, as it is in view of those who advocate a certain public policy, is the so affecting domestic prices by means of import duties, or other burdens or restraints laid upon goods produced abroad, as to influence the application of labor and capital to production within the protected country, in the way either of causing capital and labor to be first applied to an industry, or of causing them to be still further applied to existing industries, or, lastly, of causing them to be still longer applied to industries which otherwise would, in whole or in part, be abandoned.

Protection does not necessarily seek the development or the sustentation of manufactures, although this object has been so far prominent in the history of American protection as to cause the idea of manufacturing development to be closely connected with the word in the public mind. The policy of protection has, in the history of other countries, been applied to agriculture quite as distinctly as, with us, to manufactures. The great battle of free trade in England was fought over the duties on imported breadstuffs; and the most marked manifestation of protectionist feeling in the world to-day is on the part of the peasantry of continental Europe, demanding the exclusion of the food products of America and Australia. It does not matter at all to what class of products import duties are applied. The purpose alone suffices to characterize them as protective. Probably the most extravagant protectionist whom this country has ever known was, not Horace Greeley, but Thomas Jefferson, the general trend of whose political philosophy would have indicated the extreme free-trader, and who, indeed, is often so regarded. Jefferson carried his passion for freedom to the point of desiring to have every constitution and law expire by limitation at the end of the generation which enacted it, in order that no possible constraint might be put upon its successor. Yet he had his plan of industrial organization for his country, to which he was so wedded that he was ready to see it brought about by almost any force, however destructive. He hated a highly developed foreign commerce; he bitterly inveighed against building up "Amsterdams" in this country. He wished to secure what he called an "equilibrium between occupations." Not only did he hold these views as to what was best for the United States, but he had so much of the true spirit of protectionism that he was willing to see them take effect, even against the wishes of the people. When the embargo of 1807-09 had been found to fail entirely of its primary object of bringing England to terms, in the matter of the grave wrongs she had done us, Mr. Jefferson could feel that there was cause for congratulation in the fact that the embargo had, at any rate, crippled and almost destroyed the commerce of the nation, had made grass to grow in the streets of our chief trading towns, and vessels to rot by the hundred at their wharves, and had thus done a good deal to bring about his favorite "equilibrium of occupations." * Such views, to which Mr. Jefferson with his customary political audacity did not hesitate to give effect, even by acts which involved the ruin of myriads of his countrymen, stamp Mr. Jefferson as eminently a protectionist. He thought he saw that the unrestrained pursuit of individual interests on the part of his people was tending to bring about industrial, social, and political conditions of which he disapproved; and accordingly, in the true spirit of protectionism, he rejoiced in the opportunity to intervene by force of law, and prevent such results from being worked out. The man is just as truly a protectionist who, believing that the growth of certain economic interests will be prejudicial to his country, would take measures to check the growth of those interests as the man who, holding the opposite belief, would take measures to promote those interests. The single test of protectionism is the disposition to replace, in any considerable degree, aims proposed by the legislator or the governor for those which would be spontaneously sought by the individual citizens, acting upon their own initiative and seeking ends which to them personally appear good.

In the foregoing definition, I used the qualifying words

* "It is true that the embargo laws have not had all the effect in bringing the powers of Europe to a sense of justice, which a more faithful observance of them might have produced. Yet they have had the important effects of saving our seamen and property, of giving time to prepare for defence; and they will produce the further inestimable advantage of turning the attention and enterprise of our fellow-citizens, and the patronage of our State legislatures, to the establishmeut of useful manufactures in our country. They will have hastened the day when an equilibrium between the occupations of agriculture, manufactures, and commerce, shall simplify our foreign concerns to the exchange only of that surplus which we cannot consume for those articles of reasonable comfort or convenience which we cannot produce."—Jefferson's *Works*, vol. viii., p. 163.

"in any considerable degree." These are necessary, because reasons may exist for replacing, in minor matters or in single instances, aims proposed by the state for those which would spontaneously be sought by its citizens, without a case of protectionism being thereby afforded. Especially is this so when the motive for governmental interference is primarily not of an industrial, but of a political character. Thus, one of the earliest arguments for imposing heavy customs duties in this country was found in the alleged importance of supplying the country with munitions of war against the day of too probable hostilities. A great deal of stress was laid upon this consideration in urging the imposition of high duties upon iron and steel. It was said that, unless the United States had open mines, and works capable of producing iron and steel rapidly, the nation would be helpless in the presence of an armed enemy. Now, so far as this argument was used in good faith, legislation to such an effect was taken out of the category of protectionist measures. War involves extensive interference with private initiative and peaceful industry; and a nation which, in *bona fide* preparation for war, imposes customs duties on those articles which are of primary importance in war, no more establishes an instance of protectionism than a nation establishes an instance of socialism by setting up armories and arsenals. The very existence of government implies that certain things must be done to give effect to its authority and to protect its life. No case either of protectionism or of socialism is established so long as government does not transcend what is genuinely regarded as necessary to the care of the public peace, to the maintenance of private rights, and to the defence of the government itself against insurgency or invasion, actual or threatened.

The plea for the imposition of duties upon foreign articles having reference to the possibility of war may of course be carried so far as to propose what would be a distinct and perhaps very pronounced case of protectionism. Thus it might be urged that, in order to attain the greatest readiness, at any time and at all times, for defence or for aggression, the domestic production of nearly all articles of prime importance should be so fostered as to render a nation practically independent of commerce, except in regard to articles which could be dispensed with, on the occurrence of hostilities, without distress. The distinction between the two classes of cases, however, seems sufficiently clear. When the preparation aimed at is not technical, but general, the purpose being to create an habitual independence, commercewise, of other nations, we have distinctly a case of protectionism.

The force of the argument for customs duties on certain articles having reference to a possible state of war will, of course, vary greatly, according to the extent and situation of the country concerned, its traditional relations with its immediate neighbors, the nature of its coast line, the state of the art of navigation, and other circumstances too numerous to mention. The mere substitution of steamers for sailing vessels, rendering the running of blockades comparatively safe and easy, has diminished almost indefinitely the validity of this policy, as applied to most of the countries of the world. It long ago ceased to be of any consequence to us as a nation, and we may accordingly dismiss the topic without further discussion.

I have sought to express the characteristic quality, the essence, of protectionism. Who, then, is the protectionist? I answer, every man is a protectionist who would, in any considerable degree, substitute aims proposed by the state for those which would otherwise be sought by its citizens upon their own individual initiative. The qualifying words, "in any considerable degree," are important, because a man might favor such a policy in minor matters, for special and transient reasons, without really becoming a protectionist. When, however, any person proposes or advocates such a policy in a degree which would work an important and general change in the industrial life of his country, he is a protectionist.

There are, however, many kinds of protectionists; and the important fact to be noted is that, while all protectionists are clearly distinguished from non-protectionists by a certain characteristic quality, yet, in the quantity of the effects which their several degrees of protectionism would respectively produce, one class of protectionists differs from another class far more widely than the latter themselves differ from the non-protectionists. It is in the failure to note the wide range of differences in opinion among those who call themselves protectionists that we find the cause of much of the confusion, or mutual misconception, so characteristic of discussions on "the tariff." I shall devote the greater part of this paper to indicating the most important of these differences.

I. In the first place, we have the distinction between the man who advocates protective duties for the purpose of starting certain industries in a new country, and protecting their early growth, and the man who would levy and maintain these duties as a permanent standing policy. Our fathers and our grandfathers, if they were protectionists at all—we ourselves, if we were protectionists before the war—were of the former class.

The statesman or the writer for the press of 1789 or of 1816, of 1824 or 1828 or 1842, whose expressed views would have justified the belief that he favored protectionism as a permanent system, was, indeed, not entirely unknown; but he was in a very small minority.* The great argument in those days was what may be called the "infant-industries" argument. Mr. Clay, the father of the so-called American system, habitually made his main appeal on this behalf. Down to the War of Secession there was no party, no considerable body of men, advocating protection as a permanent policy. During the war our present high tariff was established solely on the plea of the revenue necessities of the government. When was it that the great majority of those among us who are now protectionists, in the later sense of the word, became such? That would be a very interesting investigation which should seek to draw the lines across the pages of the *Congressional Globe*, and across the sheets of the daily press, and should show the transition from the "infant-industries" stage of the protectionist argument to the stage when protectionism was boldly and unqualifiedly announced as a benefi-

* "No one in the commencement of the protective policy ever supposed it was to be perpetual," said Henry Clay. Again: "The theory of protection supposes that, after a certain time, the protected arts will have acquired such strength and perfection as will enable them subsequently, unaided, to stand up against foreign competition."

cent standing policy. The transition certainly has not been marked by any apologies on the part of the protectionists for passing from one into the other stage, or by any explanations of their change of front. Nobody claims, I believe, that there has been any new revelation on the subject; yet here we have a change of attitude not less pronounced than that which took place between the time when our forefathers were respectfully memorializing the British throne for redress of grievances, and the time, but a few months later, when they were fighting King George tooth and nail, with independence as their avowed object.

The political battle of 1888 was fought so largely on the "home market" issue that some persons may be disposed to think that the "infant-industries" argument is one altogether gone by, and may consider it a waste of time to give more words to it. Yet an argument which was good enough for our grandfathers and fathers may still be worthy of consideration from us, even in these days of a seemingly triumphant home-market policy. Possibly the time may come when those who are now so glibly denouncing foreign trade, and declaring themselves well satisfied to command the markets of sixty millions of Americans, may be glad to get back to as good cover as that afforded by the now despised argument for "infant industries."

The form in which that argument has been most commonly used in the past is in the words of Mr. John Stuart Mill. The fact that so eminent an economist had acknowledged the validity of this argument, in a certain degree, caused him to be quoted in this particular by hundreds of writers who never spoke of him with respect in any other connection. The following is Mr. Mill's presentation of the case:

"The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field; and, besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing."

I have said that this admission of Mr. Mill gave great comfort to the protectionists. It has been correspondingly a source of grief to many economists of the free-trade school, some of whom have denounced it as unauthorized and improper, while others have set themselves at work to minimize the effect of this concession, construing every clause of the foregoing passage strictly and in a hostile spirit. Other economists of this school, however, have accepted Mr. Mill's statement liberally, and, while insisting that the cases to which this doctrine shall be applied must be those only which come honestly within Mr. Mill's meaning, have dealt with the matter in no petty or grudging spirit. Professor Taussig, of Harvard University, has given in his Toppan prize essay, on *Protection to Young Industries*,* an excellent and truly instructive example of both the method and the temper proper to the treatment of such a question. Professor Taussig, in applying Mr. Mill's rules to the history of certain industries in the United States, reached the conclusion that the cotton industry, at its beginning here, afforded a clear example of the case presented by Mr. Mill, and that this industry was really

* Reprinted in his *Tariff History of the United States*.

started and fostered through its infancy by governmental protection, with a good result; * secondly, that the woollen industry had virtually established itself before protection was applied to it; thirdly, that the iron manufacture affords one of the least satisfactory instances of the application of this policy.

In my own opinion, Mr. Mill both overstates and understates the case for the protection of infant industries. He overstates it, inasmuch as it is not true that individual manufacturers can never be expected to take upon themselves the expense of initiating industrial enterprises of an altogether new character. The history of our own country affords abundant illustration of the starting of industries in regions far from their traditional seats and against the unbroken force of competition from great groups of long-established, rich, and powerful factories; it affords, also, illustration of the spirit and enterprise which capital is sometimes capable of exhibiting in undertaking the risk of long and costly experiments, large initial outlay, and continued production at a loss, all in view of an ultimate profit.

On the other hand, Mr. Mill understates the case, inasmuch as it is not alone the initial expense of starting a new branch of industry that is sure in the end to succeed which we have to consider. In addition to this there is the considerable risk attendant upon the trial, in new fields, of industries regarding which there can be no such assurance. I am disposed to think that economists generally fail to realize the highly tentative character of nearly all new industrial enterprises. Professor Brewer, of New Haven, in a very interesting paper on the history of agriculture in *Harper's Magazine* for 1875 or 1876, gave a very striking list of the crops which had been introduced into the colonies which afterwards became the thirteen States, prior to the Revolution, some of which had succeeded, while more, perhaps, had failed. Regarding most of these it was impossible for the wisest man or body of men

* "I consider the cotton manufactures not only to have reached, but to have passed, the point of competition. I regard their success as certain, and their growth as rapid as the most impatient could well expect." —Webster, *Works*, vol. iii., p. 136.

to say in advance, with confidence, whether they would succeed or fail. That could only be determined after long and patient trial. It is much the same, I conceive, with any new branch of industry in a strange field. This is so even when a branch of manufacture seems to be closely akin to another which has succeeded.

Again, even after adding the risk of loss to the initial expense in case of success, as contemplated in the statement of Mr. Mill, we must not, I think, overlook the consideration that overcoming the inertia of capital might fairly constitute an equally good reason for initial protection. A great deal has been said about the alertness, aggressiveness, enterprise, and courage of capital; and at times and in ways this is true enough. But it is equally true that the capital is, at other times and in other ways, inert, hesitating, and timid. Indeed, it would be difficult to exaggerate the cowardice of capital in many situations.

So much for the *a priori* argument in favor of protection for infant industries. But, since protectionists urge that the question is always to be treated as a practical one, not to be decided on grounds of theory alone, we have the right to hold them to full responsibility for the manner in which their proposals are to be carried out. And here, it must be said, their case is weak. First, since the legislature is to make choice of the industries which are to receive the initial protection, we must admit, as an offset to all the possible advantages of this policy, the probability that some of the subjects chosen will be such as cannot, in the result, advantageously be established under the conditions existing. Secondly, in the case of the poor, miserable, weak, and deformed industries which must reasonably be expected to result from unfortunate choices by the legislature, there is the liability, there is the strong probability, that compassion or lack of courage on the part of the lawmakers, or the plea of vested interests, or the force of lobbying and log-rolling, will have the effect to continue these industries upon the list of public pensioners long after the fact of their complete and final failure has been demonstrated to the satisfaction of every intelligent and impartial onlooker. Those who are interested to note examples of utterly hopeless industries, which have first obtained governmental recognition and support through abundant promises of early attaining industrial self-sufficiency, only to become completely pauperized and to fasten themselves in helpless indigency upon the public body, reappearing at frequent intervals as claimants for larger and still larger measures of protection, will find such examples in the vigorous lectures of Professor Sumner on the history of protection in the United States.

II. We have thus far drawn the distinction between those who believe in protection for infant industries, according to the spirit of Mr. Mill's statement of that doctrine, and those who accept protection as a beneficent standing policy. Yet even among the latter there exist such wide differences of views and purposes as still to justify the statement that some classes of protectionists differ from others by a larger interval, practically viewed, than that which separates certain classes of protectionists from the non-protectionists.

We have, first, the distinction between those who would select, for permanent governmental encouragement and support, certain industries, chosen with careful reference to their importance to the population concerned, their adaptation to the peculiar resources and industrial aptitudes of the country,* and those who would bestow protection indiscriminately and almost universally, excluding, perhaps, from the benefit of the system a few products to which climatic conditions are exceptionally unfavorable.

The difference between these two classes of protectionists is very great. Indeed, it is much greater than that between the former class of protectionists and the non-protectionists. According to the one view of protection, the subjects of governmental encouragement and support should be carefully chosen. They should, as a body, constitute an exception to the general rule of freedom of industry and trade. Every new product seeking admission to the favored list should be required to make a clear, strong case for itself, its own importance to the industrial system and the adaptation of the

* "In the selection of objects, there would be need, certainly, of a careful discrimination."—E. B. Bigelow, *The Tariff Question.*

population to its relatively successful production being taken into account. According to the other view, restraints upon trade are viewed as good in themselves. Restrictions are to be imposed easily and lightly, for any reason or almost no reason.

It is needless to say that it was the former view of protection which was held by the great founders of the American system, and which has been upheld by the best writers on that side. The policy of universal, undiscriminating protection finds little support in anything that was said or written in this country before the contest over secession; but the war tariffs, seeking every object which could possibly contribute to the public revenues, strung upon the tariff lists of the country, as subject to heavy and extortionate duties, almost every article of human production. After the extreme necessities of the public revenue had fairly passed, a movement began, which for a long time had a high degree of public approbation, for the extension of the free list. But this movement received a decided check upon Mr. Blaine's entrance into the Republican canvass of 1884; and since that time the advocates of undiscriminating and universal protection have been growing more and more active and defiant.

Of course, it makes a vast difference in the application of the policy of undiscriminating and universal protection what is the variety of conditions, as to soil and natural resources, of the country which is to be the subject of this policy.

The United States stretch across nearly sixty degrees of longitude, and have a north and south extent of twenty-five degrees of latitude. Not only does this vast region embrace a wide range of climatic conditions, but its soil and the underlying rock produce an immense variety of the raw materials of manufacture, in woods, in fibres, in building stones, in ores, in coal, as well as an unequalled wealth of food products. The application to such a region of undiscriminating and universal protection has, of course, a very different effect from what it would have in a small and compact country like Belgium or Holland, or even in almost any other country on the globe, however large. So much of a world in itself is the United States that, in spite of all which protection can possibly accomplish, we must remain the largest example of free trade mankind have to contemplate. With absolute freedom from commercial restrictions within our own borders, with the high degree of mobility characterizing our people, and with the acuteness and alertness with which every possible economic advantage is here followed out, the mischief which the most unreasonable system of protection could inflict is greatly restricted.

III. I have indicated already two important distinctions among those who call themselves protectionists. Another distinction of even greater significance remains to be noted—that, namely, between protectionists who advocate duties generally low and those who favor high duties, often duties so high that they may be regarded as practically unlimited or prohibitory. The difference between the duties advocated by these two classes of protectionists, respectively, is, indeed, a difference in degree; but the difference between the two classes of protectionists themselves is not a difference in degree, but in kind. It is not a case of more and less, but of one and another.

That which makes the difference between the two classes of protectionists a difference in kind, and not merely in degree, is the fact that the moderate protectionists contemplate foreign competition * as still a desirable force operating upon native industry, to stimulate its exertions, to afford it examples of style and workmanship, to limit the price of its products, to regulate its profits. The extreme protectionists, or Chinese-wall men, do not regard foreign competition as in any measure a beneficent force. On the contrary, they deprecate it as only and altogether bad, and seek to deprive it of all influence upon native industry. This may be done by prohibitory laws or by duties so high as practically to give the domestic producers the complete command of the market.

* "There is a broad and marked distinction between entire protection and reasonable encouragement. It is one thing by duties or taxes on foreign articles to awaken a home competition in the production of the same articles. It is another thing to remove all competition by a total exclusion of the foreign article."—Webster, in 1824, *Works*, vol. iii., p. 108.

This is now the demand of those associations which have recently been organized under the name of Home-market Clubs. This is the form in which protectionism is now presented to the people of the United States. I think it not extravagant to say that there has been more pure Chinese-wall talk in this country within the last two years than during our whole previous history as a nation.

Whether the protectionists of the United States really have passed over to this extreme position as a definitive one, or whether their present attitude is due partly to the spirit of contradiction and the fierce antagonism of the recent political struggle, partly to the extravagance of a few leaders and newspaper organs, no one can say with confidence. For myself, I believe that the great majority of the Republican party will take an early opportunity of returning to the position occupied by their fathers on this subject, or an early occasion of showing that they have never for themselves left it: I mean the only position sanctioned by the ablest and most judicious writers on that side, that of moderate protection.* I believe that the recent access of jubilant, vehement, aggressive, defiant protectionism will prove to be a mere passing passion; and that most of those who have given way to it, or allowed themselves to be so represented, will soon make it known that they favor only moderate duties, carefully adjusted to give domestic industries what they consider a fair start in the race, without withdrawing them from the wholesome and stimulating influence of foreign competition.

IV. It has seemed to me so much more important to draw and to emphasize the foregoing distinctions among the protectionists themselves than to discuss the questions at issue between the protectionists as a body and the non-protectionists, that I have left myself little time for the other purpose. I shall only undertake to state a few points which seem to

* "Excessive duties . . . are positively injurious to the interests which they are supposed to benefit. They encourage the investment of capital in manufacturing enterprises by rash and unskilled speculators, to be followed by disaster to the adventurers and their employees, and a plethora of commodities which deranges the operations of skilled and prudent enterprise."—*Report of the Tariff Commission* of 1882,—all the members save one being decided protectionists.

me of importance in opening up that issue for an effective and, if that be possible, a conclusive discussion.

In the first place, I must pronounce the free-trade writers distinctly in the wrong as regards the two leading arguments with which they have traditionally sought to cut off all discussion of the subject as a practical question of public policy. These two arguments, in which the free-traders have denied the jurisdiction of the court to which the protectionists have made their appeal, are no longer deemed valid by the best economic opinion of our time.

The argument, not so much against protectionism as against any consideration of protectionism, derived from the doctrine known as *laissez-faire,* may be easily disposed of. The assumption regarding the harmony of economic interests, on which that doctrine rests, is so wide of the palpable facts of human society as to deprive *laissez-faire* of all authority, considered as a principle of universal applicability. It is only entitled to be considered as a practical rule; "a rule," in the language of Professor Cairnes, "in the main sound, but, like most other sound practical rules, liable to numerous exceptions; above all, a rule which must never for a moment be allowed to stand in the way of the candid consideration of any promising proposal of industrial or social reform."

Doubtless it is true that there is a real harmony of economic interests, when these are rightly understood, whether between the several individuals of a community or between individuals and the community as a whole, or between the several communities constituting the commercial world; but it is not true that, as fallible, selfish, and passionate men see their interests, and are prepared to act in reference to them, these are necessarily compatible with the interests of others, or with the general welfare. Clear instances to the contrary are too numerous to require that any should be cited here; but I may mention, in passing, the action of owners of timber-lands in cutting away the tree-covering of the soil, excessive competition among manufacturers, the wasteful duplication of railroads, the effects of greed on the part of employers towards their laborers, and of the owners of slaves or of cattle in the matter of the care and subsistence of such property.

The second argument with which the free-traders have sought to cut off all discussion of protection, as a possibly beneficent public policy, is that derived from the wholly negative or inhibitory character of such legislation. Sir Thomas Farrer, in his *Free Trade versus Fair Trade,* says:

"The protectionist certainly starts with a strong presumption against him. He cannot, by any of the laws which he proposes to pass, add one iota to the productive powers of the world. He cannot add an idea to the brain of the thinker, a muscle to the arm of the worker, a fertilizing ingredient to the soil. All his implements are fetters on free action, or weapons of destruction. To suppose that, by preventing men from using their natural powers and satisfying their natural desires, you can increase their capacity for production and for earning wages, is in the highest degree improbable."

In the same vein, Mr. Isaac Butts, of our own country, offered the following illustration of the impotence of protection:

"It is a well-known fact that the combustion of a given quantity of carbon will produce a definite quantity of heat, and that such quantity cannot be increased by varying the rate or mode of combustion. Given, then, the quantity of carbon, and science can determine the precise quantity of heat (as, also, of power) which its combustion will generate,—a quantity which no contrivance, however ingenious. can enable the manipulator to surpass."

Paragraphs to the same effect might be quoted from a hundred writers.

Now, this sort of talk, in which I confess to have myself joined in earlier days, is utterly inconclusive. It is true that restriction and prohibition can create no force; nay, that, so far as they operate at all, they diminish the amount of force at command. But it is equally true that restriction and prohibition may direct force to ends vastly more useful to mankind than those which would otherwise be sought; that law, while it can create no power, may save a hideous waste of existing power. To confine in long tubes the gunpowder served out to an army adds nothing to the expansive force of the powder; but it is an essential condition of enabling powder to project bullets with effect to long distances. The force derived by the wheel from the fall of the water is greater than that which actually moves the ten thousand spindles above, greater by all that is lost in transmission through shafting and belting. But the sacrifice of a certain amount of power in such transmission is an essential condition of applying the power of the water-wheel to the spinning of yarn and the making of cloth. Mr. Butts justly says that no contrivance, however ingenious, can increase the quantity of heat, and therefore of power, which will be generated through the combustion of a given body of coal; but a great many ingenious contrivances are necessary to enable the combustion of a given quantity of coal to accomplish anything for the good of mankind.

The foregoing are arguments which have been largely used by free-traders, not so much in discussion of the issue raised by the protectionists as in preventing all discussion of that issue. Their purpose has been not so much to show that the protectionists have not made their case as that they could not possibly make their case ; that, in fact, there is no case whatever to be made, the laws of society and the constitution of nature being what they are. The abandonment of these arguments creates no presumption in favor of protectionism. It merely leaves the ground open for fair debate on the merits of whatever the protectionists have to advance. These have still their case to make, against an unfavorable presumption, by proving the practical benefit to mankind or to the particular country, reasonably to be anticipated, under existing conditions, from the system they propose to set up, after taking full account of all the cost of establishing and maintaining that system, and all its infirmities and its evil liabilities in actual operation.

Nor can I concede any validity to the comparatively new objection to protectionism, on the ground that it is immoral. A few years ago, my esteemed friend Professor Sumner, of Yale University, announced that he had talked enough and long enough about protection as a matter of policy; hereafter he purposed to attack it as immoral, as an unjustifiable invasion of natural rights, as a breach of personal freedom, as an instrument for the spoliation of the many for the enrichment of the few.

As I have had occasion elsewhere to remark, in replying to Mr. Henry George, I do not deem myself qualified to say much about natural rights, having never lived in a state of nature, but having resided all my life in communities, more or less civilized, whose citizens were required to render numerous and onerous services, to refrain from many courses agreeable to themselves, to make heavy contributions, to submit to severe sacrifices, to walk in paths instead of roaming at will over the fields—all for the general good. It seems to me that the denunciation of protectionism as immoral should be preceded by a demonstration that it is socially inexpedient, that it is in reality the spoliation of the many for the benefit of the few, and that no adequate return is made to the great mass of the community for the restrictions to which this policy requires them to submit. If these things can be proved, it will then be appropriate, though by that time hardly necessary, to denounce protectionism as immoral. Until these things are proved to public satisfaction, no great effect can be produced by such denunciation. If the denial of the right to buy in the cheapest and sell in the dearest market would yield to the community any considerable part of the blessings which the protectionists, unquestionably in good faith, promise, I imagine that there are few Americans so transcendental in their political philosophy as to question the right or the propriety of the establishment of that system. The discussion, then, comes back to the original issue, whether protection is economically or socially expedient.

On the other hand, the argument upon which the protectionists of former days mainly rested their case, which may be known as the "exportation of the soil" argument, has been virtually abandoned. Then it was urged, with great persistence and with most ominous warnings, that manufacturing towns must be built up in agricultural regions, in order to secure markets close at hand for the produce of the soil, with a view to returning to the land the productive essences taken from it in the crops of the year. The protectionist books and speeches of thirty and fifty years ago abounded in startling and even appalling prophecies of the evils which would result from the neglect of this consideration. "Earth-butchery" was about the mildest term which could be found to characterize free trade in its application to a new country.

As I said, this argument has now practically been given up, and that for several reasons. First, it has come to be recognized that a certain temporary lowering of the general productiveness of the soil is a natural phase of the passage of a new, poor, and mainly agricultural community into an older, richer, and largely commercial and manufacturing one. Population, at the beginning in comparative poverty, spreads loosely over the soil; the best pieces only are selected for cultivation. These are cropped almost continuously, with little attempt at deep ploughing or under-drainage, and with no feeling of obligation to return anything to the soil, except only the manure, generated incidentally, to the cultivation of the fields, by the cattle and horses employed thereon or by the cattle or sheep grazing thereover. The profits of such a cultivation of virgin soils are enormous; yet, after a period, the productiveness of the land must sensibly decline. So far, this system seems all wasteful and wrong and vicious. But there is another side to the question not yet disclosed. The immense profits of virgin agriculture have, let us suppose, been put into permanent improvements, into roads and bridges, into canals and railroads, into wharves and warehouses, into comfortable dwellings, schoolhouses and churches, into shops and small factories for petty neighborhood industries. And so, when the profits of agriculture begin to wane, the advantages and attractions of manufacture begin to be strongly felt; little by little population is transferred from the fields to the shops, while on the fields themselves now first begins the serious, systematic, economic cultivation characteristic of an older community. This is the way in which the Northern people dealt first with Western New York, then with Ohio, Indiana, Illinois, and Michigan, then with Wisconsin and Iowa; and it is in this way they are now dealing with Minnesota, Kansas, and Nebraska. And I make bold to say that in so doing they have been justified by conditions both of economic and of political expediency.

A second cause which has greatly contributed to diminish the importance of the "exhaustion of the soil" argument has been the recent very extensive introduction of artificial fertilizers, either of animal or of mineral origin, as guano from the islands of the Pacific, and phosphates from the rock of our native mountains.

Third, another cause which has diminished the importance assigned to this argument has been the fuller recognition, in the progress of agricultural chemistry, of the fact that, while a certain degree of waste seems inseparable from human occupation of the earth, nature, on the other hand, is continuously carrying on a more or less rapid process of repair and restoration. In almost every region, an addition is being made to the soil available for the raising of food through the decomposition of rocks and the formation of rock-dust, which is called "weathering." Moreover, the conversion of the atmosphere into nitrates ("nitrification") is continually going on for the fertilization of the soil. "Any region," remarks one of the most eminent of the American agricultural chemists, "that has once been fertile for a period of over fifty years under a given system of management may remain fertile under that system forever, unless the soil is removed or buried by flood, or unless the climate becomes unpropitious."

Fourth, another and a sufficient cause for the practical abandonment of the "exhaustion of the soil" argument is found in the simple fact that, in the economy of modern life, the productive essences contained in food consumed by manufacturing populations in large towns and cities are not returned to the soil, but are carried by the rivers into the ocean. The utilization of sewage, on any large scale, has never yet been made profitable. It has been done as a matter of experiment, as a matter of sentiment, or to prevent the defilement of rivers; but almost invariably it costs, in the present state of the mechanical and chemical arts, more, and generally very much more, than a hundred cents for each dollar's worth of soil-dressing obtained.

Nor have any reasons worthy of serious consideration been as yet advanced why political entities should be constituted distinct industrial entities. This has been a favorite proposition of protectionist writers, but I have found in no work on this subject any argument in support of that proposition deserving analysis or answer. On the contrary, the presumption against it, arising from the great and, when we take the economic point of view, altogether unaccountable irregularity and whimsicalness with which the surface of the earth is divided among independent sovereignties, is almost overwhelming. Perhaps I may be permitted to quote here what I have elsewhere written on this point :

"One nation comprises two million of inhabitants, like Denmark, Greece, or Chili; another ten, like Mexico, Brazil, or Siam; another thirty, like Italy or Japan; another fifty, like the United States; another eighty, like Russia; another three hundred and fifty, like China. The territory occupied by one nation crosses and includes two, three, or five great river systems. In other cases, one great river system embraces the territory of two, three, or five nations. A stream which a boy can wade may form the dividing line of two independent states. A third state may collect its revenues across the Atlantic and Pacific oceans, and its magistracy send its warrants alike into Hudson's Bay and into the South Sea. One people may stretch from north to south across sixty degrees of latitude; another, from east to west through half the daily journey of the sun. One country may be occupied by a population as homogeneous as the inhabitants of some old city; while under the same flag, and subject to the same laws, may live the representatives of nearly every race of men known to ethnology, speaking two hundred languages and three thousand dialects; some dressed in the height of the latest Paris fashion, others tattooed upon the naked skin; some using the telephone, others the assegai; some finding their choicest amusement in the Wagnerian opera, others in the war-dance that opens the feast of human flesh.

"It will readily appear that the protectionist writers have a difficult task in establishing the necessity of drawing the lines of circumvallation along the boundaries of the empire. It is, of course, possible that some new analysis of the conditions of production may yet disclose the law which thus makes trade within the limits of sovereignty beneficial, and trade across the boundaries of separate States deleterious, to one or both parties; but thus far assertion, coupled with vituperation, has taken the place of the analysis required."

Setting aside these several arguments on the one side and on the other, what have we left as furnishing the real matter at issue between the free-trader and the protectionist? In the first place, I conceive that the strongest argument which could be framed in favor of protection is one little dwelt upon by protectionist writers—that, namely, by which it might be undertaken to show that a general economic advantage would follow from interrupting and hindering the constantly increasing tendency to the world-wide extension of the division of labor and the resulting intensification and localization of manufactures. The advantages attendant upon the division of labor are too familiar to require statement. In the application of that principle to small communities, and even to large states, it is admitted that an immense gain in productive force is realized. It is also evident that the extension of this principle even beyond the boundaries of nationality yields a still further gain of productive power, which, up to a certain point, more than offsets any disadvantages or evil liabilities which may be attributed thereto. But it seems to me that a very pretty argument might be constructed in favor of the proposition that, after a certain point, some artificial retardation of this movement might be of general economic benefit; possibly, that, at a certain still more remote point, this movement might, with advantage, be more peremptorily checked.

The disadvantage and the evil liability which attend the extension of the division of labor are found in the occasion which is thereby introduced for a misunderstanding between producers and consumers. In a primitive condition of industrial society, no such occasion exists. Each member of the community, working for himself, by himself, will, within the limits of his time and strength and his disposition for labor, produce that, all that, and only that, which he desires to consume. Even when the division of labor has been carried a certain way, the opportunities for misunderstanding between producers and consumers are still very slight. The blacksmith, the bootmaker, the tailor, work for a small body of customers, personally known to themselves. Indeed, production generally waits for orders; and the producer knows in advance who is to be the consumer of his product. Even when the division of labor has been carried much further, and production takes place for a general market, composed of persons largely unknown to the immediate producers, it is still possible closely to estimate the demand, and accordingly to adapt production to consumption. In such a state of society, styles are generally standard, and comparatively few goods are likely to become unseasonable.

But when the division of labor has been carried to its utmost limits; when the materials of a given industry are drawn from the four quarters of the globe, and its products are to be not less widely distributed; when the bulk of the consumers belong to strange nations, on distant continents, whose tastes, whose means, it becomes increasingly difficult to anticipate; when, moreover, fashion has entered to introduce vast and ever-changing variety in form, in color, and in material—the opportunities for misunderstanding between producers and consumers, the difficulties of adjusting supply to demand, become very greatly increased. The natural consequence is seen in the extreme localization of manufactures, and also in the extreme intensification of production within certain seasons, periods of highly stimulated, almost furious, activity being succeeded by periods of comparative inactivity, often of stagnation. A still further consequence of this state of things is seen in frequent disturbances of trade and credit, sometimes leading to panics and crises, followed, perhaps, by long, dreary intervals of suspended production.

Now, it is in regard to the price which mankind have to pay, through these disadvantages and evil liabilities, for the admittedly great advantages of the world-wide division of labor, that further investigation and more careful analysis are certainly in order. The question, be it observed, is altogether regarding the quantity of certain effects. The quality of those effects is not at all in dispute. No one can fail to see the way in which the extension of the division of labor produces benefits to mankind. No one can fail to see the way in which the extension of that principle, beyond a certain point, produces disadvantages which are, to a greater or less extent, an offset to those advantages. The question is as to the respective quantities of these opposite effects, and hence as to the balance between them—in a word, as to the reasonableness of the price which men have to pay for a certain benefit.

It must be admitted that on the foregoing question we have less information than is desirable, and that a more minute analysis of the influence of a widely extended and highly organized industrial system in producing fluctuations in trade and throwing production into great waves, with rapid and violent alternations of depression and exaltation, would be an important contribution to our economic and social philosophy. Colonel Wright's investigation as to the number of people habitually out of employment in Massachusetts yielded results which greatly impressed the public mind. The evidence collected by recent royal and parliamentary commissions in England has opened the eyes of the world to the unexpected magnitude of the losses sustained from this source. A great deal more needs to be done in this direction; and meanwhile the protectionists have here, as it seems to me, the material of an argument on their side which is not to be despised.

The last point to be noted is the one upon which the protectionists at the present time are mainly bearing their weight—that, namely, which makes it appear necessary for the more fortunate countries, generally new countries, having a high standard of living and enjoying general prosperity, to impose customs duties on the products of countries less fortunate, in order to protect themselves against a reduction of wages among their own populations. This is the Pauper Labor argument.

In considering this plea for protection, we must begin by insisting upon the distinction between high or low wages and high or low cost of production. The cost of production may be low when wages are high, because the laborer may be so energetic and efficient, so skilful and so careful, that the employer will get back even those high wages, together with a handsome profit for himself, in the price of the product. The cost of production may be high when wages are low, because the labor purchased thereby may be unintelligent, shiftless, and wasteful, lacking in energy and inspiration. Not only may this be so, but it often and, indeed, generally is so. High wages are commonly, habitually, found associated with a low cost of production. Low wages are quite as generally found associated with a high cost of production. The reason for this association of high wages with low cost of production is plain. The laborer's efficiency is in great part the immediate product of his present wages. In part, it is, of course, the product of the wages which he received at earlier periods of his life, and of the wages which his ancestors received before him. So far as the laborer's efficiency is the immediate product of his present wages, that efficiency should increase at least proportionally with his wages. In fact it will, within wide limits, increase more than proportionally, much more than proportionally. So far as food alone is concerned, it is unquestionably true that until the economic maximum has been reached—and that maximum is very unlikely to be reached—productive power is developed at a continually increasing ratio. So far, therefore, as wages go to food, there is the best possible reason why high wages should be associated with low cost of production; while niggardliness of expenditure in generating labor power meets here the same retribution which niggardliness of expenditure generally meets in other directions.

How is it with the other elements of personal consumption to which wages are or may be applied? That the same principle operates, with greater or less force, in respect to that portion of wages which is applied to clothing and to securing comfortable and wholesome lodging, is, I believe, abundantly established by competent testimony. But how about those parts of wages which go to what we may call decencies and luxuries in life? Do these constitute a force of which efficiency in labor is the direct and necessary product? Generally speaking, I believe it has been shown, on the widest scale, that the self-respect, the domestic and social ambition, the hopefulness and cheerfulness, which arise out of such enjoyments, and the further prospect of such enjoyments, on the part of the laboring classes, generate an industrial force which as fully repays its cost, so to speak—that is, the price of such enjoyments—as does any equal expenditure upon the necessaries of life.

But is this principle,—that industrial efficiency, within reasonable limits of course, increases at least proportionally to increase of wages, temperately and virtuously expended,—a principle of universal applicability? Is it as true when the increase is large and sudden, coming to men who have previously lived in squalor and who have comparatively little moral or intellectual susceptibility, as it is when the increase of wages is moderate and gradual, coming to men who have been heretofore accustomed to comfortable and decent habits of living? Is it equally true when the increase of wages occurs within a branch of industry where the work required is such as gives little opportunity for the exercise of intelligence, of care in the use of tools and machines, of ingenuity and prudence in the prevention of waste, and where the rate of the laborer's motions is practically determined by the movements of machinery, as it would be were the increase of wages to occur within a branch of industry offering the highest possibilities to the physical, intellectual, and moral activity of the laborer? To make my questions more particular, is it equally true that an increase of wages would produce corresponding increase of industrial efficiency in the case of French Canadians, or Poles, or South Italians, as in the case of native Americans, or Scotchmen, or Saxons? Is it equally true that an increase of wages would produce a corresponding increase of productive power in the case of men employed in a cotton-mill as in the case of men employed in a boot and shoe factory, or a watch factory, or a machine-shop? If not, I may doubt whether the answer that the free-trader has habitually made to the protectionist at this point is quite as conclusive as people of my own general way of thinking have been accustomed to consider it.

If the proposition of the free-trader, that industrial efficiency increases correspondingly to increase of wages, be not universally true, then the case may arise which the protectionist has in mind; namely, where branches of industry are peculiarly unresponsive to the physical, intellectual, and moral invigoration of their operatives, where these, in turn, perhaps may be as a body, from their foreign birth and breeding, peculiarly unresponsive to the mental and moral opportunities and incitements of our American life, and where, consequently, the manufacturers do, in fact, pay higher wages for a given amount of labor than are paid abroad. In this case, the American producers would be under a real, no longer a mere nominal, disadvantage in the cost of production. It would then be for the statesman to consider whether the labor and capital which have been invested in such comparatively unprofitable industrial enterprises, under encouragement, one might almost say under compulsion from law, shall continue to be protected at the general charge, or whether the policy which has led to such a result shall be immediately or gradually reversed. While I am myself so much of a free-trader as to find it difficult to conceive the situation in which I would give my vote, individually or as a representative, to initiate a system of protection—certainly, I should not, with my present views, have done so for this country in 1789, or 1816, or 1824, or 1828, or 1842, much less in the period from 1863 to 1867—I am yet so much a protectionist that I would deal very conservatively with masses of labor and capital once fully engaged in any branch of industry. This I would do, not more from regard to the "vested interests" of such bodies of labor and capital than from respect to the general welfare, since it has been the effect of my study of economics and my investigation of industrial history to magnify the importance of the industrial *status*.

It is evident, however, that the greater the difficulty we find in retracing a course once erroneously begun, the stronger the reason for caution and hesitation before entering upon such a course. In proportion to the evils we apprehend from the removal or reduction of customs duties should be, at least, our doubts regarding the propriety of imposing such duties in the first instance. The protectionist vigorously asserts that the question of protection is wholly a practical one, not to be decided, *à priori*, on assumptions that fail to represent the real facts and conditions of human life. Let it be so. Then is he doubly bound to give the fullest consideration to the well-known fallibility of law-makers and the evil liabilities which beset legislation. Were it admitted that a judicial system of protection, selecting always the right objects for governmental encouragement and support, and imposing only moderate and well-adjusted duties, would achieve all the benefits which the protectionist claims, it is certain that any actual system of protection will do much less than this; and it is always possible that a scheme of customs duties may do more harm than good, if the legislature enacting it be composed of men little conversant with the facts of industry and trade, strongly moved by personal, local, or sectional interests, and not altogether uninfluenced by popular clamor, parliamentary intrigue, or the addresses of a well-trained and unscrupulous lobby.

SAVINGS-BANKS

The following paper was left in manuscript form. Apparently it was written about 1882. There is a memorandum indicating that the first part, relating to savings-banks in England, was partially revised by Mr. Walker a year before his death.

SAVINGS-BANKS.

In the year 1800, the famous English reformer, Jeremy Bentham, brought forward his idea of circulating annuities. He proposed the issue of transferable promissory notes from the exchequer—or treasury—to be termed "annuity notes": "importing, each of them, the grant of a perpetual redeemable annuity, payable to the purchaser or other holder of the note, in consideration of the *principal* sum, on the repayment of which such annuity is made redeemable, and which accordingly constitutes the denominative value or principal of such note."

The interest, payable semi-annually, was to be a farthing a day upon *the unit*, or standard note, viz., £12 16*s*. This daily interest, as in the case of exchequer bills, was to be computed upon the note itself, which was, also, to contain "a table whereby, in case of forbearance to receive the interest, the value of a note of that magnitude, as increased by daily interest, added to yearly interest, so forborne to be received, may be seen for any number of years, by a single addition."

Of the proposed annuity notes, only *the unit* (£12 16*s*.) and the halves and quarters of it were to be at first issued. By degrees the series of notes should be extended *downwards*, each successive note being the half of the one immediately preceding it, until it had descended to the lowest piece of silver coin in common currency, viz., sixpence; and it should be then considered whether to give the system a further extension downwards, viz., to the level of the copper coins.

"The minuteness of the small notes," continued Bentham, "would be protected from contempt by their relation to the large ones; and, to go in change for one another, they must all of them (even *copper* not excepted) bear an *interest*, and the same *rate of interest*."

The series might also be extended upwards, as convenience should seem to require. The proposed paper was to be issued, in the first instance, from the several local post-offices, in town and country, and the existing offices (like the stamp and excise offices) to be used, or new ones to be established, eventually, for the purpose, in such situations and numbers as might be found necessary.

Of the suggestion of the post-office as the agency for effecting this purpose, it is remarked:

"Despatch, punctuality, cheapness in the transaction of the business, sufficiency of number, and equality of distribution in regard to the stations, forming the characteristics of the post-office establishment, as compared with all other provincially diffused, official establishments."

The notes so issued were to be *received at the several government offices,* and "reissued from thence, in the way of circulation, as they would be between individual and individual, charged with the intervening interest, to as many as may think proper to receive them at that value."

This scheme of Bentham is every way interesting; but we are chiefly concerned with it, at this moment, on account of the reason which the author assigned for its introduction. The proceeds of the sales of such annuities would, indeed, constitute a great popular loan, the fiscal power of which the financiers of Europe required many years after 1800 to learn to appreciate. But Bentham's main plea, that on which he bore his whole weight, was that the scheme would afford "a mass of perpetual annuities, on a small scale," which would furnish a convenient mode of accumulation to the poorer classes and interest them in the safety of the government.

It is difficult for us to go back in thought to a time when a laboring man had literally no place for the investment of his earnings, where it would bring him a premium for its use. But such was the state of things in the time when Bentham wrote. The public funds were, both from the denomination of the smallest certificates issued, and from the expense of buying or selling them, or even of drawing the semi-annual interest, altogether beyond the means of the laborer.

Bentham gives a bill of costs for dealing in government stock, though

> "it were for the minutest portion, in cases where, by distance of residence and want of connections in the metropolis, the party is obliged to have recourse, in the regular way of business, to professional assistance,"

including attendance of attorney, in the country and in London, power of attorney, broker's fees, expense charges, etc.

The costs foot up as follows:

Charges on purchase or sale.......8 items.......	£2	5	8
Charges on receiving dividends....3 "		18	4

The funds were thus beyond the reach of the poor man; the banks of deposit and discount were not for him and his petty store; the savings-banks did not then exist; loans upon landed security, in small amounts, were not in request. The laboring classes had, thus, no place of investment but a chink in the wall, a hole in the floor, a broken teapot in the cupboard, or an old stocking under the mattress.

Such was the situation when Bentham brought forward the scheme, the outlines of which have been drawn.

Were the proposed annuity notes to be emitted, he exclaimed,

> "every poor man might be his own banker; every poor man might, by throwing his little hoards into this shape, make bankers' profit of his *own* money; every country cottage, every little town tenement might, with this degree of profit, and with a degree of security until now unknown, be a *frugality bank*."
>
> "Frugality, itself a virtue, is an auxiliary to all the other virtues: to none more than to generosity, to which, by the unthinking, it is so apt to be regarded as an adversary. The *sacrifice of the present to the future* is the common basis of all the virtues: frugality is among the most difficult and persevering exemplifications of that sacrifice.
>
> "Important in all classes, it is more particularly so in those which abound in uncultivated minds. In these to promote frugality is to promote sobriety; to curb that raging vice which in peaceful times outstrips all other moral causes of unhappiness put together. In the prospects opened by frugality, the wife and children have a principal share; they derive nothing but vexation and distress from the money spent at the gin-

shop or the ale-house. Compared with the *prodigal*, the hardest of *misers*, is a man of virtue."

The promotion of frugality, Bentham placed far above the fiscal advantage anticipated from his scheme.

It was the work of Bentham's life to prepare a vast number of social, legal, and juridical reforms, which were, years later, not in his name, nor with any thought of him, to be adopted by statesmen many of whom derided Bentham's philosophy and heaped contempt upon his memory. In no one of his multitudinous papers, however, do the wonderful shrewdness, sagacity, and prescience of this breaker of images, this righter of wrongs, more strikingly appear than in the proposal for circulating annuities. He anticipated the French discovery of the virtue of a popular loan; he leaped at once to the position which it took English statesmen two generations, struggling through endless difficulties, to reach: viz., that the exchequer of the nation is the best place for the deposit of the earnings of the poor.

Not that Bentham first apprehended the disadvantages which the working classes of that age suffered from the lack of all means of investing their scanty hoards.

Arthur Young, in his "Annals of Agriculture," had called attention to the desirability of affording, through a system of so-called "Industry-houses," a place for the reception and improvement of the produce of frugality, on a small scale, under the name of a "*frugality-bank.*"

By the Hamburg scheme, founded in 1778, the spare cash of domestic servants and handicraftsmen was received, and annuities were granted on the contributors arriving at a certain age; but no withdrawal of money in any event was allowed. (The Hamburg bank, by the way, was plundered and destroyed by Napoleon.)

In England, the Rev. Joseph Smith, the wealthy rector of Wendover, in 1798 started a bank which received the earnings of the summer, and paid them back in the winter, with an addition of one third. A good Christmas dinner was an additional inducement resorted to for promoting the popularity of this enterprise.

In 1799, Mrs. Priscilla Wakefield, of Tottenham, established a society which provided a system of pensions, in case of sickness or superannuation.

None of these schemes, however, had in them the promise of the future. Young's scheme was tainted by its association with pauperism—his "industry-house" being, in plainer speech, the work-house. The Hamburg scheme forever severed the workman's wages from his own control, allowing neither change of mind nor change of circumstances to place his earnings again in his own hands. Rev. Mr. Smith's plan was, at the outset, a charity, besides making no provision for carrying savings forward from year to year. It laid up store for the winter of the year, but not for the winter of life. Mrs. Wakefield's scheme was kindred to the "friendly societies"—or associations of working men for mutual assurance or mutual assistance—which were already well known and which afforded no slight obstacle to the subsequent establishment of savings-banks.

Bentham's proposal soon bore fruit in public discussion by both economists and statesmen. In 1803, Mr. Malthus wrote:

> "To facilitate the saving of small sums of money, and to encourage young laborers to economize their earnings with a view to a provision for marriage, it would be extremely useful to have county banks where the smallest sums might be received and a fair interest granted for them. At present, the few laborers who have a little money are often greatly at a loss to know what to do with it; and under such circumstances, we cannot be surprised that it should sometimes be ill-employed, and last but for a short time."

In 1807, Mr. Whitbread made a memorable speech in Parliament, advocating a national scheme for the custody and investment of the savings of the working classes.

> "I would propose the establishment of one great national institution in the nature of a bank, for the use and advantage of the laboring classes alone; that it should be placed in the metropolis, and be under the control and management of proper persons, to be appointed according to the provisions contained in the bill I shall move for leave to introduce; that every man who shall be certified by one justice, to his own knowledge, or on proof, to subsist principally or alone by the wages

of his labor, shall be at liberty to remit to the accountant of the *poor's fund*—as I would designate it—in notes or cash, any sum from twenty shillings or upward; but not exceeding 20*l.* in any one year, nor more in the whole than 200*l.* That once in every week the remittances of the preceding week be laid out in the 3 per cent. consolidated bank annuities, or in some other of the government stocks, in the name of commissioners to be appointed." (*Martineau*, II. 103.)

Mr. Whitbread's scheme failed, not through opposition so much as through sheer lack of interest in the project, on the part of members of Parliament; but the response outside was quick and hearty.

In 1808, Lady Arabella Douglas inaugurated a bank, at Bath, for domestic servants only. No servant could deposit more than £50: interest to be at 4 per cent. In 1810, a charitable savings scheme much like that of the Rev. Mr. Smith's already described, was established.

In 1815, the Provident Institution of Bath was founded, the first of its kind in England. The same year in November the Southampton Institution was established by the efforts of the Right Hon. George Rose. Clergymen and other responsible persons in the parishes were to receive money and forward it to the bank. In 1816, the Exeter Savings-bank extended the principle of local or branch places of deposit—sixty such branches being established the first year, village clergymen acting gratuitously as agents. Interest was to be had at 4 per cent; no one could deposit more than £50 in the first or second year, or more than £25 in any subsequent year. The expenses of the institution were defrayed by the subscriptions of the promoters of this scheme, and not out of the interest of the money deposited.

Meanwhile, the idea of the bank of savings had made even more rapid progress in Scotland, where the bank of the future first took definite shape. To this result no man contributed so much as Mr. (afterwards Dr.) Henry Duncan, often called the Father of Savings-banks, whose philosophy of the subject is expressed in the following proposition:

"The only way, it appears to me, by which the higher ranks can give aid to the lower, in their temporary concerns, without running the risk of aiding them to their ruin, is by affording every possible encouragement to industry and virtue; by inducing them to provide for their own support and comfort; by cherishing in them that spirit of independence which is the parent of so many virtues ; and by judiciously rewarding extraordinary efforts of economy and extraordinary instances of good conduct."

The last words indicate one of the original peculiarities of the system: a feature which was to be sloughed off before the savings-bank could reach its widest extension and its largest usefulness. After some public discussion of the subject, through the newspaper press, this benevolent clergyman, alone and unaided, founded his so-called Parish Bank at Ruthwell, in Dumfriesshire in 1810. The deposits the first year were but £151, so completely was the field occupied by the existing friendly societies. The amount deposited in 1814 reached £922. But the success of the measure outside the limits of this small and poor parish was astonishingly rapid. Mr. Duncan at once became the adviser of all persons of like mind with himself throughout Scotland. In 1814, the Edinburgh bank was established. The charitable features of the Ruthwell bank were abandoned. The pass-book system, essentially as it exists to-day, was inaugurated. A duplicate of the leaf of the ledger was given. No sum less than one shilling was received: interest was paid at a uniform rate of 4 per cent. The bank itself did not undertake to manage the funds received, but deposited with the regular banking companies. When the depositor had accumulated £10 he was presented with an interest note on any banking firm he chose to name, for that amount. Thereafter the savings-bank continued to receive his small savings until they again amounted to £10, when a new interest note was given. The bank was open only from nine to ten, Monday mornings. The success of the Edinburgh bank was very marked, and institutions of a similar character soon sprang up in all parts of the Kingdom.

The new scheme met with only praise and cheer from the great *Review*, then doing its noblest work in Edinburgh. It was welcomed as "of far more importance and far more likely to increase the happiness and even the greatness of the nation, than the most brilliant success of its arms, or the most stupendous improvements of its trade or its agriculture."

"Those," wrote the reviewer, the illustrious Jeffrey,

> "to whom this subject is indifferent, may censure our minuteness; but those who, with us, regard it as marking an era in political economy, and as intimately connected with the external comfort and moral improvement of mankind, will be gratified to trace the rise and progress of one of the simplest and most efficient plans which has ever been devised for effecting those invaluable purposes."

All the organs of British public opinion did not, as we shall see further on, take the same view of the advantages of encouraging frugality on the part of the working classes. The matter had now gone far enough, in practice, and had attracted enough of public notice to command for it that place in the attention of Parliament which Mr. Whitbread had, ten years before, been unable to secure for it.

In 1817, a measure was introduced and passed, under the leadership of Mr. Rose, which, with a supplementary act, provided for the creation, throughout England and Ireland, of boards of trustees, authorized to receive deposits. The trustees or managers were prohibited from receiving any profit from any transactions in these banks. They were empowered to pay over the moneys deposited to the commissioners for the reduction of the public debt, the latter being required to invest them in three-per-cent bank annuities. Interest on the moneys thus deposited was guaranteed to the trustees, at the rate of 3*d.* a day in the hundred pounds, or £4 11*s.* 3*d.* per annum. Thus it will appear that a portion of the interest paid by the government was in the nature of a bounty on deposits. In amount, says Mr. Lewins, whom I follow in this narrative, it was at least 11*s.* 3*d.* more than the interest yielded by any other government security, while consols did not bring in more than £3 5*s.* per cent.

The feature of the bill which was most objected to, was that requiring the deposits to be invested in government securities. It was claimed that some of the money might be much better employed on mortgages, to the relief of many different interests, in the immediate neighborhood, and to the greater productiveness of the money so lent. This point will be seen to be of much importance when we come to speak of American savings-banks. In this matter, however, Parliament was firm. The safety of the investment was held to be the first and greatest consideration, and all attempts to divert the savings-banks deposits to possibly speculative enterprises, or to apply the scanty savings of the poor to the purposes of trade or manufacture, or even of agricultural improvement, were then, as they have ever since been in England, fruitless.

It is, also, worth while to note regarding this first savings-bank act, that a clause giving premiums, out of parish funds, to those who did best in saving, was rejected in committee. The amount which any one depositor might place in a savings-bank in England was restricted to £100 in the first year, and to £50 in any subsequent year. In Ireland, the limit was £50 in any year. The enactment of the law, whose chief provisons have been recited, was closely followed by the creation of large numbers of savings-banks. In less than twelve months, 227 had been organized in England and Wales, and about an equal number in Ireland and Scotland. Within nine months £667,000 had been deposited in these banks, not wholly, however, from the savings of that period. Doubtless a large part came from hoards for which no opportunity for productive investment had previously existed; and certainly, it is known, much also came from persons of means, often of large means.

In some cases these deposits by the wealthy or well-to-do in the new banks were for the laudable purpose of encouraging the poor and doubting; at once to set an example of confidence, and to strengthen the system by enlarging the guarantee fund. But in no small degree was this owing to the discovery that the interest secured to depositors, by law, was really in excess of that to be derived from any other form of secure investment. The government actually found itself paying a large premium for deposits, above a normal interest, not alone to encourage the first painful savings of the poor, but to increase incomes already told in four figures. This was an evil which Parliament was soon to be called to deal with. A brief act passed in 1820 allowed charitable institutions to deposit a portion of their funds with the commissioners of the public debt.

In 1824, the Savings-bank Act was importantly modified. The amount which might be deposited by any one person was limited to £50 the first year, and to £30 in any succeeding year, and deposits were not to be accepted after the total amounts, excluding interest, should amount to £200. A written declaration was required, the subscriber stating that he had not contributed to any other bank.

The provision of the Act of 1820 just recited was repealed, it appearing that vast sums were likely to be deposited by wealthy institutions, in order to secure the high rate of interest guaranteed by the government. The Act of 1824 further undertook, though as we shall see, not very successfully, to establish a pecuniary responsibility on the part of trustees. A legally and efficiently constituted bank should consist of twelve trustees, each liable for £50—or £600 in all.

In 1828, Mr. Joseph Hume, the famous champion of frugality, and foe of appropriations through a whole generation of Parliamentary activity, made an overwhelming attack upon the rate of interest guaranteed by the government to savings-bank depositors. Mr. Hume showed that in eleven years the treasury had paid more than it had received, by the amount of half a million sterling, a bounty of £40,000 or £50,000 a year to those institutions,—the excess of the last four years averaging £130,000, and that for the last year reaching £160,000. He denounced all payments of bounties to the savings-banks, declaring that the working classes should be put on a level with the other classes as to the rate of interest, the only difference in their favor to be the higher degree of security.

As the result of Mr. Hume's labors, Parliament, the same year, passed an Act consolidating the five existing acts regarding savings-banks, while amending the system in some important particulars.

The rate of interest was reduced from 4*l.* 11*s.* 3*d.* to 3*l.* 16*s.* 0½*d.*

The savings of minors might be deposited. Married women might deposit.

Charitable societies might deposit, not exceeding 100*l.* a year, or 300*l.* in all. Existing friendly societies might deposit their funds; but a society subsequently enrolled should not be allowed to deposit more than 300*l.*, including interest.

The amount that might be deposited by any one person was still further limited to 30*l.* in any one year, and to 150*l.* in the whole; while interest was to cease whenever deposit and interest together amounted to 200*l.*

Trustees were not to be held responsible except for their own individual wilful neglect or default.

In 1833, Lord Althorp, Chancellor of the Exchequer, had a bill passed which ingrafted a system of annuities upon the savings-bank system as it stood. Annuities were to be granted, upon sufficient payments, in amounts as low as £20. The money received on such account was to be computed at £3 15*s.* At this rate, a person buying at the age of 25, paying 6*s.* a month on a deposit with savings-banks, would become entitled, at 60, to an annuity of £20. The annuity was not to be assignable or transferable, except in bankruptcy or insolvency. In case of a failure to complete the necessary payments, or of death before the annuity commenced, the subscription should be returned.

In 1835, an act was passed extending the Savings-bank Act to Scotland, which, although, as we shall see, the first of the British kingdoms to introduce the system, had not hitherto been brought under the operation of the several savings-bank acts, much local opposition thereto having been manifested by the friends of the numerous provident institutions there established.

In 1838, Mr. Hume made an attempt to lower still further the interest paid to savings-bank depositors, but without success. Even at the reduced rate of 1828, he asserted that government still lost 10–15 shillings per annum on every hundred pounds deposited. In supporting Mr. Hume's motion, the *Westminster Review* said:

"Admitting, to the full, the importance of giving encouragement to economical habits, we deny that the payment of bounties is necessary for such a purpose, or that more is requisite than to extend to the parties that superior accommodation and greater security for investment which it is in the power of government to afford. This should form an inducement adequate to every salutary purpose. All that is given as interest beyond the market price of money is simply a premium upon fraud."

In the debate the Chancellor of the Exchequer quoted an official return to show that nine and a quarter million pounds of interest had been turned into principal, against only £286,000 drawn out. Mr. Hume might have added: No wonder, at such a rate of interest!

Hume's criticisms of the savings-bank system, as it stood in England, though severe, were in spirit friendly. William Cobbett and Thomas Atwood, on the other hand, assailed the character and credit of those banks in the most persistent and malignant manner. The Duke of Wellington indorsed the application of a Scotch colonel for a regimental savings-bank. "Has a soldier more pay than he requires? If he has, it should be lowered!" The *Times*, the famous thunderer, also lent its influence to the opponents of the savings-banks. One sagacious correspondent expressed the fear that workmen would become misers. Could absurdity and Toryism further go? Yes, it could, as the editor of the *Times* subsequently proved. I quote from two editorial articles of this journal in 1844:

"A laborer sixty years of age has, by hook or crook, saved 500*l.* We know such a case. The 500*l.* is the plague of his life. It would be a mercy to swindle him out of it except that he would probably feel a good deal at the loss. Could he forget it, he would be both a happier and better man. To begin with, it is a guilty possession. His father is maintained by a distant Union; his sons and daughters are all but forbidden his cottage. He invests it in secret. . . . When he dies his children will squander it, not in dissipation, but in the mere feebleness and incontinence of ingrained poverty."

Again,

"When a laborer has saved 50*l.* or 100*l.*, then the greatest difficulty comes. What is he to do with his money? He has caught a Tartar. His usual course is a very natural one, because it is the first course that offers—to open a public house.

He does so, and, generally and happily, loses his money. A laborer with 200*l.* in his pocket has a very fair prospect of the union workhouse before him. He is not commercial enough to open a shop, and small farms are obsolete. He may, to be sure, shut his doors against all his kith and kin, and *buy a selfish annuity* with the sum which will just keep him while he rots and dies."

Again,

"A domestic servant at the age of fifty-five or sixty finds she is incapable of further employment. She has saved 80*l.* Very creditable to her, of course, and very stingy she must have been to her nephews and nieces, to have done so much. But what is she to do with her 80*l.*? Across the Channel such a sum would be a mine of agricultural wealth. On this side the Channel, it would be a snowball in the sun."

The savings-banks had now come to their day of trial. The system had been in operation long enough to disclose its faults of construction, if such existed; and that such did exist was proved by a painful series of disclosures revealing gigantic frauds and inflicting a fearful blow upon all classes of provident institutions. This result was due to the gradual decline in the efficiency of the unpaid administration of the savings-banks.

"I find," said Sir John Cross, from the bench,

"that country gentlemen were willing to lend their names, as trustees, in the establishment of banks for the deposits of the savings of the poor, but were negligent, in too many instances, in giving their personal services, whereby the business fell almost entirely under the exclusive management of the person appointed as actuary."

But wherein could danger be found in the savings-bank system whose origin and thirty years' growth we have thus hastily sketched? Were not all the funds required to be paid in to the commissioners of the public debt? Were not principal and interest alike guaranteed? Is any higher security known in the financial world than the obligations of the British government? Who could be bold enough to impeach, who could be timid enough to distrust that security? What mattered it then, whether trustees were vigilant or neglectful? There is here no danger of the loss of the hard-earned money of the poor, through weak or wicked investments in second mortgages, seaside-hotel property, church property, steamboat property, or in wildcat railroads, such as have wrecked so many American savings-banks. Surely the deposits of the British savings-banks in the period under consideration must have been as safe as though they were in the Bank of England!

And yet great disasters befell these banks, through the one avenue left open to wrong-doing. The government did not become responsible until the deposits had actually been lodged with the commissioners of the public debt. So long as they remained with the trustees, or with their agent, the actuary, the deposits were liable to any form of financial misadventure. This was not the common understanding of the matter. Few depositors doubted that when they paid their money over the counter of the savings-banks, the whole power and wealth of the British government were pledged to restore it to them, with usury. Gen. Perronet Thompson, in 1848, told the House of Commons that he had been struck with profound astonishment to learn that such was not the case. Mr. Bright, in 1851, declared that nine out of every ten depositors believed that they had the security of government for whatever money they invested. Not only works of high authority, like McCulloch's *Commercial Dictionary*, Porter's *Progress of the Nation*, *Chambers' Magazine*, and others, but even the school-books had taught this to the people. Yet, when the blow fell, it was found that the heads of the poor were literally unprotected.

Let the fate of the Cuffe Street Bank of Dublin stand for the whole class of fearful failures which for a time shook the whole system of savings-banks within the British Islands.

This bank had been established, among the first, in 1818, on a highly disinterested basis and under the best of impulses. Men, the highest in state and church, were its trustees, men whose names were sufficient to evoke the hoards of gray-headed misers. Only one person enjoyed a salary. Mr. Dunn, the sexton of the parish church, was made actuary, at an annual compensation of £5. All the other services rendered in connection with the bank, into which in a single year £100,000 were paid, were gratuitous, and dear, indeed, those services proved. Dunn was a very correct man except in the trifling matter of accounts. He received the money of depositors, gave them receipts for the deposits, paid their interest duly, and turned in to the commissioners of the public debt so much as it pleased, or amused, him to do. When the bank was finally closed, there were £90 in the bank with which to meet liabilities amounting to £56,000—a result worthy of a *very* able bank manager in Illinois, say in 1835 or '36 or '37. Strange that through so many years of discussion, through so many years during which hundreds of thousands of persons had been intrusting their little fortunes to these institutions, this liability had not even once been seriously considered! Yet it will appear at a glance, that the actuary of such a bank, dealing with large numbers of small depositors, most of them ignorant, and with money left left on deposit for years, might, through the negligence of his trustees, carry on a gigantic system of robbery which should only be detected when the tide should turn, and the demand for the withdrawal of deposits should test the truthfulness of his accounts.

Other failures followed, at Tralee, St. Albans, at Killarney, at Rochdale, at Carnarvon, at Billston, at Brighton, at Canterbury, at Hartford, at Auchterarder. All parts of the United Kingdom—England, Ireland, Scotland, and Wales—suffered from frauds committed by men of all professions and of all religions. Protestants and Catholics, dissenter, high-churchman, and Quaker, priest and layman, joined in this round of knavery. The fearful losses to the poor and straitened resulting from these failures made it evident to every one that something must be done to create a proper responsibility for savings-bank deposits; but unfortunately, about every specific proposal brought into Parliament from 1844 to 1860, to increase the security of deposits, met with direct or indirect opposition from the existing savings-bank interest, led by Sir Henry Willoughby. Sir Charles Wood, and, after him, Mr. Gladstone, had repeatedly been foiled in efforts to improve the savings-bank system. The banks could not, indeed, question the right of Parliament to regulate that system. The banks were the creatures of Parliament, called into existence by the Act of 1817. But the savings-bank interest could and did asseverate, at every proposal for introducing larger responsibility and larger accountability, that trustees would resign and depositors withdraw their funds, *en masse*, if this or that proposal were carried.

It would be hard to say that this was done factiously; but it seems clear that repeated triumphs, in this war of demonstration, had made the savings-bank interest wilful and arrogant, in a degree which caused them to set themselves against measures of reform, not only moderate in themselves, but absolutely necessary to secure the proper discharge of official trust, measures wholly in the interest of the masses of the people, proposed in Parliament by financiers of the highest reputation. The Act of 1848, it is to be observed, applied only to Ireland.

At this point, Mr. Gladstone, with one of those inspirations which have made him what we might almost call the Poet and the Prophet of Finance, determined to give over the direct assault upon this vested and intrenched interest, and to offer to the people of England a new scheme for investing their savings; a scheme which should not only give absolute security for all moneys deposited under it, but, by giving depositors a choice of investments, would necessarily bring a strong constraint upon the existing banks to make greater efforts to command the public confidence.

The tables which related to the deposits in the savings-banks, from their first establishment in 1817 down to 1861, intimated to the eye of the financier that the system, as it stood, had nearly reached the limits of its usefulness. Between 1825 and 1835, the increase in the aggregate amount of deposits had reached 50 per cent. From 1835 to 1845, the increase had risen to 98 per cent. Between 1845 and 1855, the increase had been less than 10 per cent. In 1858, '59, and '60, a certain reaction had, it is true, appeared in favor of the savings-banks, but the rate of increase from 1860 to 1861 was but seven tenths of 1 per cent.

But we do not get the full proper force of these facts without considering that the period from 1851 to 1861 had witnessed the most rapid and considerable advance in the wages of labor which this country had known. It was easier for a laborer to save £2 in 1860 than to save £1 in 1831 or 1841.

It could not be doubted that, in some degree at least, this decline in the ratio of increase in the deposits of the savings-banks was due to the effects of the gigantic frauds which had been committed in each of the three kingdoms, and to the wide notoriety given these frauds by the actuarial and Parliamentary investigations following them. A statesman, or economist, in 1861, might well have believed that, if the root of the evil could be reached, the instincts of frugality would revive and a vast increase of savings would take place. Such an expectation was not unreasonable from the point of view of 1861.

In February of that year Mr. Gladstone brought forward his scheme of postal savings-banks. In thus associating the name of Gladstone, it is not meant that the original suggestion for using the postal machinery for this scheme was his, or even that the constructive details of the plan submitted were elaborated by him. The honor which Mr. Gladstone has justly derived from the Postal Savings-bank law is that of the statesman and financier who, on his responsibility as a minister of state, makes choice among the many schemes of irresponsible projectors; truly discerns that which is possible; selects the occasion when any scheme at all could be carried; and by his eloquence and authority, brings to pass a great national reform.

The Postal Savings-bank Act, which became law May, 1861, authorizes the Postmaster-general, with the consent of the Commissioners of Her Majesty's Treasury, to designate such of his offices as he shall think fit, to receive deposits and repay the same, under regulations to be prescribed. The system was started in September, 1863, with 301 offices; 254 more were added in October; 338 in November; 784 in December. By February, 300 offices had been opened in Ireland and 299 in Scotland. The present number of designated offices is about 6,000. This number stands in strong contrast to the number of the trustees' savings-banks in 1861, which was only 638, throughout the United Kingdom. One entire county in England, nine in Scotland, four in Ireland, were at that date without savings-banks. Of places above the position of hamlets, there were in 1861, says Mr. Lewins, no less than 3,500 without banks; and not only so, but 150 of the number were towns of more than 10,000 inhabitants. Mr. Lewins reaches the result that of the two and one half millions of persons belonging to the class for whom the savings-banks were especially designed, but who were not depositors, at least one half were the breadth of an English county distant from any place where they could place their savings, and the rest of them were distant from six to twenty miles from any such repository. Nor did the rural districts and smaller cities alone profit by increased facilities. Four hundred and fifty-two offices were designated for the receipt of savings in the city of London; while cities like Dublin, Edinburgh, Birmingham, Manchester, Liverpool, and Glasgow, had between fifteen and thirty offices.

While thus bringing to the working classes opportunities for a prompt and early investment of their funds, the Act of 1861 offered a clear and unquestioned security from the moment of deposit to that of repayment, for the whole of the sums so invested.

"Every deposit received by any officer of the Postmaster-General, appointed for that purpose, shall be entered by him at the time in the depositor's book, and the entry shall be attested by him and by the dated stamp of his office; and the amount of such deposit shall, upon the day of such receipt, be reported by such officer to the P. M. G., and the acknowledgment of the P. M. G., signified by the officer whom he shall appoint for the purpose, shall be forthwith transmitted to the depositor; and the said acknowledgment shall be conclusive evidence of his claim to the repayment thereof, with the interest thereon, upon demand made by him on the P. M. G.; and in order to allow a reasonable time for the receipt of the said acknowledgment, *the entry by the proper officer in the depositor's book shall also be conclusive evidence of title for ten days from* the lodgment of the deposit; and if the said acknowledgment shall not have been received by the depositor through the post within ten days, and he shall, before or upon the expiring thereof, demand the said acknowledgment from the P. M. G., then the entry in his book shall be conclusive evidence of title during another term of ten days, and *toties quoties;* provided, always, that such deposits shall *not be of less amount than one shilling, nor of any sum not a multiple thereof.*"

Here we see the wide difference in the security given to the depositor. The aggregate of deposits in the trustees' banks in 1876 was £43,316,325, while the security given by unpaid officials was only £319,460, and by paid officers £380,365, an aggregate of £699,825, or less than £1 on £60 of deposits, as a guarantee against robbery, negligence, or embezzlement.

Under the Act of 1861, the depositor deals directly with a responsible government. It is the nation which receives his shilling at the post-office window. The entry in his book of deposit, made in his presence, is conclusive evidence of title, till the Postmaster-general's receipt arrives. The whole United Kingdom becomes pledged to restore his money, with interest, within ten days of demand. The government thus becomes debtor to every depositor, in the full amount of his deposit. With security so ample, the depositor is assumed to be willing to accept a low rate of interest; £2 10s. is annually added as increment to the principal. With a rate of interest so much below the trustees' banks, no great drain on these institutions was anticipated as the result of the postal savings-banks. The officials of the latter were instructed not to disparage the security of the older banks, or seek to draw funds away from them. Only those would remove their deposits to the new banks who were more than usually impressed by the want of guarantee afforded by the existing system, or had special reasons to be doubtful concerning the management of their own local banks, or who found more satisfaction in a low rate of interest with the feeling of absolute security.

Of the first seven millions of deposits in the postal savings-banks, only £1,100,000 came by withdrawal from the old banks. Of subsequent deposits, the proportion obtained by withdrawals was still smaller, so that, while the funds held by the debt commissioners on account of the post-office banks, grew to £36,000,000, in 1881, with about 200,000 depositors, the trustees' banks increased from £40,500,000 to £44,100,000. The aggregate deposits in both species of banks increased, in 18 years, by 93 per cent. The inference drawn from the facts recited, viz., that the postal savings-banks have not so much divided existing patronage with the trustees' banks as have created a new business of their own, seems fully justified. Yet the competition of the government banks has not been wholly without effect upon the vitality of the old banks, the number of which has been reduced since 1861 mainly by voluntary closing and the transfer of funds to the postal-banks.

Time will not allow us to enter minutely into the machinery of this system. Its advocates claim for it superior security, despatch, secrecy, cheapness, and adaptation to popular wants, leading to the deposit of small sums and the creation of a new class of depositors. Fraud has not been entirely eliminated from the receipt of the savings of the poorer classes. One postmaster and one clerk, at least, have proved defaulters in an aggregate sum between £1,000 and £2,000; but this is no concern of the depositors, has occasioned them no loss, and has given no shock to the instincts of frugality.

Such, with special banks for the army and navy, is the English system of savings. It is based on the following principles, the growth of which to popular recognition and government sanction we have traced through the foregoing account.

1st. That the cultivation of habits of frugality among the poorer classes, and the accumulation of at least some small reserve against the first shock of disaster, is a matter of so much concern to the state, both for its economic progress and its political and social security, as to deserve exceptional encouragement, even in spite of well-founded objections to the paternal system of government. Indeed, *these very objections furnish the strongest argument* in favor of the efforts of the government in this direction, as in the interest of *the economy of state action.* "To save money," says Mr. Greg, "and to have invested it securely, is to have become a capitalist."

"To have become a capitalist is, for the poor man, to have overleaped a great gulf; to have opened a path for himself into a new world; to have started on a career which may lead him, as it has led so many, originally not more favored than himself, to comfort, to reputation, to power."

2d. That the encouragement to be afforded by the state, to the growth of habits of frugality among the masses, is not to be given through bounties, but through added security.

3d. That the habits of frugality, of which the funds of the savings-banks are the fruits, and which, in turn, generate instincts of frugality, sobriety, and industry, are of so much more value to the commonwealth than the funds themselves, that no consideration whatsoever, relating to the use of these deposits, should be allowed to cause the slightest deviation from the course which secures their absolute safety.

Mr. Lewins justly remarks: "It is a mistake to suppose that the primary or sole object of savings-banks was to *build up capitals* for investment in business or trade."

That the English banks have justified the care and pains of their creators and guardians, if they have not fulfilled all the expectations of their most sanguine, or even of their least sanguine friends, is not to be questioned. "Contemporaneously with the growth of savings-banks," said the London *Review,* many years ago,

"we have seen a growth in civilization among the working classes. Thrift has not affected all that amelioration of morals which contrasts so happily the midyear of the century with its younger ones, but it has been no mean confluent to the tide of progress, the softening of manners, the spread of education, the humanizing of popular sports and pastimes, the waking up of the natural dignity and self-reliance of the people—the broad and indispensable basis of every other virtue."

During the two human generations which have followed the legal establishment of savings-banks in England, the plan of banks for the savings of the laboring classes worked its way into favor and adoption upon the Continent of Europe. A report rendered to the French Assembly in 1875, estimated the amount of deposits held at that time in Europe at $1,180,000,000. Even Finland has its system of savings-banks.

Although the French people are admitted to be among the most prudent in the world, the amount of money held by the savings-banks in that country has never equalled the amount so held in England. This has been due in part to the inherited instincts of hoarding among the peasantry, and in part to the popular tenure of the soil, which allows the free investment of savings in the purchase of land. In France, at the latest date for which I have the figures, only 1,152 offices were open for receiving deposits, against four or five times that number in England; 1,775 towns were not provided with offices, while of the 34,039 rural communes, only 170 have savings-banks. In 1835, the maximum single deposit was placed at 3,000 fr.; in 1845, this was reduced to 1,500 fr.; in 1851 to 1,200 fr.

What of savings-banks in the United States ?

The first savings-bank in the United States was established at Philadelphia in 1816, the year before the English Act incorporating the so-called trustees' banks. During the three years which followed, banks went into operation in New York, Boston, Baltimore, and many other places—especially in New York. Legislatures soon recognized the importance of this new creation. Especial provisions were made by law in several States for the security and promotion of such institutions. The banks then called into existence are stated, all or most of them, to be still in existence. The system has at no time, among us, encountered any overwhelming calamity, and its dimensions have steadily increased.

Indeed, a casual examination would seem to show that savings-banks in the United States have been, not only a success, but a magnificent success. Fourteen States, including New England, New York, New Jersey, Pennsylvania, Maryland, Ohio, Indiana, Louisiana, and California, show, by statistics returned in 1882, an aggregate of $968,000,000 deposits, with 2,720,000 depositors. Of this enormous aggregate of deposits 44 per cent were in the banks of New England, and 84 per cent in those of New England and New York united.

Compared with the vast body of accumulated wealth, the £80,400,000 in the savings-banks of the United Kingdom, seem petty indeed. The deposits of New York State ($387,-000,000) alone, reached nearly this sum.

But if we look more carefully into the constitution and operation of the savings-banks of the United States, we find that they are scarcely kindred to those of Great Britain. As we have seen, the system, in the latter country, has been developed under the domination of the idea that the inculcation of frugality among the working classes is of such transcendent importance for the economic and social prosperity of the state, that the savings of these classes should enjoy certain privileges in which the well-to-do classes should not participate, and, in consideration thereof, should be subject to regulations and restrictions to which the mass of floating capital in that country would not willingly submit.

To this end, the maximum amount which any person may deposit in the savings-banks of the United Kingdom is rigidly prescribed, and ample measures have been adopted to secure conformity to the requirements of the law in this respect.

Occasional evasions doubtless occur, as they must under any system; but public sentiment in England recognizes the justice of the restriction, and the officers of few banks lend themselves to artifices to defeat a wholesome rule. The three millions and more of depositors, in the trustees' and the postal-banks, are at least three millions of real persons depositing in good faith. Not all are manual laborers, or persons of the smallest means. People of property, lawfully may and actually do, take advantage of the opportuity offered them, to the limit fixed by statute (£150 deposit, interest to cease at £200); but the great bulk of the depositors are persons of small means, whose deposits represent no small exercise of care, pains, and self-denial.

Again and again have "raids" been made in Parliament and in the press, to break down this regulation, at least in part, and to secure the liberty of investing some share of the deposits in commercial paper or in real-estate mortgages, on the double plea that the depositors would thus derive a higher rate of interest, and that the accumulated funds of each district would thus be available for its own improvement and development; but always the same stern reply has been given by government, always meeting a sure response in the masses of the people and from their representatives in Parliament, that the first small savings of the poor are too sacred to be subjected to any risks whatever; that the habits of economy, forethought, and self-control, for which the savings-banks deposits stand, and which in turn they conserve and promote, are of far greater consequence than even the large addition made thereby to the capital of the country; that in the answer to the question, whether a workman's few and hardly gathered pounds shall be saved or lost in bank, may depend the issue whether he shall be careful, frugal, and sober, having an interest in the peace and order of society, bearing his own burden well, and bringing up his children to be good workmen and useful members of the public body, or whether he shall become reckless, wasteful, dissipated, a haunter of gin-shops, a worshipper of St. Maunday, his own industrial efficiency impaired, with children neglected, unkempt, untaught, growing up to be pests of society, drunken vagabonds, —it may be pauper or criminal. With such a view of the importance of protecting the first small accumulations of the working classes, the lawmakers of England have always returned an uncompromising negative to every proposition to weaken the security of the savings-banks deposits, whether under the plea of ampler returns to depositors, or through the claim of the commercial and industrial interests upon the funds so sequestered.

In the United States, on the other hand, the deposits in savings-banks are largely, we may safely say, predominantly, the property of people above the class for whose benefit the English banks were created and were maintained. Either through the absence of any limit imposed upon deposits, or through allowing the accumulation of interest without check, or through the evasion of restrictions upon amount, facilitated by inadequate provisions of law and encouraged by public sentiment, if not aided by the officials, a very considerable part of the floating capital of the country has come under the cover of the savings-bank system.

Examination has revealed that, in some States, depositors of the wage-labor class number but one half, sometimes but one third, of the total number, while a very small fraction of the number of depositors own one half of the aggregate deposits. Deposits to the amount of $10,000, $20,000, $40,000, and even larger sums have not been unknown among the savings-banks of one or another of the States whose statistics have been referred to above. In our neighboring State of Connecticut a single depositor recently reported as owning $34,833 in a single bank. Many persons deposit in several banks, thus swelling the apparent number of depositors, and reducing the apparent average of deposits. Many deposit in the names of members of their families, who neither earned the money so deposited, nor are intended to control it. The very figures of the number of depositors in the New England States and New York would prove that the number of depositors is thus artificially inflated, were the facts not notorious. Thus, in 1882, we have, in New Hampshire, 104,692; in Rhode Island, 102,991; in Connecticut, 225,366; in Massachusetts, 738,951; in New York 1,036,106 !

I have not, thus far, adduced this fact of large individual deposits as a fault of the American system, but only as showing how unlike the English system it is. Our American savings-banks are not savings-banks in the sense in which that term is applied abroad. The comparison, then, of the aggregate of deposits here with those of the savings-banks of Great Britain becomes misleading. The two systems only in part occupy the same sphere.

But how about this feature of the American system ? Is it beneficial or mischievous ? One might naturally ask why persons of property, and even large capitalists, should not come under the savings-bank system, if they find it for their interest to do so. One might, even, inquire whether such an increase of deposits would not strengthen this system, and by sharing the expense of management, give to the working classes and persons of small means, for whom the system was nominally established, the benefit of its provisions at a reduced cost, and with a higher degree of security.

To this I reply:

1st. If the state really creates a privileged institution for the purpose of encouraging frugality in its beginnings, and protecting in an especial degree the poorer classes from the casualties of life (and, otherwise, the whole pretence of savings-banks, the very form of special legislation in their behalf, and special supervision of their operations, and even the name itself, of savings-banks, under sanction of the state, should be done away), it is altogether beyond the purpose or legitimate effort of the institution that large capitalists and people of wealth should receive the benefit of it.

2d. Large deposits are the most dangerous portion of the liabilities of savings-banks. When money is in demand, shrewd capitalists are the first to require their funds for more profitable uses, and the savings-bank is liable to be called upon in such an emergency to part with its best and most saleable securities, which may not be replaced in easier times without loss. And it is equally true that when money becomes a drug, through the prostration of industry, it is the large depositors who are the first to withdraw their funds, through impatience of the small dividends which the savings-banks are able to make. The small savings-bank depositor well knows that he can do nothing better with his money than to let it lie in bank; the large depositor may think that he sees something more profitable, and thus the bank may be required to sell good permanent securities, which have shared in the temporary depression of prices, or to call in loans, to the distress of business men, or to the further aggravation of the weakness of the real-estate market. During the savings-bank crisis of six years ago (1876), the deposits below $3,000 largely remained, while deposits of $3,000 and upwards were withdrawn in nearly double that amount.

It is not from the apprehensions of small depositors that the chief danger to savings-banks arises, but from the impatience of large depositors at small dividends. The former cause might seriously threaten a single bank, here and there, which, however, if really solvent, and properly supported through the strain, ought to hold out till the panic was over. The latter cause is far more searching and far-reaching, and fraught with greater peril to the existing system.

3d. But the chief objection to the admission of large deposits is found in the almost inevitable tendency to pervert the whole system from its original and proper constitution and operation.

Let us assume that of the $968,000,000 of deposits in the fourteen States already mentioned, one half (or about 20 per cent above the amount held by the savings-banks of England) really represents the earnings of manual laborers, domestic servants, persons with very small salaries, or living, without occupation, on scanty means—the classes, in short, for whose benefit the banks were supposed to be created—the classes whose necessities alone would justify the peculiar privileges and immunities sought to be conferred by the laws relating to the system. For these classes absolute security is the first condition, in the eye of the economist or the social philosopher, as it ought to be, in the eye of the legislator. To obtain that degree of security, depositors will rightfully consent to restrictions upon the investment and use of their small capitals, which restrictions would be inconsistent with a large annual return.

The remaining half of the deposits—by this supposition, which I believe to be a fair one—if all the savings books belonging to each family were consolidated, is the property of classes which are not within the view of those who originated the scheme of savings-banks. To these classes absolute security is of less importance; they are rightfully prepared to take some degree of risk to the principal for the sake of higher interest. What that degree of risk shall be, will depend upon the peculiarities of the individual case, and the individual character of each proprietor of capital.

Having come into the savings-banks, therefore, to get the benefits of a system primarily established for others, and to secure the enjoyment of special privileges and immunities conferred by law, whose only justification is found in the exceptional necessities of the working classes, and of persons of small and strictly limited means, the influence of this class of depositors, so numerous and so respectable, is naturally thrown in favor of relaxing the restrictions on the investment and use of the funds, with a view to secure an increase of dividends. They are willing, for themselves, to take more risk for higher pay, and, being in enjoyment of valuable privileges and immunities conferred by law for the protection of the funds of another class, they are desirous of reaping a larger profit than the normal and proper object of the system under which they have come, will allow.

Nor only this class of depositors. The community at large has an interest adverse to the locking up of so large a body of capital with the rigid restrictions required for absolute safety. The community might have assented, without demur, to use the $480,000,000 which we have suffered to represent the first class of deposits, dealt with most scrupulously and punctiliously, for the sake of the great social and economical interests involved; but when it comes to adding as much more, belonging to those who can afford to take a certain risk, and are, probably, with other portions of their wealth, actually taking considerable risks for the sake of considerable gains, the community naturally rebels at seeing such a block of capital locked up, out of the reach of the active business interests of the moment, where "money" is being lost with one hand and gained with the other. The community feel, and not unnecessarily, that this wealth is needed for the improvement of the soil, and for the development of natural resources; for the erection of mills and machinery, and for the support of current production.

It is to the invasion of these interests, thus hostile to the preservation of the savings-banks, in their integrity, re-enforced as they have been by that impatience of slow gains, which is essentially characteristic of the American genius, that we owe those successive relaxations of the system, legislative or administrative, which have carried many banks so far away from their original course, and have brought not a few, within the past ten years, to insolvency, entailing immeasurable distress upon the more helpless classes of the community.

To the credit of the old banks generally, it should be said, however, that the worst faults have been created by the new crop of institutions which sprang up during the speculative period following the suspension of specie payments in 1862, and whose officers were without the experience and sound prescriptions which held these older rivals within a narrower but safer course.

Of those faults it is not becoming to speak here at length. Nor do I desire to charge upon the system the errors or crimes of individuals. But the effects of a general relaxation of prudential rules can be seen, even on the face of the statistical tables which sum up the aggregate transactions of all the banks of a state. Among the most salient features of the situation are:

1st. The neglect of United States stocks.

2d. The increase in real estate owned, whether for banking purposes or as the result of foreclosures; extensive loans on real property outside the state; extensive loans on unproductive property, most of all, perhaps, on church property.

3d. The acquisition by the savings-banks of railroad stocks and bonds, and of national-bank shares, in vast amount, and of even more questionable securities.

4th. The increase of loans upon personal security and for commercial purposes.

These have been the faults to which a desire to attract and retain the deposits of people of means has led the savings-banks of the United States.

I reach the conclusion that our so-called savings-banks are not savings-banks in the sense in which that term was used in England; in which it is used throughout the bulk of economic literature; in which most people, even in the United States, understood it; or in which it is used wherever the especial privileges and immunities conferred by law, in most States, upon the depositor of these institutions, are to be justified to the public. The typical savings-bank of the United States is a compromise between the English savings-bank, the ordinary bank of deposit and discount, and the *Crédit Foncier* of the Continent of Europe. Holding this composite character, and those ambiguous relations, it has been managed, generally speaking, with great shrewdness and skill. Here and there, financial incapacity on the part of officers, or wanton recklessness in dealing with the property of others, or downright fraud in management has wrecked an institution, with all the melancholy incidents which follow such a disaster; but in the main, it must be said that the affairs of our savings-banks have been conducted with integrity and good judgment.

This, however, leaves open the question whether there should not be a return to, or at least towards, the original type of the savings-bank. To me it appears that while the functions which the savings-bank has been wont to perform in New England are not absolutely incompatible, yet this union in one institution is likely, on the one hand, to impair somewhat the safety of the funds which the savings-bank was created to guard, and on the other hand, must take something from the desired mobility and adaptability of that vast body of floating capital which has been attracted into the savings-banks by special privileges and immunities. If this is so, would it not be the part of wisdom to restrict deposits more and more closely to the classes which have been so often decided as the original and sole proper beneficiaries of these institutions, driving the great masses of floating capital to find employment through the discount banks, through brokers, or other agencies; and upon the deposits remaining, to impose with gradual increasing severity, restrictions that will effect the highest attainable degree of security ?

MONEY AND BIMETALLISM

REMARKS AT THE INTERNATIONAL MONETARY CONFERENCE, 1878

45th Congress, 3d Session. Senate Ex. Doc. 58, PP. 73-79

Mr. Walker's first contribution in print to the discussion of monetary principles was the volume entitled, *Money*, published in 1878. This was soon followed by a similar work, *Money in its Relations to Trade and Industry* (1879). Seventeen years later, in 1896, a third volume, *International Bimetallism*, was added. These three works represent the preparation given to courses of lectures delivered at Johns Hopkins University, the Lowell Institute in Boston, and Harvard University. In view of these easily accessible volumes it is not necessary to reprint any considerable portion of the many magazine essays written by the author on this subject. The following are selected as illustrating in special ways, points of view with which Mr. Walker's name has been associated in the monetary discussions of the last score of years.

Mr. Walker was appointed one of the three delegates from the United States to the International Monetary Conference held in Paris, August, 1878. At the fourth session, August 22d, he made the following remarks.

REMARKS AT THE INTERNATIONAL MONETARY CONFERENCE, 1878.

The distinguished Delegate from Switzerland contends that the two propositions * submitted to the consideration of the conference are, in effect, but one; that the first proposition, upon which the views of the Conference are immediately solicited, does, in fact, raise the question of the "Single or Double Standard," so-called; that is, of monometallism or bimetallism.

To this it would appear a sufficient answer to say that the most important event in the monetary history of the past ten years, the event which has caused the evils, and which threatens the further evils, the experience of which and the apprehension of which have induced the United States to invite this Conference, was the change of Germany, not from the Single to the Double Standard, or *vice versâ,* but from silver monometallism to gold monometallism; and that, consequently, when the members of this assembly are asked to ex-

* I.

It is the opinion of this assembly that it is not to be desired that silver should be excluded from free coinage in Europe and the United States of America. On the contrary, the assembly believes that it is desirable that the unrestricted coinage of silver, and its use as money of unlimited legal tender, should be retained where they exist, and, as far as practicable, restored where they have ceased to exist.

II.

The use of both gold and silver as unlimited legal tender money may be safely adopted:

First.—By equalizing them at a relation to be fixed by international agreement, and

Secondly.—By granting to each metal, at the relation fixed, equal terms of coinage, making no discrimination between them.

press an opinion whether it is desirable that the demonetization of silver should proceed to the complete reduction of that metal, throughout Europe and America, to the rank of token-money, and to the banishment of the residue to the East to serve the purposes of barbarous ornament, they are not asked to consider a proposition which necessarily raises the question of bimetallism or monometallism.

But I am not content with this short answer to the objection of M. Feer-Herzog.

The proposition to which the attention of the Conference is immediately solicited raises in distinct form, and free from the embarrassments of economical theory, a practical question of vast importance to Europe, to America, and to mankind. Bringing up to view certain accomplished facts, and a movement of forces still in progress in the same direction, it asks whether it is desirable that this movement should continue to its full completion or should be arrested, and, if practicable, and so far as practicable, be reversed.

What is it which is thus in contemplation as accomplished or as imminent?

During the past five or six years, silver, which, having been money from the earliest recorded period, had remained the sole or principal money of nearly every important state until and even after the discovery of the gold mines of California and Australia, and which, down to 1873, was still the sole money of many prosperous and progressive nations, has been suddenly and violently thrown out of its use as money.

Silver has not ceased to be money as the result of natural causes, that is, of economical forces operating upon the choices of individual producers or exchangers. The very suddenness of the change, and the violence by which it has been accompanied, would suffice to show this, did we not know that the rejection of silver has been effected by action distinctly political, the laws or decrees of government,—those laws and decrees having, it is notorious, been suggested and urged by the political economists of a certain school, incited thereto, in no small measure, by the recommendations of a Conference not wholly unlike the present. I refer to the Conference of 1867.

We are not, therefore, asking this body to decree the reversal of a law of nature in asking the consideration of the expediency of arresting and, so far as practicable, reversing the movement for the demonetization of silver. So far as that movement has proceeded, it has been wholly a work of man's accomplishing, as it was of man's devising. The action of Germany in 1871 was wholly gratuitous and of choice, not compelled or even suggested by any commercial, industrial, financial, or fiscal stress or exigency.

That action, involving important changes in the monetary policy of the Scandinavian kingdoms and of the Latin Union, was, as we conceive, taken under bad advice, with partial or mistaken views of the proper relations of silver to the trade of the civilized nations, in their present state of development, and with little or no consideration of the broader question, as to the effects upon the production of wealth which would be wrought by so great a diminution of the money supply of the world.

As the Conference of 1867, wholly absorbed in the consideration of the means of securing International Coinage, did incontestably exert a powerful influence in initiating the movement for demonetizing silver, it remains for the Conference of 1878, with a more sober judgment and a larger view of human interests, instructed as the nations have been by the bitter experience of the past few years, to put forth its hand to stay the progress of that demonetization which has already brought such mischiefs upon trade and the production of wealth.

In referring thus to the Conference of 1867, I have no wish to disparage the object of International Coinage.

A uniform coinage of money by all the civilized nations would offer certain, definite, appreciable, but not momentous, practical advantages, and would be, moreover, of considerable sentimental importance. It is worth the making a certain sacrifice of national prejudices; it is worth the incurring a certain, definite expense, in recoinage, and a certain temporary embarrassment of trade, pending the readjustment of monetary systems consequent thereon. It is not worth the sacrifice of a single vital interest of mankind; and the Conference of 1867, in proclaiming a crusade against silver, for the sake of forwarding the cause of International Money, did a mischief whose consequences are even yet only half unfolded.

I have said that the action of Germany was taken, under advice of professional economists, with partial or mistaken views of the proper relations of silver to the trade of the civilized nations, in their present state of development. On this point it is imperative, that, with profound respect for the eminent economist, the Delegate from Switzerland, I antagonize, as fully as I may, the position he has here taken.

M. Feer-Herzog expects and desires to see, in the immediate future, the nations of the world divided into two great groups, in the respect of their monetary circulation,—the civilized states using gold as the sole standard of value, and the uncivilized, silver.

On the contrary, it is here maintained that there are not more than three territorially extensive countries in the world—and the recent experience of Germany shows that she is not one of them—which could possibly maintain a single gold standard, upon true economical principles.

If there is any one thing which political economy declares with an unfaltering voice, it is that the principal money circulating in the hands of the people of any country should be of full metallic value. The coinage of *billon,* or token-money, is indeed admitted by political economists, but only as applied to what may legitimately and strictly be termed the "small change" of trade.* To extend the operation of a heavy seigniorage to the main body of the money of a country—what is it but to corrupt the coin, and to generate in the public body that *morbus numericus* of which Copernicus wrote that it is more fatal than civil war, pestilence, or famine ?

Better, far, inconvertible paper money than a debased coinage; for the former, at least, does not deceive the sense

* Quand la loi limite rigoureusement le billon aux deux usages indiqués ci-dessus, celui des appoints et celui des menues transactions, comme celles auxquelles donne lieu *l'achat journalier du pain, de la viande et du charbon pour une pauvre famille*, cette sorte de *faiblage* des pièces de cuivre n'a aucun inconvénient.—*M. Chevalier.*

of the people. If a wrong, it is a wrong confessed, and which is always suggestive of its proper remedy.

The universal gold monometallism of Europe which has been recommended, would, in most countries, amount simply to this: a scanty coinage of gold, held mainly by the banks for the settlement of international obligations, and a vastly preponderating circulation of debased silver.

England, in exacting a heavy seigniorage upon the shilling piece, the florin, and the half-crown, carries the principle of *billon* to the verge of safety; though, with an extensive popular use of sovereigns and half-sovereigns, the greater part of the circulating medium is still of full metallic value; but in how many other countries of Europe is there a sufficiently vast accumulation of wealth, a sufficiently high range of wages and prices, a sufficiently rapid circulation, to attract and retain the amount of gold (especially under the diminishing productiveness of the mines), which would be necessary to constitute the major part, in value, of the actual money of the people ?

If gold monometallism in Europe is to mean, as, in this view of the case, it must mean, a principal circulation of debased silver, with little or no gold in the hands of the people, but pretty much the whole gold coinage held by the banks, for the purpose of international trade, better inconvertible paper! Why not realize at once the scheme of the British Birmingham school of a generation ago,—A "national money" for internal circulation only, of no value whatever (saving, thus, the whole cost of debased silver coinage); a purely "non-exportable currency," with a money of "intrinsic value" only for foreign trade, *i. e.*, for international exchanges ?

Indeed, what is gold monometallism on such terms, but the full realization of the projects of Matthias Attwood and Jonathan Duncan ?

So much, in justification of the remark that the action of Germany in 1871 was taken with partial or mistaken views of the proper relations of silver to the trade of the civilized nations in their present state of development. If those nations only are to be called civilized, which are prepared to receive gold as their principal money, their sole money of full value, we must, perforce, take a somewhat lower view than we have been wont to do, of the progress of mankind.

But what of the assertion hazarded, that the crusade against silver was undertaken with little or no consideration of the effects of demonetization upon,

1st. International Exchanges ?

2d. The Production of Wealth ?

On the first point we have heard the remarks of the eminent chairman of the British Commission. No man, perhaps, knows so well as Mr. Goschen the difficulties, the extreme and painful embarrassments, which have been introduced into international exchanges by the recent political action respecting silver as a money metal,—embarrassments which are certain to be perpetuated in time and to become aggravated in degree, if the movement which we have noted in progress is not to be arrested and reversed.

Mr. Goschen, in his remarks of Monday, made reference to a normal price of silver. . . . I must understand this to mean 60*d.* or thereabouts, of British money, per oz., being the price from which standard silver never departed widely, prior to 1873. From this I infer that Mr. Goschen concedes to the French law of 1803 the virtue which is attributed to it by his distinguished countrymen, the late Professor Cairnes, Mr. Stanley Jevons, and the late Mr. Bagehot, viz., that the French law served as "the connecting pipe" (to use Mr. Jevons' phrase) between the two reservoirs, severally, of gold and silver, which would otherwise have been subject to independent variations of supply and demand, or as an "equalizing machine" (to use Mr. Bagehot's expression), by which the bimetallic countries, taking the metal which fell and selling the metal which rose, kept the relative value of the two at its old point.

Thus it was, and thus only it could have been, that silver came to have a "normal price"; that a par of exchange between gold countries and silver countries was established and maintained.

Was this adjustment of exchanges desirable ? Who gained by it ? Who, if any one, lost ?

That England profited greatly by it, from first to last, and in every way, it would be preposterous to deny. That India, China, and the other exclusively silver countries greatly profited by it, on the whole, no one here probably will question. How with the bimetallic countries ? Did they perform this great service to others at a loss to themselves ?

To assert that France and the countries associated with her lost by this arrangement, merely because England and India profited by it, would be to proclaim anew the brutal doctrine which we know as the Mercantile Theory, which it was the great work of Adam Smith to expose to the contempt of mankind.

But if we cannot give this reason for believing that this great service to the world was rendered by the bimetallic states at a cost to themselves, what other reasons can be given ? May we not, on this question, trust to the sagacity of French financiers, French statesmen, and of the French people themselves, who maintained the policy of the year XI for seventy years, and, though compelled by the action of Germany to suspend the operation of that law, still, in the language of our president (M. Say), look forward to the resumption of this beneficent function, when the present exigency shall have passed away ?

For myself, I cannot but believe that, while France might well have wished that the burden should be shared in a larger degree by others, it was better, even for France, that she should do it alone, than that it should not be done by any.

But what, Mr. President, if that function is never to be resumed ? What if, as the Delegate from Switzerland urges, the nations are to make their final choice between silver and gold ? What must be the effects upon international commerce, when a par of exchange between the two great divisions of the earth no longer exists ? Must not the trade between them thereafter be conducted under difficulties, the same in kind, precisely, if not wholly in degree, as those which beset the intercourse of specie-paying nations with others which labor under an irredeemable paper circulation ?

Yet even more important, in the view of the Delegates from the United States, is the probable effect upon the production of wealth, resulting from the diminution of the money supply of Europe and America, already accomplished or in progress, through the gratuitous demonetization of silver.

Cutting, as, in the first instance, it does, to the very quick, into the profits of the *entrepreneur,* or man of business—which profits constitute the sole motive to production, under the modern organization of industry—and enhancing, as, in its ultimate operation, it must, the burden of all debts and fixed charges, public, private, or corporate—which debts and charges are, in effect, the mortgage which the representatives of past production hold upon the products of current industry—a diminution of the money-supply is one of the gravest evils which can menace mankind.

The mischiefs of a contracting circulation have twice, at least, in the course of events, befallen Europe as the result of the exhaustion of the mines of the precious metals, or the interruption of mining industry by barbarian invasion or civil convulsion. It has remained for this generation and this decade, to see these mischiefs brought upon Europe by the deliberate acts of Government, under advice of political economists.

Whether the money supply of Europe and America would be reduced by the completion of the movement initiated in 1871, to the extent of 40, of 30, or of only 20 per cent, the consequences could not but be most disastrous.

Suffocation, strangulation, are words hardly too strong to express the agony of the industrial body when embraced in the fatal coils of a contracting money supply!

At a time when the production of the two historical money-metals, jointly, is diminishing, this most unfortunate occasion is taken to throw one of them out of use as money of full value; to remit it to the uses of token money, and to banish what of the accumulated stock of three thousand years' production cannot thus be employed, to be hoarded in the East as treasure, or devoted to personal ornament.

Against so great a wrong to civilization and to the hopes of mankind the representatives of the United States here present raise their earnest protest and warning. This is our real interest in the silver question. This it is which brings us here.

That the United States are at present producers of silver is a consideration so slight, in the presence of far-reaching and enduring interests like these, that it sinks utterly out of our view. Silver-mining is but one, and it is one of the least, of scores of industries for which the available labor and the available capital of the United States are far too scanty. With boundless natural wealth lying all around us, unworked for want of men and means, it is a matter of the smallest consequence to us, whether we employ a few thousand laborers, more or less, in working the silver mines of Nevada.

Nor does our interest in the subject arise out of the possession of a stock of silver of which we fear the depreciation. Just emerging, as we are, from the state of suspension into which we were plunged by civil war, we have, as yet, only a moderate supply of the precious metals, and of that, by far the greater part is in gold,—silver having been restored to its rank as money of full value only a few months since.

But if we held as large a stock as France or India, we should, in our view of the relations of the money supply to the interests of trade and the production of wealth, look upon the fall of that silver to 45*d.*, to 40*d.*, or to 30*d.* an oz., simply as a net, definite loss, once for all, of so much of our accumulated wealth—a loss to be made good by increased frugality and industry—while we should look upon the reduction of the stock of money, by such a cause, as an event of vastly greater magnitude, bringing in its train indefinite possibilities of evil, not to us alone, but to the whole world; not in our time only, but through generations to come.

THE MONETARY SITUATION, 1890

Publications of the American Economic Association, vol. 6 (1891), pp. 14-18.

The following extract is taken from the Presidential Address, *The Tide of Economic Thought*, delivered before the American Economic Association, December 26, 1890.

THE MONETARY SITUATION, 1890.

An economic phenomenon of the period since we last met, and, indeed, of the past few months or even weeks, has been the extraordinary "weakening" on the part of a great many persons—merchants, bankers, and editors—in the eastern portion of the United States, who have hitherto stood very stiffly up against every measure that sought to increase the money supply. How permanent this change of feeling or of thinking will prove, it would be idle to predict. Whether the change has been, in origin, chiefly disinterested, having regard to the common interest, or chiefly selfish, coming from fear of personal losses in the general downfall of stocks and securities, I would not presume to express an opinion, if I entertained one. How far it has been the result of influences long and gradually operating in the past; how far due to shock and surprise from the catastrophe of October and November, can only be conjectured. But from any point of view, the phenomenon is a striking one. Men who passed through the struggles over the redemption of the greenback, denouncing monetary inflation as the greatest of evils; and who subsequently passed through the contest over the restoration of silver to coinage, without yielding in the least to the suggestion of possible mischief from a diminishing money supply, caused by the demonetization of one of the two money metals; and who have, until very recently, held to the orthodox view that the money supply will take care of itself, so far as a deficiency is concerned, and that the only thing to be dreaded is inflation, —have suddenly broken down in the strangest way, not only losing their spirit of resistance to the demand for a large and arbitrary increase of silver coinage, but appearing, in not a few cases, to be actually desirous that it shall take place.

Many who, a few months ago, denounced the increase from two millions to four and a half millions of silver dollars, a month, as suicidal folly, are now contemplating without apparent alarm, if not with complacency, the increase of the monthly coinage to seven millions, or even free coinage.

Whatever may have been the main motive in producing this change of position with reference to an increase of the money supply, on the part of many of those who formerly called themselves, with much unction, the friends of "honest money," there is little doubt in my mind that the absence of a sufficient resisting or retarding force, at the present time, is largely due to the highly illogical and inconsistent views of the money function and the money thing, put forward by our leading economists generally, in the past.

At no other point has American thinking in economics been so loose. Making an insufficient analysis of the money function, to start with, most of the writers of the orthodox school have declared that inconvertible notes, however fully and freely circulating, were not and could not become money: a position which Prof. Henry Sidgwick declares no English economist of reputation has taken. Deprecating the use of such paper as money, our own economists have, instead of stigmatizing it as bad money, asserted that it was not money at all. In so doing, they have gone against the common sense and the actual sight of the people. Every man who is not blinded by prejudice knows that greenbacks are money, just as much as silver or gold; bad money, if you please so to consider it, injurious, pernicious, anything you like, but money all the same.

In thus going against the common sense of the people, the professional economists have impaired their influence, in other directions, over the public mind. Nor has the error I have indicated been a merely incidental, and, in its evident import, a trivial one. These writers have insisted upon making their definition of money a test of economic orthodoxy. They have forced this view upon the popular attention urgently and aggressively. They have not only departed from the reasonable position of their English colleagues, as stated, but, in their zeal to put down the forms of money they disliked, they have abandoned their own fundamental principle of value, declaring that the cost price of the gold in the coin measures the cost price of the goods for which it is exchanged, as a yardstick measures length and a bushel capacity, forgetting for the time all about such things as supply and demand.

Worse than this, as a means of forfeiting public confidence, those who have assumed to be pre-eminently the exponents of sound monetary doctrine have uniformly disparaged the importance of a full supply of money. In the greenback contests from 1868 to 1876, while attributing to inflation the direst evils that can afflict a state, they declined to give any consideration to the possible mischief to be wrought by contraction, even if they did not expressly hold with Mr. Wells, that "a three-cent piece, if it could be divided into a sufficient number of pieces, with each piece capable of being handled, would undoubtedly suffice for doing all the business of the country," or again, that "were all the currency in the country absolutely swept out of existence to-morrow, . . . there would not probably be one less acre of land cultivated, yard of cloth made, ton of coal dug, or pound of iron smelted, in consequence."

In like manner, when the contest over silver came on, the same economists refused to concede any importance to the possible effects of demonetization as diminishing the money supply, declaring that trade and production would easily readjust themselves to the new conditions.

I do not say these things because it is pleasant to find fault with men who, in the best of good faith and good feeling, wrote or spoke what they believed to be for the public weal; but because I am convinced that these fundamental errors of the leading economists of the orthodox school, upon the subject of the money function and the importance of the money supply, constitute no small part of the reason why, in the present critical situation, the conservative force which should be exerted in restraining the nation from excess, seems almost wholly wanting. The professional analysis of the money function has been utterly discredited.* Money does

* See *Economists and the Public*, p. 353.

not "measure value" as the yardstick measures length and the bushel capacity. Prices, *i.e.*, the money value of goods, are determined by the demand for and the supply of money pieces, of whatsoever those pieces consist; whatever be the source of that demand, whether an instinctive appetency for a certain metal, or the force of law conferring legal-tender power upon bits of colored paper; whatever be the causes which control that supply, whether mere convention or absolute cost of production.

Again, the money supply is not a matter of no consequence. Alike considerable excess and considerable deficiency inevitably become the source of direful ills and woes unnumbered. If of an irredeemable and fluctuating paper currency, that alcohol of commerce, it may be truly said, "It biteth like a serpent and stingeth like an adder;" with equal truth it may be added that strangulation, suffocation are not words too strong to express the agony of the industrial body when embraced in the fast-tightening folds of contracting money supply.

Unfortunately those who should now be on deck as pilots to guide the ship of state through the narrow sea that separates the whirling gulf of silver monometallism, with a premium on gold and a debased coinage, from the bare and jagged rocks of gold monometallism, with increasing monetary stringency and falling prices, have discredited themselves with captain and crew by denying the very existence of Scylla, and declaring that upon that side there is a broad and open sea. In this lack of natural leadership we can only hope that prudence may rule the hour, and that the instinctive conservatism of the American people may enable them to pass through one of the most perilous crises in their financial career without a wreck.

THE FREE COINAGE OF SILVER

Journal of Political Economy, VOL. 1 (1893), PP. 163–78.

THE FREE COINAGE OF SILVER.

If there could properly be said to be a Silver Party in the United States, it might be added that this party consist of three clearly distinct classes.

First, we have almost *en masse* the inhabitants of the silver-producing States. These citizens have what is called a particular interest as distinguished from a participation in the general interest. The rehabilitation of silver as a money metal, in the position it occupied down to 1873, would, to these people, mean a higher price for the product of their community or section, perhaps of their own individual properties. This is what makes them "Silver men." It would at first seem that this party could not be very influential, being so few in number. Mr. Atkinson has said that the silver product of the United States is of less value than the hen-crop. I have not verified this computation, but the statement has a not unreasonable sound. The silver-mining industry is, at the best, not one of the larger, but one of the smaller, industries of the country. There are scores which exceed it in pecuniary importance; some which exceed it in value of product, two, three, or five to one. Yet, few as the class of persons under discussion are in numbers, they have, for many years, exerted a very powerful influence, and this for several reasons.

First, because they are so directly and largely concerned as to make their interest intense and to render them highly active and aggressive in promoting the objects they seek, even to the subordination of ordinary party obligations.

Secondly, because this industry is so far localized and concentrated as to give it complete and sole control of a certain definite section, which is ready to go one way or to go the other, as this object may require. In the closely controlled politics of the past sixteen years, any interest which could command a few members of Congress, or deliver a few votes in the electoral college, could exert a great influence, often to the extent of compelling both parties to bid against each other for its support.

Thirdly, because, under the system of equal representation in the Senate, the silver-producing States, some of them mere mining-camps, are able to cast as many votes in that branch of Congress as twenty, forty, or sixty times their numbers in States like Illinois and Ohio, Pennsylvania and New York. The recent admission of eight new States has greatly increased the power of this faction in the Senate.

Fourthly, because of certain peculiar romantic, sentimental or otherwise irrational, ideas popularly connected with the production of the precious metals. Had the particular or selfish interest of the communities in question been petroleum or lime, any extravagant demands made by them, on its behalf, would have been far more easily denied and repulsed by the general voice of the nation. But gold and silver have had a curious fascination for the men of all ages and countries; and to thousands of Americans, neither personally interested in silver production nor inclined toward hard money, an appeal in favor of silver mining has a sort of patriotic sound. It is not so easy to hold up to ridicule and contempt a really selfish appeal made in this name as it would be in the case of coal or iron. Against such a shield of prejudice the point of argument is already half blunted before it strikes.

It is not an uninteresting feature of the party we are describing that some of its members are not, in their general way of thinking, inflationists or cheap-money men. Take Senator John P. Jones, of Nevada, for example. Unless reports highly credible in themselves, and well-corroborated evidence, are at fault, it was to him the nation was chiefly indebted for the veto of the greenback inflation bill of 1874. It is, I think, generally believed that it was Senator Jones' arguments and appeals which caused President Grant to retract his purpose of allowing that bill to become a law; and it is further generally believed that it was Senator Jones himself who wrote the substantial portions of the vigorous and telling message in which the President vetoed that measure, and sounded the first notes of the brilliant contest for sound money which, within two years, resulted in the complete overthrow of "the Ohio idea" in national politics.

Another illustration in point is furnished by the attitude of the State of California on the silver question. During the war of secession, California held out for gold against the greenback legislation of Congress; declared for sound money on the Pacific Coast; and by acts savoring not a little of nullification, with a judicious admixture of mob-law, prevented the circulation of irredeemable paper money within its own borders. Yet California is now supposed to be solid for the free coinage of silver. The reason is not far to seek: the silver mines of the northern Cordilleras being largely owned in San Francisco.

The second element of the silver party of to-day is made up of those who, without any particular interest in the production of that metal, are yet, in their general economic views, in favor of super-abundant and cheap money. Among the leaders of this element are found the very men who, between 1868 and 1876, were foremost in advocating the greenback heresy. Beaten on the issue of greenback inflation, they have taken up the issue of silver inflation. They have adopted the cause of silver, not because silver is more valuable than paper (which they prefer), but because it is, and especially because it promises still further to become, cheaper than gold at the legal ratio. They are for silver because, in their view, it is the next best thing (by which they mean, the next worst thing) to greenbacks. The idea of making seventy cents' worth of metal into a dollar attracts them; but the intensity of their zeal is only accounted for by the hope that the amount of silver going to a dollar will soon be only forty cents. Such a prospect is truly alluring to the genuine inflationist.

The inflationist, like the poor, we have always with us. Political education, the growth of sound economic ideas, the establishment of manufactures, trade, and banking will do much to diminish the number of the members of this class; but humanity will have to pass through many more stages of refinement and elevation before that element will be entirely eliminated. The instinct of spoliation and confiscation, the passion for making something out of nothing and much out of little, the desire to pay debts in depreciated money, are too deeply implanted in poor, fallen human nature to give way altogether, either to ethical instruction or to demonstrating that, in the long run, honesty is the best policy. There are thousands and tens of thousands in Massachusetts to-day, who, if removed west of the Mississippi, or only even beyond the Alleghenies, would be rampant inflationists, but are here overawed by the dominant sentiment of the community, or are silent because they see no chance to act with effect in such a hopeless minority.

Those who constitute the element now under consideration are not bimetallists. Bimetallism will rob the free coinage of silver of half its charms for them. What they want is silver "inflation." It is from this source, and not from the silver-producing States, that the greatest danger to the integrity of our national currency has arisen. That danger is to be met by defiance and uncompromising resistance. It is to be met, not as it was in 1890, but as it was in 1891 and 1892. It should be fought from the start, on the line; fought tooth and nail; fought to the death. Thus encountered, the instincts of spoliation and confiscation, which every now and then spring into activity and clamor for inflation, are not greatly to be dreaded. The lesson of the greenback fight should never be lost to the instructors of youth or to the statesmen of America. The moral obliquity, the economic folly, which underlie every popular demand for bad money, are fatal to its advocates before the people, whether on the stump or in the press. The only way to make inflationism truly dangerous is to be afraid of it. Once the calm, unfaltering eye of courageous reason is fixed on the savage thing that would rend the nation, it shrinks back, o'ermastered, to its lair. I, for one, have so much confidence in the American people, when an issue is fairly made before them, that I should never doubt the result of a contest in which the friends of honest money knew the power of their case, and met every proposition hostile to the nation's honor with flat denial and out-right defiance. The only danger lies in compromises and concessions like that of 1890.

The third element in the silver party of the United States is one that has little in common with those which have been described, except by the accident of the situation. It comprises the convinced bimetallists of the country; men who believe, with Alexander Hamilton* and the founders of the republic, that it is best to base the circulation upon both the precious metals. These men are bimetallists, because they believe that that system will at once avoid the evils of a restricted money supply, secure an approximate par of exchange between gold countries and silver countries, and promote stability of value in the money of the commercial world. They are not inflationists, although, in accordance with their general views regarding the importance of the *status* and the evils of disturbing the existing structure of industrial society, they strongly deprecate contraction.†

Such are the elements which compose what I have ventured to call the silver party, though there has never been, in truth, any organized party which brought the three classes together. As yet no issue has arisen which has put all these people upon one side. On the harmless question of authorizing the appointment of commissioners to an international conference in the interest of bimetallism, both houses of Congress have more than once been practically unanimous; but it would be idle to found much in the way of conjecture upon such a basis of fact. On the question of the free coinage of silver, bimetallists have been arrayed against each other; some sincere, disinterested, and not altogether unintelligent bimetallists favoring

* "Upon the whole it seems to be most advisable not to attach the unit exclusively to either of the metals; because this cannot be done effectually without destroying the office and character of one of them as money, and reducing it to the situation of a mere merchandise. . . . To annul the use of either of the metals as money is to abridge the quantity of the circulating medium, and is liable to all the objections which arise from a comparison of the benefits of a full with the evils of a scanty circulation."—*Report on the Mint*, 1791.

† On this point I cannot but hold the position of the leading gold monometallists of the United States to be blameworthy almost to the point of dishonesty.

that measure,* while a far greater number of this class have opposed free coinage as eagerly as a gold monometallist possibly could.

It is those who advocate free coinage, whether from a particular interest, or as inflationists seeking cheap and bad money, or as bimetallists, believing that free coinage in the United States would, of itself, or by its influence upon the halting states of Europe, bring about a return to an approximate par of exchange between the two metals, of whom we are now to speak.

The free-coinage party, with us, derive a certain degree of strength beyond that proper to their own numbers and character, from the fact of having a grievance. Now, a grievance may make a comparatively helpless man for the time quite formidable; and a grievance the silver people, in the restricted sense in which we now use that term, think they have. A grievance they certainly have, though by no means as great as they regard it, since the element of intentional wrong is absent from it. That grievance arose in this way. In 1873, nearly coincidentally with the demonetization of silver by Germany, Congress revised the coinage laws of the United States, making many changes, great or small, and reducing the whole body to a compact and systematic form. In the course of this the silver dollar of 412½ grains, "the dollar of our fathers," was dropped out; and the United States became, in law, a gold monometallic nation. This constitutes the grievance of the silver people. They have not ceased to declare ever since this fact was discovered (as it for some time was not), that the result was accomplished by a trick, originating in a conspiracy of "goldbugs" and New York bankers. On this subject the average free-silver advocate will listen to no explanation or excuse. He will have it that the monetary system of the United States, which had been

* To illustrate, I believe that Gen. A. J. Warner, of Ohio, who has been very prominent in the Free Coinage propaganda, is as truly and sincerely an international bimetallist as I am. I think he appreciates the proper bimetallic argument, and that he would deprecate inflation or a depreciated silver currency as much as any one. It is a belief in the competency of the United States to establish free-silver coinage by its own strength which puts him on that side.

established by Washington, Jefferson, and Hamilton, was overthrown by a combination of rascally contrivance and rascally connivance.

Now, as one who has read a good deal on both sides of this subject, I do not believe that any fraud was committed or intended, in making so important a change in the unnoticed way in which it occurred. The country had been for a long time in a state of "suspension," paper money being at a considerable discount,—neither gold nor silver, in fact, circulating as money. Our public men had had almost no training in economics or finance. Very few people knew what the monetary system of the country was by law. Fewer still could have given an intelligible account of the French bimetallic scheme. The output of the Nevada mines had, indeed, become very large, but little public attention had yet been given to the matter; none at all to it as affecting the money of the United States. The International Conference of 1867 had, with practical unanimity, recomended the single standard of gold; Germany had just followed this recommendation by demonetizing her silver circulation. The consequence of these acts had, in 1873, hardly been apprehended even by those nearest to the centres of financial operations; the general public mind had not had its attention at all called to the subject. The mighty protest which was to arise and to be repeated from land to land, through a score of years, against the repudiation of silver, had not been intimated at this time. Some committeeman, or some few committeemen, ran the pen through the silver dollar, and the thing was done. Few Congressmen outside of the committee knew that any vital change was impending. The measure passed through the usual course; the bill was duly "read" the regular number of times; and, without a debate and even without the attention of members generally being called to this feature, the demonetization of silver was effected.

But, while I am thus disposed to discredit the allegation of fraud and of sinister motive, so bitterly urged by the silver men, it not the less seems to me that they have a grievance. No man in a position of trust has a right to allow a measure of such importance to pass without calling attention sharply to it, and making sure that its bearings were fully comprehended. And no man who did not know that the demonetization of silver by the United States was a measure of transcendent importance, had any right to be on such a committee or to put his hand to a bill which touched the coinage of a great country. Every one knows that but few members upon the floor of Congress read the text of one in twenty of the bills they have to pass upon; and it is the duty of the committees dealing with any class of subjects to see to it that every proposed change is fully explained and that the attention of the House and of the country is fairly called to it. They are not discharged of their obligations simply by giving members an opportunity to find it out for themselves.

If this be a requirement of ordinary political honesty, much more is it the dictate of political prudence. An important change in the money or in the industrial system of a nation, if effected without full and free and thorough discussion, even though no surprise or concealment be used, is almost certain to be subsequently challenged. "Things," says Bacon, "will have their first or second agitation: if they be not tossed upon the waves of counsel, they will be tossed upon the waves of fortune, and be full of inconstancy, doing and undoing, like the reeling of a drunken man." The unwisdom of a few people assuming to be wise for the whole of a great people, was never more conspicuously shown than in the demonetization of the silver dollar.

So completely without observation was this measure passed, that it was not for a year or two that the fact of demonetization was popularly known. Then,* indeed, public interest in the subject became aroused. France and her allies of the Latin Union continued and strengthened their measures of restriction, made necessary by the hostile course of Germany; certain industrial and commercial evils began to be

* The writer was in 1873 Professor of Political Economy at Yale, and was actually engaged in lecturing upon the topic of money. He was, also, a pretty good newspaper reader, and by the accidents of position and personal acquaintance, was fairly well in touch with the men of commerce and banking in the neighboring city of New York. Yet it was long after the passage of the Act of 1873 that he first learned of the demonetization of the silver dollar.

widely experienced, which was popularly attributed to the closing of the French mints; a commission was constituted in England to inquire into the causes of the depression of trade and production; and the investigations of that commission still further increased the general interest in the subject. The price of silver, which had started out of line on the first announcement of the purposes of the German government, began to tumble rapidly as those purposes were accomplished, and as the French demand for coinage was more and more checked. The mean annual rate of exchange by weight, of silver, had been * 15½ to one ounce of gold. In 1873, the silver price of gold fell to 15.92; in 1874, to 16.17; in 1875, to 16.58; in 1876, to 17.84; while in July of the latter year it fell to 20.17.

It is small matter for wonder that a course of things like this should have attracted attention very sharply to the American demonetization of silver in 1873 (which had, however, no part in the fall of silver), and should have led to an urgent demand for the restoration of silver to its traditional position. Bills to that effect were introduced into Congress in 1876, but it was not until the session of 1877–8 that the conservative Senate had been so far influenced by the state of public feeling as to allow a measure of this character to pass. A bill, providing not only for the remonetization of the silver dollar, but for the free—*i.e.*, unlimited—coinage of the same, passed the House, under the leadership of Mr. Bland, of Missouri, by the vote of 163 to 34. In the Senate, the free-coinage provision was stricken out; but the silver dollar, when coined, was definitely restored to its debt-paying power. Moreover, it was provided that these dollars should actually be coined, though in limited quantity. Two million dollars' worth of silver bullion as a minimum, four million dollars' worth as a maximum, were to be purchased by the Sec-

* **Pixley & Abell's tables.**

In 1867..................	15.57 oz.
In 1868..................	15.59 oz.
In 1869..................	15.60 oz.
In 1870..................	15.57 oz.
In 1871..................	15.57 oz.
In 1872..................	15.65 oz.

retary of the Treasury and coined into dollars of 412½ grains. In addition to these important provisions, the bill, as amended in the Senate, under the leadership of Mr. Allison, authorized the President to take the initiative in the calling of an International Monetary Conference, with a view to securing the cooperation of European nations in measures which should allow of the free coinage of silver. The bill, thus constituted and popularly known as the Bland Bill, though more correctly described as the Allison Bill, passed the Senate 48 to 21. It was vetoed by President Hayes, but was promptly passed over the veto by more than the requisite two-thirds vote in both houses.

Now, of this bill it is to be said, from the point of view of a bimetallist, that the provision restoring the silver dollar to its legal-tender function was eminently right and just. The people of the United States had, at the very beginning, by general consent, both parties and all classes concurring, founded the circulation upon both metals; and the people of the United States had never purposely, or even consciously, abrogated that arrangement. On the contrary, so soon as the people of the United States came to the appreciation of the fact that this arrangement had been abrogated by their representatives, they were prompt in decreeing the restoration of the silver dollar; and the time which has since elapsed has only strengthened that determination and diminished the size of the minority which, in 1878, questioned the wisdom of this measure.

But the provision for coining two to four million dollars' worth of silver bullion a month was eminently an unwise one, so far as the interests of international bimetallists were concerned, and was, at the time, so regarded by the leading bimetallists of this country and of Europe. The men who voted against the law of February 28, 1878, largely did so, not because they deprecated the restoration of the silver dollar to its former legal position, but because they deprecated the actual coinage, under the circumstances existing, of any considerable amount of silver. Now, why, if the rehabilitation of silver was a thing to be desired, was it impolitic to initiate a large, though not unlimited, coinage in 1878 ? The objections to the measure were two-fold.

First, the ratio between gold and silver in the coinage of the United States, 16 : 1, was not coincident with that adopted in the coinage of France, Italy, Belgium and Switzerland (constituting the Latin Union), as well as of some other countries outside that league,—viz., 15½ : 1. Clearly, if it was desirable that the United States should take hold with France and her allies to haul silver out of the slough, it was desirable that all should take hold together and pull together. But we began coining at 16 : 1, while they would only coin at 15½ : 1; so that we were, in fact, not pulling with them, but, in some degree, were pulling away from them. Not only was this the necessary logical effect of our coining at a different ratio, but the moral effect was to induce grave scepticism as to our motives on the part of the European States whose cooperation was sought. They might well say: "Yes; but if we are to coin at 15½ : 1, while you keep the ratio 16 : 1, it is not you, but we, who will have to bear the brunt and the cost of the rehabilitation of silver. All the bullion will, under free coinage, come to us, for who is going to have silver coined in the United States, where it takes 16 ounces to purchase an ounce of gold, when, by sending it to Europe, he can purchase the gold with 15½ ounces ?" On the other hand, if our purpose was to go to the French ratio, upon condition of general free coinage, then our action in going on coining two millions and more of silver dollars a month, at our own ratio, was pure folly. All the dollars so coined would have to be coined over again, occupying our mints for months or years, not to speak of the popular confusion which would result from the existence of tens or hundreds of millions of 16 : 1 dollars, when the new 15½ : 1 dollars should be put forth.

The second reason against the coinage of any considerable body of silver in 1878 was even stronger yet. By entering the market for silver at that time we were certain to diminish, just so far, the pressure upon the European States, both those of the Latin Union, and those out of the union, to undertake measures for the rehabilitation of that metal. Germany, by her Act of Demonetization, had left upon her hands an enormous mass of now depreciating silver. England had, by the same act, found her Indian finances going to pieces in the most disastrous manner. France and her allies were obliged to close their mints to silver, and to strengthen themselves on the gold side. To each and all of these powers the coinage under the Act of February 28, 1878, was a gratuitous gift. We put our fingers into the door and took the squeezing which of right belonged to them. Just so far as our monthly purchases held up the price of silver, it made them just so much the less anxious to take steps, at a certain large cost and with possible failure in view, to remedy the evils of German demonetization.

Under these circumstances it is not strange that the Monetary Conference, initiated by the Act of February 28, 1878, failed to accomplish anything for the cause of silver. I would not be understood as charging that failure solely upon the coinage provision of the Allison Bill. Probably the Conference would have been without result had that provision not been enacted. Reason enough existed in the situation aside from this. Germany still stood on her action of 1871–3, and contemptuously held aloof. England, conservative to the last degree in all matters of weights, measures, and coinage, would have been glad to see other powers take measures for the rehabilitation of silver, but had not the slightest intention of joining in them herself. Even the Latin States were divided by jealousies and causes of complaint which had arisen among them in consequence, first, of the restriction and severity of the practical suspension of coinage under the act of the Union. Yet all this does not make the coinage provision of the Act of 1878 any the less foolish. Had the delegates of the United States gone to Paris simply authorized to say that the United States were ready and eager to undertake the coinage of silver in concurrence with European States, and would bear their full share of whatever that might involve, they would have been in a far better diplomatic position.

The lapse of time, the larger experience of gold monometallism, does not seem to have reconciled the world to the demonetization of silver. I have no doubt that our delegates at Brussels were fully justified in speaking of the American people as unanimous in their desire for a restoration of the situation of 1873, with the difference, only, of additional safeguards derived from the accession of a larger number of commercial states. For myself, I believe that were this country, after a full and free discussion, called to a *plebiscitum* on the question of confirming a treaty by which England, France, and the United States, or Germany, France, and the United States, entered into a monetary alliance, on terms similar to those of the Latin Union, the negative votes would not attain to the dignity of the "scattering" of an ordinary election.

In England, there has been a steady, though not rapid, movement of public opinion in the same direction. Nearly all the eminent political economists of the United Kingdom fully concede the validity of the bimetallic argument,* some of them, like Nicholson and Foxwell, being active propagandists. Lord Herschell's Commission divided on the proposition to recommend the adhesion of England to that cause in a manner which would have been impossible fourteen years ago; while the Commission unanimously gave assent to opinions which make the position of the gold monometallists, if not untenable, at least a very uncomfortable one. Manchester is a bimetallic centre. The East Indian interests are all for the restoration of silver to its former grade. The agricultural clubs of England have spoken with practical unanimity in favor of bimetallism. In the last cabinet there were not a few sympathizers with "silver," and two or three warm advocates of it. The number of professed bimetallists in the newly elected Parliament is distinctly larger than in the preceding one. Yet all this does not suffice to create in my mind the expectation that conservative England will, at an early date, consent to important changes in her coinage system and her currency laws. On the other hand, the recent defection of Austria, under influences which I do not profess to understand, has dealt a severe blow at the prospects of bimetallism. It looks very much as though, in the matter of

* Prof. Alfred Marshall, of Cambridge, easily the head of the English economists, has more than once told me that, as between bimetallism and gold monometallism, he is a bimetallist.

the use of silver as money, things would have to be worse before they can be better.

Meantime many people in the United States have, with our characteristic national impatience and petulance, become highly restive under the long delay and deferring of hope, and now propose that America shall "go it alone" in supporting the value of silver. They believe, or profess to believe, that the United States, by themselves, could establish and maintain bimetallism. Beyond doubt there is a very large proportion of instances in which this opinion is not a sincere one. It is due to the influences of the silver-mining interests, reckless as to the general welfare and willing to do anything which will temporarily enhance the value of their products, regardless of what may befall in even the near future. A still greater part of the force which has given rise to the movement for free coinage has been contributed by the inflationists. Two or three years ago, the farmer and planter class, south and west, had become desperate under the continued depression of agricultural prices and the increase of mortgage-indebtedness, and besieged Congress with vehement demands for the immediate opening of our mints to silver bullion in amount unlimited. Some genuine bimetallists were carried away by the excitement to join in the movement, on the ground that the United States alone could turn the scale in favor of silver.

Unfortunately the demand was not, in the first instance, met with the courage and constancy which alone avail in dealing with a case of popular frenzy and folly regarding the currency. I am so little of a doctrinaire that I should hesitate to say that, in all matters political, flat and contemptuous resistance to unreasonable demands and evil measures is always a safe policy. But all my study of financial history has tended to create an increasing conviction that the only good policy in dealing with financial crazes is to fight them, from the word go, without asking or giving quarter. But the men of 1890, to whom the people had intrusted their powers of legislation, did not deal with the matter in this spirit. They showed lack of comprehension, of courage, and of nerve. Doubtless politics, in the lowest sense of the word, entered not a little to affect their temper, and the coming presidential election cast its baleful shadow before. But at any rate, many of these men affected to believe, some in unquestionable good faith did believe, that, partisan purposes and policies aside, if those who stood for sound currency and honest money in Congress did not concede something, they would be swept altogether off their feet, and free coinage would be established by an overwhelming force. So believing, or affecting to believe, many, of whom better things were to have been expected, joined the free-coinage men in establishing the law of that year, by which the amount of the silver purchases of the treasury was doubled, though the silver bullion so purchased was not necessarily to be coined, as by the Act of 1878, but was to be held in the treasury, while certificates were to be issued upon them.

The Act of 1890 has greatly, enormously, increased the perils of our financial situation. The coinage of two millions and more of silver dollars, per month, since 1878 has been bad enough; the purchase of 54,000,000 ounces of silver bullion a year is a much more serious matter. It has given tremendous impetus to the dangerous movement upon which we entered in 1878. It is apparently fast sweeping us onwards to the gulf of silver monometallism. From this there is no escape except through the concurrence of European nations in setting up a genuine bimetallic system, or through the prompt and peremptory repeal of this objectionable law. The former way of escape is not likely to be opened to us. It remains to be seen whether the people of the United States have political virtue enough to rescue themselves, their public faith, and their commercial credit from a most compromising and perilous position, to that end defying alike mistaken opinion and the clamors and threats of selfish interests. Some encouragement, at least, in this situation we may derive from the results of the manful fight waged against the silver inflationists in the last session of Congress; from the attitude of the two great national parties on the silver question, in the recent canvass; and from the well-known views and character of the incoming President.

THE VALUE OF MONEY

Quarterly Journal of Economics, VOL. 8 (1893), PP. 62-76.

This paper was read before the American Economic Association at its session in Chicago, September 13, 1893.

THE VALUE OF MONEY.

Much has of late been said and written which seems to render desirable a restatement of the causes and conditions which determine the value of money,—the prices of goods. The remarks referred to are such as intimate or appear to imply that the extreme extension of credit, to embrace the banking system, the check system, and finally the clearing-house system, in some way vitiates the accepted proposition that the value of money is determined by the demand for and the supply of money, and makes general prices to depend on something else. The allusions to the small proportion of goods supposed to be paid for in actual money, to the cancellation of indebtedness within the bank, and to the vast transactions of the clearing-house, as if such conditions rendered the supply of money a matter of indifference or at least of very slight consequence,—these allusions on the part of intelligent business men, and even of professional economists, are so frequent as to make it seem worth while to go over again the familiar ground of the value of money, to inquire whether anything needs to be added to or taken from the proposition which we once all practically agreed to accept.

There is nothing unreasonable in the idea that, in passing from a primitive community, industrially speaking, to one in which trade and production are highly organized and in which credit and banking perform an important part, propositions regarding money which held good in the former condition should require to be importantly modified or wholly abandoned. In my work of 1878,* when commenting on the remark of Prof. Bonamy Price, that the vast operations of

* See *Money*, p. 22.

modern commerce only reproduce the simplest acts of primitive barter, I ventured to use the following image:

> "The savage builds his canoe of materials every part of which would float of itself. The civilized man builds his broadside ship-of-war of material which of itself would drop like a plummet to the bottom. We may find, in our further investigation, that there is something more in the philosophy of money than comes out in the primitive trade between the tailor, the butcher, and the baker."

But, in fact, does anything in the transition from a primitive to a highly organized trade impair the validity of the proposition that the value of money (whatever that money may, in the place and at the time, consist of) depends, like the value of anything else, on the relations of demand and supply; that prices are determined in the amount of goods offered for money and the amount of money offered for goods? This is the question I presume to raise to-day.

It is enough to make the most faithful soul flinch and shrink, to be asked to go back to the contemplation of a primitive community and to consider the origin of money; yet in this case it seems to be necessary, and I will try not to be tedious. Let us suppose that in such a community, the members of which pursue various occupations and produce different kinds of commodities, the difficulties of direct exchange are so great as to put a heavy penalty upon barter, or, to express it otherwise, to place a high premium upon the use of money; and that, by consequence, all commodities are exchanged through the intervention of money. It was with reference to such a supposed situation that the proposition which has been more than once repeated in this paper was framed. In such a case, we should all agree that the value of money depended on the demand for and supply of money. In speaking of the demand for money, we should of course understand that the effective occasions for its use in exchange were meant; and, consequently, we should have reference not merely to the amount of goods produced, but also to the frequency with which those goods were to be exchanged in their passage from producer to consumer. Again, in speaking of the supply of money, it would be understood, almost without the necessity of explanation, that reference was had, not alone to the number of money pieces, but also, and conjointly with this, to the rapidity of their circulation. "The nimble sixpence does the work of the slow shilling."

Such is the situation in which no doubt arises regarding the causes and conditions which determine the value of money. Since the members of the community must have money in order to exchange their goods, and since, by the supposition, they must exchange their goods in order to make it worth while to produce them, they, each and all, must needs buy money. In order to buy it, they must pay its price, give what it is worth. What it shall be worth will depend, demand being fixed, upon the supply. The cost of production of money will influence its value only as it affects that supply. Conceivably, the money thus brought into use might be an article which had no appreciable cost of production, as, for example, an article found on the surface, but naturally limited in quantity; or it might be an article owing its use to authority or to convention.

Now let us take the first step from the condition assumed, in recognizing the fact that, in an actual community, all of the goods produced will not be subject to exchange, and therefore will not contribute to the demand for money. The fisherman will consume no small part of his catch in the support of his family; perhaps one half of the crops of the farmer will be eaten within his own house and barn; the shoemaker, the tailor, and the hatter will each wear and wear out some part, at least, of his own product. Does this modification of our assumed condition require any qualification of our proposition? Probably we shall all agree that it does not; that the product thus consumed at home is entirely out of all relation to the value of money; and that it is only the surplus going into exchange which has anything to do with determining that value.

Let us now take the second step from the condition originally assumed, and recognize the fact that no inconsiderable part of the surplus product is directly exchanged without the intervention of money. In the face of the highly humorous descriptions that have been given of the difficulties attending such transactions, we know that in every community, even the most advanced industrially, barter does take place, and that on no small scale. Let us suppose the amount of direct exchange within the community in contemplation to be large. Have the goods thus exchanged any relation to the value of money ? In one way they have; but it is in the way of effect, and not of cause. The prices of the several kinds of goods produced in the community—that is, their value in terms of money—having come to be known through the exchanges which have taken place with the use of money, the barterers will be influenced thereby in fixing the ratios of direct exchange. But this is an incidental effect of the value of money, not in any sense or any degree a cause. Were the bartered goods to be multiplied fourfold (but not at the expense of the goods exchanged for money), this would have no effect upon prices, since it would alter neither the demand for, nor the supply of money.

It is true that the line drawn in any community between bartered goods and those sold for money is not a permanent one. Possibly there has been some failure on the part of many meritorious economists to recognize the degree in which barter may be resorted to or may be abandoned, according as the money in use becomes more or less convenient and attractive in form, more or less trustworthy as to substance or weight. In my work of 1878, I offered * what seems to me a very important qualification of Ricardo's proposition regarding the value of corrupted coin. That qualification had reference to the large possibilities of extending barter whenever popular confidence in the coin becomes impaired. The commercial history of the United States during the Revolutionary War, of France during the time of the *assignats*, and I doubt not of other countries under a *régime* of inconvertible paper money largely depreciated, illustrates the importance of noting this condition. By the corruption of the coin, or merely by its becoming inconvenient and unattractive, much more by the fluctuations of an inflated paper circulation, the penalty upon direct exchange may be so diminished as largely to widen the field of barter. And in the same way everything

* *Money*, pp. 198–204.

that adds to the convenience, attractiveness, and trustworthiness of the money in use may cause that field to be encroached upon. All this, however, has nothing to do with the validity of our proposition. It is still the goods which are exchanged for money, be these more or fewer, and not the goods which are bartered, be those fewer or more, which contribute to that demand for money which determines price.

Our third step is involved in more of difficulty and of embarrassment. We are now to suppose that, of the goods which are, in the usual acceptation of the term, sold for money, a portion, let us say a considerable portion, are not paid for at the time. Credit is given, either for a definite or for an indefinite term. What is the effect of this upon the value of money? Do these goods contribute to the demand for money which determines price? The sales are made in terms of money; money is promised; money is, we will for the present say, sooner or later to be paid.

Let us here introduce a distinction. Let it first be assumed that the credit is to remain individual, if I may use that expression: that the obligation is not to be transferred, but that the debtor and the creditor are to remain the same persons until the close of the transaction. In this case, I should say, with deference, that goods so sold contribute to the demand for money just as truly as goods sold for cash; but I should add, not just as much. The factor by which the amount of such goods is multiplied, to give their effect in determining the demand for money, is lower. In the case, at least, of goods sold on definite terms of credit, there is a considerable, often a very large, economy in the use of money, as compared with the conditions of production and trade where "trust" is not given. It is not necessary to keep such large amounts of money in the shops or to carry them around on the person.

But now let it be supposed that credits are no longer individual, in the sense in which we have used that term, but that transference by indorsement has become general, and that banks have arisen which receive deposits of commercial paper representing a very large part of the wholesale transactions of the community. What shall be the effect of this on the value of money? According to my way of thinking, so far as this transference of obligations, especially in the case of the bank, which thereby becomes creditor to many debtors and debtor to many creditors, results in the cancellation of indebtedness, as to an enormous extent it does, these transactions are, so far as concerns the use and by consequence the value of money, the same essentially as if they had been acts of barter. Exchanges of this category do not involve the employment of money, and they are therefore to be counted out when we are considering the causes and conditions which determine the value of money. They constitute no part of the demand for money. Two transactions upon credit which in time and amount balance each other, and which, as a matter of fact, cancel each other when brought together in the bank, are, for our present purpose, equivalent to one transaction of the same amount in direct exchange or barter. The fact that each obligation has been expressed in terms of money, the fact that, in the buying and the selling which preceded the giving of the note of hand or bill of exchange, reference was had by both parties to prices determined by actual exchanges of goods for money,—these facts do not, it seems to me, at all impair the validity of the view that, so far as the use and the value of money are concerned, such transactions are, in essence, cases of barter.

But it may be said, such transactions do, in fact, involve the use of money. The bankers' liabilities, which are made up of deposits of commercial paper coming due, and which constitute the fund upon which those who are debtors to others, but are creditors to the bank, may draw checks for the payment of their own obligations,—these bankers' liabilities, or bank deposits are, many persons assert, themselves money. I am well aware that this view has been held by those of whom it is needful to speak with very great respect. Such was the opinion of Lord Overstone; and Professor Sidgwick has more recently presented the same view. But I must say that it seems more compatible with the facts of commercial life, as well as far more conducive to a consistent and intelligent philosophy of money, to treat this matter of the cancellation of indebtedness in the way which has been suggested above.

Bank-notes are money. They are distinct and tangible things, which pass out from the bank and have their own separate life and course; which become the property of him in whose hands they at the time are, just as truly as do coins of gold or silver. Like such coins, they pass from hand to hand throughout the community, without reference to the character or the credit of the person offering them. Like such coins, they are accepted in final discharge of debts and full payment for commodities, without necessary recourse to the issuing bank except as they may individually become too much worn for further circulation, after performing, it may be a hundred, it may be a thousand, exchanges. Bank deposits, or bankers' liabilities, are not money. Inscribed on the books of the bank itself, divided into no definite parts, constituting no tangible thing, having no outside course to run, with no separate, identifiable existence, they are not money: they are simply an instrumentality for saving the use of money. As such, it would be impossible to overrate their importance; but that is no reason for attributing to them a character which they do not bear. Their real nature and function more clearly appear, it seems to me, when they are spoken of as an instrument for the cancellation of indebtedness than when they are characterized as money. To my mind, it is of importance to recognize, as among the signs of all true money, its circulation; its passing from hand to hand throughout the community; its leaving no trace or record behind it as it goes, indebtedness being discharged, or goods paid for, every time it changes hands.

Let us now pass to the final and last stage of our journey. It is only with reference to the point now approached that this paper has any significance, since thus far nothing new has been sought to be presented. Let us now suppose that credit has grown to enormous dimensions, and that, by consequence, the banking system, the check system, and the clearing-house system have been carried to what seem to be the limits of their possibilities. Vast volumes of indebtedness are daily cancelled in each bank, while but a small amount of coin and notes together is made use of in these transactions. At the clearing-house the undischarged balances of a score or two of banks are every afternoon brought together and settled, with a use of coin and notes even smaller still. Now is there anything in such a situation which in any degree impairs the validity of the proposition that it is, after all, the demand for and the supply of the actual coin and notes which determine prices? It seems to be an opinion that such a use of credit does constitute some other rule for determining the value of money, which prompts the frequent allusions to the fact that in such or such a bank the cash payments constitute but three per cent of the total transactions, or that in a given clearing-house only a half of one per cent of the bank balances are settled in money. Whenever a question arises regarding the sufficiency of the present or the probable future supply of metallic money, facts like these are thrust at us, not merely as showing the economy effected in the use of money by the organization of credit, but as if they proved that the supply of money had ceased to be of any consequence at all, and that something other than the money supply had come in to determine prices.

Now, it must be said that it is altogether consistent with economic principles that the relative importance of a subject of exchange should become so far diminished that it is released from the ordinary operation of the force of self-interest. Money itself affords an example in point, in the case of *billon*, the petty coin of small change, which seems to be governed by something analogous to the law of capillary attraction. Ordinarily, we say, water tends to seek its level; and we find a world of illustrations of that tendency, not merely in rivers, lakes, and oceans, but in the crust of the earth and in the very atmosphere. Yet, if a tube be only fine enough, water will stand in it, at any height, without any regard to gravitation. And this exception is not merely of curious interest: the whole vegetable creation subsists by virtue of it. So in the case of *billon*, with a proper regulation of amount, the market price and the mint price of the metal need have no defined relation to each other. There seems to be a sort of impression in the minds of the speakers and writers to whom in this paper I refer, to the effect that the volume of credit transactions in highly organized communities becomes so enormous as to carry the money of the community with it by a species of capillary attraction. It is no longer, in this view, the actual money of a country which underlies and sustains the structure of credits: the credit structure becomes so vast and gigantic that the money of the country depends upon it and depends from it, as a trivial, if not merely ornamental, appendage. Is there anything in such opinions which, however loosely held and vaguely expressed, have certainly exerted no little influence upon recent monetary discussion? Does the exaggeration of credit transactions, however monstrous they may become, in any degree release prices from the rule which has been indicated as governing them? Have such transactions any influence upon the value of money other than that which has been pointed out, namely, by accomplishing a certain cancellation of indebtedness, producing the virtual result of an extension of the field of barter and a corresponding retrenchment of the field for the use of money? Within the latter field, thus diminished, does anything less or anything other than the traditional principle govern the value of money—the price of goods?

In addressing myself to this question, I desire to say, first, that there is much of the vast volume of credit transactions, as shown by the statistics of the bank and the clearing-house, which may, for all the purposes of the present discussion, be termed fictitious—fictitious in the sense that a great part, perhaps the larger part, of these transactions are outside the necessary work of exchange in the community; fictitious in the sense that these transactions are very largely the direct product of the existence of the agencies (namely, the bank and the clearing-house) through which the resulting indebtedness is cancelled. Let me illustrate my meaning. It has been stated that the entire cotton crop of the United States is sold eight times over in the New York market alone. I know not whether this statement is exactly true; but it is beyond question that that crop is sold over and over again, adding enormously to the banking and clearing-house transactions of the city. By far the greater share of these purchases and sales constitutes no necessary part of the process of getting the cotton from the planter to the manufacturer. Speculators take advantage of this credit organization, without which their operations would necessarily be restricted within very narrow limits, to carry on an enormous amount of gambling or betting on the future price of cotton. It is not essential for our present purpose to inquire whether this multiplication of purchases and sales under speculative impulse is or is not detrimental to production and to what we may call legitimate trade: that is, those exchanges, be they few or be they many, which are actually necessary to carry the product most easily and surely from the farmer to the manufacturer. I touch the subject here only to show how largely this speculative trading, itself mainly the result of the high organization of credit, contributes to inflate the statistics of the bank and the clearing-house, and thus to produce the impression which has been adverted to, respecting the relative insignificance of the use of money in our day. What is true, in this respect, of cotton is also true of corn, wheat, pork, petroleum, mining and railroad stocks, and a hundred other subjects of exchange. In this view, am I not justified in saying that a very large part of the credit transactions, the amount of which is so freely adduced to show the comparative insignificance of cash transactions, are, with respect to that object, purely fictitious? Those who roll as sweet morsels under their tongues such gigantic figures as thirty or forty thousand millions a year, in speaking of the work of a single clearing-house, are really deceived if they think that these sums represent either transactions that would have taken place did not the clearing-house mill stand ready to take the grist, or transactions the non-existence of which would impair production and legitimate trade.

Secondly, while the speakers and writers in question dwell with so much emphasis on the fact that, of the transactions of Sir John Lubbock's bank, only three per cent were settled with cash, and that, in a certain clearing-house, only a half of one per cent of the business was adjusted in the same way, they inadvertently fail to call the attention of their hearers or readers to the fact that, in spite of barter and in spite of credit, a very large part, in most countries by far the largest part, in many countries almost the whole, of retail trade is still conducted with the use of money; and this is, after all, the vital thing. It would not in the least matter, for the purpose of deciding the question, what determines the value of money, if the cancellation of indebtedness in the wholesale trade were complete, if Sir John Lubbock found additional commercial paper to take the place of that unhappy last three per cent, and if every claim made by every bank, every afternoon, at the clearing-house were offset by an equal and incontestable demand. The statistics of banking and clearing-house transactions would be irrelevant and impertinent to the issue, even were they not inflated as has been indicated. In the field of wages and of retail trade, money gets that room to operate which enables it to determine prices, just as truly as if banks and clearing-houses did not exist. In our own country the every-day agency of money is somewhat obscured by the enormous extension of the check system, by which small bills are often paid. But even in England, whose credit and banking organization is in all other respects far more perfect than our own, such a use of checks is almost unknown. Beyond England and the United States, no other country in the world to any extent employs this method of buying goods or paying bills for ordinary personal or domestic expenditures. But, even if the field of cash payments were far more encroached upon than it is, this would not impair the validity of our proposition. As I said in the earlier part of this paper, the use of credit simply means the diminution of the demand for money. It still remains true that the demand for money, whatever that may be, does, taken in connection with supply, determine prices. No civilized country has ever reached the condition, and we are not called upon to contemplate a time within which any civilized country will reach a condition, in which money must not be used to a vast extent. So long as people must have it, to pay wages and to buy goods, they must buy it, they must pay its price for it, they must give what it is worth. What it shall be worth will depend upon the demand for and the supply of it, as in case of any other thing that is bought and sold. The demand for money is found in the money work to be done, the amount of exchanging which needs to be effected by the use of money. The supply of money consists in the number of money pieces available for the work of exchange, taken in connection with the facility with which they can be so used, the freedom or rapidity of circulation. Outside this field, it does not for this purpose matter in the least what the volume of credit may be, how high may be piled the transactions of banks and clearing-houses. Were we considering the security of the latter, it would be important to compare their volume with the amount of money circulating within the field of cash payments; but this is not our business to-day.

When the present paper was placed upon the programme of the Association, I little thought that in defending my thesis I should enjoy the advantage of such a tremendous, such an overwhelming, demonstration of the importance of the actual money of a country, in the face of the most elaborate organization of credit, as the United States has afforded during the past two months. Sir John Lubbock's bank and the half per cent cash payments in the clearing-house cut a very small and sorry figure, indeed, in comparison with the spectacle which has been afforded of a great nation on the verge of general insolvency, thousands of factories and workshops closed, hundreds of thousands of workmen thrown out of employment, all because a certain amount of cash, of actual money, had been locked up in strong boxes and bank vaults. When one considers what this great industrial nation has passed through within the last sixty days because a portion only of its money had been withdrawn, he is fairly in a position to appreciate the senselessness of all this talk about the unimportance of the money supply, which I took for my theme on this occasion. Until we have forgotten how we saw the banks of the commercial and financial metropolis refuse to pay their balances to other cities in cash on demand; how we saw great and rich firms paying their workmen in checks of $2, $3, and $5, and these checks not payable at the bank, but stamped "payable only at the clearing-house"; until we have forgotten how we saw great factories carrying on their business timidly from day to day, not with money and not with proper commercial credit, but upon the frail foundation of sympathy and forbearance from their creditors and even from their operatives, while thousands of other manufacturers refused to carry on business at all under such conditions, and closed their works,—until we forget these universal experiences of the past few weeks, we shall, I think, be disposed to give Sir John Lubbock's bank a rest. No more striking demonstration could possibly have been given of the fact that, after all credit can do, money, actual money, money that passes from hand to hand, is still the vital blood of commerce,—than has been afforded by the crisis through which the United States has just passed. For weeks the nation walked along the very verge of a precipice, under a strain which could not possibly have continued for as many weeks longer without hurling industry and trade to the bottom of the abyss. All this time the trouble was not want of capital, for the nation had never been so rich; not the lack of credit in commercial relations, for the history of the world may be searched in vain to find an equally remarkable example of the readiness of merchants and bankers to trust each other and to support each other, even at the risk of their own fortunes. The trouble was all in the sudden withdrawal of a portion of the nation's money supply, due to distrust of financial legislation. This was all, and this was enough to bring the United States nearer to general ruin than it has been before since the war made us a nation indeed.

THE QUANTITY-THEORY OF MONEY

Quarterly Journal of Economics, vol. 9 (1895), pp. 372–79.

THE QUANTITY-THEORY OF MONEY.

I.

The quantity-theory of money is simply an expression, with reference to a special case, of the general law that value is determined in the relation between demand and supply. Prices being nothing more or less than values expressed in terms of money, those who hold the quantity-theory merely point out a specific instance for the application of a principle which has been established by competent induction, and the applicability of which is not challenged in any other instance within the view of the political economist. It is not, therefore, for those who hold this theory to prove their case. It rests upon the critics of that theory to show some reason why a principle, admitted to be otherwise of universal application, should be suspected of failing at this point.

The cause of the incredulity which has attended the quantity-theory is found in the difficulty of defining the terms "demand" and "supply," when used with reference to money. The elements of the case are necessarily complex and elusive. The demand for money arises from the fact that there is a certain amount of money work to be done; that is, exchanging has, to a certain extent, to be effected in that community through the use of this agent. In the situation existing—the quantity of goods to be exchanged being such as it is, prices ruling as they have done, producers and consumers living at such distance from each other as may be the case, the habits of the people as to carrying and using money being what they are, the machinery of exchange being what it is—there is occasion for a certain exercise of the money function in that community. The money function cannot be exercised in a lower degree than is thus required without personal inconvenience and economic loss. Shall we say that the demand for money is determined merely by the amount of goods to be exchanged ? No. Many of these goods may conveniently be exchanged directly against each other in barter, or indirectly through the intervention of commercial and financial credit, without the use of money. Such goods do not constitute a factor in the demand for money. Even when we know the amount of goods which must be exchanged through the intervention of money, we have still to inquire how often each commodity may require to be thus exchanged. On the other hand, the supply of money is not determined solely in the number of money pieces of a certain denomination or denominations available to do the money work. We must also know the rapidity of circulation. "The nimble sixpence does the work of the slow shilling." In a community possessing in a high degree the agencies of transportation and transfer—railroads, parcel express, post, and telegraph—a given volume of money pieces might conceivably do two or three times as much of the money work as in a community more backward in the respects indicated. To resume, the demand for money and the supply of money are both quantities of two dimensions.

When the demand for and the supply of money are thus stated and explained, it is difficult to see how any economist can take exception to the proposition that, other conditions remaining the same, an increase in the quantity of money must raise prices and a decrease in the quantity of money must lower prices. Since money is actually exchanged for goods, since people do give for it that which they have earned by labor and abstinence and risk, it is clear that prices—that is, the value of money—must be fixed by a sufficient cause. It cannot be a matter of whim or a matter of accident. There must be some reason why the producer sells his goods for so much money, and not for more and not for less. There must be some competent force which compels him to give as much as he does, which releases him from the necessity of giving more than he does. What is that force ? In regard to all exchanges of goods for goods or goods for services, under all conditions and in all places, the answer universally accepted is, "Demand and supply." Some powerful reason must be shown for asserting that any other principle governs in the exchange of goods or services for money.

II.

In the March number of the *Journal of Political Economy* Miss Sarah McLean Hardy has an article entitled "The Quantity of Money and Prices, 1860–91: An Inductive Study," in which she takes up for examination the quantity-theory of money, reaching very disparaging results. Dr. Hardy starts out with characterizing the quantity-theory as abstract and hypothetical, and therefore requiring, prior to acceptance, to be submitted to inductive verification. She calls it "an *a priori* law," a "hypothetical, deductive law" needing to be compared with "observed facts," and speaks of it as an instance of "pure abstraction." Starting with such a view of the theory in question, she finds it impossible to verify the theory inductively with any great degree of satisfaction. Now, I must take issue on this point at the outset. The principle that value is determined in the relation between supply and demand—that is, the quantity-theory *in general*—has been abundantly established by competent induction. The only hypothesis in the case of the quantity-theory of *money* is that demand and supply have the same dominion and potency here which they have in all other cases of exchange. It is assumed that a principle admitted to be otherwise of universal application can safely be applied to this particular instance, no reason why it should not be so applied having ever been adduced. Since goods are sold for money, and money is exchanged for goods, the advocate of that theory has a right, in the absence of any reason to the contrary, to take it for granted that the universal law of exchange governs here. This is all the hypothesis there is in the quantity-theory of money; and that assumption is no more violent than would be the assumption of a learned and skilled physicist, making observations in a region never before visited, that the law of gravity reigned there as elsewhere, and that the atmosphere of that place, as of other places, was composed of oxygen and nitrogen, with possibly a dash of argon.

But, while declining thus to concede that special inductive verification is necessary to establish the quantity-theory of money, in the absence of any ground for questioning the application here of the general principle governing exchange, one can have no reason for objecting to such an inquiry. What, then, is the scope of Dr. Hardy's investigation ? In certain tables and diagrams she places in comparison: (1) the "volume of currency each year, from 1860 to 1892 inclusive; (2) prices, for the same period, according to an index number; (3) the transactions of the New York Clearing-house; and (4), for the period of 1862 to 1878 inclusive, the value of gold in United States currency. It is from such a comparison that conclusions are derived unfavorable to the quantity-theory of money.

To begin with, it is to be regretted that Dr. Hardy has not made the currency table one of per capita, and not of aggregate, currency in circulation. During the thirty-three years —the traditional life of a human generation—covered by this table, population in the United States considerably more than doubled. Had the table given the figures of the per capita circulation, the effect upon the eye and the mind of the reader would have been very different. For instance, instead of the currency of 1890 standing to that of 1860 in the ratio of 328 to 100, the ratio would have been 164.8 to 100. In other words, the currency would have shown a per capita increase of only 64.8 per cent instead of 228 per cent,—a notable change, indeed! It is true, as Dr. Hardy says, there is no absolutely necessary relation between an increase of population and an increase in those trade transactions which require the use of money; * but it stands to reason, most conspicuously, that, except for a revolution in other conditions, to double the population of the country is to require some increase, and a considerable increase, in the

* In illustrating this, Dr. Hardy says: "An increase in population does not necessarily imply an increase in transactions, for it is a well-known fact that there are great differences in productive power among men. Compare, for example, two nations like China and the United States, or Mexico and Holland" (p. 161). But in the case under consideration Dr. Hardy is not comparing two nations of different productive power.

demand for money, whether that increase shall be exactly 100 per cent or less or more. It is true that a comparative per capita table of monetary circulation would still contain its own elements of doubt and difficulty; but this seems no good reason for introducing an additional and altogether unnecessary element of confusion and error. If Dr. Hardy allowed for the growth of population, she would manifestly come much nearer the truth than by not allowing for it. The assumption that a twofold population would require a twofold circulation, clearly may be, in its own degree, erroneous; but the assumption that a twofold population, spread over a vastly greater area, would not require any more currency is certain to contain a larger amount of error. In a quantitative investigation the difference between a 64.8 per cent increase and a 228 per cent increase is not immaterial.

Yet, even if we correct these tables by introducing the per capita element, it still remains true, as Dr. Hardy has stated, that in general, while the "volume of currency" has increased, and increased largely, since 1860, prices have declined, or at least have declined since 1865. It is this result which leads Dr. Hardy to the conclusions, "(1) that that dogma, in its general theoretical form, is inapplicable as an explanation of this given set of actual conditions; (2) that, so far as it may be at all valid, its influence in determining the level of prices is of far less importance than is commonly supposed; (3) that prices, from 1861 to 1891, were fixed in the main by other causes than the quantity of that kind of money which was in circulation during those years."

Now let us see just what it is which, in Dr. Hardy's opinion, justifies conclusions so important,—what statistical evidence is relied upon in thus cutting down the scope and validity of the quantity-theory of money. She compares the "volume of currency" with the average annual prices for a considerable term of years, and finds that, in general, in spite of a steady increase in the volume of currency, there has been a decrease, more or less intermittent and spasmodic, in prices. But is it sufficient to put together merely the volume of currency—that is, the supply of money—and the corresponding prices, without even attempting a quantitative statement of the demand for money? Dr. Hardy would appear to think that the quantity-theory of money is in effect this: that, if the actual quantity of money is increased, prices must rise; if the actual quantity of money is diminished, prices must fall. Now, no economist of reputation ever held such a theory, however loosely some may have written upon the subject. The quantity-theory of money, by its very statement, takes into account both the supply of money and the demand for money. Dr. Hardy's tables and diagrams do not refer to the latter element, even by so much as an interrogation-point. We have already seen that, in making the table of the "Volume of Currency" an aggregate and not a per capita table, Dr. Hardy threw out of consideration the influence of a population more than doubled during the period covered by the investigation. We now see that she does not even give so much as a blank column to the demand for money,* although the demand for money is just as much a factor in determining prices as is the supply of money. Such an investigation can scarcely be deemed conclusive. Dr. Hardy shows that the volume of currency—*i.e.*, the supply of money—increased steadily and largely from 1860 to 1892. She has not shown that the demand for money did not, during the same period, increase even more rapidly, thus completely justifying the quantity-theory. According to that theory, prices do not necessarily rise because the supply

* Dr. Hardy says (pp. 157, 158): "According to the *a priori* law [*i.e.*, the quantity-theory] either the amount of currency should have decreased or prices should have risen. But neither of these events has taken place." Here is no recognition of a possible increase in the occasions for the use of money. Again, she says, referring to the fall of prices, 1865–92, accompanying an actual increase in the volume of currency: "The quantity-theory, if operative at all, has been overbalanced or checked by some other stronger force or forces. Some disturbing causes have intervened to produce effects for which the quantity-theory can give no explanation, for the understanding of which it is wholly irrelevant" (p. 158). According to this, an increase in the demand for money, arising from a growth of population or a multiplication of commodities or changes in the habits of the people in regard to carrying and spending money, is "a disturbing cause," contravening the operation of the quantity-principle, instead of being an essential and necessary element in the determination of prices.

of money increases. Prices only rise when the supply of money increases relatively to the demand.

And right here let me take issue bluntly with the writers of the gold monometallist school generally, Mr. Wells, Mr. Horace White, Mr. Atkinson, Professor Sumner, and others, regarding their unverified assumption that it is in the nature of an advancing industrial civilization to require smaller and still smaller amounts of "the circulating medium." These writers are never tired of dilating upon the function of the bank and the clearing-house in saving the use of money. They descant upon the statistics, partial, fragmentary, and unreliable as they are, which show the comparatively small proportion of cash payments; and they meet every statement or assumption as to the importance of the money supply with assertions that the money supply has really ceased to be of any practical consequence, as a result of the extension of credit agencies and instruments.

Now, it is perfectly true that credit agencies and instruments, in any high state of industrial civilization, effect an enormous saving in the use of money. But it is at the same time true that, in spite of all which credit agencies and instruments can do, after the efficiency of banks and clearing-houses is exhausted, the whole tendency of modern civilization has been to increase the demand for actual money. At the beginning of the present century the people of the United States enjoyed a minimum of credit agencies and instruments; and yet the volume of currency was, so far as we can make out from the incomplete statistics of circulation, less than one half, per capita, what it was sixty years later, in spite of the fact that, during the interval, banks by the hundreds and clearing-houses in a half-score of cities had come into existence, transportation had been enormously quickened, the telegraph had been introduced, and in a hundred ways the efficiency of a given body of money had been increased. And to-day, thirty-five years later still, while credit agencies and instruments have been enormously improved and entirely new means of communication, like the telephone, have been introduced, the people of the United States are using far more money than they did in 1860; and yet the sole sign of inflation—namely, rising prices—does not appear. The simple explanation is that the multiplication of commodities due to the increased facilities of production, the marvellous increase of travel, and changes in the habits of our people with respect to carrying and spending money, are continually creating a demand for a larger and still larger volume of actual money, in spite of improved agencies of exchange and rapidly multiplying instruments of credit.

THE RELATION OF CHANGES IN THE VOLUME OF THE CURRENCY TO PROSPERITY

Economic Studies; American Economic Association, VOL. 1 (1896), PP. 23–45.

The following paper was read before the American Economic Association at its session in Indianapolis, December 28, 1895.

THE RELATION OF CHANGES IN THE VOLUME OF THE CURRENCY TO PROSPERITY.

The view we shall take of The Relation of Changes in the Volume of the Currency to Prosperity will necessarily depend greatly upon the view we take of the relation of the volume of the currency to prices. There is no reason why those who discredit the quantity-theory of money should admit that there is any necessary relation between the volume of the currency and public prosperity. It has, of late, been the fashion, in some quarters, to deny any validity to the once universally accepted doctrine that the value of money depends upon the relation between the supply of and the demand for it; while many, who do not repudiate the quantity-theory, yet refer to it in a slighting way, or as if its truth were a matter of grave question. Thus Mr. Wells, in his *Recent Economic Changes,* after noting the fact that an increase in the currency of the United States more than proportional to the increase of population coincided with "a great and universal decline in the price of commodities, here as elsewhere," asks, "How do these experiences harmonize with the theory that the volume of circulating medium controls prices?" Mr. Wells does not, indeed, in terms assert that the volume of the circulating medium does not control prices; but his language leaves it to be inferred that such is his view. And yet, Mr. Wells, during the period of greenback inflation, held that the advance of prices was due to the increase of the money supply; and in his *Robinson Crusoe's Money,* he worked out the effect of an increase of money-pieces in strict accordance with the traditional doctrine. Nay, it is a fact worthy of observation that those among us who are most given to denying or disparaging the quantity-theory of money are the very men who, thirty years ago, were most active in their denunciations of the evil effects of an inflated currency in advancing prices. It would be easy to mention names enough to corroborate this statement; but it is not worth while to do so. Apparently these gentlemen think that while an increasing money supply raises prices, a diminishing money supply has no necessary relation to prices.

Let us look at the matter historically, though a very cursory treatment will suffice. When the silver discoveries of South America, in the sixteenth and seventeenth centuries, enormously increased the volume of the precious metals in existence, the rise of prices which followed was universally attributed to this as the competent and the sole cause. No man anywhere questioned the existence of this relation. When, during the American Revolution, the Continental Congress replaced the silver which had before circulated, to perhaps the value of eighteen million dollars, by paper exceeding three hundred million, in nominal value, all were agreed that it was excess of quantity which sent prices up, until a colonel's pay would scarcely find oats for his horse. Again, when, in the French Revolution, the *assignats* were issued by tens of thousands of millions of francs, excess was the universally accepted cause for the fast declining value of the paper money. When, about 1850, the gold-mines of California and Australia were almost simultaneously discovered, no one questioned that the great flood of new metal was the cause of the rise of prices which followed. Apparently, it is only when prices fall that it occurs to anybody to doubt the existence of a necessary relation between them and the money supply. It seems hardly possible that, in all the instances thus hurriedly recited, philosophers, economists, statesmen, financiers, and men of affairs could have been mistaken in regarding the increase in the volume of money as the cause of rising prices; and one might be well content to appeal simply to this general consent of mankind.*

* "I accept the common doctrine that prices generally rise, other things being equal, in proportion to the volume of the metals which are used as currency."—*Professor Alfred Marshall, testimony before the Herschell Commission.* [No. 9629.]

But those who hold the quantity-theory of money are not bound to prove their case. That theory is simply the application, to the special case of money, of the general principle that value is determined in the relation between demand and supply. Prices being nothing, more or less, than the value of commodities expressed in terms of money, we advance no fundamental proposition when we say that prices are determined in the relation between the demand for and the supply of money. We merely point out a specific instance for the application of a principle which has been established by adequate induction, and the applicability of which is not challenged in any other instance. It rests, then, with the critics of the quantity-theory to show some reason, if they can, why a principle, admitted to be otherwise of universal application, should be suspected of failing at this point. This has never been done. However severe the strictures upon the quantity-theory, however much it has been cavilled at, no one, to my knowledge, has seriously undertaken to show what governs prices, if the demand for and the supply of money, taken together, do not. All the favorite references of the day to clearing-house transactions and to the great system of credits are utterly without a bearing upon the validity of the quantity-theory of money. Such transactions and operations are properly to be cited as explaining the reduction of the field within which money operates. Statistics of this character are useful in accounting for the fact that the demand for money is not greater than it is. They show how far credit comes in, to allow exchange to be effected without the use of money. But, after all that banks and clearing-houses and book-accounts can do, goods are still exchanged for money. Are they not? Answer this. If they are, then the rates of those exchanges must be determined by some competent economic force. It cannot be by mere caprice or accident that a man gives a certain amount of his labor, or the products of his labor, for a certain number of money-pieces, and not for twice that number. It cannot be by mere caprice or accident that the possessor of money-pieces is compelled to give a certain number of them for a given quantity of the other's labor or of the products of his labor, and is not able to obtain it with one half that number of money-pieces. What is that force which compels the possessor of money or of goods, "the party of the first part" or "the party of the second part," to give as much as he does, which relieves him from the necessity of giving more than he does? In all other cases of value, that is, in regard to all exchanges of goods for goods, in regard to all exchanges of goods for services or of services for goods, under all conditions and in all places, the answer universally accepted is,—demand and supply. Some powerful reason must be shown for believing that any other principle governs prices, *i.e.*, the value of money.

Whatever incredulity has of late come to be felt regarding the quantity-theory of money is due, in part, to the complexity and elusiveness of the elements of the case. But the same difficulties of definition and determination might just as rationally lead one to deny that the phenomena of the weather are manifestations of force under law. For the rest, the cause for the incredulity referred to is found in the disregard of the condition which often is and always should be attached to the statement that an increase of the money supply tends to raise prices, while the diminution of the money supply tends to lower prices. That condition is, "other things equal." We have, for example, recently seen what appeared to be a statistical demonstration of the falsity of the quantity-theory, which entirely disregarded this condition; not only changes in the habits of the people in respect to carrying and using money, but even a twofold increase of population, being treated as of no consequence. Generally speaking, however, writers upon this side of the question generally go so far as to reduce the volume of the currency to a per capita statement; but they are just as much given to ignoring other possible and even probable changes.

Not only may the habits of the people in this respect alter greatly within a short time, but the very increase of the money supply may become the cause of increased demands for money. When Mr. Jacob wrote his book on *The History of the Precious Metals,* he reached the conclusion that, the increase of the money supply, during the first generations after the discovery of America, to the extent of about five hundred per cent, resulted in a general rise of prices nearly as great. Subsequent investigations, however, have greatly reduced this estimate; and Professor Cliffe Leslie reaches the result of a general enhancement of prices somewhat exceeding two hundred per cent. Now, such a failure of complete correspondence between the ratio of increase in the money supply and the ratio of increase in general prices affords no ground for questioning that the relation of cause and effect exists between the two phenomena. "Other things" did not remain equal while the stock of the precious metals was undergoing this enormous enhancement. The vast and sudden increase of silver, from the mines of the New World, itself produced a marked increase in the demand for money. The habits not only of the commercial classes, but of the whole body of the population, naturally changed in respect to the holding and use of money. The world down to that time had been starved in its money supply, ever since the downfall of the Roman Empire; and the new silver was eagerly absorbed by the famished system. Moreover, as Professor Cairnes, in his excellent essays on the gold question, has shown, the new silver and the rising prices set on foot a host of industrial and commercial enterprises and wonderfully stimulated the productive activity of the whole world. Society, both industrial and political, took on a new face. Speculation and adventure awoke in every land. Discoveries of new arts and of new resources in nature made a call upon the new money, which, with larger production, prevented prices from rising to anything like the degree in which the money-supply had increased. Effects of a similar character, but far more extensive in their range, followed the gold discoveries of California and Australia. Prices rose, but to nothing like the extent to which the volume of the money supply was increased. The rise of prices itself stimulated adventure and speculation, while the new gold furnished the necessary means. As Mr. William Newmarch says:

"There is at all times a profusion of enterprises to be undertaken; of experiments to be tried; of schemes to be worked out; of improvements to be made; of ingenious men to be set up with capital; of trades already profitable to be made more so by vast extensions."

The limited amount of time at my command will not allow a full treatment of the quantity-theory of money. All that is said against it, either in the way of argument or of cavil, does not in the slightest degree shake my confidence in the principle that, all other things equal, the universal law of exchange applies to money as to every other thing that is bought or sold. Assuming, then, the truth of this doctrine, I will, with your permission, go forward to state, in a very general way, what, in my judgment, is the effect of changes in the volume of the currency as respects public prosperity.

And first, of inflation. Here we have to deal with a moral element which is of immense and irresistible influence, economically. Purposed inflation, by act of government, having for its object the raising of prices and the scaling-down of debts, is subject to the gravest impeachment, on grounds not only of social justice, but of economic expediency as well. It carries with it the sting of fraud and leaves behind it a retribution swift, sure, and terrible. The moralist is not more strongly bound than is the economist to denounce every measure having any such design or effect. The difference between an inflation of the money supply due to the discovery of new mines and fields of the precious metals, and an inflation due to act of government having the design and purpose to scale-down debts, is just as wide as the difference between the natural death of a miserly rich man, bringing his estate into the hands of a generous and public-spirited heir, at which result all good men may rightly rejoice, and the murder of the miser for the purpose of changing the ownership of his property, which no plea of public spirit or generosity in the use of that property could make to be considered as any other than an atrocious and detestable act worthy only of condemnation and punishment.

Looking then, for simplicity of reasoning, at a metallic inflation, which, whatever hardship it may bring upon certain persons or classes of persons, carries no sting of injustice with it, let us inquire what are its effects upon public prosperity. The subject is one which is susceptible of great exaggeration. It is also one which may be treated in a small and grudging way, with results as distinctly false to life as any that could be due to extravagance of view and of statement. I believe that the truth lies between the extreme claims of some who have attributed more than a magical, an even miraculous, virtue to a natural increase of the money supply, and the mean and parsimonious admissions of certain economists of the *a priori* order. But I also believe that the truth lies very much nearer the former than the latter line. The weighty statement of David Hume is the first which should be quoted in any discussion of this subject.

"It is certain, that, since the discovery of the mines in America, industry has increased in all the nations of Europe, except in the possessors of those mines ; and this may justly be ascribed, amongst other reasons, to the increase of gold and silver.

"Accordingly we find, that, in every kingdom, into which money begins to flow in greater abundance than formerly, everything takes a new face; labor and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plow with greater alacrity and attention. This is not easily to be accounted for, if we consider only the influence which a greater abundance of coin has in the kingdom itself, by heightening the price of commodities, and obliging every one to pay a greater number of these little yellow and white pieces for every thing he purchases. And as to foreign trade, it appears, that great plenty of money is rather disadvantageous, by raising the price of every kind of labor.

"To account then, for this phenomenon, we must consider, that though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom.

"In my opinion, it is only in this interval, or intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favorable to industry. When any quantity of money is imported into a nation, it is not at first dispersed into many hands; but is confined to the coffers of a few persons, who immediately seek to employ it to advantage.

. . . .

"It is easy to trace the money in its progress through the whole commonwealth; where we shall find, that it must first quicken the diligence of every individual, before it increase the price of labor." *

I think that in the foregoing remarks Mr. Hume even understates the advantages of a metallic inflation. In addition to all which he alleges, there is the important consideration of the effect of such a cause upon the burden of existing indebtedness, both public and private. The world is always in bonds to the generations that have preceded. The industry, the activity, the enterprise of the generation upon the stage are heavily weighted by obligations to the past. These obligations cannot be repudiated, they cannot be intentionally lightened by act of government, under impulse from the debtor class, without social and economic retributions that will produce a mischief far outweighing any benefits which may be in view in such ill-advised measures. But when this effect is brought about by natural means, if not too sudden and violent in operation, I believe it to be wholly beneficial and harmonious, economically. That the great silver discoveries of the sixteenth and seventeenth centuries, diminishing the weight of feudal burdens, cutting down the effective revenues of existing dynasties, and reducing the weight of obligations derived from the past, had an influence, wholly in addition to that mentioned by Mr. Hume, in not only extending commercial activity, but lifting society and industry up to a new and higher plane, seems to be beyond question. To show that I am not without the support of economic authority, I quote the language of M. Chevalier, the first of French economists, and of J. R.

* Hume's *Essay on Money.*

McCulloch, one of the most conservative of the English school. M. Chevalier says:

"Such a change will benefit those who live by current labor; it will injure those who live upon the fruits of past labor, whether their fathers' or their own. In this, it will work in the same direction with most of the developments which are brought about by that great law of civilization to which we give the noble name of progress."

Mr. McCulloch has perhaps taken even stronger ground in favor of the desirableness of a gradual reduction in the burden of debts, through a natural increase of the volume of the precious metals. He maintains that a depreciation of the circulating medium, through this cause, promotes industry, diminishing the weight of the obligations which press upon the producing classes, whether employers or employed, giving them the use, at a lower rate in produce (because at a fixed rate in money), of all the agents—land, buildings, stock—which they hold by hire or lease for terms of years, from those who are not themselves personally engaged in production. At the same time, all that part of the taxation of government which goes to the payment of the principal and interest of public indebtedness, is reduced in its weight upon the whole community, whether engaged in active production or not. Looking at the matter in this light, Mr. McCulloch declares that, "while, like a fall of rain, after a long course of dry weather, it may be prejudicial to certain classes, it is beneficial to an incomparably greater number, including all who are actively engaged in industrial pursuits, and is, speaking generally, of great public or national advantage." With reference to this statement, Prof. W. Stanley Jevons says:

"I cannot but agree with Mr. McCulloch, that, putting out of sight individual cases of hardship, if such exist, a fall in the value of gold must have, and, as I should say, has already, a most powerfully beneficial effect. It loosens the country, as nothing else could, from its old bonds of debt and habit. It throws increased rewards before all who are making and acquiring wealth, somewhat at the expense of those who are enjoying acquired wealth. It excites the active and skilful classes of the community to new exertions." (*Investigations into Currency and Finance*, pp. 96, 97.)

Even Prof. John E. Cairnes, who was much disposed to quarrel with the great increase of the precious metals, due to the Californian and Australian discoveries, as involving "a more cumbrous medium of exchange" and as investing an undue amount of the world's labor and capital in the form of gold and silver, and who asks, "Are the other nations of the world to continue forever laboring in the service of the gold countries, for no other than the barren reward of an addition to their circulation?"—even this highly conservative writer declares, concerning the increase of the stock of silver due to the South American and Mexican discoveries, that "it supplied and rendered possible the remarkable extension of oriental trade which forms the most striking commercial fact of the age that followed." And Professor Cairnes further indicates among the beneficent, though political rather than economic, results, the hastening decay of the feudal power, the increasing dependency of the sovereign upon his people for the supplies which his hereditary domains no longer furnished in sufficient amount, and the rising spirit of self-assertion on the part of the commercial and mechanical classes.*

When we turn from considering the effects upon public prosperity of a change in the currency in the direction of inflation, to inquire what is the social and industrial influence of a change which is in the nature of contraction, we find a remarkable alteration in the views of those who especially affect economic orthodoxy. One would suppose that, if the money function is of such supreme importance as to make inflation a possible source of untold mischief, it could hardly fail to be admitted that contraction might also be a possible source of mischief. But it has not pleased the economists of this school to admit that sauce for goose is sauce for gander. The very writers who, during the inflation period in the United States, urged with the greatest earnestness the evils of a rapid increase of the money supply,

* Cairnes' *Essays toward a Solution of the Gold Question.*

teaching that it disturbed the standard of value, altered the distribution of wealth, perverted the course of industry, promoted speculation, generated dishonesty, and in every conceivable way did mischief to the body politic and economic, tell us that the money function is of so little consequence, commercially, industrially, and socially, that contraction is really of no account whatsoever. They argue that the production of wealth is really a matter only of labor power, capital power, and land power; and that such production may be trusted to go on, without let or hinderance from any such trivial accident as contraction of the currency. I will not hold all the economists of this school responsible for so extreme a statement as that which Mr. David A. Wells makes in his Currency Plan of Resumption:

"Were all the currency in the country absolutely swept out of existence to-morrow morning, there would doubtless be much inconvenience experienced, the same as though all the yard-sticks, foot-rules, and bushel measures were to disappear; but, in either case, there would not probably be one less acre of land cultivated, yard of cloth made, ton of coal dug, or pound of iron smelted, in consequence."

But I think it not unfair to say that, with somewhat less of extravagance, they are in general disposed to look upon the possible evils of a diminishing money supply as of small consequence. For myself, I have never been able to understand how men could possibly consider the money function of so much importance, and, at the same time, of so little importance, as to regard the evils of inflation as almost illimitable, economically, socially, and politically, while regarding the possible evils of contraction as not worth talking about. Leaving, however, all question as to the consistency of the orthodox writers, let us inquire whether a diminishing money supply could set in motion forces prejudicial to public prosperity, and if so, in what ways it might be expected that injurious results would occur.

In the first place, a contraction of the currency, either absolute or relative, that is, either a positive diminution of the money supply, or a failure of the money supply to keep up with the demands of commerce due to enlarged productiveness of labor and capital and to the multiplication of the uses of money in any community, has the necessary and immediate effect of enhancing the burden of all debts and fixed charges. Money having been taken as the standard for determining the rights of the creditor and the obligations of the debtor, in all cases of deferred payment, a diminution of the money supply, or a failure of the money supply to keep up with the demands of commerce, must enhance the weight of the burdens imposed upon the present by the past. That burden is, at the best, necessarily, under the conditions of human society, a very weighty one. Every man of affairs knows how "the interest charge" bears down upon productive enterprise, even the most successful. Wherever the conditions of business cause enterprise to drag in the least—in agriculture, except where natural resources are richest; in commerce, except with the ablest management; in manufactures, except under conditions which create a practical monopoly or at least give some marked advantage over competitors—the weight of the interest charge becomes galling and oppressive. Few men can till the soil in a long-settled country, if they have to borrow all their capital; few men can carry on trade and manufacture, except under rare conditions, if they have to borrow all their capital. I appeal to every man of business for the truth of this statement. The margin of buoyancy in the human frame is so small that it takes but very little around a man's neck, while struggling in the water, to carry him to the bottom. The margin of profit in ordinary business is so small that any enhancement of obligations derived from the past, must be seriously felt; while, if that enhancement persists through a considerable period, the drain upon productive enterprise thus created cannot fail to tell heavily upon the vitality of the commercial and industrial system. This must be so, from the purely actuarial point of view; but it is fairly to be questioned, whether the moral influence of such a cause, in inducing discouragement and lack of confidence, does not operate with even greater force.

But the chief of the evil effects produced by a diminishing money supply is, in my humble opinion, to be seen in the impairment of enterprise on the part of the producer and the exchanger of wealth, due to falling prices. It must be remembered that, under the modern system of commerce and industry, the sole motive for the production of wealth is found in the anticipated profits of business. A manufacturer buys two hundred thousand dollars' worth of material and pays three hundred thousand dollars in wages because he hopes, with good fortune, to realize perhaps twenty or twenty-five thousand dollars in profits. Unless he sees his way fairly open to realize something in the way of profits, after all his outlay and his risk, his interest in production ceases, except so far as he may, for a short time, carry on business for the sake of holding his laboring force, or his circle of customers together. Yet a very small reduction in the price of the large body of goods produced may entirely wipe out the utmost profit he could reasonably promise himself; may even turn the anticipated profit into a loss. In such a case, even a slight movement in the direction of prices falling between the time when materials are purchased and manufacture undertaken, and the time when goods are to be marketed and paid for, may, if persisted in, become a very serious matter. There will always be, in all branches of business, those whose financial strength and power of organization and management enable them to overcome adverse conditions and to conquer fortune; but in every branch of business there is a lower third, on whom competition always presses with great severity, to whom it is a continual struggle to make both ends meet. These men are at a disadvantage in buying, in making, and in selling. Their bad debts are numerous; they have to pay heavily for discounts; they have perhaps not the means or the credit required to obtain the most modern machinery and the best appliances. To men in such a situation, steadily falling prices are embarrassing, harassing, and oppressive: a weight around their necks which tends continually to wear them out and threatens sooner or later to send them to the bottom. Their margin is so small, at the best, that a very slight hostile force may produce the most seriously injurious results to them; while the embarrassments and failures of this lower third of the producing class constitute a continual menace to the abler men of business in their respective branches of manufacture, demoralizing the market for goods and unsettling the market for loans with continual alarms.

But there is still a further potency for mischief to be found in declining prices. All that has been said would be true were there not in modern business a strongly marked tendency to occasional commercial crises and to "hard times" in productive industry. It seems inseparable from the existing organization of affairs that periods of highly stimulated production should alternate with periods of depression and restricted production. Under this universal and seemingly inevitable condition of commerce and industry, I cannot but believe that the general downward tendency of prices tends to make disturbances more frequent, to increase their severity, and, especially, to protract their duration. With a moderate, progressive increase of the money supply and a general upward tendency of prices, it can hardly fail to result that the man of business, whether manufacturer or merchant, will be readier to assume the initiative, will be more courageous and hopeful, will display greater enterprise and energy. We all know that it is entirely possible that production shall be locked in "a vicious circle," producers closely limiting their operations because consumption is checked; consumption remaining all the while at a minimum for no other reason than that the operative class, producing little, have little with which to purchase goods. We have, in our own life-time, seen such a situation persisting through a long period, because men of business would not believe in the possibility of recovery, and each waited for the other. Wherever, perhaps by causes purely accidental in the original instance, industry and trade fall into this condition, it does not seem to be a matter of doubt that the restoration of confidence and enterprise must be tardier and more difficult when the general movement of prices is downwards than when it is upwards. I have just now said that it is a little thing around a man's neck which will overcome his margin of buoyancy, slight at the best, and drag him to the bottom. It is equally true that it is a very little thing under a man's arms which will so enhance his margin of buoyancy as to keep him afloat for hours. For the foregoing reasons I believe Mr. Balfour was fully justified in saying that a slow appreciation of the standard of value "is probably the most deadening and benumbing influence which can touch the springs of enterprise in a nation."

But one more remark requires to be made, and that is with respect to the argument, so commonly employed in these days, by which it is attempted to be shown that the volume of actual money is of little consequence, by reason of the operation of the credit system, which makes good any deficiencies that may exist in the body of the currency. On this point allow me to read the following paragraph from the address of Mr. L. L. Price, of Oxford, as President of the Section of Economic Science and Statistics, at the Ipswich meeting of the British Association for the Advancement of Science, of the present year. Mr. Price remarks:

"It is sometimes asserted that the influence of credit on prices is so considerable as to reduce to unimportance a decrease in the available supplies of gold. It may at once be admitted that *the modern extensive development of credit obscures the relation between the metal and prices; but it does not destroy it;* and, according to the view we have been trying to emphasize, the mission of economics is to remove this veil of obscurity. In this instance it may show that the relation is not unreal because it is indirect; that credit, expanding and contracting of itself, owing to increasing or diminishing speculative activity, is yet limited and controlled in its movements by the changing dimensions in the basis of cash on which it rests; and that, through the bank reserves meeting or restricting the demands for petty cash and permitting an expansion or causing a curtailment of credit, the supplies of the standard metal exert an important influence on prices."

I am convinced that what Mr. Price here says is strictly true. While the utmost expansion of the credit system may, in a measure, disguise the influence of a diminishing money supply, it cannot, at the best, wholly offset that influence; while it is fairly a question whether the operations of credit are not less active, rather than more active, when contraction of the currency is going on, than when the currency is undergoing a moderately progressive increase.

INTERNATIONAL BIMETALLISM: A REJOINDER

Yale Review, VOL. 5 (1896), PP. 303–12.

The volume on *International Bimetallism* published in 1896, was reviewed by Prof. Henry W. Farnam in the *Yale Review*, vol. 5 (1896), p. 182. This led Mr. Walker to make the following explanatory statements. The reply is briefly commented upon by Professor Farnam in the same number, pp. 312–15.

INTERNATIONAL BIMETALLISM: A REJOINDER.

I AM deeply sensible of Professor Farnam's courtesy and considerateness in dealing with my work on "International Bimetallism" in the *Yale Review* for August;* but there are a few points regarding which I ought to speak.

The first relates to Professor Farnam's interpretation of two sentences having reference to the effect of demonetization on prices. These sentences are as follows: "A number of nations have largely diminished, relatively, their use of silver; and have largely increased, both relatively and absolutely, their use of gold. This must have had an effect to lower prices, expressed in terms of gold." Upon this Professor Farnam remarks:

> "The word 'use' is, to be sure, a little ambiguous. We do not know whether it means the quantity used or the quantity wanted, but we assume that it means the quantity used, since the statement would in that case agree with the facts of our own country. Now, if General Walker claims that to increase the quantity of gold in circulation must have the effect of lowering the prices in terms of gold, he is going directly counter to the quantity-theory of money which he has often and so ably expounded. According to that theory, an increase in the amount of gold in circulation would, other things being equal, tend to raise gold prices."

If my language is naturally to be understood in this sense, it certainly becomes me to apologize for clumsiness of expression. That the sentences quoted could possibly be taken as relating to the supply of the precious metals, never occurred to me until I read Professor Farnam's comment. Let me state, familiarly, a parallel case. Jones asks Brown why the

* See *Yale Review*, vol. v., p. 182.

price of horses has fallen so greatly within the past few years. Brown replies that, as he conceives it, the result is mainly due to the fact that vast numbers of people have given up riding horses and have taken to bicycles. In this answer, Brown would not be understood as referring at all to the supply of horses, but only as speaking of the use of bicycles as affecting the demand for horses. Brown either assumes that the supply of horses remains unchanged, or, with equal propriety, he chooses to disregard the supply altogether and to confine Jones' attention and his own, for the moment, to the great and conspicuous change in demand. So, in the two sentences quoted by Professor Farnam, I said, in effect, that many nations had given up silver, as their principal money, and taken to gold. What I meant was that the world *uses gold more:* Professor Farnam has understood me to mean that the world *uses more gold.* I apprehend that the two things are distinct; but in any case what I had in mind was merely the admitted increase in the demand for gold, not any change in the supply.

2d. I am surprised to note that Professor Farnam gives some countenance to the notion that the whole, or substantially the whole, fall in prices, by which 59.2 grains of gold would, in June of this year, purchase the same amount through a very large range of commodities, as 100 grains of gold would have done in 1873, has been due, not to the relative scarcity of that metal, but to the increase in the quantity of goods offered for gold. That a reduction in the cost of producing many articles has caused some part of the fall in their prices every fair-minded man must concede; but that it has produced the whole of that fall appears to me monstrous. Lord Iddesleigh's Commission of 1885 declared that there had been a continuous fall of prices, caused in a large measure by the appreciation of the standard of value. When the Herschell Commission reported two years later, it was expected that the bimetallists of that commission would take a strong view of the effects of demonetization upon prices; but even the gold monometallists, in their separate report, admitted that no inconsiderable part of the fall in prices had been due to the appreciation of gold, though they added, "We think the sounder view is that the greater part of the fall has resulted from causes touching the commodities rather than from an appreciation of the standard." Mr. Goschen, than whom there is no man more competent to speak, has repeatedly put himself on record as attributing the fall of prices predominantly to the appreciation of gold. Finally, not to occupy too much of your valuable space, let me quote Sir Robert Giffen, perhaps the ablest purely commercial statistician of the world and one of the pillars of English monometallism:

"Two causes only have been suggested. One is a great multiplication of commodities and diminution of the cost of production, due to the progress of invention, improved facilities of communication, lower freights, international telegraphy, and the like circumstances. The other is that the precious metal used for standard money, namely, gold, has become relatively scarcer than it was, its production being diminished on the one hand, and the demands for it, on the other, increased. *I am disposed to give the greater weight to the latter.*"

Again, speaking of the depression of trade, he asks whether:

"It may not be largely due to some permanent cause which has lately begun to operate, *to which trade was not subject for many years after 1850,* and which is now in full operation, and which has for its effect to prevent a rise of prices in good years to what was long considered the customary maximum, and to precipitate a fall in bad years to a point much below the customary minimum."

It may be urged that these were the opinions of Sir Robert Giffen ten years ago; and that further observation of the downward course of prices and further discussion of the subject may have changed the views even of so careful and thoughtful a writer as he. Let me, therefore, quote from his testimony before the Commission on Depression in Agriculture in 1894: "The fall of prices is attributable to the contraction of gold very largely." (18,485.) Ques. "To what do you attribute the fall in agricultural prices?" Ans. "Chiefly to the same causes that have produced the fall in general prices." (No. 18,565.) Ques. "What would they be ?" Ans. "The contraction of money relatively to what went before. That is the difference between the last twenty years and the twenty years before." (No. 18,566.) Ques. "You still, I gather from your evidence to-day, quite adhere to the opinions which you have very emphatically stated in this 'Essay on the Movement of Prices and Wages,' that 'the recent change from a high to a low level of prices is due to a change in money of the nature or in the direction of absolute contraction'; and again, 'the inference seems conclusive, therefore, that after 1873 the alteration in the economic movement was in money, and to this must be ascribed the change of prices which has occurred'?" Ans. "I think that is a fair statement of what happened after 1873." (No. 18,621.)

I desire to repeat what was said in my book, that much of what has been adduced by Mr. Wells as establishing a saving in the cost of production which accounts for the fall of prices since 1873, has no relevancy whatever, because it is not shown to affect the production of that last considerable portion of the supply which, as every well-trained economist knows, determines the price of commodities. All the improvements and inventions in the world, no matter how great, will not reduce the price of any line of commodities merely by being applied, no matter how extensively, to production by the more favored producers. If a steam threshing-machine would thresh, sack, and tie a thousand bushels a second, however much it might enhance the profits of the men who employ steam threshers on their farms, there would not be the slightest influence exerted upon the price of wheat until the machines began to reduce the cost of production on the poorest or more distant lands contributing to the supply of the market. The failure to understand the economic doctrine of rent has, on more than one occasion, rendered futile Mr. Wells' very remarkable natural powers of industrial investigation, and has led him into statements equally erroneous with those he has made regarding the recent fall of prices; as, for instance, in his work as Chairman of the Commission for Revising the Tax Laws of New York (1871–2), where this ignorance of the economic law of rent and the causes controlling prices led him, after two years of official inquiry, to take the astounding position * that taxes levied upon agricultural land within a jurisdiction of no wider extent than that of the State of New York, would so far be recompensed by a rise in the value of the products, that the farmers would, in the final result, pay no more than their equitable share of the public contribution. On the contrary, everybody knows that the cost of raising the principal crops of New York in 1871 and 1872, or during any year near those dates, whether before or after, had absolutely nothing whatever to do with the prices of those products. Prices were then fixed by the cost of raising crops on fields far distant from the jurisdiction of that State. In his immediate connection, Mr. Wells committed himself to the general proposition "that all taxes equate and diffuse themselves, and that, if levied with certainty and uniformity upon tangible property and fixed signs of property, they will, by a diffusion and repercussion, reach and burden all visible, and also invisible and intangible, property, with unerring certainty and equality." This theory of the infallibly perfect diffusion of the burdens of taxation is made the basis of the Commission's recommendations. That statement is repeated over and over again in the two reports of the Commission (1871 and 1872); in the abstract of the proposed system presented by Mr. Wells to the Chairman of the Ways and Means Committee of the House of Representatives, at Washington, in 1873; and in Mr. Wells' paper read before the American Social Science Association in 1874; and yet, if there is any one thing upon which all sound thinkers

* The Commission proposed to give up the effort to tax personal property in general, and confine taxation to real estate, to "building occupancy" and to moneyed corporations. They recognized the fact that taxation necessarily increases the cost of production to the farmers. ["If laid upon the land, it will constitute an element in the cost of that which the land produces"]; but they held that here as everywhere else, the automatic, insensible action of "diffusion and repercussion" would enable those on whom the burden should first be laid to raise the price of their products (or, in the case of railroads and the owners of buildings, to raise their freights and their rents,) in such a degree as to cause an equitable distribution throughout the community.

are agreed, it is that the burdens of taxation are propagated along the lines of "least resistance." No one has greater admiration than myself for Mr. Wells' ability. It is the lack of early systematic training in economics which has permitted him to fall into errors like those on which I have just now commented, and has led him to make other wild and mischievous statements regarding the currency, such as the following: "Were all the currency in the country absolutely swept out of existence to-morrow morning, there would doubtless be much inconvenience experienced, the same as though all the yardsticks, foot rules, and bushel measures were to disappear, but in either case, there would probably not be one less acre of land cultivated, yard of cloth made, ton of coal dug, or pound of iron smelted, in consequence"; or, again, that "a three-cent piece, if it could be divided into a sufficient number of pieces, with each piece capable of being handled, would undoubtedly suffice for doing all the business of the country, if no other instrumentality were available." Certainly it would be difficult to find two statements containing an equal degree of dangerous error. The annihilation of currency of a country would produce the most awful commercial and industrial crisis to be conceived of, followed by a wreckage and prostration of industry from which it would take years to recover. We all remember what were the effects, in 1893, of the withdrawal of a comparatively small amount of circulating notes. As to Mr. Wells' "silver in a three-cent piece," it would be as rational to say that a cubic centimetre of air would suffice for all the lungs in the United States, provided it could be equally distributed among the several States, counties, municipalities, and the inhabitants thereof.

3d. As to the matter of a ratio, Professor Farnam speaks as if I had proposed that the ratio should not be discussed at all until an agreement had been positively reached among the nations to establish bimetallism on some ratio, and the nations concerned had bound themselves to accept the ratio which might then be hit upon. He says, "It is as if an engineer were to state that he could raise the water in a lake by the use of pumps, but were to refuse absolutely to state how high he would raise it, until he had received a contract to do his work."

I cannot imagine how my language should have produced this impression. Nothing was said about the nations first agreeing to establish a bimetallic system and binding themselves beforehand, blindfold, to adopt a ratio subsequently to be determined. My proposition was simply that, until the nations whose cooperation is generally admitted to be essential to the successful establishment of bimetallism shall come to the conclusion that bimetallism is desirable, and so far desirable as to justify a distinct effort, we had better not enter upon the question of the ratio. The justification for this view is found in the consideration that the commercial and financial power of the countries entering into a bimetallic league would largely determine the expediency of taking one ratio, rather than another. For instance, some of the first gold monometallists of the world have admitted that, if England, the Latin Union, Germany, and the United States, were to form a league, a ratio of 15½ to 1 could be restored and maintained through any change of conditions which it is reasonable to anticipate. On the other hand, if the consenting States should not embrace England and Germany, not only the monometallists referred to, but many bimetallists, would admit that the ratio taken ought to be still more favorable to gold, say, 18 to 1 or 20 to 1. Is not this a good reason for postponing the discussion ? To use Professor Farnam's own illustration, would an hydraulic engineer be likely to spend a large sum of money in making specifications for a pumping system, were he told that the persons for whom he was to make them were entirely uncertain as to whether they wanted any pumping done, or not ? But I am not ashamed of my other reason for postponing a discussion of the ratio, although it has been made the subject of very severe criticism. What was this dreadful thing which I said ? It was that, inasmuch as the gold monometallists are anxious to draw the bimetallists into a discussion of the ratio for the purpose of dividing their councils and inducing international complications, I would, for this reason alone, refuse to discuss the ratio, not caring to do what mine enemy particularly desires. For example, the ratio of the Latin Union and some other countries is 15½ to 1; and at that ratio an enormous quantity of silver has been coined. The ratio of the United States is 16 to 1; and at that ratio an enormous body of silver has been coined. No intelligent and candid gold monometallist—and I cordially and gratefully recognize the candor and intelligence of some monometallist writers—will for a moment question that, if the bimetallic scheme could be set up and maintained at 15½ to 1, it could be set up and maintained at 16 to 1. No one would claim that the economic difference between the two ratios is sufficient to make either inadmissible, provided successful bimetallism could be had at the other. Politically and diplomatically, however, there is a large difference between these ratios. To raise the issue between 15½ to 1 and 16 to 1 would necessarily be to arouse a great deal of national susceptibility and bring into the bimetallist councils an obstacle which does not belong to the present stage of discussion. If the time ever comes when France and the United States actually enter upon practical negotiations as to the reopening of their mints, then the question of 15½ to 1, or 16 to 1, or some other ratio, must be dealt with; but at present that question is premature, and the efforts made by monometallists to bring it to the fore have been invidious and hostile.

4th. Professor Farnam appears to consider it a serious objection that my argument, as he regards it, practically stops short at 1878. He admits that, at the date named, bimetallism had very respectable arguments, both from reason and from experience, to support it; but he thinks that the course of events since that time had greatly changed the situation and that the changes thus wrought have been very slightly, if at all, considered by me. I shall have to take exception, at the outset, to the charge of having neglected the course of events or the course of discussion since 1878. Although my book goes back to Solomon, more than one third of the whole is devoted to the period in question. This does not appear like neglect. I may, of course, have omitted to mention something that is of real consequence, or there may be disproportion in the treatment accorded to this or that argument. But, even if I were fairly subject to the imputation of having entirely neglected the course of events and the course of discussion since 1878, I should feel that the argument in favor of international bimetallism was still sufficient. In my humble judgment, nothing has occurred since 1878 to displace one stone from the essential structure of our argument. That argument was then complete, even to the point of anticipating the evasions, subterfuges, and excuses to which the monometallists would resort when the course of events should in quick succession contradict every position they had taken regarding the effects of demonetization. As Professor Foxwell well says, "If prevision is a test of science the bimetallist explanation easily holds its own."

Perhaps Professor Farnam's remark was due to the fact that he had been contemplating the position of a man who had been a gold monometallist in 1878 and should undertake to write about the subject in 1896. In this case it *would* be true that a tremendous amount of rearrangement and readjustment, of explanation and exculpation, of concession and confession would be imperative. Indeed and in truth the gold monometallist argument of 1896 bears little resemblance to that of 1878; while it is simply incredible that any educated economist should to-day assume the position taken by the monometallists in 1867. It would not be possible to gather together men of sufficient importance to be accredited by their governments as delegates to an international conference, who could, in this year of grace, commit themselves to propositions like those of the conference of the year last named; who would propose to make over the monetary system of the world for the sake of an impracticable crotchet now virtually abandoned; to uproot silver from vast regions where it had been universally in use as money; and to institute gold monometallism without even so much as inquiring whether the stock of that metal would suffice for the needs of commerce!

But, without going back further than 1878, it is true that the gold monometallist argument has been completely riddled as the result of the course of events and the course of discussion. The reports of the British Commissions of 1885, 1886–7, 1894–5 exhibit the special champions of this cause under the most ludicrous necessity for explanation and self-defence. They have been obliged, like the Millerites, to postpone, over and over again, the date when the readjustment of values should be reached between East and West, after the "break of gauge," and when commerce and industry should recover from the shock of demonetization. Even the predictions of the ablest and the most fair-minded, like Bagehot and Jevons, have been falsified in a high degree. But the monometallists have had something more to do than explain the failure of their predictions and to announce new dates for their promised millennium. Not only have they been driven by the stress of controversy to commit violence upon economic statistics and to write the most curious kind of economic history, but in their extremity they have actually found it necessary to revise political economy itself: for example, to repudiate a doctrine so well established through the general consent of economists as the quantity-theory of money, and to declare that the value of money is not, like the value of everything else in the world, governed by the law of supply and demand. Verily, the way of the gold monometallist has been hard. A bimetallist, on the other hand, may well be proud to stand upon the same platform as in 1878; and, confining his substantive argument to practically the ground then occupied, make excursions into the history of the past eighteen years only for the purpose of obtaining fresh illustrations of the validity of the bimetallic principle and of the folly and the mischief of demonetization.

ADDRESS ON INTERNATIONAL BI-METALLISM

The Bimetallist, vol. 2 (1896) pp. 218–29.

Mr. Walker delivered many addresses on the subject of international bimetallism during the years 1894–6. Although this subject is treated at length in the volume by that name, it appears appropriate to select one of these addresses as representing the compression of the several arguments which he was accustomed to use in the brief space of an address. During the autumn of 1896, Mr. Walker was invited to address the Schoolmasters' Club of Massachusetts on October 31. Because of the danger of being misunderstood in what he might say on the subject which was foremost in the pending presidential contest, he declined to speak at that time, and the meeting of the Club was arranged for a week from that date, after the election took place. The following is the address delivered in Boston, November 7.

ADDRESS ON INTERNATIONAL BIMETALLISM.

Gentlemen,—When your president invited me, some weeks ago, to address the Club on the subject of International Bimetallism, on October 31, I declined to do so, for the reason that the country was then engaged in a great political contest over the free coinage of silver by the United States alone; and that, inasmuch as the question of International Bimetallism was in no way involved, it seemed better to omit for the time all discussion, which might easily, in the heat of controversy, be misconceived. As we meet now, in peace and in the sunlight after the passing of a great storm, it gives me pleasure, in compliance with the kindly renewed invitation of your officers, to take up in your presence a theme to which, whatever political importance may be assigned to it, a host of learned scholars and able thinkers have devoted themselves. In speaking of International Bimetallism to-day, however, it is not my purpose to make a formal presentation of the subject, but rather to speak about bimetallism as of something already understood; to answer certain objections which have been brought against it, and to correct certain misstatements and misrepresentations by which it has been greatly obscured to the popular mind.

1. The first thing which I shall quote from the opponents of bimetallism is not an argument, but constitutes simply a refusal to argue. It takes this form: "Well, whatever you may say, I cannot conceive of a double standard of value." This is a favorite resort for those who do not wish to be troubled by reasons. Many a time have I heard men, after listening, or appearing to listen, to an argument, the economic validity of which was admitted by Chevalier, Cairnes, Bagehot, and Jevons of the last generation, and is admitted to-day by economists like Marshall, Edgeworth, and Henry

Sidgwick, end the whole matter to their own satisfaction by the words I have quoted. Now, I should like to ask any man who talks in this way if he can conceive of a double standard of vision. A standard of vision is just as important in this world as a standard of value; and it ought to be just as difficult to conceive of a double standard of the one kind as of the other.

Indeed, every monometallist ought also to be a monoculist. Polyphemus, old Cyclops, would be his ideal. Had some of our American economists whom I know been in the Garden of Eden, they would have told the Lord, and have told him very frankly and plainly, that he was making a great mistake in giving Adam and Eve two eyes apiece. In the nature of the case they would have argued, a pair of eyes in a single head would almost never be absolutely alike; and any degree of divergence or discrepancy would be perplexing, prejudicial, and pernicious. Man thus endowed could not, they would have continued to reason, ever enjoy concurrent, but only alternate, vision. By the inevitable operation of the Gresham law one or the other eye would necessarily at any time be out of use. Unfortunately none of the philosophers referred to were in Eden at the moment; and the mistake was committed of endowing men with eyes in pairs, while the principle of duality was extended very much further. On the whole, the benevolent design of the Creator has realized a very considerable degree of success. Any mathematician will probably justify me in saying that no human head ever contained a pair of eyes which were exactly alike; and yet a vast majority of men since Adam have used both eyes, and used them together. Perhaps it would not be too much to say that there are probably few men in this room whose eyes do not differ from each other, as to every element affecting vision, by more than the degree in which gold and silver varied from the French standard of 15½ to 1 for whole decades; yet many of us go on, without disorder or disturbance until the touch of age is laid upon our organs of sight.

Within certain limits the differences which exist are of practical indifference visually, not coming into the consciousness of the individual and not being reached by the ordinary tests of the oculist; nay, being outside the range of the ordinary optician's commercial work. Even when these differences become greater, provided they be not extreme, it is still true that the sight of two eyes is better than the sight of the better one, because it is only in this way that it is possible to secure that stereoscopic effect in which we see "around" objects, as it is commonly expressed, the objects appearing as solid bodies, instead of flat.

Of course, where these differences become extreme, the Gresham law will enter, and one or the other eye will do duty for both. Even so, we esteem ourselves very much better off than if we had been born with that eye only. Not the most rabid monometallist, so far as I am informed, has found his Greshamized eye so far offend him as to propose to pluck it out and cast it from him. It would be just as wise and humane to do so, as to attempt to pluck out one of the eyes of the world of commerce. That attempt has not yet succeeded; yet from the pain, the agony, and the alarm of the wound inflicted, the whole commercial world is still writhing.

Now I beg you to understand that I am not presenting this seriously as an argument for bimetallism. The bimetallic cause is able to furnish its own arguments. I have simply offered this as an answer to the inane remark, just quoted, with which so many monometallists seek to end an argument which is entitled to the most respectful consideration; and which is supported by a far greater weight of economic authority than is the opposite opinion.

2. The second remark of the monometallists, to which I shall refer, is of a more positive character, and is embraced in the phrase: "Law cannot affect value." This statement has been made on a thousand and on ten thousand occasions. We have read it in books, and heard it from the platform, seen it in the newspapers, over and over again. Controversial writing and speaking are apt to contain much that is self-contradictory, but where in the history of human controversy can you find self-contradiction more complete? I should like to ask any man who says that law cannot affect values, why, if he is a protectionist, he desired the enactment of the McKinley law; why, if he is a free-trader, or a revenue

reformer, he opposed that law? The advocate of protection urged the passage of the McKinley law because he knew that it would importantly affect values; his object was to so change the prices of foreign and domestic commodities as, in his judgment, to encourage home production. The free-trader or revenue reformer opposed the McKinley bill because he knew that, if enacted, it would importantly affect values; and this was the ground of his objection to it. It is true that laws have at times been passed which sought to affect values in a certain way, and which in the result failed to affect them at all, or affected them in a way that was not designed or desired. These instances have, perhaps, given rise to the erroneous generalization I have quoted. But it is evident that declarations of war and treaties of peace, tariffs, currency legislation, and laws regulating the transfer of property, all affect values. Laws sometimes affect values when they were not intended so to do; laws sometimes affect values when it was expressly sought to prevent that result. Indeed, it is very difficult to frame a law on certain subjects which shall not affect values.

But if the statements of monometallists be thus self-contradictory, no other word than self-stultification can be applied to those who, in the recent political campaign of this country, have in the same breath declared that law cannot affect value, and that a free coinage law by the United States would produce the most profound and far-reaching effect upon values. These persons have told their hearers that the free coinage of silver by the United States alone would send prices "kiting," would confiscate half the assets of savings-banks and insurance companies, and work the most tremendous effects throughout the whole domain of trade and production. And yet, they say, law cannot affect value. Now, just where is the truth of this matter found? I answer, a law can affect values only when it sets an economic force in operation. Whenever and wherever law sets an economic force in operation, it can, and does, and must affect values. Let us, then, ask whether the bimetallic system can set an economic force in operation to control or to influence the relative values of two money metals. I answer, yes, incontestably. The French law, which we generally take as our example in speaking of this subject, gave to every debtor in France the option of paying his debts with a certain quantity of fine gold, in coined money, or with $15\frac{1}{2}$ times that amount of fine silver, in coined money. Inasmuch as in every commercial country there is at all times an enormous body of debts coming due, this provision set in operation an economic force of tremendous power, acting directly to the end proposed. Since, under the normal operation of self-interest, every debtor desired money of the metal which at the time tended to become cheaper, at the ratio, than the other, this option took away from the appreciating metal a part of its demand, and enhanced the demand for the depreciating metal. Now the necessary effect of diminishing the demand for any commodity is, other things equal, to lower its price; the inevitable effect of increasing the demand for any commodity, other things equal, is to raise its price. The operation of the law was simple, instantaneous, automatic. To use the phrase of Mr. Walter Bagehot, the editor of the London *Economist*, and the author of the famous financial work entitled "Lombard Street," France acted as "an equalizing machine." It took the metal which fell; it sold the metal which rose; and thus the relative value of the two was kept at its old point. On the same subject, Prof. Stanley Jevons, in his work, *Money and the Mechanism of Exchange*, says as to the equilibrating action of the double standard, no one who has inquired into the matter can doubt it, any more than he can doubt that one scale of a balance will go up when the other comes down. These are the opinions of two illustrious writers on finance, both gold monometallists. I might for hours quote the statements of able and candid economists who fully concede this point.

3. I pass to the third point in my controversy with the monometallists. These gentlemen invariably write and speak as though we were innovators, proposing some new and fine scheme for adoption by mankind. Now, since a great deal of incredulity most wisely and fortunately exists regarding the practical efficacy and good results of any scheme for largely improving the human condition, the monometallists act very

shrewdly in trying thus to throw the balance of proof upon us and subject our case to the distrust which has its origin in the instinctive feeling referred to. A very curious illustration of this attitude of the monometallist mind toward us, an attitude taken also by all the unthinking, is found in the order of debate whenever bimetallism comes under discussion. Habitually the bimetallist is introduced as one who has a scheme to offer; and the monometallist is called upon later to oppose and, if possible, refute him. Now so far from it being true that we are innovators; that we are proposing some new scheme; that the burden of proof rests upon us—the very opposite is the case. We stand upon the ancient order. Bimetallism is the old and well-approved system of mankind. From the re-institution of gold coinage in Europe, at the middle of the thirteenth century, down to 1873, there was no time when that system was not, with what degree of success or failure does not here matter, in operation over most of the civilized world. National monometallism was established by England in 1816; but for a long time England had as her sole financial allies, in supporting the single standard of gold, only two countries, and those of the most insignificant character and credit, namely, Portugal and Turkey. The movement for an universal gold monometallism was organized at Paris in 1867; and, though much painful progress has been made to that end, the world is yet far from that consummation. In other words, universal gold monometallism is even yet only half-born. It is purely a matter of conjecture as to what it would be and what it would do; and those who claim for it a beneficial character are fairly subject to all the incredulity and distrust which attach to any scheme which undertakes revolutionary changes.

4. I have just referred to the re-institution of gold coinage in Europe about the middle of the thirteenth century. This allusion suggests to me a reference to a very remarkable statement made by Governor Boutwell in a recent address delivered in this city. That statement was as follows :

"History does not carry us to a time when gold was not the recognized standard for the measurement of every other kind of property; and that, not by one tribe or people only, but by mankind in every clime and in every age of savageness or of civilization."

No one has more admiration or affection for that brave, loyal, and high-minded statesman than myself. I am sure he will take without offence what I have to say regarding this matter. So far is it from being true that gold has always been, from the earliest times, the recognized standard for the measurement of every other kind of property, that it is doubtful whether even to-day, after the long steps that have been taken in the direction of gold monometallism, gold performs that world-wide office. It would not be possible to give much time to this subject on this occasion, but I refer you to a very notable article by Professor Lexis, of Göttingen, perhaps the first economic statistician in the world, in the British *Economic Journal* for December, 1895. Two sentences will show the conclusion which this most authoritative writer reaches on the very point now in question:

> "Many writers seem instinctively to refer prices in the great Asiatic silver-standard domain to gold as the only standard of value, and not to realize that these countries have an independent standard for themselves. . . . Foreign trade touches only the surface of Indian and Chinese national economy, and quantitatively it forms only a very small part of the whole trade in these enormous states." (pp. 542, 543.)

But, if it cannot properly be said that even to-day gold is the recognized standard for the measurement of every kind of property throughout the world, how could it possibly be that, during the eight hundred years or more which intervened between the downfall of the Roman Empire and the reintroduction of gold coinage, gold performed this office ? For centuries that metal was neither mined nor coined; the small existing stock passed out of circulation into the caskets of princes and the strong boxes of bankers. The only money known to the people was silver money, and that silver so debased and corrupted, in consequence of the scarcity, that it was often known as "black money." To hear gold spoken of as the standard for the measurement of values in Europe in the sixth or the eighth, or the tenth or the twelfth centuries, is to give a shock to every student of mediæval history. The rare byzants, the product of the mint of Byzantium, which now and then found their way into Western Europe, were no more the standard for the measurement of values than were diamonds; and, indeed, they were not a tenth part as much.

5. Still another point on which I have to quarrel with "our friends, the enemy," is as to their habit of characterizing us as theorists. Of course, by this they mean idealists—that is, persons whose theories have no respect, or but an inadequate respect, for facts and existing conditions. Now, this is so far untrue as to be actually amusing. The essential difference between the bimetallist and the gold monometallist is that the former begins by taking into account the great fundamental fact of the division of the world into two groups of nations; the one using gold, the other silver. It is with this the bimetallist begins. It is for the purpose of establishing relations of exchange between these two groups of nations which shall facilitate trade and increase production, the world over, that he desires to have bimetallism. The gold monometallist, on the other hand, treats this great fundamental fact as of no account whatever. He either declares that silver must be uprooted throughout hundreds of millions of people where it has been immemorially used as money, in entire disregard of their desires, usages, traditions, prejudices, ideals; or else, if he be not quite so radical, he declares that it is of no consequence at all that exchanges between the two great groups of nations should be subjected to incessant and perhaps far-reaching fluctuations. If this is not idealism, pray, what would idealism be in matters of commerce and industry?

The whole body of proceedings of the International Monetary Conference which at Paris, in 1867, began the propaganda for gold monometallism, was of the most theoretical, academic, and highly idealistic character imaginable. For the sake of an impracticable crotchet—international coinage—they proposed a scheme which should revolutionize the existing monetary system of mankind; and when Mr. Mees, of Holland, suggested the inquiry whether there was gold enough in the world to perform the work of commerce, these doctrinaires, carried away by their high-flown scheme for the creation of an international coin, did not think Mr. Mees' question of sufficient consequence to discuss it.

6. Another offensive allegation of the gold monometallists which deserves answer is that the bimetallists are in some way attempting to defeat the operation of natural laws. I once spoke on this question, when I was answered by a gentleman entitled to the highest personal consideration, who devoted almost his entire speech to a eulogy of natural law, the attraction of gravitation being his strongest hold. Over and over again he asserted the futility of attempting to defy the constitution of the universe, and especially the principle of gravity.

Now, the bimetallists no more propose to violate the laws of nature than does an engineer when he constructs a bridge to carry freight and passengers high up in air from one side of a river, or arm of the sea, to the other; or than does the naval architect, when he constructs a vessel of iron which shall be propelled against the wind twenty miles an hour, with hundreds of passengers and thousands of tons of freight from the New World to the Old. "The law of nature" is that iron will fall through the air to the ground, or fall through water to the bottom. Yet bridges of iron are hung high in air, and ships of iron do swim in water. Neither the engineer, the naval architect, nor the bimetallist disregards the laws of nature or violates them. He recognizes them, uses them, and makes them serve his purpose. The allegation that bimetallism seeks to defy natural law will be seen to be absolutely unjustifiable if you revert to my statement of the French financial system. You will recollect that the very motive force that bimetallism puts into operation is the principle of human self-interest—human selfishness, if you please. What is this famous "law of trade" which we are informed is "universal," "immutable," "inexorable," with all the other fine or grand adjectives and participles which can be brought in for the purpose? Simply this: That men will buy in the cheapest and sell in the dearest market which is open to them; that they will give as little and get as much as they can in dealing with each other. Now, this is exactly what constituted the motive force of the French system. The debtor was given an option as to the metal in which he would pay; and his individual self-interest was thereby brought in to make the system operative. Lest I should not have an opportunity to revert to the subject, let me say here, first, the scheme was not inequitable, because this condition existed when the indebtedness was incurred; secondly, it was not injurious, inasmuch as the benefits which it conferred upon trade and production far more than compensated for any loss which any individual might in any case be assumed to suffer by reason of the existence of that option on the part of his debtors.

7. I ask you to note that all the assertions which the more intelligent monometallists bring against the practicability of bimetallism as a working scheme have reference to the concurrent and not to the alternate circulation of the two metals under that scheme. Professor Sumner, than whom bimetallism has no abler or more relentless enemy, expressly says that alternate circulation offers no theoretical absurdity, while he declares that concurrent circulation is impossible. Let me illustrate this difference by a reference to the history of France from, say, 1820, onward to, say, 1865. At the beginning of this period France held a large amount of gold coin which, at the existing legal ratio of $15\frac{1}{2}$ to 1, then tended, under the existing conditions of production and use, to become a little more valuable than silver at that ratio. Under these circumstances the movement was in the direction of substituting silver for gold in the circulation. The net export of gold was not large, but by occasional loss, and wear and tear, by use in the arts, and by hoarding, the amount of gold in circulation steadily diminished, while the additions were all of silver, of which vast amounts were imported, so that the money of that country became more and more money of silver, less and less money of gold. After the remarkable discovery of the precious metals in California and Australia, both within the term of three years, the tide turned. This time the amounts of silver actually sent out of the empire were very large; while the importations of gold became something enormous. In consequence the proportions of the two metals

in the French circulation steadily changed in the direction of replacing the appreciating silver by the depreciating gold. To such an extent was this carried that it is fashionable to say that in this time France had no money of silver, but only money of gold.

Now, the point to which I desire to ask your attention is this: that conceding for a moment that concurrent circulation is impossible, the two great objects of bimetallism are attained under alternate circulation. What are those two great objects? I answer, first, to maintain an approximate par of exchange between gold-using and silver-using countries; secondly, to secure that greater stability of value which belongs to a money composed of the two metals thus joined in the currency, than can possibly be attained under gold monometallism or silver monometallism. Let me speak of these two objects briefly, in the order mentioned.

First, an approximate par of exchange between gold countries and silver countries. Why is this an object of importance to trade and production? Let me reply by illustration. During the seventy years that the French bimetallic system remained in operation, gold held to silver in the bullion markets of the world nearly the ratio of 15½ to 1, which was the mint ratio in France. There were fluctuations within narrow limits, but as Lord Herschell's Gold and Silver Commission of 1886–88 unanimously admitted, there was, considering the vast changes which took place in the conditions of production and use, a very remarkable steadiness in the value relation of the two metals. Professor Jevons states that the maximum monetary effect of the Californian and Australian discoveries combined was less than 5 per cent, while the permanent effect was only about 1½ in 100. The approximate establishment of a par of exchange at 15½ to 1 between the two metals is universally conceded among all economists and financiers whose opinions are worth quoting, to have been of very great benefit to trade and production, the world over. Those who produced goods in a gold country could always tell within a minute fraction for how much silver they must sell them, if exported to a silver country, in order to make themselves whole for the cost of production.

In the same way those who produced goods in a silver country knew for how much gold they must sell them in order to make themselves whole for expenses incurred in silver. International trade was thus given as high a degree of stability as could possibly be attained. Fluctuations will occur; prices will rise and fall within gold countries, and also within silver countries. But it is exceedingly undesirable that to these necessary risks of trade should be added the effect of fluctuations between gold and silver. The influence of the bimetallic system was much like that of a bridge connecting two cities upon opposite banks of a river or arm of the sea, which is liable to be swollen by floods, obscured by fogs, swept by storms, or filled with ice. Before the bridge was constructed no merchant in one city could possibly know what would be the time, expense, or risk involved in the transportation of his goods to the other. The bridge substitutes for an uncertain, hazardous, often dilatory, and always costly means of transport and travel, a broad, safe, constant, and cheap mode of communication. Such a benefit the French bimetallic system conferred upon the commerce, and by consequence upon the industry, of the whole world during the entire period of its continuance. Since that system was broken down by the hostile action of Germany in 1873, the silver price of gold and the gold price of silver have fluctuated more in a single year than in the whole 200 years preceding, and international trade has been involved in uncertainties, risks, and losses, which are most prejudicial, not only to trade, but to production itself. It has been reserved for a wise man in this year of grace, and in the city of New York, to discover that the destruction of this approximate par of exchange between the halves of the commercial world has really been of no consequence at all. Time will not allow me to argue the question at length, so, perhaps, you will permit me to set against this dictum of an anonymous writer the sober statement of the London *Economist*, the first commercial paper in the world. The article bears date in 1879, six years after demonetization:

"Uncertainty must attend on many, if not on most, trading ventures; but when to that uncertainty an additional risk of loss, ranging from 5 per cent to 10 per cent on each cargo is added, it is no wonder that the most cautious find themselves deceived in their calculations, and merchant after merchant admits that, in lieu of profit, he has for some considerable time reaped nothing but loss from trade with silver-using countries."

If this statement does not satisfy your minds, permit me to quote from three financiers of the highest authority,—Sir Louis Mallet of England, in 1888; M. Montefiore Levi of Belgium, the President of the International Conference of 1892; and M. Léon Say, formerly Finance Minister of France and President of the Conference of 1878. Sir Louis Mallet says:

"I desire to express very distinctly the opinion that I attach far more importance to the injurious effects of constant fluctuations in their relative value, in imparting a character of uncertainty and insecurity to the international exchanges between gold and silver-using countries, than to a mere alteration in their relation to each other in one form or other, whether by a rise or fall of either metal."

M. Levi's statement is as follows:

"The principal evil of the present situation lies in the instability that results from it. How would it be possible for the merchant or the manufacturer to make with safety contracts extending over a long period, as important business operations generally do, if the shrewdest judgments and the best founded calculations might at any moment be upset by a sudden movement of the money market? There is no need, we believe, to look elsewhere for the cause of the noticeable falling off which has taken place in international transactions. The hesitation which checks all great enterprises and which paralyzes many markets is the direct consequence of the instability in the price of silver as compared with gold."

M. Say remarks:

"Although, in 1861, silver in England and gold in Hamburg were simply commodities, there existed a guarantee against variations in their relative value. This guarantee, not less real because indirect, was that which France and, after 1865, the union of the four Latin powers—France, Belgium, Switzerland, and Italy—had given to the entire world, not less truly than to their own citizens, through the establishment of their monetary system. . . . Calonne's arrangement, reaffirmed by the law of the 7th Germinal, an. XI, allowed all countries alike, those using gold and those using silver, for nearly a century to maintain monetary relations among themselves which conduced to freedom of commercial intercourse and rendered simple the payment of international balances, without any serious trouble in the foreign exchange, except such as resulted from emissions of paper money."

The second of the great objects of bimetallism is to secure a greater stability in the compound mass of money, composed of gold and silver thus joined in the coinage, than can be enjoyed under gold monometallism or silver monometallism. On this point there is absolutely no difference of opinion among economists of repute, whether they call themselves monometallists or bimetallists. In his great work, *Money and the Mechanism of Exchange,* Prof. Stanley Jevons of England, fully concedes the validity of this principle, and presents a diagram showing its operation. In a recent number of the British *Economic Journal,* Professor Edgeworth, the distinguished professor of political economy at Oxford University, shows that under every change of condition regarding the production and use of the two metals, bimetallism affords the higher security against fluctuations of value. This principle is of great importance to the world's industry and commerce, inasmuch as the history of the production of the precious metals is, speaking broadly, one of spasmodic and often intermittent production. Let me illustrate the operation of this principle. Between 1849 and, say, 1873, gold fell in purchasing power about 20 per cent, as stated by Professor Jevons. That is to say, prices rose about 25 per cent. That gold would have fallen more than 20 per cent but for the French system is admitted by every economist who enjoys any authority in the matters on which he writes. When the first effects of the great discoveries of gold in California and Australia first began to be experienced, a veritable gold panic set in. Holland and Belgium demonetized their gold pieces. Portugal prohibited any gold from having current value, excepting the English sovereign. Russia prohibited the export of silver, as the metal likely to become the stay and staff of the national existence. Soon the panic became almost universal. "Even in England," wrote Chevalier, in his great work on the *Probable Fall in the Value of Gold,* "some persons have put forth the advice that the standard should be altered, and that silver should be substituted for gold." So respectable an authority as Mr. James Maclaren, author of the *History of the Currency,* put forth a proposal that English life insurance companies should be established upon a silver basis to protect their beneficiaries against loss and possible ruin. The panic was not confined to Europe alone. The Essex Water-power Company of this State sought to safeguard itself by stipulating that its rents should be payable in silver—an arrangement which subsists until this day.

But one country stood firm amid the general alarm. The hearts of the men who controlled the destinies of France did not fail; freely France gave of her silver to all; freely took gold from all. Year after year the flood of the yellow metal poured in upon her mints; and her moneyers stood at their posts to coin it and give it back, full legal tender, at 15½ to 1. In the eight years between 1853 and 1860, both inclusive, there was imported into France gold to the value of 3,082,000,000 francs, while in the same years France sold silver to the amount of 1,465,000,000 frs., making the total bullion operation 4,547,000,000 frs., or $909,000,000. And so the great storm passed over, and the greatest financial catastrophe which has threatened the modern world was averted. Lest I should not have the opportunity to return to this point, let me here say that the financiers of France, a people distinguished for their sagacity in such matters, have always maintained that, while performing this immense service for mankind, France promoted her own national interests. When it was later proposed to abolish the bimetallic system of that country, M. Rouland, the governor of the bank, and Baron Alphonse de Rothschild, one of its regents, appeared before the Imperial Commission in opposition to the measure, declaring that bimetallism had been of inexpressible value to the French trade and industry, and had given the nation great financial influence alike in silver monometallic Germany on the one side, and in gold monometallic England, upon the other. In the International Monetary Conference of 1881, M. de Normandie presented an extensive review of the financial history of France for the forty-five years following 1836, in which he demonstrated that the operation of the bimetallic system had been wholly for the interests of his country. Among other evidence, he showed that, during the period in question, the Bank of England modified its rate of discount 292 times, while the Bank of France changed its rate only 100 times. Not only so, but during every successive period of commercial crisis the range of the discount rate in England had been far greater than in France.

To resume: The effect of the French system in preserving gold from falling through a greater distance than 20 per cent has been fully conceded by economists. As stated by Professor Cairnes, instead of silver rising rapidly in this period, and gold falling through a corresponding interval, both metals fell in value together, the depth of the fall being diminished as the surface over which it took place was enlarged. According to the illustration given by Professor Jevons regarding this subject, the operation of the French system was like that of a connecting pipe between two great reservoirs of water, which distributed any loss in either over the entire area of both.

We have just now contemplated an instance of the normal effect of the bimetallic system in holding together the two metals. We saw that, after 1850, gold threatened to fall through an immense distance, with consequences most disastrous to trade and production. We saw that, whereas it was probable that gold would fall from 35 per cent to 50 per cent of its value, under the tremendous floods of the new metal pouring in from Australia and California, the actual fall was limited to 20 per cent. Silver, being bound up with gold, shared its fall; but also broke its fall. This is the very image used by Chevalier, where he says that the French system acted as "a parachute" to break the fall of gold. Instead of one metal rising to a great height and the other falling to a great depth, the two fell together, but through a more restricted space.

Now, let us contemplate our recent financial experience, when, under a variety of impulses, silver falls and gold rises. In 1873 the bimetallic system was crippled by the passing of Germany over from the silver states to the gold states; and soon after, the Latin Union practically suspended the coinage of silver. It is true that the production of silver had been for some years before increasing in a marked degree, and this fact undoubtedly was one of the elements which influenced subsequent action. But it is to be observed that the relative increase of silver production at this time was a mere bagatelle to the increase of gold production which brought on the gold panic twenty years before. After the mines of California and Australia were fully opened, the production of gold increased, as Chevalier states it, five-fold in four years, fifteen-fold in forty years. The stock of the yellow metal in the hands of civilized man was doubled in ten or twelve years! Nothing like this either preceded or followed the demonetization of silver.

However, as has been stated, the production of silver notably increased, but at the same time several important nations wholly or partially demonetized that metal and entered the market for gold as buyers on the most extensive scale. As if this were not enough, a famine broke out in India, checking the capacity of that people to absorb silver, while gold production showed signs of serious diminution in the immediate future. We know what followed. Silver has fallen to about one half its former value, in comparison with gold, though its power to purchase commodities in general fell very little, if any, down to 1893. On the other hand, gold has risen greatly in its power to purchase commodities. In July of this year, 59.2 ounces of gold would have purchased as much of the 45 commodities given in the Sauerbeck index numbers as would 100 ounces of gold during the average of the ten years 1867 to 1877. A fall of 40.8 per cent in the gold price of commodities is equivalent to a rise of about 69 per cent in the purchasing power of gold—59.2 : 100 : : 100 : 169. How much of this increase in the purchasing power of gold has been due to a cheapening of the cost and a multiplication of the quantity of goods offered in the market; how much to a scarcity of gold relative to the demands for it from all sources, alike in the arts and for coinage, we have not time to discuss here. Some bimetallists have, as it seems to me, most unwisely, attributed the entire fall in prices to the scarcity of gold. Some monometallists have, not less unwisely, as it seems to me, claimed that the whole fall in prices has been due to cheapening of commodities. Some have even argued as if a reduction in the cost of commodities necessarily implies a fall in prices; and yet there was, from 1850 to 1873, an enormous increase of human power and a great improvement in the arts applied to production, with a consequent reduction of cost, while yet prices considerably rose. The true answer seems to me that of Sir Robert Giffen, the eminent commercial statistician, who holds that both the causes indicated have contributed to the result, but that the greater part of the effect has been due to the relative scarcity of standard money.

But the point to which I most especially desire to call your attention at this moment is the opportunity, sacrificed by the German demonetization, of again illustrating the enormous benefit to mankind which properly would result from the use of the bimetallic system at any time when one of the precious metals tended to fall through a considerable interval and the other tended to rise. Had Germany in 1873, instead of passing over from the silver states to the gold states, thus seriously imperilling the equilibrium which France had been able to maintain, allied herself to France in the bimetallic system, what we should probably have seen during the twenty-three years that have elapsed, would have been a rise in the purchasing power of both gold and silver, but through a much shorter distance—say, instead of a rise of 60 per cent or more, of not over 30 per cent. This will have meant a fall in prices indeed, but instead of a fall of 40 per cent a fall of perhaps only 20 per cent—a fall perhaps not unfairly corresponding to the reduction in the cost of producing commodities during this period.

One word, at this point, regarding the familiar statement that the present ratio between gold and silver is determined by their respective cost of production. In his recent address, to which reference has already been made, Governor Boutwell said: "To-day an ounce of gold is equal in cost of labor to 30 ounces of silver." It is evident that Governor Boutwell made this statement because of the fact that gold stands to silver in the ratio of about 30 to 1. What is it that determines the present ratio between gold and silver? I answer, it is simply a question of demand and supply. The demand for either metal is made up of all the demands for it, from whatever source, including coinage. The supply of either metal is made up, not only of the production of the present year and of recent years, but of the whole stock remaining from ages past. Gold and silver are not crops sown and gathered every year, and every year consumed. If they were, the fact that the two metals stood in the value relation of 30 to 1 might roughly be taken as indicating a relation in cost of production of 30 to 1. Not only do we know nothing positively regarding the cost of production of gold and silver in the past, but no man can make any intelligent statement regarding the average cost of production in the present. If gold is worth, say $20 an ounce, we may fairly assume that no large amount of it will long be produced at a cost above $20. But, while some gold is doubtless produced at that cost—that is, "on the margin"—gold is being produced at $18, $15, $12, perhaps $10. Those are the mines which are worth millions to their owners. If, on the other hand, silver is worth only 64 cents an ounce, we may fairly assume that not much silver would long be produced at a higher cost than 64 cents. But, while some silver is being produced at 64 cents, silver is being produced from other mines at 50 cents, 40 cents, and, it is said, even 25 cents. If, then, we compare the 25-cent silver with the $20 gold, we find that the cost of production of the gold is 80 times as great. If we compare the 64-cent silver with the $10 gold, we find that this gold costs only about 16 times as much as that silver.

All the way between these extremes of cost, gold and silver are being produced in quantities which it is impossible to estimate. It is, therefore, idle to talk about the average cost of producing gold, and the average cost of producing silver. Nobody knows what that average is; and, if it were known, it would have nothing to do with fixing the relative value of the two metals. The present value of each metal fixes the limit, above which its production practically ceases for the time. It does not represent the average cost of production of the whole mass, and the value of the existing stock is not determined by this upper limit of production, but by demand and supply.

8. But is it true that concurrent circulation cannot exist? never has existed? This is the familiar monometallist assertion. It is found in hundreds of books and pamphlets, and has been repeated thousands of times in the press and upon the platform. A statement to this effect has been recently made in the Boston papers, by Mr. Henry Wood, a writer of the highest respectability. In a recent letter to the *Transcript*, Mr. Wood said:

"Finance has its laws, which are as consistent and operative as is the law of gravitation. One of these is that two metals of unequal value, in the ratio issued, cannot concurrently circulate unless the dearer one is made the standard. In such case a limited amount of the inferior, through the moral privilege of interchangeability, can be maintained at a parity. If the cheaper be made the standard, the dearer inevitably disappears. In other words, it is practically even though not legally demonetized. This is not theory, but unvarying law, and has no exception in any country or time. The government can as effectively legislate that the rivers shall run up-hill as that the above-named laws shall be suspended."

In the *Herald* of October 14 of the present year, Mr. Wood again expressed himself as follows:

"It is utterly preposterous to suppose that in any country or period two metals of unequal value and unlimited coinage can be kept in concurrent circulation."

Now, you have all heard this statement so frequently from persons whom you could not suspect of any intention to deceive, that you may be surprised to hear me say that the statement is in a high degree erroneous. Let me take a few historical instances out of many which might be cited. England, in 1696, recoined her silver, and rated the gold guinea to it by royal proclamation. In 1702, Sir Isaac Newton, the eminent philosopher urged the re-rating of the guinea, upon the ground that the value assigned to gold in the coinage was excessive and was causing a rapid export of silver to France. Sir Isaac Newton's proposals were not carried out, and in 1717 we find him writing in a report made as Master of the English Mint:

"People are already backward to give silver for gold, and will in a little time refuse to make payment in silver without a premium."

Now, here is a period of 21 years during which silver had been subjected to an altogether unnecessary drain, through the excessive rating of gold, and yet, at the end of it, we find Sir Isaac Newton saying that unless the rating of gold be changed, people will in a little time refuse to make payments in silver without a premium.

Again, France in 1726 established a certain ratio between gold and silver in the coinage. In 1785, nearly 60 years afterwards, M. Calonne, French minister, says:

"In 1726 the legal ratio was fixed in France at 14 marks 5 ounces of silver to a mark of gold; and that which proves with how much sagacity this point was seized, is the fact that during a long course of years France retained in her circulating medium a sufficient proportion of each metal. Nevertheless, her gold gradually became less common; and for years this scarcity has rapidly increased."

From this it appears that during a large part of this long period gold and silver were both in abundant circulation, and that it was only at the date of M. Calonne's report that gold was likely to disappear altogether from circulation.

Take a third instance, that of the United States, during 25 years or more following 1792. To treat the history of American bimetallism here would be impossible. Let me simply quote Professor Laughlin:

"It seems, therefore, to be clear that gold began to disappear as early as 1810, if not before, and that little of it was in circulation by 1818."

It will appear from the foregoing that Professor Laughlin only puts the beginning of the drain of gold at 1810, 18 years after the establishment of the bimetallic law, and admits that as late as 1818, some of it was still in circulation. I should perhaps add that the bimetallists put the dates somewhat later, asserting that gold only began to be seriously drained out of the country when the English government, after a long suspension, undertook the resumption of specie payments and made a call upon the existing stock of gold, estimated at 125,000,000 dollars, or more than four years of the world's production.

For our fourth illustration let us return to consider a more recent experience of France under bimetallism. The modern French system, of which we have spoken so much, was established in 1803, and continued in force until 1873, when Germany demonetized silver. Those seventy years may be divided into two periods, before and after, let us say, 1850. We have very little statistical evidence regarding the circulation of France before 1820; but at that time we find gold going out of the country and silver becoming increasingly the money of ordinary use. It is a familiar monometallist assertion that no gold whatever was in circulation in France at this time. In a recent monometallist pamphlet, Mr. H. D. McLeod, of England, says: "In 1839–40, I resided in France, and I can certify that there was no gold to be seen in common use."

Not to take your time unduly, let me confine myself simply to the statistics of coinage. Between 1803 and 1842, France coined no less than 47,779,389 twenty-franc pieces of gold. Mr. McLeod was very unlucky not to have seen one of them. It will be noted that the French coinage of this metal, during the period when it was said that there was no gold in circulation in France, was nearly a thousand millions of francs. This, please observe, was new coinage. The statement takes no account of the old gold coin still remaining.

As to the second period, namely, that following 1850, when, it is said, with equal positiveness, that gold wholly replaced silver in circulation, and the latter metal was not used at all, I quote from M. Chevalier, writing about 1858 or 1859:

"Il reste en France encore beaucoup de monnaie d'argent, tout ce qu'il en faut pour composer, avec les billets de banque, et avec l'or lui-meme qu'il ne s'agit point d'exiler, un instrument des échanges très-efficace et très-solidement organisé, en conformité de la pensée qui animait le legislateur de l'an XI."

I quote also on the same point from M. de Parieu, a gold monometallist and vice-president of the International Monetary Conference of 1867:

"Great masses must be operated upon, to find a profit in the exchange of metals; and the change of metals takes place slowly by successive movements. For these reasons, the general circulation is neither suddenly nor seriously affected by changes in the relative value of the metals, for France has always had much silver in circulation, even when that metal was largely exported."

As above remarked, it would be easy to cite numerous instances to the same effect; but probably these will suffice to show how little foundation there is for the familiar monometallist assertion as to the impossibility of concurrent circulation.

9. I will trouble you with but one other of these complaints regarding the treatment of the subject by our opponents, and this relates to the description which they give of the way in which the French bimetallic system broke down. To take a specific instance, I will quote from a pamphlet issued during the recent political canvass by Mr. John F. Whitworth, under the title, *Can the United States Alone, with Free and Unlimited Coinage of Silver at the Ratio of 16 to 1, Make the Silver Dollar Equal in Value to the Gold Dollar?* Regarding this, let me say, first, that I fully concur with the author in the negative conclusion he reaches; secondly, that I have no question of the good faith of the writer. I take Mr. Whitworth's pamphlet up for comment, not because it is the most objectionable I can find, but because it fairly represents the sort of statement to which the American people are habitually treated by writers of that school. Now, as to Mr. Whitworth. I find no grave cause of complaint until he reaches the critical, the cardinal, point in his narrative. The period 1865 to 1872 was that in which the fate of French bi-

metallism was decided. At the beginning, that system stood triumphant, after, by universal admission, having saved Europe and the whole commercial world from a catastrophe almost inexpressible. At the end of that period that system had, one way or another, been broken down. How does Mr. Whitworth treat this period? He says:

> "We see silver gradually decline in the market from 1865 to 1872, so that the market ratio between the two metals was greatly in excess of the ratio established by law. And so great was the strain on the currency of those nations that the first government of any considerable importance to break away from the silver standard caused a panic among the silver-using countries of the world."

"Greatly in excess." The figures showing this excess are not stated; but the form of words would justify the reader in supposing that the excess referred to might be anything from 10 per cent up to 100. Let me give the actual facts. Up to 1867, gold was worth a little less than 15½ to 1. It is, therefore, only with 1867 that the excess begins. What are the figures after this date? In 1867, the average annual ratio was 15.57; 1868, 15.59; 1869, 15.60; 1870, 15.57; 1871, 15.57; 1872, 15.65. This last quotation, it will be observed, was after the German government had announced its intention, in December of 1871, of demonetizing silver.

Leaving this last quotation, therefore, out of account, is it not surprising that silver held so steadily to the legal ratio? The maximum departure was in 1869, when silver was 10 points out of 1,560 above the legal ratio, or 1 in 156. Greatly in excess, indeed! How can a man possibly treat his readers so?

But we shall not see the full extent of this error until we bring into account an element which has not yet been mentioned. By the French law, as stated, the ratio in the coinage was 15½ to 1; but the French government had a different seigniorage upon the two metals. It costs more to coin 15½ ounces of silver than one ounce of gold, even though the silver pieces be larger than the gold pieces. By the Act of 1854 the charges for coinage were so fixed at the French Mint that Mr. Dana Horton, probably the most learned man who has ever written about this matter, estimates that the real ratio in the circulation, which the system with its mint charges was calculated to produce, was not 15.50, but 15.58. If, then, you will use these figures as your standard, you will be amazed to see how marvellously close the annual average value of silver kept to the standard. I repeat the figures per year: 15.57, 15.59, 15.60, 15.57, 15.57. This is Mr. Whitworth's "great excess." At the most, in one year, two points out of 1,560, or one in over 750. Even during the last year which Mr. Whitworth names, after the announcement of German demonetization, the excess is only 7, or less than 1 in 220.

I will only make one other reference to Mr. Whitworth. He says that gold monometallism came in because of the great depreciation of silver. Let me on this point cite Mr. Walter Bagehot, who in his testimony before the Select Committee of the House of Commons on the depreciation of silver in 1876, said:

"A great number of states which are grouped together in what is called the Latin Union have ceased to coin silver ever since the year 1874, in the same manner which they did before. . . . If it had not been for that change of policy, all the silver which is now flooding the London market and lowering the price would have been long since in the mints of those countries; it would have released gold from them, and the combined effect of the two operations would have been that the comparative value of gold and silver would have been very little altered, probably not at all."

Pausing now, in this tedious controversy with our critics and opponents, I will only trouble you with two brief observations.

First, the question is often asked: Why, if France could do so much by herself alone in maintaining the parity of the two metals, could not the United States look to produce a similar effect? To this I answer:

(a) That the time has passed when even France herself could maintain the function she performed from 1803 to 1873, so greatly have the stocks of the precious metals been increased; so vast is now the mass of securities immediately marketable; so much more rapid is the communication of news and the transportation of specie; so potent has been the influence of Germany through its passing over from the silver to the gold states; so much have trade and production developed with the improvement of arts and the increase of population.

(b) That the people of the United States normally use vastly less metal money than the French now do, or than the French did in the early time; and, by consequence, this country is not and has never been in a position to exert an equal effect upon the market for the money metals.

Second, and following this, if bimetallism is, indeed, to be re-established for the great objects which have been pointed out, it must be sought through an international agreement. No single state is powerful enough to do this work alone; and every state owes it to its citizens not to venture upon any rash experiment, the failure of which might wreck its credit and destroy its commerce and industry. Nothing is to be gained by a venture which could only result in throwing an additional *onus* and *odium* upon this object. During the past summer a few ardent European bimetallists, under the excitement of seeing the United States apparently about to undertake the free coinage of silver alone, have been led away into giving some doubtful encouragement to the proposal. But the general sense of the bimetallists of Europe is distinctly opposed to any such measure on our part. If the advantages of bimetallism shall not prove sufficient to overcome the jealousies and animosities of European nations, we can at least say that the people of the United States, by reason of their high standard of wages, their large accumulations of wealth, and their vast undeveloped resources, can endure the evils of gold monometallism as long as the best of them.

ECONOMIC THEORY

CAIRNES' "POLITICAL ECONOMY"

The Nation, vol. 19 (1874), p. 320

The following brief contribution is a review of *Leading Principles of Political Economy* by J. E. Cairnes, published in 1874.

CAIRNES' "POLITICAL ECONOMY."

In this his latest work, Professor Cairnes has undertaken "to recast some considerable portion of political economy" (preface). When it is said that his discussions cover the whole theory of value, the relations of labor and capital, and the laws of international trade, it will be seen that the portion of political economy thus to be recast is indeed very considerable. We shall obtain our best view of the scope of the present work of Professor Cairnes, as well as connect that work most clearly with his previous contributions to political economy, if we go back to the commanding position taken by this author in his treatise published in 1857 (*Dublin Lectures*)—a treatise which remains the ablest and most authoritative exposition of *The Character and Logical Method of Political Economy.*

In that work, Professor Cairnes, through some very effective criticism of Mr. Senior's Oxford lectures, showed, as we think, conclusively, that political economy is to be regarded as a science *positive* with reference to the character of its premises, which are laid in existing facts, whether mental or physical; but *hypothetical* in respect to its conclusions, inasmuch as "the desires, passions, and propensities which influence mankind in the pursuit of wealth are almost infinite" (p. 33); and as the economist can never hope to embrace within his reasoning all of these, each in its own proper strength, his conclusions, based on less than the whole of human nature, must remain hypothetical, *i.e.*, true only in the absence of disturbing causes. The results he reaches will inevitably exhibit discrepancies when compared with the actual facts of human life and industry.

It is at this point that Professor Cairnes corrects Mr. Senior, who had certainly appeared, in his zealous denunciations of the epithet "hypothetical," to assume that the conclusions of political economy might be made positive. (*Introductory Lecture on Political Economy,* pp. 61–66.) But in the act of correcting Mr. Senior, and demonstrating the necessarily hypothetical character of political economy, which to many minds would seem the very despair of the science, Professor Cairnes advanced to a position more promising for true progress in the science than any before or since taken by any one of the orthodox economists—a position from which we can best trace the scope of his own subsequent work and comprehend the significance of the volume before us.

We have cited Professor Cairnes' reason for holding that while the premises of political economy are, so far as they extend, positive, being laid in the facts of human nature and the conditions of the external world, the conclusions derived must necessarily remain hypothetical, because those premises can never be made to extend far enough, *i.e.,* to embrace all of those facts and conditions. But while the economist may not in any event hope to compass all the motives of human action respecting wealth, it is his duty to seek constantly to make his conclusions approach nearer to the facts of society and industry by embracing more and more, from time to time, of those "subordinate influences" which "intervene to disturb and occasionally to reverse the operation of the more powerful principles, and thus to modify the resulting phenomena." (p. 34.) These subordinate influences may affect either the motives of human action respecting wealth, or, secondly, the principles of population, as derived from the physiological character of man and his mental propensities, or, thirdly, the physical qualities of the natural agents, more especially land, on which human industry is exercised (p. 50). These subordinate influences are more and more to be included as they are more and more disclosed, identified, and determined, in their direction and degree, through the divergences detected between the results anticipated by the economic philosopher and the facts observed by the economic statistician (p. 57). Each such influence thus disclosed "will be like the discovery to an astronomer of a new planet, the attraction of which, operating on all the heavenly bodies within the sphere of its influence, will cause them more or less to deviate from the path which had been previously calculated for them." (p. 35.)

We might cite many passages from this admirable though much neglected treatise, in which the author effectively enforces the duty of the economist to extend his premises continually to include more and more of the facts of society and industry, and more and more of the motives of human action regarding wealth. This obligation no other writer in the science has recognized theoretically with anything like the fulness of Professor Cairnes; no other writer has respected in his own conduct of economic investigation with equal conscientiousness or with comparable success.

Mr. Mill started out (in his *Essays on Some Unsettled Questions*) with the expressed determination to exclude as much of human nature as possible from his reasonings in political economy:

"Political economy is concerned with man solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labor, and desire of the present enjoyment of costly indulgences. These it takes, to a certain extent, into its calculations, because these do not merely, like other desires, occasionally conflict with the pursuit of wealth, but accompany it always as a drag or impediment, and are therefore inseparably mixed up in the consideration of it. Political economy considers mankind as occupied solely in acquiring and consuming wealth." (p. 137.)

Now, without attempting to exhaust the list of "desires, passions, and propensities which influence mankind in the pursuit of wealth," which are, as Professor Cairnes has said, "almost infinite" in number, we shall best set forth the difference between the two methods of political economy, by briefly indicating a few of those which Mr. Mill would "abstract" and reject from human nature, taken for the purposes of this science. There is the love of country, which comes into play in international dealings, and so far "modifies the force of the other principles, desire for wealth and aversion to labor," that "international values do not follow simply the cost of production." (Cairnes, *Log. Meth.*, pp. 68–69.) There is the force of ignorance (opposed to what we understand Mr. Mill to mean by the "capability of judging of the comparative efficacy of means to that end," *i.e.*, wealth), with its attendant superstitions and fears, found to be sufficient to maintain prices and wages in one county permanently lower by one third or one half than in another, perhaps an adjoining, county of the same kingdom. Canon Girdlestone's reports of his charitable efforts in removing laborers from the south to the north of England bear striking testimony to the effect of this cause. There is the force of public opinion, which is so influential in human action that, according to Professor Rogers, rents in England have always been kept by it considerably below the point to which competition would have carried them; while, according to Sismondi, the same influence has so far modified "the desire for wealth and aversion to labor" in many sections of Italy, that landowners do not so much as contemplate the raising of rents even in changing their tenants. Then there is the force of custom, which, in conspicuous instances, covering, indeed, rents, prices, and wages, one or all, throughout nations that comprise one half the human race, has practically extinguished competition, which is the unmodified operation of "the desire of wealth." It is true that Mr. Mill does not in his later writings abide by his own definition of the economic man, but generally assumes other "motives and passions" than those with which alone, he says, political economy is concerned; but this is done unsystematically; there is no more reason for doing it in those instances than in instances where it is left undone; and in general it may be said that the cases in which Mr. Mill argues as if men were utterly selfish (*i.e.*, "occupied solely in acquiring and consuming wealth") and perfectly wise (*i.e.*, "capable of judging of the comparative efficacy of means to that end") are far more numerous and no less important than those in which he takes account of love of country, love of home, ignorance, superstition, the force of custom, the force of public opinion, and other modifying causes. Mr. Ricardo made even less of human nature. His economic man answers exactly to a once favorite theological description of the arch-enemy of souls—a being composed of equal parts of selfishness and intelligence. Adam Smith, on the other hand, actually came to teach political economy as a professor of moral philosophy, and he always taught it as a branch of moral philosophy.

We have thought we could not too strongly emphasize the distinction in method between Professor Cairnes and Mr. Mill, on account both of the intrinsic importance of this distinction and of the light it affords respecting Professor Cairnes' subsequent contributions to political economy. The present volume contains the results of many years of careful investigation, conducted in the spirit of the extracts we have cited from the Dublin lectures. Previously, Professor Cairnes had published a series of essays upon the *Gold Question*, in which he subjected the effects of the Californian and Australian discoveries to a masterly analysis, with the result of completely exploding the opinion that a depreciation of the currency could only show itself in an uniform action upon all prices; an opinion which was, not long ago, well-nigh universal, representing the common assumption of the orthodox economists, that an economic impulse administered anywhere will be propagated uniformly in every direction, through media all of absolute mobility and elasticity. Professor Cairnes shows, on the contrary, that the subjects of an economical impulse may be very differently affected by it; and as the result of a large induction he establishes, at least provisionally, the order of movement among the several principal classes of commodities, *e.g.*, as between crude products and manufactured goods; among the several classes of crude products, *e.g.*, as between those of animal and those of vegetable origin; and among the several classes of animal products, *e.g.*, as between mutton and wool. It need not be said that such results become of vast significance in the general theory of value, and in special theories of rent and wages.

In the work now before us we have the premises of political economy widely extended as the result of many similar investigations by the author. We have space for but a single instance, and will select Professor Cairnes' discussion of the limitations of competition. According to the doctrine current among economists, the body of laborers, at least within the same country, is taken as constituting a homogeneous body of competitors: "That law" [the cost of production], says Professor Cairnes,

> "Is ordinarily regarded as a principle governing value *universally*, wherever it affects value at all—governing, that is to say, the value of certain classes of commodities *in all exchanges;* so that, the conditions of their production being known, the law of their value is supposed to be known." (pp. 78, 79.)

Such *would* be the result as the assumption of general competition. Professor Cairnes, however, sharply traverses this assumption:

> "What we find, in effect, is, not a whole population competing indiscriminately for all occupations, but a series of industrial layers, superposed on one another, within each of which the various candidates for employment possess a real and effective power of selection, while those occupying the several strata are, for all purposes of effective competition, practically isolated from each other." (p. 72.)

This doctrine of "non-competing industrial groups" Professor Cairnes makes cardinal in his theory of value. He repeatedly (pp. 98–106) assigns to these "non-competing domestic groups" precisely the same practical isolation which had been previously shown to exist between independent nations. From this restriction of competition Professor Cairnes concludes that

> "The exchange of all commodities produced by laborers belonging to the same industrial group, or competing circle, will be governed by the principle of cost; this results necessarily from the fact that competition *is* effective within such groups or circles; but the exchange of commodities produced by laborers belonging to different groups or competing circles will, for the opposite reason, not be governed by this principle." (p. 74.)

What, then, does govern what we may call group values—that is, primarily, the prices of the products of each group by turns, and, secondly, the wages obtained by the laborers within each such group? Professor Cairnes answers: Reciprocal demand. The doctrine may be thus stated: Group values are governed by the demand of each group for the productions of all other groups, as against the demand of all other groups for what itself produces; the result of this play of forces being, that what may be called the exports of each group (the amount of products sold outside itself) discharge its liabilities to all other groups.

"Whatever increases the demand of a given group for the products of outside, that is to say, non-competing, industries, or (what comes to the same thing) whatever increases the supply of its products available for the purchase of the products of such industries, will, other things being the same, depress the prices of its products in relation to the prices of the products of the industries against which they are exchanged, and *vice versa.* While whatever increases the demand of the outside industries for the products of a given group will have the contrary effect, and will raise the level of its prices in relation to those of the non-competing groups with which it trades, and *vice versa.*" (pp. 101, 102.)

We have multiplied these quotations in order to show the boldness and thoroughness with which Professor Cairnes carries out his doctrine of non-competing groups into the laws of prices and of wages. His precise classification of labor in this respect may not remain. A better survey may find more or other classes than Professor Cairnes provisionally enumerates, but the principle of the practical isolation, not of nations only, but of classes of producers, is, we think, destined to be fully approved, and to become of great importance in "recasting," not "some considerable portion" only, but the whole of political economy.

THE LITERARY HISTORY OF THE WAGE-FUND THEORY

Mr. Walker delivered an address entitled "The Wages Question" before the Social Union of Amherst College, July 8, 1874. In the following January, appeared the article entitled "The Wage-Fund Theory," published in the *North American Review*, vol. 120 (1875) pp. 84–119. A considerable part of this article is used in chapters 8 and 9 of the volume entitled *The Wages Question* (1876). A portion, however, devoted to what is termed the literary history of the doctrine, is omitted from the larger volume. It is believed that students will find this of considerable service in tracing the development of economic theory.

LITERARY HISTORY OF WAGE-FUND THEORY.

The literary history of the wage-fund theory corresponds to its natural history as closely as is likely to be the case in the development of any doctrine.* What with the celerity with which some writers rush to conclusions, not pausing to

* This is true only of the wage-fund in England. The spread of this doctrine in the United States is not to be explained in the same way. It would seem to have been accepted, so far as it has been accepted, upon the authority of the English economists. Certainly the conditions which have been noted as prevailing in England during the period when the laborer's subsistence came to be identified with his wages have at no time been known in the United States. Here the people have not been shut out from the land; the laboring classes have been able to make and have made vast accumulations, and the great bulk of wages have, since the first settlement of the country, been paid, not out of capital, but out of the completed product, when harvested or marketed.

The wage-fund seems to have been considered, we know not why, a pillar in the temple of free trade. Certainly the line drawn in the United States between those who have accepted it and those who have combated it, or let it severely alone, appears to intimate a general sense of some such relation between the doctrines. We find no trace of it among the writers known as protectionists. Professor Bowen distinctly rejects it; Messrs. Daniel Raymond and Peshine Smith omit all allusion to it, so far as we have observed. Mr. Carey, it is true, gave it countenance in his *Essay on Wages;* but then, Mr. Carey was a free-trader in 1835.

Dr. Wayland, whose treatise on Political Economy, though published in 1837, would appear (see Preface) to have been mainly composed prior to the emergence in distinct form of the wage-fund theory, followed Malthus in his statement of the law of wages. (*Pol. Econ.* p. 312.) Excepting Dr. Wayland, Mr. Amasa Walker is the only American writer on systematic political economy, of the free-trade school, whom we remember as giving no countenance to the wage-fund theory. It can scarcely need to be said that we regard the idea of an essential connection between the two doctrines as wholly mistaken. Free trade rose without this theory of wages, and will surely not fall with it.

mark the stages of their progress, and the reluctance with which others abandon a logical resting-place where they have once found themselves at home; what with the persistence with which some harness the horse to the wrong end of the cart, and the disturbance introduced by others into proportion and perspective by undue emphasis laid upon favorite phases of truth,—it is rarely possible to collate progressive statements of doctrine without encountering anachronistic difficulties of a most embarrassing nature. Yet we are confident we could show by a copious citation of authorities, from Adam Smith downwards, that the literary development of the wage-fund theory has in general followed the course we have indicated.

Such a citation and comparison of authorities would, however, be necessarily very burdensome, and the results could have little more than curious interest. We propose, instead of tracing in economic literature the rise of this theory, to refer to its literary history only since the time when, after dominating in the department of labor and wages for a whole human generation, it was rudely assailed by a writer scarcely known to the Reviews, to be surrendered three years later by its foremost living advocate.

In 1866 Mr. Francis D. Longe, a London barrister, who had appeared previously as an author of an essay on strikes (London, 1860), published a pamphlet entitled *A Refutation of the Wage-fund Theory of Modern Political Economy, as Enunciated by Mr. Mill, M. P., and Mr. Fawcett, M. P.* Mr. Longe's pamphlet received slight attention at the time; indeed, as the *London Quarterly Review* subsequently said (July, 1871), it received literally none at all. We find no notice taken of it in any of the Reviews until three or four years later, when it became the theme of lively controversy. Previously, namely, in 1869, this pamphlet had been reissued; but of so little account was it then in the world of books, that we have been able to learn of but two copies as owned in the United States. The publication of Mr. Longe's treatise is, however, of capital importance in the history of the wage fund, and his positions require, therefore, to be stated with some fulness. These were:

First. That the capital applicable, within any period to the payment of wages, does not form a definite fund distinct from the general body of wealth.

Second. That the laboring population "does not constitute a supply of labor, or body of laborers," among whom the aggregate wage fund, if such existed, could be distributed by competition.

Third. That, if such a wage fund existed, and if the laborers of the country could be regarded as a body of "general" laborers capable of competing with each other, competition would not necessarily distribute the whole of that fund among these laborers.

We shall take up these propositions in inverse order. Assuming, says Mr. Longe, that there is a distinct fund for the payment of wages, and a body of laborers competing therefor, the wage-fund doctrine declares that the whole of this fund will be distributed by this competition.* "In other words, the employers would overbid each other until the whole wage fund was spent, and thus give the utmost possible amount of wages to the laborers; and the laborers would undersell each other so far only as would enable the whole supply of labor to be bought, *i.e.*, the whole laboring population to be employed." (p. 21.) On the contrary, rejoins

* Mr. Longe, in clearing the ground for his discussion of competition, exposes Mr. Mill in a grave inconsistency. Mr. Mill, treating of competition as a general force, has declared it to be incorrect to speak of a ratio between demand and supply, as these are *not of the same kind.* The ratio, he insists, exists between the supply and *the quantity demanded.* Yet when speaking with respect to labor, the same writer says: "Wages thus depend on the supply and demand of labor, or, as it is often expressed, upon the proportion between population and capital." Now, as "population" serves here to express the supply of labor, "capital" is put to represent the demand for it. But capital does not mean the quantity of labor demanded, but the "general purchasing power" (Cairnes) which is offered in exchange for labor.

Professor Fawcett, who had followed Mr. Mill's lead in the definition of competition, falls into the same inconsistency in treating of the demand and supply of labor.

Professor Cairnes has shown very conclusively (*Pol. Econ.*, pp. 21–25) that Mr. Mill's supposed identification of "demand" with "quantity demanded" is merely a confusion of things distinct.

Mr. Longe, were the employers of labor possessed of a sum which they were prepared to give for a definite amount of labor, rather than not get it, they would not, if they could obtain that labor for less than that sum, necessarily expend on labor the difference so saved (p. 26).

Under his second proposition, Mr. Longe asserts the practical non-competition, not only of great industrial groups, such as Professor Cairnes has recognized (*Political Economy*, pp. 72, 73), but of the several bodies of workmen in the several trades and occupations, skilled and unskilled alike.

"How could the shoemakers compete with the tailors, or the blacksmiths with the glass-blowers? Or how should the capital which a master shoemaker saved by reducing the wages of his journeymen, get into the hands of the master tailor? (p. 55.)*

Against the assumption that there is at any time a definite amount of capital destined to the payment of wages, "just as money subscribed to some charity is destined for the ob-

* Professor Cairnes deals very severely with Mr. Longe in one point, where we apprehend he has himself wholly mistaken the subject of his criticism. Mr. Longe says, in effect, there can be a general or average rate no more than there can be a general or average price of commodities. To this Professor Cairnes rejoins with some reflections on Mr. Longe's "conceptive power," that a general or average price of commodities is a familiar conception. "A rise or fall in the value of money is only another name for a fall or rise of general or average prices." (*Pol. Econ.*, p. 180). Professor Cairnes refers to average prices in comparison of different periods. Mr. Longe, as we understand him, refers to an *assumed average price of all commodities at the same time, expressed in some unit of quantity* (*Refutation*, etc., p. 19).

For example, Mr. Longe might say that it would be absurd to speak of the average price of all the commodities existing in England at the present time as so much per bushel or per pound, including in the same measure pearls and barleycorns, silks and cottons, raw materials and finished goods, vegetable and animal products. In the same way would he argue, it is absurd to speak of an average rate of wages, when a solicitor receives fifty guineas a day, a draughtsman two, a collier ten shillings, a cotton-spinner five, a needle-woman eighteen pence, and a bootblack perhaps only six.

Mr. Longe's objection may be a foolish one, but Professor Cairnes has failed to meet it, and has almost lost his customary serenity in argument, at the point where he has most signally missed his opponent's meaning.

jects of such charity," Mr. Longe (pp. 37–43) urges the consideration that no employer is conscious that he so determines to expend a definite sum in labor, whatever the price of that labor may be ; and that if such a purpose were at any time formed, it would ever remain liable to be broken by mere change of mood, or through fear of commercial misadventure, or under the superior attractions of other, perhaps foreign, investments, or from the seductions of luxurious expenditure.

But by far the most significant passages of Mr. Longe's treatise are the following:

> "The amount of money or wealth which a farmer can afford to advance for the maintenance of laborers, without using the money he gets from the sale of his stock or crops, is unquestionably limited by the amount of wealth or capital at his disposal from other sources; but the amount of money or wealth which the farmer is able to pay, or contract to pay, as wages, is limited only by the amount of money for which his crops and stock will sell. When agricultural laborers are hired by the year, as was the universal custom in former times, and is now very common in the northern counties, their wages might all be paid, partly by money advanced during the year, out of their employer's pre-existing capital, and partly by money obtained by him from the consumers or purchasers of his corn or stock." (p. 48.)

And in the same connection Mr. Longe distinguishes between,

> "first, the wealth or capital available for the maintenance of laborers while employed in producing new goods or wealth, which wealth or capital may come either from their own resources or those of their employers, or be borrowed from bankers or elsewhere; and, second, the amount of wealth available for the purchase of their work, which may consist of funds belonging to the consumer, or of funds belonging to the employer, or both, or may even be taken out of the very goods which the laborers produce, or their money value."

We have said that Mr. Longe's pamphlet of 1866 received no notice whatever. In 1869 Mr. W. T. Thornton, well known as the author of two works, entitled, severally, *Over-*

population and its Remedy, and *A Plea for Peasant Proprietors*, published his treatise *On Labor: Its Wrongful Claims and Rightful Dues*, in which he sharply assailed the wage-fund theory, without, however, any recognition of Mr. Longe's well-meant effort in the same direction. The *London Quarterly Review* has charged blame upon Mr. Thornton for adopting without acknowledgment some of Mr. Longe's arguments; but the obscurity of the pamphlet of 1866 may fairly be accepted in Mr. Thornton's exculpation. If more were needed, the decided inferiority of his treatment of the subject ought to procure his acquittal. Mr. Thornton confined himself to the points which were covered by the first and third propositions of Mr. Longe. Having said that a national wage fund, if it exists, can "be no other than the aggregate of smaller similar funds possessed by the several individuals who compose the employing part of the nation," Mr. Thornton proceeds to ask the following questions respecting this supposed fund in the hands of an individual employer:

"May he not spend more or less on his family and himself, according to his fancy, in the one case having more, in the other less, left for the conduct of his business? And of what is left, does he or can he determine beforehand how much shall be laid out on buildings, how much on materials, how much on labor? May not his outlay on repairs be unexpectedly increased by fire or other accident? Will not his outlay on materials vary with their dearness or cheapness, or with the varying demands for the finished article? And must not the amount available for wages vary accordingly? And even though the latter amount were exactly ascertained beforehand, even though he did know to a farthing how much he would be able to spend on labor, would he be bound so to spend the utmost he could afford to spend? If he could get as much labor as he wanted at a cheap rate, would he voluntarily pay as much for it as he would be compelled to pay if it were dearer?" (p. 84.)

"It sounds like mockery or childishness to ask these questions, so obvious are the only answers that can possibly be given to them; yet it is only on the assumption that directly opposite answers must be given, that the wages fund can for one moment stand."

It cannot fail to be observed that Mr. Thornton has, in at least one particular, misapprehended the theory he combats, which treats the ruling prices of materials as one of the elements for determining the share of the aggregate capital which can be devoted to wages ; and that one other objection proves merely Mr. Thornton's inability (shown throughout his discussion of the "Dutch Auction") to comprehend that law of average which enables a corporation to insure on scientific grounds a thousand lives, each of which is liable to casualties which in the individual would be the proper subjects of gambling bets only; which enables the superintendent of police to predict within half a dozen, more or less, how many persons will be run over in the streets of London during the opening year, or the Postmaster-General to compute approximately the number of letters in each month that will be held for want of adequate direction. It is true that the fund of an individual employer may be unexpectedly abridged by fire or flood, or other accident. But it is also true that, taking the body of employers the country over, these accidents may be assumed to keep substantially at an average from year to year, and that this average of loss by accident is one of the elements which the advocate of the wage-fund theory would take as determining the share of existing capital which can at any time be devoted to the peyment of wages. But after we strike out these objections from Mr. Thornton's list, there still remains much (all, however, anticipated by Mr. Longe) which requires at least a careful restatement of the wage-fund theory.

But whatever the originality or intrinsic merit of Mr. Thornton's performance, the immediate effect was simply tremendous. No sportsman who had fired at a squirrel, to hear, a minute after, the crashing of the boughs above him and to see a bear come tumbling out of the tree, could be more astonished than Mr. Thornton must have been when, promptly on the publication of his work, John Stuart Mill, without a reservation and even without a parley, surrendered, through an article in the *Fortnightly Review* (May, 1869), the whole territory covered by the wage-fund flag, with all the *materiel* and properties complete, and marched out straightway, without even the honors of war.

In that memorable article Mr. Mill declared that Mr. Thornton had deprived of all scientific foundation the doctrine so long taught "by all or most economists," that trade combinations cannot raise wages; and that Mr. Thornton had shown that the barrier (the wage fund) which had closed "the entrance to one of the most important provinces of economical and social inquiry," is but "a shadow which will vanish if we go boldly up to it." *

Mr. Mill's recantation of the wage-fund theory could not fail to produce a powerful impression. The *London Quarterly Review* (July, 1871) characterized the wage fund as "a thing or 'unthing' (to borrow a German idiom) which is henceforth shunted fairly out of the way of future discussions of all questions affecting labor and labor's wages," while the reviewer rather broadly intimated his belief that the whole affair had been collusive between Messrs. Mill and Thornton; the former, finding his position untenable under Mr. Longe's attacks, having procured Mr. Thornton to assault it, in order that he might surrender to "a selected and sympathizing friend," and not to a scoffer like Mr. Longe, who had mingled with his argument against the wage fund not a little disrespect for Mr. Mill's political economy.†

On the other hand, the journals and reviews which have been long associated with the advocacy of the wage-fund theory have generally been agreed to treat Mr. Mill's surrender as hasty and unauthorized. This view has, during the past year, been strengthened by the great authority of Professor Cairnes, who finds the fact "perplexing," as he fails to discover that Mr. Mill ever taught precisely that which

* *Fortnightly Review*, vol. xi., p. 506.

† "According to Mr. Mill's theory, 'capital' appears to be a load of wealth consigned to the care of a blind horse and a blind driver, the safe progress of which is insured partly by the imperishable nature of the thing itself, and partly by the sense of the horse, which prevents him from carrying his load very far out of the right road, by stopping him as soon as he feels that he is falling into the pitfall of no-demand." —*Refutation of the Wage-Fund Theory*, p. 44.

Mr. Thornton attacked, or which Mr. Mill himself, after that attack, formally recanted.*

Professor Cairnes has himself, with great pains, great deliberation, and much masterly analysis, restated the theory of the wage fund. He has declined to be held responsible for all that has been written on what he, for convenience, calls the orthodox side of that question ; and, in truth, sets forth a doctrine differing not a little from that propounded by James Mill in 1827, and recanted by John Mill in 1869.

Professor Cairnes reaches the following result: Capital is divided between fixed capital, raw material, and wages, in proportions determined by the existing conditions of the national industry, taken in connection with "the strength of the effective desire of accumulation," and "the extent of the field for investment." (pp. 198, 199.) The wage fund, thus understood, is "determinate." (pp. 213–217.) It is the sole source of wages. Its amount is, with an exception to be hereafter noted, independent of the supply of labor, or the number of laborers who are to divide that fund among themselves.

This long recital and these numerous quotations cannot be avoided if we would understand the wage-fund controversy. It will be seen that the present situation is somewhat chaotic. And since much, at the least, of the structure of the economists lies hopelessly broken upon the ground, it is the best possible time to ask whether it is worth while to attempt to repair the ruin ; whether any economical purpose is to be served by reconstructing the wage fund. Through-

* Professor Cairnes is not the only writer who has expressed the opinion that Mr. Mill confessed a sin which he never committed. Mr. Cliffe Leslie, in his *Land Systems of Ireland* explains (p. 41, note) that "Mr. Mill has employed the phrase 'aggregate wage fund' merely as a short term to comprise all the funds employed in the payment of labor, whether derived from capital or income." The plan of having some one at hand to interpret Mr. Mill is not without its advantages; but as Mr. Mill evidently took unusual pains to convey in this article in the *Fortnightly* his precise meaning respecting the wage fund, we are disposed to regard him as, in this instance, the best judge of his own intention.

out the whole course of the following discussion we ask to be understood to mean by "wages," not the amount of money received by the laborer, but, to use Mr. Malthus' definition, "the necessaries, conveniences, and luxuries of life, which the money wages of the laborer enable him to purchase;" what Mr. Malthus elsewhere summarizes as "food, clothes, lodging, and firing."

THE PRESENT STANDING OF POLITICAL ECONOMY

Sunday Afternoon, vol. 3 (1879), pp. 432–41

THE PRESENT STANDING OF POLITICAL ECONOMY.

Two notable declarations have recently been made respecting the present standing of political economy, one by Professor Ingram, at Edinburgh, in August last, before the Economic Section of the British Association; the other by Prof. Bonamy Price, in his address as President of the Economy and Trade Department of the Social Science Congress, at Cheltenham, in the October following.

Professor Price's address opens with this somewhat startling train of remark:

> "Political economy at the present hour is undergoing a crisis. Both in the region of thought, amongst its teachers and students, as well as in the great world, in the practical life of mankind, it is passing through a revolution, and no matter more grave for the interests of humanity can easily be conceived. It calls for the closest and most anxious attention from every friend of the happiness of human beings."

Professor Price thus proceeds to illustrate the general neglect of political economy in Great Britain:

> "When the cholera or the yellow fever visits a country there is a rush for help and advice to its physicians. The ravages of the plague are seen and terrify; recourse is had instantaneously to the men that know.
>
> "In the war of classes political economy is absent. The man who thinks he has suffered wrong and seeks redress from law calls in his lawyer, and submits with entire obedience to his counsels. But who sends for a professional economist in a strike? Who asks his advice as that of one who is acquainted with the conditions of the problem at issue, and who can point out the way to justice and fair dealing? No unionist on strike will ask a political economist what the policy of his union

ought to be; no farmer will beg him to point out what is the land which pays no rent, that he may be able, by its help, to calculate what rent he ought to pay.

"Thus, in the city or the factory, in the commercial port or the manufacturing town, the remark is never heard, political economy says so and so, and I must act according to its authority. The prosperity and happiness of nations depend on the processes which political economy has for its mission to explain; their fortunes hang on practising good political economy; able and accomplished men have zealously toiled to build up a lofty structure of economical science; and yet, with sorrow be it said, chaos and weakened authority prevail in it to a degree unequalled in any other branch of human knowledge."

Accepting for the moment this strongly drawn picture of the general neglect and even contempt into which political economy in England has fallen, we can explain the result only upon one of two grounds; either men of affairs and the masses of the people are not interested in the subject-matter of political economy, or else they think the professors of political economy have nothing to teach them on the subject.

It need not be said that the first is not the case. The subject-matter of political economy—wealth—is of universal concern. The larger part of almost every active life is given up to its production and accumulation; interests which the moral philosopher declares to be of greater consequence to human happiness and to the welfare of the state, are postponed, or even sacrificed, to this.

The trouble, then, cannot be on this side.

On the other hand, men of affairs and the masses of the people may reach the conclusion that they have nothing to learn from the political economist on the subject of wealth, either because they think they know all about it themselves, or because they do not believe that the political economist can or will tell them anything which they do not know.

The former belief is not without influence on the estimation in which political economy is held by many, perhaps most, persons. It is difficult to persuade men that the acquisition of wealth is a mystery, or that the laws of its production and distribution require to be investigated by the wise men and taught authoritatively to the masses of the people, and to public officers and considerable personages, as well as to laymen. The more clearly and closely men are concerned with any matter, the harder it is to maintain the authority of the learned body which assumes to engross knowledge on the subject.

But while the disposition of men to regard themselves as competent judges on most of the matters which come within the scope of political economy, gives rise to the small respect paid to professional investigators in the department of wealth, the principal cause, doubtless, is found in the manner in which political economy has been taught.

In the first place, while the political economist speaks of wealth as the subject of his inquiry, it is the wealth of nations which he has in view. He does not profess to teach the arts and point out the courses by which a Stewart, an Astor, a Vanderbilt, comes to differ from his neighbors and competitors in business. Now, it is the personal acquisition of wealth in which most people are interested. The political economist insists upon the solidarity of the industrial body. He maintains that the gain of each, however acquired within the field of competition, not only consists with, but necessarily subserves, the good of all; and that the prosperity of the community confers, as a thing of course, a boon upon every member.

But the banker, the manufacturer, the merchant, have their eyes fixed mainly upon gains which are to be eminently particular both in origin and in application. They accept the doctrine of solidarity only partially. They know that the difference between success and failure is not caused, ordinarily, by the observation or neglect of precepts which are to be deduced from principles discovered by the political economist, but by habits of life, methods of business, arts of management and advertisement, to which native shrewdness and homely wisdom are sufficient guides.

Even financiers and statesmen are, as we know, too much given to seeking local and temporary advantages, which may be gained by mere sharpness and audacity, without much respect to interests such as the study of political economy tends to subserve. The fiscal generally takes precedence of the financial consideration. "After us the deluge," becomes the maxim of the average finance minister.

It might seem that we have not any one left who should care for political economy. Yet, after all the exclusions which require to be made, the natural constituency, so to speak, of the political economist, is a large one. The men of state, the men of letters, the men of business, who might fairly be expected to pay attention to the subject, are so numerous that we are led to inquire whether it is their fault, or that of the teachers of political economy, that so little interest is manifested in the results of economic study.

Moreover, it is a fact not to be passed lightly over, in this connection, that the working classes also belong, almost in mass, to the natural constituency of the political economist. The banker, the merchant, the manufacturer, may rely for his profits on exceptional talents, or on arts and devices which give him an advantage over his fellows; but, generally speaking, the laborer must take the fortune of his class, share and share alike. And it should in justice be said, that the laborer does so cheerfully, generously, even heroically. There is nothing more honorable to human nature than the loyalty of working men to their class and to their trades. If anywhere on earth the principle of solidarity is loyally accepted, it is among the manual-labor classes.

And these classes have always shown an active interest in discussions relating to their own condition. In England (at least among the mechanical population), in France, Germany, and the United States, they have never failed to exhibit a readiness, an eagerness, even, to canvass schemes of social and industrial reform.

Such a disposition affords a golden opportunity to the expounder of economical law. Whatever may be true of men of affairs, men of letters, men of business, working men have never been deficient in their interest in things that make for the welfare of their class.

It is my sincere belief that the comparative failure of political economy, as confessed and lamented by so many to-day in England and America, is due to essentially wrong methods of pursuing economic inquiry, which have prevailed in those countries; and that the adoption of these methods is, in turn, due to a false conception of political economy.

Adam Smith began to teach political economy as a professor of moral philosophy, and he taught it as a branch of moral philosophy. Apparently he had no concern whether political economy was to become a science or not. It was enough for him that the questions he had to discuss were of vast importance to mankind.

His successors have been much more ambitious. The questions, whether political economy is a science, and if so, what sort of a science ; whether positive or hypothetical ; whether more of a physical or of a moral science; whether, looking at its history as a science, we can affirm that it bears the test of continuity and fecundity; whether it has reached, or ever will reach, the capability of prediction,—these and other like questions were early raised and eagerly discussed in England.

It is not my purpose to go over the ground of discussion whether political economy is a science. The answer to the question depends, I apprehend, rather more upon the definition we give to the word "science," than upon the particular view we take of political economy. Certainly, if we give no wider extension to that word than Dr. Whewell did when he wrote of "those bodies of knowledge which we call sciences," political economy ranks as a science. It forms a body of knowledge, constantly growing, it is true, from the outside, and undergoing not a little change from time to time within, yet embracing, even now, a vast collection of closely related facts, with the reason of their succession, one to another, more or less clearly seen, and permitting practical rules and precepts of great importance in regulating human conduct to be deduced with the highest assurance.

Had the question never been raised, whether political economy is a science, I believe that a great deal more progress would have been made in this branch of investigation, and that its hold upon the public mind would be much stronger than to-day. Certainly the inquiry which Adam Smith undertook in his *Wealth of Nations* does not need to have the term "science" applied to its results to make it respectable in the eyes of the world, or worthy of the abilities of any man, however great.

On the other hand, solicitude as to the standing of political economy as a science, and the desire to conform to the assumed conditions of a true science, have led economists to avoid some of the most fruitful sources of economic discovery, to employ less and less the historic and inductive methods, and to resort more and more to the *a priori* and deductive, and especially to effect a simplicity in classification of which the subject-matter is not susceptible.

The subject is too large for exhaustive, or even systematic, treatment. I will merely indicate four respects, in which, in my opinion, the prosecution of political economy, under the dominating influence of Mr. Ricardo, has been unfortunate.

I. The first point concerns the arbitrary creation of an economic man,* to suit the convenience of economical discussion.

"Political economy," wrote Mr. Mill, in his *Essays on Some Unsettled Questions*, published in 1844,

> "is concerned with man solely as a being who desires to possess wealth and who is capable of judging of the comparative efficacy of means for obtaining that end. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, namely, aversion to labor, and the desire of the present enjoyment of costly indulgences. . . . Political economy considers mankind as occupied solely in acquiring and consuming wealth."

No one could object to a writer, in the investigation of his subject, forming any hypothesis, possible or impossible to realize, and following out the results to their last consequences. If Mr. Mill had merely meant that the political

* "A vicious abstraction meets us on the very threshold of political economy. The entire body of its doctrines as usually taught rests on the hypothesis that the sole human passion or motive which has economic effects is the desire of wealth."—*Professor Ingram.*

economist should begin by inquiring what such a monstrous race would do under the impulse of the antagonizing forces of greed and indolence, no one could have taken exception.

But Mr. Mill did not mean this. He meant that the political economist should end here; should literally make entire abstraction, once for all, of every other human passion or motive; and at no point in his reasoning should take account of any one of a score of recognizable and appreciable motives and feelings which enter to influence the actions of men in respect to wealth, love of country, love of home, love of friends, mutual sympathy among members of the same class; respect for labor, and interest in the laboring class on the part of the community at large; good will between landlord and tenant, between employer and employed; the power of custom and tradition; the force of inertia, ignorance, and superstition.

It is true that, in his own later work, Mr. Mill did not hold rigidly to the proposed exclusion of all other human passions or motives than those he indicated in the treatise from which I have quoted; but it was rather as bearing on the applications of political economy to social philosophy,* than as belonging to political economy, pure and simple, that these forces were to be recognized.

Now, I assert that whatever, on any large scale, influences mankind in the acquisition and distribution of wealth is not only a proper, but a necessary, datum of the political economist; that while he may reason tentatively, and for purposes of illustration, from partial premises, or upon pure assumptions, he is bound to deduce the conclusions which he definitely announces, and which he expects men to accept and act upon, from the consideration of the whole of human nature, as nearly as he can master it.

II. Another point, in which the cultivation of political economy by the English writers has been unfortunate, is the disregard of *status*, and the small respect which has been shown for the industrial and commercial structure.

* Indeed, Mr. Mill's great work bore the title: *The Principles of Political Economy, with Some of their Applications to Social Philosophy.*

The strict Ricardian economist not only assumes an unreal man for purposes of his reasoning, but he refuses to recognize distinctions of class, of occupation, and even of country. The ownership and use of land, a natural monopoly, excepted, he admits only one distinction in industrial society, viz., that of employer and employed; but the value of this admission is almost wholly neutralized by a palpably false analysis, which treats the capitalist as the employer, overlooking the greatest structural fact of modern industrial society, viz., the existence of a distinct class of men of business, who employ labor, not to the degree only in which they are capitalists, not at all because they are capitalists; but because they possess exceptional qualifications for trade and manufacture. In a high degree, therefore, the profits of business (excluding from this term the interest of capital) become, as Dr. Whately pointed out, the fruit of a natural monopoly, as truly as the rent of land.

But with the Ricardian economist, the only reason for the one man being an employer and the other a wage laborer, is found in the possession or non-possession of capital. Change that condition and there is no reason why the two should not change places.

In the same way the strict Ricardian economist refuses to recognize the limitations of trades and of locality. The fact that men are committed to certain professions and modes of earning a livelihood, from which it would be at the best difficult, and, in the great majority of cases, next to impossible, that they should pass into others; the fact that men are born into communities from which migration is only to be effected with much effort and sacrifice: these great structural facts are deemed not worthy to be taken into account in a treatise on the production and distribution of wealth.

Dr. Whewell justly compared political economy, thus pursued, to a physical geography which should be constructed in recognition of gravitation alone, as operating upon matter, rejecting the power of cohesion in maintaining the original structure of the earth's surface.

Mr. Mill effected one important modification of the Ricardian economy. He recognized nationality as a structural fact in industry and trade; and based his theory of international value on the assumption that practically no transfer of labor takes place across the boundary lines of states, an assumption which goes altogether too far, but which, in its recognition of the limitations of competition, constituted a great advance in the philosophy of wealth.

Even after Mr. Mill's concessions, it still remained true that competition was taken as unimpeded and unintermitted, inside the lines of nationality.

"The assumption commonly made in treatises of political economy," wrote Professor Cairnes, in 1874, "is that, as between occupations and localities within the same country, the freedom of movement of capital and labor is perfect."

The economist last named, who was throughout his whole career more in sympathy with the Continental economists than any other equally eminent British writer, made, in the last year of his life, still another modification of the Ricardian economy, in the same direction with that effected by Mr. Mill.

Still holding the movement of capital and labor within each trade, and from one trade to other trades within the same group, to be, for all practical purposes, perfect, Professor Cairnes ascertained, as he thought, the existence of several great non-competing groups, each composed of a large number of trades and occupations. Inside these groups Professor Cairnes held the movement of labor to be perfectly free, while between the groups no exchange takes place.

This is the furthest point reached by the orthodox English economists, in recognition of the limitations of competition.* I do not know that Professor Cairnes' conclusions have been accepted by the profession generally. But, supposing them all to have come to this ground, how slowly, grudgingly, and inadequately have the Ricardian assumptions been modified by this school, to meet the plainest facts of industrial society!

* Mr. Sidgwick has indeed pointed out, in the *Fortnightly Review* for February, one instance in which Professor Fawcett recognizes the difficulty of migration within the kingdom, as constituting a reason for differences of wages, in the same occupation, in different localities.

Structure always and everywhere profoundly affects the production and distribution of wealth. Every economical force, from whatever source proceeding, to whatever end tending, is more or less deflected and retarded in its passage through the industrial body, by reason of the organization of that body into communities; into classes within the community; into trades and occupations within the class.

A political economy that disregards structure is of a kind with a physiology that should refuse to start out with the general frame of the human body, should ignore the existence of organs devoted to special functions, and even abandon the distinctions of flesh, blood, and bone, insisting on treating man as so many pounds of such and such chemical elements, dissolved in so many buckets of water.

Upon such a solution what will be the effect of a three days' east wind ? of a bit of undigested cheese ? of a puff of sewer gas ? of a perpendicular fall of thirty feet ?

An illustration as simple and near at hand, perhaps, as any, of the way in which *status* is ignored by the English economists, and by their imitators on the Continent and in America, is that afforded by the recent measures taken respecting silver as a money metal. In 1867, a monetary conference was assembled at Paris, comprising the delegates of nineteen nations. The conference had been called to consider the question of international coinage. To the members of that body it seemed exceedingly desirable that money pieces should be struck of uniform weight and fineness in all countries which might pass current without reference to the boundaries of states. It would be well, certainly. While international coinage cannot be claimed to be a matter of great practical importance, especially since the unification of Germany and Italy, it would have not a little sentimental importance, and would be, altogether, a very humane and civilized thing to do.

The conference of 1867, giving itself up to the scheme of international coinage, thought it saw that gold monometallism would be conducive to that result, and accordingly recommended that course for the adoption of all the civilized nations.

I have been looking through the record of this conference, and I do not find that the question, What effects might be produced upon trade, industry, and society by the rejection, among the civilized states, of one of the two historical money metals? was at any stage discussed, or was even for a moment raised for discussion. How, indeed, on Ricardian principles, could the change be of any consequence? If there were less money, its purchasing power would be greater. Everything would adjust itself to the new condition; prices and wages would find their level; the circulation of the remaining body of money would be just as facile and perfect as that of the larger body.

"With a light heart," then, the conference of 1867 voted to throw out of use fifteen or eighteen hundred millions of dollars of money, the accumulations of thousands of years; and economists of the Ricardian school everywhere applauded.

Their principles forbade them to take account of a mere fact of the industrial and commercial situation, such as the existence of a large body of public debts, national and municipal, amounting to perhaps $25,000,000,000, and of private debts probably in larger amount, most of which would be left, by the completion of this great monetary reform, payable in a money of diminishing volume, and hence of increasing value.

Sooner, perhaps, than the financial reformers of 1867 imagined, their plan was given effect by the demonetization of silver in Germany and the Scandinavian countries in 1873, and the consequent closing of the mints of the Latin States to this metal in 1874. Silver is no longer money of full power in Europe. Gold monometallism, first established in England, in 1816, when, we are told, the correct principles of money were first recognized and put in practice, is triumphant.

But what of those public debts, the annual interest payments on which, due almost wholly in sterling, cannot be reckoned at less than $1,300,000,000?

By the estimates of the London *Economist*, the value of gold has, in the past ten years, risen 16 per cent. That 16 per cent may, in ten years more, be 30 or 40. But if the enhancement in the purchase power of gold is to go no further, what does the rise already accomplished mean? It means an increase of one sixth in the weight of all debts, public or private, which are payable in gold. It means the addition of a burden equivalent to more than two hundred millions of dollars a year to the taxes levied throughout the civilized states to pay interest on public debts. It means a proportionate increase in the weight of all fixed charges and debts, as between individuals. It means that for every day during which a laboring man has to work to pay his share of the nation's debt, or to meet the interest or principal of the mortgage on his house or his farm, his hours of labor shall hereafter be, not twelve, but fourteen.

Behold one of the first-fruits of a great monetary reform, accomplished in serene and sublime disregard of *status!*

III. A third respect in which the treatment of political economy by its professors in England and the United States, has tended to alienate the public regard, and diminish the usefulness of economic inquiry, has been the refusal or neglect to take account of the industrial structure of separate countries; of the laws, institutions, and customs which influence the production and distribution of wealth; of the various endowments, mental and physical, of different races and nations.

The contributions of this character, made by the economic writers of the Continent of Europe, in recent years, have been of immense value and significance. In this enlargement of the premises of political economy, not only have the British writers generally refused to join, but they have treated with superciliousness, often approaching contempt, those who were engaged in thus widening the basis of science.

The serenest sense of the sufficiency of the Ricardian method would hardly embolden a critic to deny to the writings of Roscher, Nasse, de Laveleye, Forti, or Cliffe Leslie, the title "economical." But the English and American Reviews, which especially affect to be authorities in this department, have hit upon the happy expedient of applying to political economy, as thus enlarged to meet the facts of society and of nature which bear upon the phenomena of wealth, the epithet "German," with much the same intention, apparently, with which that word is applied to the name of one of the precious metals. "German political economy" might be supposed, by one who should catch the accents of the reviews, to bear a relation to the old political economy, the true political economy, the English political economy, similar to that which German silver bears to the product of the Comstock lode. "It is," says Professor Ingram,

> "A characteristic result of the narrowness and spirit of routine which have too much prevailed in the dominant English school of economists, that they are either unacquainted with, or have chosen to ignore, this remarkable movement."

The investigators on the Continent of Europe who are striving to enlarge the premises of political economy, so that the computed results may be brought somewhat nearer to the observed facts of human society than is possible with the Ricardians, whose economic man is so monstrously unreal as not even to afford a caricature of human nature, and who take industrial society, for the purposes of their reasoning, as without even so much of structural organization as a jelly-fish possesses, are working in the true spirit of Adam Smith. They are doing precisely what that great man, in his day and with his light, sought to do.

It is the duty of the political economist to seek to make his conclusions approach continually nearer and nearer to the facts of society and industry, by including more and more, from time to time, within the premises of his reasoning, all influences, however subordinate, which in any way, or in any degree, enter the field of production and exchange to disturb the operations of the principal causes of which political economy first takes account.

More and more may the economist, if he follows up his work in this spirit, look to see these influences identified and determined, both in their direction and in their degree, through the divergences disclosed between the results computed by the economic philosopher, and the results observed by the economic statistician.

You will not understand me as favoring any extension of political economy beyond the domain of wealth, or proposing that economical be merged in sociological inquiry. Political economy has to do with no other subject than wealth. If wealth is to be studied at all, it will best be studied by itself. The political economist should allow no ethical or social considerations to influence him in his investigations. The more strictly the several branches of inquiry are kept apart, the better will it be for each and for all.

But while political economy deals with only one of the many interests of society, it is not restricted to any narrow or transient view of its subject. It has the right to take account of every force which enters the field of industry to affect the production or the distribution of wealth.

Especially in the department of consumption, a department which recent economists have affected altogether to disregard,* should the political economist inquire how the disposition and the power to produce wealth in the future—it may be, the distant future—will be affected by the various uses to which wealth may be applied in the present.

To account for the phenomena of wealth, alike as exhibited in the grandeur and power of states, and in their decay and poverty, is the work of the political economist. In order to do this, he must consider the effects of vicious indulgence upon the will and the physical frame; he must inquire of the moral philosopher where lie the springs of industry and frugality; he must pass judgment upon the war system, upon public luxury, upon laws regulating contracts, or controlling the enjoyment and transmission of property, upon social institutions which influence the movements of labor and capital.

But please to observe, the test he applies is always the economical, never the ethical, never the political. He does not ask, Is this right? Does this conduce to virtue or happiness, to public peace or political stability ? The questions he

* "The consumption, or more correctly the use, of wealth, until lately neglected by economists, and declared by Mill to have no place in their science, must, as Professor Jevons and others now see, be systematically studied in its relations to production and to the general well-being of communities."—*Professor Ingram.*

asks, are, rather, How does this course of action, how does this custom, law, or institution, affect the power and disposition of men to labor? how affect the ability of this or that class to secure their own interests in the distribution of wealth between themselves and other classes of producers?

IV. The fourth fault, as I esteem it, in the treatment of political economy, which has seriously impaired the results of economical inquiry, and alienated large numbers of those who form the natural constituency of the political economist, is the attempt to simplify the science by dropping the familiar and useful titles under which the questions relating to wealth were formerly discussed, viz.: Production, Distribution, Exchange, and Consumption. The tendency of late years among English and American economists has been to abandon these terms, and to sneer at them, where they are still maintained, as old-fashioned and clumsy.

"Nothing," says Edward Burke, "is so great an enemy to accuracy of judgment as a coarse discrimination, a want of such classification and distribution as the subjects admit of."

Certainly, the subject, wealth, admits of being considered, first, with respect to the motives which lead to its production and the conditions under which that production must take place; secondly, with respect to the forces which distribute the product of industry among the several persons and classes of persons who take part in production, including the careful consideration of all circumstances which tend to give one or another person, or class of persons, an undue advantage in such distribution; thirdly, with respect to the laws which govern the exchange of products in the markets of the world, and the agencies by which exchanges are effected; fourthly, with respect to the influence which the different modes of consumption exert upon the ability and disposition to take part in future production.

If wealth admits of being considered in all these aspects, it seems to me clear that the classification given above will conduce to completeness of view and accuracy of judgment.

Undoubtedly the impatience manifested by many recent writers, at the familiar classification which is in question, arises out of their disposition to consider political economy as a science in the strictest and highest sense, in which all the conclusions which may be reached shall flow, in an orderly and necessary sequence, from a few grand principles clearly established at the outset. It may fairly be questioned whether political economy has yet reached such a stage of completeness as to admit of this treatment. It may be doubted whether it will ever become a science in this sense.

But whatever the future of political economy, it appears to me that a science, in the lofty meaning of these writers, cannot be constructed, without a great deal more of investigation into the motives to production, the forces which affect distribution, the ratios of exchange, and the various influences of different modes of consumption, than has yet taken place. The warning of Bacon against hasty generalization applies nowhere more aptly than to political economy in its present stage of development.

I will offer but one illustration under this head. The political economist finds that the subjects of exchange are two: services and commodities; labor and the products of past labor. He deems it inconsistent with his convenience in reasoning, or with the simplicity of the structure he proposes to erect, to carry forward this distinction. By analysis he discovers that commodities are, after all, nothing but personal services which have taken a material and more or less permanent form. Thereafter he determines to know only services. This conclusion reached, it follows, of course, that the distinction between distribution and exchange falls to the ground. There is no longer any need of the former term in political economy. A long step has been taken in the direction of simplicity.

But I venture to assert that this forced simplicity, effected by compelling into a single form things having much that is not in common; this false peace which disregards irreconcilable differences; this hasty generalization by which services and commodities are made to be one and the same thing in exchange,—has had the effect of rendering political economy signally barren, through the very period when social philosophy has been most prolific; and secondly, and by consequence, to forfeit pretty much all popular respect and sympathy for the science itself, especially on the part of the working classes. "During the present century," says the Duke of Argyle, in his *Reign of Law,* "two great discoveries have been made in the science of government: the one is the immense advantage of abolishing restrictions upon trade, the other is the absolute necessity of imposing restrictions upon labor." This statement is strictly just. More and more has social philosophy come to recognize the distinction between the exchange of commodities and the contract for services. If political economy denies the validity of that distinction, so much the worse for political economy. The working men of England, France, and Germany are not more fully convinced of the validity and vital importance of this distinction than are the statesmen of those countries.

The progress in the two opposite directions, to which allusion is made by the Duke of Argyle, has indeed been most remarkable. Seventy-five years ago, scarcely a single law existed in any country of Europe for regulating the contract for service in the interest of the laboring classes. At the same time, the contract for commodities was everywhere subject to minute and incessant regulation.

How great the change! Equally against the pressure of enormous vested interests and against the protests of the professional economists, the legislation of almost every enlightened country has progressed by steady steps in the direction of discriminating between commodities and services, allowing continually greater and greater freedom of contract in respect to commodities, and bringing the contracts which involve labor more and more completely under the authority and supervision of the state.

The men of affairs in Europe entertain no doubt that legislation in regulation of the contract for labor is fully justified, no less on economical than on social and political grounds; that the production of wealth has been increased, and the distribution of wealth rendered more equal, thereby.

The working classes of Europe know perfectly well that the Factory and Workshop Acts have lifted them out of the horrible pit and the miry clay; have increased their wages, and made them worthy of better wages.

Can there be wonder that statesmen and the mass of the people entertain slight regard for political economy, whose professors, in the interest of the purity and simplicity of the science, refuse even to entertain consideration of the difference between services and commodities, in exchange; and whose representatives in legislation have opposed almost every limitation upon the contract for labor, as unnecessary and mischievous?

In concluding this long train of remarks, let me say that political economy is, in my opinion, undergoing no crisis. A certain school of economists is undergoing a very serious crisis; but the issue is not likely to affect mankind very deeply. The interests of humanity are in no danger; the friends of the happiness of human beings have no reason to feel special anxiety or distress on that account. Never was the time when the phenomena of wealth underwent a more searching examination; when abler minds applied themselves to find out the laws which govern in the production and exchange of values; or when richer results were yielded to investigation. The economists of Germany, Italy, Belgium, and France are doing the work which Adam Smith began, in his spirit, but with larger opportunities and a wider and ever widening view.

RECENT PROGRESS OF POLITICAL ECONOMY IN THE UNITED STATES

Publications of the American Economic Association, VOL. 4 (1889), PP. 17–40

The following essay was delivered as a presidential address before the American Economic Association at its third annual meeting held in Philadelphia, December 27, 1888. In regard to the topic, "Trusteeship of Capital," treated in this paper, the reader is also referred to the article "What Shall We Tell the Working Classes?"

RECENT PROGRESS OF POLITICAL ECONOMY IN THE UNITED STATES.

On this, our third general meeting, it seems appropriate to congratulate the Association, not more upon the results achieved through our union and co-operation in economic effort, than upon the position of advantage and of influence which the Association at present occupies.

Since its organization, in 1885, the society has steadily grown in numbers; the spirit of association has become more active among us; a cordial recognition has greeted our early efforts, both at home and abroad ; branches have been established in several cities, which have thus become new centres of economic activity ; the publications of the society, now comprising three volumes, have embraced many valuable contributions to knowledge, have steadily increased in the range of their subject-matter, and improved in the originality and validity of treatment.

It may be said that the first stage of our history, as an Association, has passed. Not merely has the question of the usefulness of the society been affirmatively settled by the work done and by the reception accorded our efforts ; but a certain palpable change has come over ourselves, as a body.

Originally there was exhibited in our gatherings a certain attitude of antagonism. Whether due to our own aggressiveness, as some of our early critics declared, or assumed by us in proper defence and self-assertion against a tone and a spirit in the Reviews and the accepted organs of economic orthodoxy, which would have denied us any place to work in the field of economics, it certainly, at the outset, existed.

This has wholly disappeared, partly, perhaps, because of the modifications of our own attitude towards others, though not through any change in our economic position, but chiefly because of a steady movement of economic thought in the very direction which was pointed out in our first articles of union. To this movement we may fairly claim to have contributed, though by far the greater part of it originated in forces which we did not set in motion; which began and had proceeded far before our association took place.

Partly by what we have done, and even more by what has been done for us; partly through a wise and conciliatory attitude adopted towards others, and even more through the change wrought by the general movement I have spoken of in the attitude of others towards the objects we profess, it has come about that, whereas we were looked upon at Saratoga, in 1885, as an economic sect, we now embrace nearly all the active economic workers of the United States.

What is that general economic movement which has done so much more for us than we have done for ourselves; which has had so much greater effect in altering the relations of the Association to the economists of the country, than any actual change in our organization or methods, or in our avowed objects?

This recent movement, as it is witnessed in the United States, is, in part, only our share of a movement which has, during the same period, been going on in all countries in which men think and write on economic themes; in perhaps greater part, it is the deferred effect of causes which have been operating for many years abroad, but which, from our lack of vital communication with the economic thinkers of Europe, have come to make their full impression upon us only after long delay.

The relation of American to European economists, during the period which preceded the past ten or fifteen years, was not one that was likely to be productive of great results. We had a right, in the United States, to do much for political economy. In a new country, where tradition and prescription passed for little; where land was abundant and settlement was still in progress; where no deep lines had been drawn to prevent the freest social and commercial movement,—the American economists enjoyed a royal opportunity for studying industrial forces in their highest purity and simplicity.

But, unfortunately for economic science, those who, in this country, gave their lives to these studies, became divided early and decisively on the issue, largely a false issue, between so-called protection and free trade. Ethical and political considerations were held to require that an economist should, first of all, range himself as a protectionist or as a free-trader, which was much as if it were to be demanded that a citizen should be altogether a peace man, in the sense of opposing war for any cause, under any circumstances; or altogether a war man, in the sense of seeking to multiply and to magnify the occasions of international dispute.

Our economists, thus unhappily divided on an issue which I have ventured to call a false issue, entertained little respect for any of the opposing faction; took small pains to study each others' works, except to find ground for controversy; and, in their resort to the teachings of European economists, confined their attention almost exclusively to those from whom they could expect corroboration of their own views.

The protectionists, giving but a slight, hasty, and prejudiced consideration to the English economists, sought comfort and support from the German masters, having, however, a very inadequate conception of the German historical and statistical method, and little sympathy with the profound, sincere, passionless spirit of German research.

The free-traders, on the other hand, openly contemning German economists as vague and visionary, unsubstantial and illogical, resorted more and more for argument and illustration to the English writers, neglecting, in the earnestness of their partisanship, not only the vast practical modifications of the doctrine of *laissez-faire* which British statesmen were, not slowly or timidly, introducing into their governmental scheme, but even the expressed qualifications and provisos with which the highest exponents of English economic thought set forth doctrines which were brought over to America in their crudest and strongest forms. Our free-trade writers, with Chinese fidelity, even copied the palpable defects of English economists, as when they adopted into their system the doctrine of the wages fund, which was purely an outgrowth of peculiar and insular conditions in England, and which was flatly contradicted by the commonest facts of daily experience among us.

This unscientific and unscholarly attitude of the two schools in America continued long after a *rapprochement* began between the English and the German economists themselves, aided greatly, I venture to suggest, by the remarkable sagacity and fidelity with which the French writers received, interpreted, and expressed the real thought of both. That movement towards, if not the consent, at least the cooperation of European economists, has rapidly gone forward, to the inexpressible advantage of political economy. I do not mean to say that there has been such an approach of the German and the English economists towards each other that the two bodies have in any sense lost their distinctive characters; nor do I regard such a result as desirable. It is well that there should be a national flavor to the economic thought of each country; that national predilections, industrial peculiarities, habits of thinking, modes of living, should influence, and, more or less, mould its economic investigation and speculation.

But while the German economists remain truly German, and the English economists preserve their individuality, each body has, in these late years, drawn largely from the other; and, in general, has taken the best. The German economists have become more practical and more responsible, more systematic and more highly integrated. The English economists have, more and more, incorporated into the premises of their reasoning the results of biological and historical research.

But this *rapprochement* of the European economists for a long while had little apparent effect upon the attitude of the two economic sects in America. It was not until about the time of the organization of this society that any decided tendency appeared towards the concert and cooperation of our economists, without regard to the lines which had previously kept them apart, or to the wide differences of opinion on many points which still exist.

The purpose of the society founded at Saratoga, in 1885, was to promote economic research and investigation. That purpose was, in part, overlaid by certain declarations and statements which were not needful, and which proved embarrassing. But the real object of the Association was so manifest that many economic workers at once joined in the movement, in spite of objections which they reasonably entertained; while every succeeding session has witnessed welcome accessions to our ranks, until to-day the membership of the society fully justifies its title, the American Economic Association.

That indifference, distrust, antagonism, have so largely disappeared, is not mainly due to any positive work which the society has done, in this short interval, or to the wholesome influence of this first effort in securing union and coöperation among the economists of our country. That effect has, in greater measure, been the result of the rapid accomplishment here of work long preparing throughout the economic world generally; in part, also, to a mighty forward movement which has everywhere been taking place, during the last few years, by which it has come about that, while differences of opinion among economists are as great, if not indeed, in some respects, greater than ever before (notably, in the matter of the degree of state action which should be invoked), the difficulties formerly withstanding economic coöperation have melted out of view. The economist is now known to all as an economist, on whichever side of the Atlantic Ocean or of the British Channel he may live, or whatever views he may hold as to free trade or protection. So great has been the change in this respect that there are few so bigoted as to wish to retard the movement towards union in economic work.

Such a result does not imply indifference, for it is accompanied by a zealousness of effort, an earnestness of purpose, never before exhibited, and by undiminished positiveness of conviction as to individual views.

The several successive stages in the economic movement, the world over, which have brought about the communion of economists, have been marked by the disappearance of one after another of certain ideas and feelings which had long withstood such a result. In this progress we had, first, the emancipation of political economy from the persistent influence of natural theology. The assumption of a beneficent order of things, originally established in a golden age, departure from which is the sole cause of all evils, past and present, and which only needs to be returned to in order to secure general happiness and universal well-being, made its appearance in the first beginnings of economic thought, and has clung around political economy ever since, impeding its progress and often perverting its course.

If one wishes to trace the influence of this cause, he has only to note the use of the word "natural" in the writings of the English and the American economists, from Adam Smith down to a recent time. To prove that a certain arrangement or procedure was the natural one, has generally been considered as establishing the expediency of that arrangement or procedure. Indeed, the tone in which this argument has been used shows that it was not regarded as admitting a reply.

I have no quarrel with natural theology; but I do assert the right of political economy to be entirely independent of it. If the established order of things be really beneficent, any social arrangement which can be shown to be natural can be shown, by an adequate induction from the observed facts of its operation, to be conducive to human happiness. If that can be shown, it is enough for the statesman or the economist. What need have we of further witness? On the other hand, those who do not believe in a golden age; who believe that mankind were once naked, hairy savages, living in caves and forests, subsisting on wild fruits or raw flesh, the latter, often, of their own kind, using stone implements, and, for uncounted generations, ignorant even of the use of fire,—have the right to protest against the employment of this argument; and to demand that any social arrangement, any procedure, any institution, which is claimed to be for good, shall be proven to be such by evidence which they can accept.

It would not do to take the time that would be necessary to show, by adequate citation, how extensive has been the perversion of economic inquiry, caused by the subjection of political economy to the supposed claims of natural theology, especially in the United States, where the two chairs were often united, as of old, in Adam Smith's case. Nor is this necessary. The matter is now one of historical interest only. The temper of self-assertion, proper to the teachers of any subject, has been re-enforced by the "spirit of the age," to the point of finally freeing political economy from this subjection to an alien authority. Not only is it fully recognized that "right divine" has no more to do with economics than with politics; that men should inquire what is best for them, in matters of industry equally as in matters of government, without any presumption from arrangements supposed to have been made for them,—but the subserviency of temper which, for longer or shorter times, always survives the breaking of the bands of authority, has wholly disappeared. Economics have become as completely freed from the trammels of "natural theology," as has geology from the restraints of "revealed religion," investigators in either department of inquiry owning no other obligation than that of declaring the truth as they discern it.

The genesis of the doctrine of *laissez-faire*, as expressing a principle to which is attributed universal applicability and unqualified validity, might be variously accounted for. It would seem, on the first thought, to be the child of economic thinking, under conception from the theory of a beneficent order of creation. Yet, as Professor Sidgwick has intimated, this doctrine might as logically be derived from a purely pessimistic as from a highly optimistic view of nature, one economist concluding that nothing needs to be done but to open and smooth the way to a return to the natural order, because he believes that natural order to be wholly beneficent, while another economist should reach the conclusion that there is no use in trying to do anything to improve upon the actual situation, because he believes the arrangements of the universe to be hopelessly adverse and malignant.

As a matter of history, I believe that the doctrine in question had its origin in the conception of nature as providing all the conditions for the most harmonious and fortunate development of industrial society through the spontaneous action of individuals, each seeking his own interest, upon his own initiative. The wide acceptance of this doctrine, thus conceived, was greatly promoted by the fact that the economists of the first half of the century paid their attention so largely to questions of money, trade, and finance. The discussion preceding the repeal of the corn laws gave rise to the vehement assertion of the universal validity of this doctrine on one side of that great controversy, while the triumph of the free-corn party, and the unquestionably fortunate result of the reform then effected, added immensely to the prestige of that principle in every succeeding issue.

Yet, while *laissez-faire* was asserted, in great breadth, in England,—the writers for the reviews exaggerating the utterances of the professors in the universities,—that doctrine was carefully qualified by some economists, and was by none held with such strictness as was given to it in the United States. Here it was not made the test of economic orthodoxy merely. It was used to decide whether a man were an economist at all. I do not think that I exaggerate when I say that, among those who deemed themselves the guardians of the true faith, it was considered far better that a man should know nothing about economic literature, and have no interest whatever in the subject, than that, with any amount of learning and any degree of honest purpose, he should have adopted views varying from the standard that was set up.

Such intolerance was not necessarily due to bigotry. It was, the rather, involved in the very nature of the *laissez-faire* doctrine. If that were true, there was no reason why an economist should have any professional communion or intercourse with an outsider. No good could come of it; but only a possible weakening of faith on the part of disciples and a certain encouragement to heresy.

But the abandonment of *laissez-faire*, as a principle of universal application, however strongly individuals may still maintain it as a general rule of conduct, at once makes communion and cooperation, not merely possible, but desirable, among economists. When it is confessed that exceptions, not few or small, are to be admitted, every thinking man has a part to take in the discussion; every interested and intelligent person becomes a possible contributor; every class of men, whether divided from others by social or by industrial lines, has something to say on this subject, which no other class can say for them, and which no other class can afford not to hear from them. The characteristic institutions of every nation, the experiences of every distinct community, not only become pertinent to the subject, but constitute a proper part of the evidence which is to be gathered, sifted, and weighed.

How could it be otherwise than that the throwing open of this door should at once heighten the popular interest in political economy, increase the number of its students, and intensify the instinct of union and cooperation? The barrier which *laissez-faire* interposed to economic investigation and speculation once removed, political economy ceases to be a finished work, which might have been the product of one mind alone, and, indeed, by it struck off at a heat; which might just as well have been done before the invention of letters as at any later date, granted only a man with a special interest in the subject and a special aptitude for that sort of reasoning, a sort of pre-Cadmic Ricardo; which might just as well have been done on an island with a thousand inhabitants, wholly isolated from the rest of mankind, as done at the centre of the world's activities and in contemplation of all that is going on in either hemisphere, on every continent; which might just as well be done among a tribe fresh created by divine power, without a year's history behind it, as done in the ripeness of time and the fulness of knowledge.

That barrier removed, political economy becomes something which never is, but is always to be, done; growing with the growing knowledge of the race, changing, as man, its subject-matter, changes; something which, in the nature of the case, must be the work, not of one mind, but of many; something to which every man in his place may contribute, to which all classes and races of men must contribute, if the full truth is to be discovered; something to which every clime and every age bring gifts all their own; something to which the history of institutions, the course of invention, the story of human experience, are not pertinent only, but essential.

In such a work who would not wish to join? In such a work who would not welcome every faithful and honest helper? With such a field expanding before us, what wonder that the feeling of fellowship arises; that the instinct of association, the purpose of cooperation, draws us together in a union which is none the less close and intimate because of wide divergency of views on many points! We are all laborers together, engaged upon a task of limitless consequence to our kind. The blunders, the misconceptions of any truthful man, will hinder the progress of the work less than his honest, hearty interest in the work will help it on. The blunders, the misconceptions will be corrected by others, never fear! The loyal purpose of any man is a positive force on the side of truth, which is above price.

In whatever has been said regarding the doctrine of *laissez-faire,* I desire not to be misunderstood. I am, with all my heart, a believer in the virtue of freedom, in the power of individual effort. While it seems to me that the doctrine which we regard as peculiarly characteristic of English political economy, has, from the lack of proper qualifications and adaptations on the part of the economists of that country, and, still more so, through the arbitrary and wholesale construction given to it, as imported into American thought, wrought a great deal of mischief, I yet accept that doctrine as containing a practical rule of conduct of wide range and high validity; a rule to which exception should be made only upon clear grounds of urgent public interest. I believe that a heavy burden of proof rests upon every proposal to limit or hamper the free action of individuals. I believe that the exceptions to the rule of absolute, unqualified freedom should, like the exceptions to the old Mosaic law, be admitted, for the time and for the place, solely by reason of the hardness of men's hearts and the blindness of men's eyes; that law should be ever a schoolmaster, leading us to a larger capacity for self-government and self-direction; that the face of mankind should steadily be turned towards the light of perfect liberty, as the state which hath the promise of that which now is, and, still more, of that which is to come.

Craving your pardon for this personal episode, I will, with your indulgence, resume the story of the great march which political economy has made in these later days.

The first powerful influence which was given to these studies, after the substantial completion of formal or abstract political economy, through the labors of Adam Smith, Malthus, Ricardo, and the elder and younger Mill, came through the passionate demands of the working classes and the social reformers, during that period of rapid and violent fermentation which we know as the Second French Revolution, compelling the reopening of the question of the distribution of wealth, which, in turn, compelled a re-examination of the postulates of the old political economy regarding the economic man.

For the purposes of the reasoning of Ricardo, the elder Mill, and even the younger Mill, in his *Essays on Some Unsettled Questions,* a purely artificial being, an economic marionette, constituted simply to exhibit the action of certain forces in production and exchange, amply sufficed. That these figures were highly simple bodies of a single pure substance, without inconvenient affections and attractions, destitute alike of sympathies, apathies, and antipathies, purely abstract and not at all of flesh and blood, was wholly of advantage for the part they were to perform; and no one can sufficiently admire the masterly power and skill with which the English reasoners of those days marshalled these puppets and exhibited, through their evolutions, the normal operations of production and exchange.

But the demand for a thorough treatment of the questions of distribution, in all their bearings upon human welfare, required that men should be contemplated no longer as mere agents of production and participants in exchange; that human nature should be profoundly studied, not so much in its capacity for action, as in its recipiency, its susceptibility, its liability to deep and lasting injury. The verbs which the economist was to conjugate were no longer only those which mean "to do," but also, those which signify "to be" and "to suffer." The marionettes of Ricardo ceased to answer all the uses of economic reasoning. Real men were to be taken, in all their strength, but with all their weaknesses; with their passions and affections, their infirmities and their aspirations, as in life.

Such was the demand of the new political economy. Against the indifference or the resistance of the schools and the reviews, against contumely and proscription, this re-examination of the postulates of the Ricardians went on, hindered at every point because any outcome for good seemed cut off by the universal negative of the accepted doctrine to which we apply the term, *laissez-faire*, until about twenty years ago a mighty force entered, vastly to quicken and strengthen the economic movement.

Whether the time had so fully come for the announcement of the great law of natural selection, through the survival of the fittest, in the unceasing struggle for existence, that the discovery must have been made, even though one or two mighty prophets had not arisen in the world of thought, this is not the place to discuss. Certain it is that the discovery of this pregnant principle has already wrought as momentous and far-reaching effects in the study of economics as in the investigation of early institutions and of primitive societies. Yet we have gathered only the first-fruits of this marvellous tree of knowledge which stands in the middle of the garden. Who can ever forget the thoughts that crowded his mind when first he apprehended the significance of that mighty law ?

> Then felt I like some watcher of the skies
> When a new planet swims into his ken ;
> Or, like stout Cortez, when with eagle eyes
> He stared at the Pacific, and all his men
> Look'd at each other with a wild surmise,
> Silent, upon a peak in Darien.

But while thus the public interest in political economy was vastly increased by the opening of the whole field of human nature as the subject of its inquiries; and while that interest was greatly intensified by the discovery of this new instrument of scientific investigation, the law of natural selection,—

another and an even more powerful force was entering to swell the flood, which should not only sweep away the barriers a series of false assumptions had interposed against social progress, both economic and political, but which should bring political economy to be the one great subject of human interest, the theme of study and of dispute among all classes, high and low, in all countries where thought is free and men aspire.

At the very time when, under the impulse I have sought to indicate, the political economists set themselves to investigate, with pains and care and fidelity, that human nature which, up to that time, they had been content to express by a brief and simple formula, lo ! that nature itself began to undergo a profound and pervasive change on its economic side; a change so sweeping and far-reaching that it has come about that the men of certain countries, those of which we know most and with which we have most to do, have, for the purposes of economic reasoning, become, as it were, in the phrase of Burke, a different species of animal.

The doctrine, in politics, of the guardianship of the lower by the upper classes had its perfect counterpart in the economic doctrine that the employing class are the natural trustees of the laboring class.

The aristocratic politics of the last century declared that it did not matter how much power was intrusted to the privileged classes, since the interests of all, rich and poor, high and low, were so bound up together that no class could suffer and others not suffer with it; and, consequently, that the class most intelligent, most apt for government, having the greatest leisure for public affairs, with, moreover, the largest stake in the community, might advantageously be trusted to make and execute all laws, their own interests inhibiting them from any course of action prejudicial to the lower classes, who might, therefore, safely submit to rule, in the happy assurance that thev could not be in any way injured or oppressed.

Closely analogous to this was the argument by which, in what I would, without offence, call the aristocratic economics of the early part of the century, it was sought to be shown that it was not important, or, indeed, desirable, that the laboring class should take any active part in the distribution of wealth; should feel any responsibility for asserting and maintaining their own interests in that distribution. It was gravely and elaborately argued that all classes of producers were so intimately bound up together that no one could be made to suffer but all should straightway suffer with it; that, therefore, the employing class, alert, intelligent, constantly informed as to the state of trade, with, moreover, the largest stake in the result, could safely be left to determine the proper wages of their workmen, their own interests requiring them to pay the most that could, in the condition of the market, possibly be paid. Nay, the security which the laboring class enjoyed, under the *régime* of aristocratic economics, was, in one respect, superior to that which the lower classes enjoyed under the *régime* of aristocratic politics. In the field of government, the security against wrong was found only in the retribution suffered by the ruling classes, a retribution in which the humbler members of society must also share; but, in the field of industry, an additional security to the laboring classes was derived from the fact that any undue profits which their employers might, for a time, realize, through unjustly beating down wages, would become, of necessity, a new demand for labor, resulting in wages proportionately advanced; and thus the wrong would be automatically and surely righted.

It is only fifteen years since propositions to the foregoing effect were deliberately and emphatically restated by eminent writers on both sides of the Atlantic.

What was it which banished aristocratic politics, not merely from political philosophy, but from the constitutions of Europe, so that, to-day, there is not, besides Russia, a nation which has not, in the language of Thucydides, "taken its citizens into partnership"; not a nation in which the once despised and downtrodden masses are not the arbiters of ministries, the promoters of reform, the defenders, for themselves, of their own rights and interests? Was it a change of opinion on the part of the philosophers, or a change of heart on the part of those who had exercised privilege and power ? Not at all. The false opinions, in many cases, survived the constitutions in which they had been incorporated; and no class ever, wholly of its own choice, surrendered privilege and power. It was the rising of the people, repudiating the doctrine of a guardianship over them, rebelling against abuses, demanding their rights, effecting reforms by just so much of threats and force as the resistance of the ruling classes made it necessary to use.

What was it which so recently caused the downfall of the economic theory of the trusteeship of capital: a downfall so complete that to-day any man would be simply laughed at in a convention of economists were he to announce the doctrine of the economic indifference of the rate of profits, which so able a thinker as Professor Cairnes could calmly restate but fifteen years ago ? Has the result been due to sounder professional thinking ? Again, no. Again, it is true that the change in opinion followed, and followed somewhat late, upon changed conditions. Again, it was the uprising of the classes to whom economic reasoning had assigned the position of wards, but who, under impulses new to this age, came forward to allege their competency to manage their own affairs and conserve their own interests. The working classes had "come of age," and called their late guardians to render an account of their stewardship.

Little blame is to be charged upon those who, two centuries or a century ago, held to the doctrine of the guardianship of the upper classes over the lower. The constituencies which alone would have made a peaceful and well-ordered democracy possible, then existed in few of the countries of the world.

Little blame is to be charged upon the economists who, a century or a half a century ago, held to the doctrine of the trusteeship of capital. The bodies of workmen who should assert their interests in a close and searching competition with the employing class, intelligently, temperately, firmly, without danger to industrial peace, and even to the social order, then existed in but few communities, if any, outside our own favored land.

Almost universally illiterate, poor, and tax-ridden; unaccustomed to the communication of thought; without strong class feeling, without social aspirations, without political franchises; bred under laws which had for centuries made it a crime to combine to raise wages or shorten the hours of labor, which forbade the emigration of artisans and practically arrested the movement of agricultural labor to its best market, the working classes of the England of Ricardo and James Mill possessed but slight qualifications for asserting their own interests, positively, aggressively, pertinaciously, in the distribution of wealth. By consequence, not because the system to which I have applied the term, the "trusteeship of capital," worked well, for it did not; not because the results were not always bad and often as hideous as any of the fruits of the old *régime* in politics, for they were; but simply because the constituencies which could alone have rendered democracy in industry possible did not exist, the working classes were practically compelled to take whatever should be offered them in the market for labor.

What a change since then! And what a marvellous history it is which comprises the causes of that change in the character and condition of the working classes of England! The state establishment of savings-banks; the abatement and final removal of the tax on newspapers; the repeal of the Combinations Acts, and the fierce series of industrial battles which followed the legal recognition of the right of working men to have something to say about their wages and the conditions of their employment; the first reform bill; the institution of friendly societies; the mighty Corn-law debate; the Chartist agitation; the extensive formation and deep foundation of trade unions; the remarkable series of parliamentary and royal commissions to inquire into the conditions of trade and industry; organized migration within and emigration from the Kingdom; and, finally, free public education: these are among the forces which have moved upon the minds of the working classes of England to qualify them for industrial life.

In all these ways it has come about that the French of the present generation do not so widely differ in their political aptitudes and capabilities from the people whom Tocqueville and Blanqui described, the wretched victims of the old *régime*, as do the English workmen of to-day, in their economic character, from the ignorant, inert, squalid, and hopeless masses of labor whom Ricardo and James Mill had in view.

This it was that I had in mind when I said that, at the very time when the political economists first set themselves seriously to study human nature, for the purposes of their treatment of the distribution of wealth, that nature itself was undergoing a profound and pervasive change on its economic side.

I shall ask your consideration of but one other cause which has added to the force of the economic movement in these days; and that is the scientific spirit now so widely spread abroad, inducing a more careful observation of phenomena, and assisting to a sounder interpretation of facts and statistics. Perhaps the influence of this cause will best be shown by an example.

In 1872, Mr. David A. Wells, one of the ablest economic statisticians whom this country has produced, made a report, as chairman of the Tax Commission of the State of New York, in which he said:

> "All taxes equate and diffuse themselves; and, if levied, with certainty and uniformity, upon tangible property and fixed signs of property, they will, by a diffusion and repercussion, reach and burden all visible, and also all invisible and intangible property, with unerring certainty and equality."

Again, in 1874, Mr. Wells, in presenting to the American Social Science Association the general results of his work, said:

> "Taxation diffuses itself ; and by laws which it is beyond the power of man to contravene. . . . If they [taxes] are assessed primarily upon Mr. Astor, he adds them to his rents ; if upon Mr. Stewart, to his goods ; upon Mr. Vanderbilt, to the price of his capital, whether sold upon the street or invested in railroads; and so, being reflected, as it were, to infinity or from reflection to reflection, they become eventually an integral part of the prices of all things."

In such a view of taxation, how simple the problem of the economist! how easy the work of the legislator! To the equities of public contribution, to the industrial prosperity of the community, to the welfare of the very poor, it makes no difference what are the subjects taken for imposition or where the burden falls.

Would it be possible, I ask, for any intelligent person at the present time to take up and dispose of the question of taxation in such a fashion? That sort of economic reason has not only passed away, under the influence of the scientific spirit of the age, but it has already drifted back to what seems an interminable distance. To-day the ablest American representative of the English school declares that taxes, indeed, diffuse themselves, but it is "along the lines of least resistance." How tremendous the difference between the two statements! How significant that phrase, "least resistance"!

What a story it tells of individuals and classes who are at a disadvantage in the unceasing struggle over the product of industry; pressed down by a competition to which they are not equal; disabled by poverty, ignorance, debt, and fear, from resorting to their best market; kept fast in their place, to be cheated in quality, quantity, and price on everything they have to buy, and, for their wages, compelled to take whatever may be offered them, at the mercy of middlemen, slaves to creditors, perhaps the wretched prisoners of the "sweating den"!

What a weight of responsibility does this latter view of taxation, conceived in the true spirit of modern science, cast upon the legislator, in determining the proper subjects of imposition and the classes upon which fiscal burdens shall first fall! What a work is laid out for the economist, as, with all his senses alert, his very soul in strain, he sounds and tests the public body, to detect indications of failing resistance to fiscal pressure! What revelations of weakness and of danger to the state may not thereby be given to the faithful legislator! What suggestions, of priceless value to the educator, may not come from economic investigations undertaken in this spirit and carried on by the methods of modern science !

Fellow members, such, according to my fallible judgment and very imperfect knowledge, are the principal causes of the remarkable economic movement of the past few years. That movement itself does not require to be proven. A bay, one half whose spaces lie bare and baking in the sun, does not more differ in aspect from that bay when the sea comes rolling in, filling it full of boisterous life, and beating with angry roar upon the rocks which close it round, than does the economic world of a few years ago differ from that which we look out upon to-day.

THE TIDE OF ECONOMIC THOUGHT

Publications of the American Economic Association, VOL. 6 (1891), PP. 15–38

At the fourth annual meeting of the American Economic Association held at Washington, December 26, 1890, Mr. Walker delivered an address on the subject entitled "The Tide of Economic Thought." A considerable part of this is devoted to the consideration of the development of the Single Tax party, the question of bimetallism, and the dangers of recent immigration. As these subjects are treated elsewhere, the latter part of the address is omitted.

THE TIDE OF ECONOMIC THOUGHT.

Two years ago, addressing the Association at its Philadelphia meeting, I said, having in view the great increase of interest in economic discussion :

"A bay, one half of whose spaces lie bare and baking in the sun, does not more differ in aspect from that bay when the sea comes rolling in, filling it full of boisterous life, and beating with angry roar upon the rocks which close it round, than does the economic world of a few years ago differ from that which we look out upon to-day."

If this image then seemed to any one extravagant, it surely will not now. It is far too tame to represent the facts of the present time. Not only has the rising tide of economic thought filled every bay and creek and arm along the shore, but the very fountains of the great deep appear to have been broken up ; on every side the "dry land" of a past generation has been invaded by a rush of angry waters. The bounds of tradition, the barriers of authority, have, for the time at least, been swept away. Everything once deemed settled in economic theory is audaciously challenged ; the most venerable and well-approved of our institutions are rudely assailed; ideas to which, but a few years ago, assent was given so general as to be practically unanimous, are now denounced and scoffed at upon public platforms and in the drawing-rooms of fashion. The ownership of land, individual enterprise in business, even the system of private property, are alike threatened.

Doubtless those who were caught nearest the shore by this tremendous inundation, and who now, from roofs and tree-tops, view with dismay the still rising floods, have in a measure themselves to thank for their present uncomfortable position. They have scoffed at those who pointed to palpable signs of the times; they have set their professorial or editorial chairs down at the water's edge and defied the ocean's power; they have mistaken for nature's impassable barriers what were merely the beaches and terraces of a certain stage of civilization; and have expounded local and temporary conditions as eternal laws of human society.

But even those of us who, a longer or a shorter time ago, thought we discerned the coming of a storm, and removed ourselves and our effects from the lower ground of an uncompromising individualism to positions somewhat more elevated and seemingly secure, are scarcely less involved in the general catastrophe. The floods are already all around us, and are fast climbing to our seats. As we look out upon the waste of waters, we wonder, not altogether without anxiety, when the wind will begin to blow over the face of this high-running, furiously heaving sea, to bring peace and a calm, to restore the ocean to his place and make the dry land appear once more, however much or however little its configuration may be found to have been permanently altered by the workings of this economic deluge. How, indeed, shall that be? As it was in the good old days? or shall we have to recognize the fact that great inland seas have been created by the overflow; that deep channels have been cut through the land; and that vast outlying masses of the once solid continent of *laissez-faire* have become islands, around which the waters will continually roar? For one I have little doubt that in due time, when these angry floods subside, the green land will emerge fairer and richer for the inundation, but not greatly altered in aspect or in shape.

To leave this image, which has perhaps already been carried over far, one may say that the past two years in America have witnessed such an access of interest in economic matters as our country has never before known; and that spirit, not merely of contempt for authority, but of dissatisfaction with the existing order, and even of angry impatience at the material conditions of the universe, has been widely manifested, which has made it very hard work, indeed, to be an economist, in these days. On the one hand, old Utopias have been rediscovered, re-explored, resurveyed, and reopened to settlement by an afflicted humanity ; on the other, brand-new devices for doing away with poverty, sorrow, and even sin, in human life have been brought out in rapid succession, by a host of philanthropic inventors. In the growing passion for social and industrial novelties, nothing has seemed unreasonable ; persons of the highest degree of intelligence have, for the time, lost all measure of difficulty, all sense of resistance, all memory of experience. The practical working motives which have carried mankind thus far on the way from savagery to civilization are all at once to be replaced by angelic impulses and celestial aims. The inveterate evils which have afflicted our race through all the ages are to be cured by proclamation. Armies are to be disbanded upon the security of universal brotherhood ; the earth is to open and swallow up all its jails, poorhouses, and forts, in an instant, out of sight.

To many, the extraordinary access of pseudo-socialism in America, which we know as Nationalism, within the past two years, has appeared most threatening, even appalling. They think they see society at the very verge of dissolution, when schemes so vague and wild receive the public adhesion of large numbers of respectable and responsible citizens. Social and industrial chaos seems to be impending, when all the results of experience are thus contemned, and all the fruits of past exertions are thrown away as worthless and mischievous.

I may be unduly optimistic ; but to me the outlook is far less gloomy. I see in the ranks of these passionate reformers few or no perverts from a sound political economy, but only a host of as yet rather disorderly and undisciplined converts. The great majority of those who are now so ready to reform mankind, all at once, by measures affecting industrial organization and industrial activity, a few years ago gave little thought to industrial matters, perhaps deemed political economy a subject hardly worthy of their attention. These benevolent clergymen, these ecstatic ladies, these prophets and disciples of an industrial millennium, never belonged to the economic army ; and if their zeal at first greatly outruns discretion, we may, I think, confidently look upon them as not unpromising recruits to that army, and fairly hope that in time they will exchange their ghost-dances outside the camp for the soberer but more useful goose-step of the economic drill sergeant.

My moral is that it is an immense gain to have the attention of the whole community so strongly drawn, as it has been, to the supreme importance of industrial conditions. Political economy, especially in the United States, has suffered inexpressibly from public indifference. The few who have professionally cultivated it have had things all their own way simply because no one cared enough about it to contest or even to criticise the conclusions they might reach. The economists have been as distinctly separated from the mass of the people as have been the astronomers. I will not say that the economists have rather affected to be the priests of a mystery; but certainly I can appeal to all who hear me, whether a great deal has not been said as if an intelligent business man should not presume to have an opinion as against the men of the chair; and, if not an intelligent man of business, much less a common laboring man.

The revolution now in progress is making every man and every woman an economist. The vital importance of industrial relations is fast coming to be seen and felt, as never before. The whole people are bending themselves to study these subjects. No class of questions now takes precedence, in the public thought, of economic questions. The economists who are thus being made are, it must be admitted, just now pretty poor ones. We must expect a great deal of crude thinking, a vast preponderance of feeling over thinking, and an angry impatience with conditions which will forever continue to assert themselves in human life. But it is a great thing to have the whole nation at school in political economy; and we are no wise teachers, no natural leaders, if we cannot succeed in getting a hearing for all we have to say which may be worth listening to. We may have to put off some of the airs which we have thought rather becoming to us; we may have to get out of our chairs, and teach, as we walk among our fellow men, like the philosophers of the old Academy;

we may have to translate our lectures into more popular form and modern phrase. But if we have really anything to say, we can get a hearing for it; and we ought to rejoice, with all our hearts, that the people, the whole people, are coming, for the first time, to take a deep, earnest, passionate interest in the subjects to which we have devoted our lives.

Besides the primary fact already noted, namely, that most of the teachers and disciples are new to this kind of thinking, there are three reasons why the vaguest and wildest schemes for human regeneration, upon an economic basis, so readily find a hearing and a wide popular acceptance.

First. The economists themselves are largely responsible for this state of things, on account of the arbitrary and unreal character of their assumptions and the haughty and contemptuous spirit in which they have too often chosen to deliver their precepts. Especially are our American economists "sinners above the rest" in these respects. Long after even the English economists, who have been lordly enough, heaven knows! had importantly modified the traditional premises of the science, to meet the facts of human nature, and had, with a wider outlook, admitted many extensive qualifications of the doctrine of *laissez-faire*, the professors of political economy in the leading American colleges continued to write about the economic man of Ricardo and James Mill as if he were worth all the real men who ever lived; and the editors of the journals and reviews which especially affected to exercise authority in economics, greeted with contumely every suggestion of an exception to the rule of individualism, from whatever source proceeding, for whatever reason proposed. Even the complete establishment of such an exception in the policy of half a dozen nations, and its triumphant vindication in practical working, to the satisfaction of all publicists, all men of affairs, and even of those who had once been selfishly interested to oppose it, constituted no reason why these high priests of economic orthodoxy should accept it.

There is small occasion for wonder that, with such a record for opposing wholesome measures of reform on the grounds of *laissez-faire* alone, our economists, as a body, should be able to do little in stemming the tide of socialism which has set in so strongly of late.

Secondly. The great positive reason for the readiness with which vast and vague schemes, upon an economic basis, for the regeneration of mankind, wholesale, have been received and adopted by large numbers of our countrymen, is found in a spirit of optimism which is directly due to the remarkable advances made in human conditions during the generation now upon the stage. These advances have been in part the effect of invention and discovery, working wonders for man; in part they have been the proper effect of the social and industrial ambitions and aspirations which have been enkindled by the growth of popular education and the extension of political franchises.

Since so much has been done, in so short a time, for the amelioration of the human condition, why cannot more, and still more, be done? Why cannot anything be done? Why not everything? When people are in such a mood, any scheme that has a promising face meets a ready acceptance. The mind of the reader or hearer runs forward to meet it. Scepticism and incredulity vanish. The more vast and vague it is, the better is a project of social and industrial reform suited to become the subject of a popular craze.

Thirdly. Another reason has occurred to me as in part explaining the very remarkable spread of the ideas known as Nationalist. This may or may not commend itself to your minds. It is that the phenomenon is largely the result of a reaction from the nervous strain and the continuous excitement under which the cultivated classes in a modern community, and preeminently in America, where the pace is so tremendous, are placed and kept by the multiplication of social duties and offices of a more or less benevolent character, on the one hand, and, on the other, by the increase in personal wants and necessities, highly artificial in their origin, yet not the less imperative in their demands. The men and the women of this generation who have passed the age of youthful buoyancy, hopefulness, and elasticity, are tired out and worn down with the struggle. The next generation will take these things more easily; will invent economies of time and strength ; will even be born with a certain adaptation to existing conditions. Possibly, let us say probably, finding that they are carrying lightly the burdens which are breaking our backs, they will set themselves to still further multiply occasions and social duties and material necessities, to use up their own strength and time, in turn, as completely as we have done. But the last is a question of the future. To-day, having been born into a world comparatively simple in its organization and its requirements, we find ourselves in middle life or old age harassed, fatigued, and at times despondent, under the pressure of cares, obligations, engagements and labors innumerable, almost intolerable. Who does not at times feel thus ? I confess, for myself, that there are moments when it seems that I would gladly resign all that I am and have, for the poor privilege of standing, a barefoot pauper, without a name by which I could be called, or a friend in the world, knocking at the door of an almshouse, where I might simply lie down and be let alone.

To persons in such a mood, the repose, the relief from care and painstaking, the release from domestic drudgery, the social and industrial irresponsibility which Mr. Bellamy depicts, must needs possess a great attractiveness. In a sterner mood, when we have recovered from our momentary depression, having perhaps snatched a little rest and turned ourselves again to take up our work in life, we scout the very notion of a peace that is to be gained by surrender, of a sybaritic existence, amid ease and comfort and perpetual music, which would leave our powers "unexercised and unbreathed," and would reduce our descendants, in no distant generation, to the moral state of the Polynesian. We know that it is of the very essence of social progress that as fast as we are released by arts, inventions, and improved organization, from cares and labors which have worn and wearied us, we should create for ourselves new wants which shall take up all the time and strength thus set free; and that it is not rest man needs, but work.

Yet still again the moment of depression will come to the stoutest and the most fortunate. Shall we, then, wonder that many, less happy or less strong, should succumb in the struggle and be ready to surrender individuality, with its anxieties and burdens, but with also its glory and its power, for an all-absorbing Nationalism, which promises, however futilely and foolishly, to make life forevermore easy and pleasant ?

THE ECONOMISTS AND THE PUBLIC

A Letter to the *Evening Post* (New York), June 27, 1891

THE ECONOMISTS AND THE PUBLIC.

Let me say that I have never questioned the advantage of building up a system of political economy upon a comparatively few, simple assumptions. In my *Political Economy* of 1883, I said:

"Political economy should begin with the Ricardian method. A few simple assumptions being made, the processes of the production, exchange, and distribution of wealth should be traced out and be brought together into a complete system, which may be called pure political economy, or arbitrary political economy, or *a priori* political economy, or by the name of its greatest teacher, Ricardian political economy. Such a scheme should constitute the skeleton of all economic reasoning; but upon this ghastly framework should be imposed the flesh and blood of an actual, vital political economy, which takes account of men and societies as they are, with all their sympathies, apathies, and antipathies; with every organ developed, as in life; every nerve of motion or of sensibility in full play."

My quarrel with political economists is not that their premises are partial and incomplete, but that having, to their own satisfaction, deduced certain principles from such premises, they have gone straight down into the forum or the press, and have there set up those principles as absolutely true, and as conclusive upon the public in present practical issues, without admitting that those principles are subject to qualifications in their application to actual affairs, and without confessing the doubtful origin of some of their high-sounding "laws." This is exactly what the leading English economists have habitually done; and in this they have been closely followed by some of their American disciples.

It is true, as you say, that in a school of technology we teach abstract principles. We not only do this laboriously and long, but we train our students in dealing with such principles, so that they may become capable of sustained reasoning upon any series of assumptions. But it is equally true that we teach the young inquirer never for a moment to think of applying these principles in practice without the most careful reference to the conditions of the case, the materials to be used, the resistance to be encountered, the contingencies that may beset the work ; and after all this has been considered, we teach him to introduce a "factor of safety," as well as to make allowance for uncertain elements of expense. And it is precisely for not doing the corresponding thing in their department, that we blame the economists.

The comparison which you have instituted between the qualifications requiring to be made in practice of the physical laws taught in the Institute of Technology, and the qualifications requiring to be made in practice of the economic principles taught by the college professor, affords an excellent opportunity to illustrate the point in dispute between the two schools of political economy. The physicist, indeed, teaches that water tends to a level ; but he also instructs his pupils that, if water be placed in a very small tube, it may be sustained for an indefinite time at about any height above the general level, the attraction, more properly cohesion, of the walls of the tube being greater than the attraction exerted upon it by the earth below. Now, here is an instance of a physical law which admits of an exception that requires to be distinctly expressed to every student to whom the law itself is taught ; for, although the column of water in the tube be small, the principle of capillary attraction is not. The whole earth, in its relations to life, would be revolutionized did this principle fail to operate. To teach that water tends to a level, without adding the exception which exists through capillary attraction, would be unworthy of any physicist.

Now for a corresponding principle and its necessary qualification, in economics. Money tends to flow from the place where it has the lower value to the place where it has the higher value. In popular phrase, money, too, seeks its level. This is so generally true and is so important, the movement required takes place so promptly and proceeds so strongly, as long as the difference in value subsists, that the statement just made is entitled to be considered one of the chief "laws" of political economy. Yet there is a distinct exception to this. The quantity concerned may be so small as to fall under a kind of monetary law of capillary attraction. A "nickel," containing, say, one cent's worth of metal, passes easily in exchange for five cents, partly, and indeed mainly, because the number of pieces is judiciously restricted, but in part, also, because the value involved is not sufficient to make it worth taking any pains. Even if these coins were issued in some excess over the real demand for them, they might continue to pass for a long time without obstruction or discount, simply "because the amount concerned would not be worth much thought or effort."

Just here was the error in Mr. Wells' remark about a silver three-cent piece sufficing to do all the money work of a great people, which, in my Washington address, I commented upon with what you deem undue severity. Mr. Wells made a mistake in that case, for want of properly qualifying an economic principle. So small a quantity of silver as that he spoke of would come under the law of capillary attraction. The downward tendency would be neutralized by the influence of the walls of the tube. Hence the statement of Mr. Wells was scientifically inaccurate, while it was politically inexpedient, being one of those remarks which are peculiarly exasperating to opponents. It would have answered Mr. Wells' real purpose just as well had he said that a comparatively small quantity of the precious metals would circulate as money just as freely and effectually as a larger amount.

Two points more, if I may be indulged. (1.) You seem disposed to excuse the economists for not further qualifying their more general propositions, and not guarding their readers against mistaken applications of them, by the plea of insufficient opportunity. Twice in your article it is said that people generally have "time" only for brief and unqualified statements of economic doctrines. Permit me, as a teacher of many years' experience, to suggest that, while it is easier for the professor to prepare himself to teach political economy by the method of abstract reasoning, the easier way of learning for the pupil is that which proceeds by concrete illustrations and by the discussion of actual "cases." The additional time which one might expect would be consumed in this way of studying political economy is really not lost, on account of the greater attention and interest of the pupil. (2.) I think you mistake the relation which exists between pupil and teacher, in schools like this, to which you have referred. You say that "among the essentials of the relation of scholar and teacher are that the scholar shall feel that he does not know and that the teacher does know." Excuse me if I say that, while this is doubtless a correct characterization, so far as the classical colleges are concerned, the most successful teachers of science are those who put themselves in the attitude of studying with their pupils, and of finding out, with them, the objects of their common search. Indeed, it is said that Socrates himself used to employ this method. So far as political economy is concerned, I do not think anything is to be gained, in the way either of discovering the truth or of commanding popular respect, by the teacher pretending to know anything he does not, or even concealing the fact that he is still, on this or on that point, in uncertainty, perhaps in perplexity. It is a sad truth that the airs of the political economists no longer impress the public mind, and that the writer on money, or wages, or taxation, must rely, for the effect he would produce, upon the force and reasonableness of what he writes.

THE SOURCE OF BUSINESS PROFITS

Quarterly Journal of Economics, VOL. 1 (1887), PP. 265-88

THE SOURCE OF BUSINESS PROFITS.

In the *Fortnightly* of September, 1879, Prof. Henry Sidgwick, in reviewing the recent literature of the wages controversy, said :

"It seems to me that, while Professor Walker's argument gives a *coup de grâce* to the old wages-fund theory,* it supplies no substitute for it; it leaves us with no theoretical determination whatever of the average proportions in which produce is divided between labor and capital."

I confess that at the time this seemed to me a hard judgment. The current political economy had for more than a generation declared that the measure of possible wages was found in existing capital ; that the average rate of wages was wholly determined by the ratio between the amount of capital and the numbers of the laboring class ; † that this rate was thus altogether irrespective of the industrial quality, the skill, energy, temperance, frugality, of the laboring population at the time ; that this rate was also irrespective of the efforts of the laboring class, as a body or individually, to better their own condition, it being explicitly taught that no less than the whole amount of possible wages would or could

* For both the natural history and the literary history of this doctrine, reference may be made to an article by the present writer in the *North American Review* for January, 1875.

† "The circulating capital of a country is its wage-fund. Hence, if we desire to calculate the average money-wages received by each laborer, we have simply to divide the amount of this capital by the number of the laboring population."—Fawcett, *The Economic Position of the British Laborer.*

"The demand for labor consists of the whole circulating capital of the country. . . . The supply is the whole laboring population."—J. S. Mill, *Fortnightly Review*, May, 1869.

be disbursed under the law of competition,* and that, consequently, if the laborer did not seek his interest, his interest would seek him, and would find him.†

I confess that it seemed to me that to demonstrate that the measure, or, if you will, the limit, of possible wages is to be found in the estimated value of the product; that, as the product is immediately affected by the industrial quality of the laborer, wages cannot be uninfluenced by anything that affects the industrial quality of the population; that, again, the rate of wages cannot be irrespective of the efforts of the laboring class, as a whole or individually, to improve their condition and to reach their best market, since, if the laborer will not seek his interest, he must, in greater or less measure, lose his interest,‡ while, on the other hand, it is often, if

* "That which pays for labor in every country is a certain portion of actually accumulated capital, which cannot be increased by the proposed action of government, nor by the influence of public opinion, nor by combinations among the workmen themselves. There is, also, in every country a certain number of laborers; and this number cannot be diminished by the proposed action of government, nor by public opinion, nor by combinations among themselves. There is to be a division now among all these laborers of the portion of capital actually there present." —Prof. A. L. Perry, *Political Economy* (first edition, 1865), p. 122.

† "If capital gets a relatively too large reward, nothing can interrupt the tendency that labor shall get, in consequence of that, a larger reward the next time."—*Professor Perry.*

"The wealth so withdrawn from wages would, in the end, and before long, be restored to wages."—Cairnes, *Leading Principles of Political Economy.*

‡ "If laborers and employers do not, in fact, whatever the cause, resort to the best market, then injuries may be inflicted on labor or on capital, and no economical principle whatever will operate to secure redress. . . . If the blow, in its suddenness or its severity, bears more than a certain ratio to the power of resistance, the chances are many, human nature being what it is, that the wages class will succumb,—that is, that they will accept the harder terms imposed upon them; and, on the one hand, through a less ample or nourishing diet and meaner conditions, and, on the other hand, through a loss of self-respect and, perhaps, the contracting of distinctly bad habits, they will become unable to render the same amount and quality of service as before. This result being reached, not only is there not a tendency in any economical forces to repair the mischief, but even the occurrence of better times and new opportunities would not serve to restore the shattered industrial manhood."—Walker, *The Wages Question*, pp. 162, 165.

not always, possible for the laboring classes, through a more active, searching, and persistent competition, to secure for themselves a larger share of the product of industry; to demonstrate further, that there may be in industry a gain which no man loses, just as there may, in a contrary case, be a loss which no man gains; and that thus wages might conceivably be, and in practice often are, enhanced without diminishing profits,*—I confess it seemed to me that to demonstrate these things, as I thought had been done in my treatise on the wages question, was to present something like a proper philosophy of wages, deserving more of recognition than is contained in the sentence quoted from Professor Sidgwick. Subsequent reflection, however, convinced me that this most eminent of critical writers in political economy was right in his demand for something more than had then been offered, with a view to the construction of a complete and consistent theory of the distribution of wealth; and that, while the several successive propositions which have been recited above were all important, and indeed essential, to such a theory, the keystone of the arch still remained to be hewn from the rock and put into its place.

In close connection with the sentence which has been quoted, Professor Sidgwick goes on to say, regarding Pro-

* "The human stomach is to the animal frame what the furnace is to the steam-engine. It is there the force is generated which is to drive the machine. The power with which an engine will work will, up to a certain point, increase with every addition made to the fuel in the furnace; and, within the limits of thorough digestion and assimilation, it is equally true that the power which the laborer will carry into his work will depend on the character and amount of his food. What the employer will get out of his workman will depend, therefore, very much on what he first gets into him. . . . That a large portion of the wage-receiving class are kept below the economic limit of subsistence there can be no doubt. . . . In cases where the subsistence of the laborer is below the economical maximum, a rise of wages may take place without a loss to profits."—Walker, *The Wages Question*, pp. 54, 56. Not only without a loss, but, as elsewhere appears, with an actual gain. The same, it is shown, may be true of an increase of wages, which gives the laborer more adequate clothing and shelter, or which increases his ininterest his work, or which results in expenditures for education, cultivation, moral improvement, etc.

fessor Jevons' proposition,* that the wages of a laboring man are ultimately coincident with what he produces, after the deduction of rent, taxes, and the interest of capital:

> "It is to be observed that it does not attempt to settle the distribution of produce between employers and employed, except so far as the employer's share consists of interest; that is, it does not help us to determine what Mill calls 'the wages of superintendence.' Now, it is just this latter that in our practical discussions usually appears as the most prominent element of the problem. What English workmen grumble at is not the rate of interest, but the undue extra profit which they suppose the employers to be making."

Reflecting upon the view thus presented, I came to feel that something more was wanted; and, in 1883, I brought out, in my treatise on *Political Economy,* a theory of the origin of business profits, which it is the purpose of this paper more fully to state and explain.

It is not to be disputed that, if this theory be a correct one, it supplies just what was lacking, and yields, in conjunction with well-approved theories of rent, interest, and wages, a complete and consistent body of doctrine regarding the distribution of wealth. It is not to be disputed that we have, in this view of business profits, the keystone to bind together the other members of the arch in a symmetrical whole, spanning the entire field of distribution. But it is competent to any one to dispute the correctness of this theory regarding the employer's proper share of the produce, and time has not yet been given for such a discussion of the doctrine as shall decide whether it is to be approved or rejected by the body of economists. The first stages of the discussion have certainly not been more unfavorable towards the view presented than was reasonably to be anticipated.

We shall best approach our present subject by inquiring what would be the share of the produce going to the employer, as such,† irrespective of the proper interest on capital

* *Theory of Political Economy,* 1871.

† In his *Principles of Political Economy* (1883), Professor Sidgwick says (p. 340) that his attention was first called to this distinction by my work on *Wages* (1876). But the distinction was clearly drawn by my

(of which the employer himself may or may not be the owner), in case the body of employers constituted a distinct class, either naturally or artificially defined, all of whose members were equal among themselves in the point of business abilities and business opportunities. Let our hypothesis be clearly understood. We assume, first, that there is in a given community a number of employers, more or fewer, who alone are, by law or by custom, permitted to do the business of that community in banking, in manufacturing, in trade, in transportation, or else who are so exceptionally gifted and endowed by nature for performing this industrial function, that no one not of that class would aspire thereto or would be conceded any credit or patronage should he so aspire. Secondly, we assume that neither in point of ability nor of opportunity has any one member of this class an advantage as against another, each being the precise economic equivalent of every other,—all being, we might say, exact copies of the type taken, whether that should involve a very high, or a comparatively low, order of industrial power.

Now, in the case assumed, what would be true of business profits, the remuneration of the employing class? I answer that, if the members of this class were few, they might conceivably effect a combination among themselves; and, through possessing a natural or artificial monopoly of a force absolutely indispensable to the conduct of industry, they might fix a standard for their own remuneration, which should be the price for which they would consent to carry on the business of that community. If, however, the community

father, the late Amasa Walker, in his *Science of Wealth*, published in 1866; while the French writers have always recognized profits and interest as separate shares in distribution. J. B. Say treated Adam Smith's neglect of the *entrepreneur* as creating a serious hiatus. All of Say's successors down to Courcelle-Seneuil have dwelt strongly on the the importance of that industrial function. That in England, where the "master of industry" has developed in his fullest proportions and his largest dimensions, this function should have been habitually overlooked, will always seem very strange. The fact goes far to justify Professor Jevons' remark, that, in the matter of wages, "our English economists have been living in a fool's paradise." "The truth," he adds, "is with the French school."

were a large one, and if the business class, as we have defined it, were numerous, such a combination to determine profits would be impracticable. Rivalry, jealousy, greed, personal quarrels and pique, or suspicion of foul play, would soon break up the most elaborate scheme, and the members of the business class would begin to compete with each other. From the moment competition set in, it would find no natural stopping-place until it had reduced profits to that minimum which, for the purposes of the present discussion, we call *nil.*

What, in the case supposed, would be the minimum of profits? I answer, This would depend upon an element not yet introduced into our problem. The ultimate minimum would be the amount of profits necessary to keep alive a sufficient number of the employing class to transact the necessary business of the community. Whether, however, competition would force profits down to this low point would depend on the ability or inability of the members of the employing class to escape into the laboring class. We have supposed that laborers could not become employers; but it does not follow that employers might not become laborers and earn the wages of laborers, in case their remuneration as employers should be reduced by competition below the current rate of wages. If we supplement our hypothesis by assuming that the body of employers has such an industrial resort or escape, we should then have the minimum rate of profits determined by the current rate of wages; and it would come about that an employer would receive a remuneration equal to that which he might be able to earn as a laborer. Less than this he would not receive, because he would prefer to serve in the other capacity. More than this he would not receive, because the unceasing competition of his fellows would wrest from him every fraction of any excess that might remain. It would not matter in the least that the services which the employer rendered were, in his view or anybody else's view, of a more highly intellectual character, or morally more deserving than those rendered by the laborers. We are accustomed to the spectacle of work involving more than ordinary moral and intellectual qualifications, and even work absolutely indispensable to the life and health of others, compensated at rates far lower than those paid for some mere knack or skill or physical adaptation to the rendering of a service demanded only by a whim or fancy of the consumer, which may even be positively deleterious to health or character. It is all a question of supply and demand; and, in the case assumed, the remuneration of the employing class, whatever its moral or intellectual qualifications, as compared with those of the rest of the community, would infallibly be reduced, through the normal effect of competition, to a level with the remuneration of the laboring class. It would then become a matter of economic indifference whether any man served the community as laborer or as employer. In this event, profits would become *nil;* that is, there would be no profits as distinguished from, or preferred to, wages.

Leaving, now, our imaginary society, and returning to the actual world of industry, do we find anything corresponding to the result we have last reached ? Do we find employers of labor earning profits which are no greater than the wages of labor ? I answer, that in every large community there are many such employers; and in every branch of business in a large community there are some such employers,—men who, by their conduct of the industrial enterprises of which they have come, no matter how, into control, realize no remuneration greater than that received by the laboring class.*

* At this point, my argument comes very close to that of Professor Arthur Hadley, in his article on "Profits" in Lalor's *Cyclopædia of Political Science,* which, though published later than my treatise of 1883, was yet written independently of it. Indeed, our lines of reasoning are nearly parallel throughout. Professor Hadley says: "The minimum of net profits [*i.e.*, throwing out interest] is roughly determined in the same way as the minimum of wages. The business man, like the workman, must make a living according to his own standards of comfort and decency. But the application of this principle to profits is less simple than its application to wages. In the latter case, we have a large body of men ready to work for a certain remuneration, but liable to become a burden on society if the pay sinks below that amount. In business, the margin of difference between what will induce men to begin and what will compel them to stop, is far greater. No man will begin business unless he expects to make more as a capitalist [employer?] than he was previously earning as book-keeper or foreman. But, once

Indeed, we may take a step beyond, and say that in every large community there are many employers, and in every branch of business some employers, whose conduct of business results only in loss. What with the initial investment of the employer's own inherited or previously accumulated means; what with the loan of funds by friends or relatives; what with the discount of commercial paper, under more or less of uncertainty as to the financial standing of drawers or indorsers; what with credit given by dealers for materials or supplies, and in a less degree by laborers for their work rendered,—it happens not infrequently that men carry on large business, not only with no resulting profit, but at an actual loss to themselves or to others.

Just above the grade of employers we have described are found many employers in every large community, and some in every branch of business, who realize, at best, but very moderate profits. Even at the end of a long career, these men are found to have accumulated little or nothing. They have, indeed, lived more comfortably than the more favored of the wage-receivers; but for this they have paid a high price in perpetual anxiety concerning the state of the market, in frequent fears of commercial misfortune, and perhaps, at times, in much embarrassment and much humiliation. All things considered, their economic condition has been little, if any, superior to that of the better members of the hired class,—such as bookkeepers, cashiers, clerks, superintendents, or overseers. Even if we threw out of account those

engaged in business, he cannot go out of it when he fails to make the expected profit, without sacrificing a great part of his invested capital and losing the chance of ever again doing business on the same terms. . . . Thus, we have not a fixed, but a varying, minimum; in times of expanding credit and increasing production on a level with the wages of a superintendent, foreman, or head clerk, in the same industry; in times of diminished credit and production falling away to nothing, or less than nothing. Now, the price of goods is approximately determined by the cost of production of those produced at the greatest disadvantage; that is, by men earning this minimum of profits. . . . Skill in organizing labor, quickness in utilizing improvements, and sagacity in foreseeing high prices are qualities which give the capitalist [employer?] the power of raising his own profits almost indefinitely above the minimum."

who realize literally no profit at all, or sustain an actual loss, we should still have, in the grade of employers at present under consideration, a class whose profits might, for the purposes of the present discussion be taken as *nil*,—amounting, that is, to little, if anything, more than the same persons might hope to receive in the employ of others, and that, too, with much less of mental pressure and nervous wear and tear. Taking our stand on this line, we see the body of employers, viewed with respect to the remuneration received for the conduct of business, rising upwards by insensible gradations, but through long distances, until we come to those rarely gifted masters of industry who are capable of managing the largest enterprises with uniform success, and who seem to turn everything they touch into gold. Looking at the better employers of whatever grade,* whether the shrewd, strong, sensible, watchful men of business who achieve a decided success, or the sagacious, resolute, and daring spirits who are by all recognized as masters in their respective trades or vocations, or the men with a high genius for commercial combinations, with a great power over the minds and wills of others, and with an insight into the state of the market and the conditions of trade which approaches foresight, we note that they pay wages, as a rule, equal to those paid by those employers who realize no profits, or even sustain a loss; and that, indeed, if regularity of employment be taken, as it should be, into account, the employers of the former class pay really higher wages than the latter class.

* The French writers in economics have, with much insight and skill, characterized the successful employer of business. See the article "Entrepreneurs" in Sandelin's *Répertoire Général d'Économie Politique*, also the article "Entrepreneur d'Industrie" in Coquelin and Guillaumin's *Dictionnaire de l'Économie Politique*. M. Dunoyer, in his *Liberté du Travail*, has given a striking picture of the ideal employer. M. Joseph Garnier says, "L'entrepreneur est l'agent principal de la production; il y consacre son activité; il y sacrifie son repos; il y aventure son avoir ainsi que les capitaux d'autrui; il peut y compromettre sa réputation et son honneur." M. Courcelle-Seneuil, in his *Opérations de Banque*, has thus grouped the qualities of the successful captain of industry: "Du jugement, du bon sens, de la fermeté, de la décision, une appréciation froide et calme, une intelligence ouverte et vigilante, peu d'imagination, beaucoup de mémoire et d'application."

We note, further, that the successful men of business pay as high prices for materials and as high rates of interest for the use of capital, if the scale of their transactions and the greater security of payment be taken, as it should be, into account.

Whence, then, comes the surplus which is left in the hands of the higher grades of employers, after the payment of wages, the purchase of materials and supplies, the repair and renewal of machinery and plant? I answer, This surplus, in the case of any employer, represents that which he is able to produce over and above what an employer of the lowest industrial grade can produce with equal amounts of labor and capital. In other words, this surplus is of his own creation,* produced wholly by that business ability which raises him above and distinguishes him from, the employers of what may be called the no-profits class.

This excess of produce has not, speaking broadly, been generated by any greater strain upon the nervous or muscular power. Indeed, it may, as a rule, be confidently stated that, in works controlled by men who have a high power of administration and a marked degree of executive ability, where everything goes smoothly and swiftly forward to its end, where emergencies are long foreseen and unfavorable contingencies are carefully guarded against, where no steps have to be retraced, and where nothing ever comes out wrong end foremost, there is much less nervous and muscular wear and tear than in works under inferior management. The excess of produce which we are contemplating comes from directing force to its proper object by the simplest and shortest ways; from saving all unnecessary waste of materials and machinery; from boldly incurring the expense—the often large expense—of improved processes and appliances, while closely scrutinizing outgo and practising a thousand petty econo-

* "The earnings of management of a manufacturer represent the value of the addition which his work makes to the total produce of capital and industry."—*The Economics of Industry*, by Prof. Alfred and Mrs. Mary P. Marshall. If this remark is to be taken literally and strictly, I do not see why it does not express precisely the same view of the source of profits as is here sought to be set forth. In that case, I gladly yield all claim to priority in its statement.

mies in unessential matters; from meeting the demands of the market most aptly and instantly; and, lastly, from exercising a sound judgment as to the time of sale and the terms of payment. It is on account of the wide range among the employers of labor, in the matter of ability to meet these exacting conditions of business success, that we have the phenomonon, in every community and in every trade, in whatever state of the market, of some employers realizing no profits at all, while others are making fair profits; others, again, large profits; others, still, colossal profits. Side by side, in the same business, with equal command of capital, with equal opportunities, one man is gradually sinking a fortune, while another is doubling or trebling his accumulations.*

Assuming, for the present, the correctness of this view of the origin of profits, let us proceed to inquire how the employer's remuneration, thus determined, stands related, first, to the price of produce, and, secondly, to the wages of labor.

* Sandelin's *Répertoire* enumerates five chief means by which the employer may increase his profits, as follows:

"1. Á vendre ses produits à un prix supérieur à celui qu'ils coûtaient autrefois; s'il ne réussit pas sur son marché, il pourra peut-être réussir sur un autre, où les prix seront plus élevés.

"2. Á perfectionner ses travaux au point qu'en réduisant le nombre de ses ouvriers, les capitaux engagés, la consommation des matières premières, et celle des instruments et outils, il puisse continuer à produire toujours la même quantité.

"3. Á se procurer les matières premières à meilleur marché, ou à employer des matières d'un prix moins élevé.

"4. Á diminuer, s'il le peut, les salaries, le fermage, et l'intérêt des capitaux qu'il emploie.

"5. Á abréger le temps qui s'écoule entre les premières dépenses de l'entreprise, et l'époque de leur remboursement, en accélérant les travaux, parce qu'ainsi il peut faire des économies sur l'intérêt de capital circulant."

Of these means of increasing profits, the editor writes:

"Il est évident qu'aux moyens d'augmenter le profit des entrepreneurs, moyens que nous avons énumérés No. 1 et 4, est attaché un désavantage pour les acheteurs et les ouvriers; mais les autres moyens sont d'une utilité générale, et ce sont aussi les plus sûrs."

It may be added that, on the assumption of perfect competition, the *entrepreneur* would not be able to wrest any undue advantage from either the consumer or the workman by the means numbered 1 and 4.

Well-approved principles of political economy will not allow us to question that in this view profits do not enter at all into the price of produce. The normal price of any kind of goods is determined by the cost of that last considerable portion of the supply which is produced at the greatest disadvantage. Wheat is raised on some farms at a cost of two shillings a bushel; but this wheat is not, therefore, sold at two shillings, nor does it even tend to be sold at that price. If the demand for wheat is so great as to require a portion of the supply to be raised and brought to market from soils so poor or from regions so distant as to involve a cost of six shillings, all the wheat in the market will be sold at that price; and those who produce it at a relative advantage will derive a profit which, as in this case, issuing from land, we call rent.

Likewise the cost of maintaining the employers of the lowest industrial grade necessarily enters into the normal price of produce. But we have already noted that the remuneration, or means of subsistence, of this class of employers would, under full competition, not exceed the remuneration of the same persons if themselves employed by others; and profits not in excess of wages we have agreed to consider no profits at all. The cost of that portion of the necessary supply which is produced under the direction of employers of this class fixes the price of the whole supply; and those who produce at a relative advantage have left in their hands a surplus, after paying wages, interest, and rent, at rates equal, all things taken into account, to those which are paid by employers who realize no gain for themselves.

That profits are not obtained by deduction from wages is equally clear, when we consider that the most successful employers pay as high wages as the employers who realize no profit. Indeed, as we saw, a preference, not always a slight preference, exists on the side of the more successful men of business, since the greater continuity of employment and the greater security of payment constitute a virtual addition to wages.

It will be seen that, in the view here presented of the origin and the measure of profits, this form of industrial remuneration is closely assimilated to rent.* This I believe to be the true explanation of business profits. Under free and full competition, the successful employers of labor would earn a remuneration which would be exactly measured, in the case of each man, by the amount of wealth which he could produce, with a given application of labor and capital, over and above what would be produced by employers of the lowest industrial, or no-profits, grade, making use of the same amounts of labor and capital, just as rent measures the surplus of the produce of the better lands over and above what would be produced by the same application of labor and capital to the least productive lands which contribute to the supply of the market—lands which themselves bear no rent.

If the view here presented be a correct one, it will appear that it is for the interest of the community, particularly of the wages class, that the conduct of industrial enterprises should be restricted to men of distinct, decided business ability. As, in rent, any lowering of the margin of cultivation, bringing into use lands of a smaller net productiveness, increases the cost of production of that last necessary portion of the supply which fixes the price of the whole crop, and does thereby enhance the proportion of the produce which goes to the land-holding class as rent, so, in profits, we see that to commit the conduct of business to an inferior order of men, having, so to speak, smaller net productiveness in the use of labor and capital, is to enhance the cost of that last necessary portion of the supply which determines the price of the whole stock, and is thus to increase the share of the product of industry going to the employers of higher grades, as profits.

If this be correct, we see how mistaken is that opinion too

* In an obscure note to one of the appendices to Archbishop Whately's treatise on Logic, I find the remark that the rent of land is only a species of an extensive genus, although, as he complains, the English economists have treated it as constituting a genus by itself, and have either omitted its cognate species or have included them with genera to which they do not properly belong. This remark contains the germ of the theory of profits which I have here advanced.

often entertained by the wages class, which regards the successful employers of labor—men who realize large fortunes in manufactures or trade—as having in some way injured or robbed them, while extending to the less successful or altogether unsuccessful employers of labor a considerable degree of sympathy. So far as such sympathy springs from a natural kindness of feeling and a disposition to take the part of the unfortunate, it is right and commendable. So far, however, as it is of an economic origin, growing out of the belief that the employers of the higher class have made their large profits at the expense of their laborers, it is both mistaken and mischievous. The men who do business at the cost of the working classes are the men who do business poorly; first, for the reason that we have stated,—namely, that it is the lowest grade of business ability that determines the price of the produce; and, secondly, because incompetence in the conduct of business enterprises has much to do with bringing about those shocks to credit, disturbances of production, and fluctuations of prices from which the community as a whole, but particularly the working classes, suffers so greatly. The first interest of the community is that business shall be well done,—done with energy, efficiency, and economy; done with prudence, judgment, and foresight. Anything which lowers the character of the business class in these respects works serious injury to all classes of producers, and especially to that class which is, in the nature of the case, under the greatest economic disadvantage at the start.*

Many things tend to allow incompetent persons to force themselves into the control of business, and to maintain themselves there at the expense of the general community. "Protection," in my opinion, does this. The practice of "truck," or the payment of wages in kind, unquestionably

* "C'est faute de bien se rendre compte de toutes ces circonstances et d'avoir une idée bien arrêtée sur les lois des variations des profits et des salaires, et sur l'importance et les droits réciproques du capital, du travail, et du talent dans la répartition que les classes ouvrières ont souvent été conduites à voir de mauvais œil le succès des entrepreneurs et à considérer les profits et les bénéfices comme acquis à leur dépens." —*Joseph Garnier.*

has this effect, enabling men who could never earn a legitimate profit to extort a fraudulent profit from their hands. Slavery, of course, allowed and encouraged incompetence, shiftlessness, and wastefulness in the conduct of business; and it was quite as much the character of the employing class, as the inferior quality of chattel labor, which brought about the wretched industrial results obtained under that system. Bad money is a fruitful cause of the downward extension of the employing class,* lowering the margin of production in this respect, thereby enhancing the cost of that last necessary portion of the supply which determines the price of the whole, and thus increasing, uselessly and to the loss of the community, the profits of the employing class. Another important class of causes which produce, in greater or less degree, the same mischievous result, relates to the collection of debts and the penalties for commercial delinquency or insolvency. Whether it be shilly-shally laws respecting bankruptcy, or bad judicial machinery for the determination and enforcement of commercial obligations, or a dishonest or maudlin public sentiment regarding the unfortunate debtor, the effect is the same. Men who for the general good should be relentlessly thrown out of the conduct of business, and remitted to subordinate positions in the industrial organization, are allowed to hang miserably on to their mistaken career. Finally, ignorance, inertness, and improvidence, on the part of the working classes, greatly increase the opportunities for incompetent men to crowd themselves into the control of labor and capital, and to conduct industrial enterprises at the cost of the general community.

Here, again, we see an occasion for labor to win a larger share of the produce without any injury to industry, and, indeed, directly through an improvement in the average quality of the industrial enterprises of the community. Here, again, we find an illustration of the principle that the economic condition of the laboring class is very largely put into their

* "Between 1860 and 1870, the number of persons engaged in trade and transportation in the United States had increased by 44 per cent, while the population had increased but about 22 per cent."—Walker, *Some Results of the Census of 1870.*

own hands, to deal with as they shall please, or rather as they shall will to do.

Such, in rude outline, is my view of business profits. We have here a theoretical determination and delimitation of the remuneration of the employing class, which is perfectly self-consistent and rational, and which, if approved by economic opinion as properly and fully accounting for the industrial facts with reference to which our hypothesis was constructed, gives us all that was lacking towards the theoretical determination of wages.

First. Rent is to be deducted from the produce of industry, its amount to be determined by the Ricardian formula, with more or less of remission, in fact, from landlord to tenant, under the influence of custom or kindly feeling, as these causes may be found to operate.

Secondly. Interest is to be deducted as the remuneration for the use of capital, its amount being determined by the relation of supply and demand, but always tending, through the operation of a natural law on which all economists, from Adam Smith down, have delighted to dwell, towards a minimum,—the minimum, in the case of interest, being that rate which will induce the possessors of wealth to refrain from consuming it for the immediate gratification of their tastes and appetites, and to save and store it up to the extent of making good the waste and wear of the existing stock of capital and of answering the demands for the enlargement of that stock to meet new occasions for productive expenditure. This condition may imply, in one state of society, an interest rate of eight per cent; in another, of five; in another, of three. But, whenever the rate is eight per cent, it continually tends to become five; and, whenever it is five, it continually tends to become three, inasmuch as the occasions for an increased expenditure of wealth for productive uses are certain to be soon transcended, at any given rate of interest, by the rapid accumulations of capital, which go forward by geometrical progression.

Thirdly. There is to be deducted profits, the remuneration of the employing class, determined, as we have seen, by principles closely analogous to those which determine rent. In this view, profits constitute no part of the price of goods, and are obtained through no deduction from the wages of labor. On the contrary, they are the creation of those who receive them, each employer's profits representing that which he has produced over and above what the employers of the lowest industrial grade have been able to produce with equal amounts of labor and capital.

After these three successive deductions, there remains wages. This is the residual share of the product of industry,—residual in this sense, that it is enhanced by every cause which increases the product of industry without giving to any one of the other three parties to production a claim to an increased remuneration, under the operation of the principles already stated; residual in the sense that, even if any one or all of the other parties to production become so engaged in any given increase of the product as to become entitled to an enhanced share in its distribution, their shares still remain subject to determination by positive reasons, while wages receive the benefit of all that is left over after the other claimants are satisfied.

Now, granting the correctness of the analysis here offered, it is demonstrable that the product of industry may be increased without enhancing the share of all or of any of the other parties to distribution; and, even when the other shares are enhanced, it is possible, and even probable, that, on the assumption of perfect competition, the increase of product resulting from the introduction of any new force into industry will be greater than the sum of the increments by which rent, interest, and profits shall have been enhanced. If this be so, then the wages class receives a benefit from any increase of the product of industry corresponding to that derived by the residuary legatee whenever the total value of the estate concerned is ascertained to have been, or by some unanticipated cause becomes, larger than was in contemplation of the testator when the amounts of several specific bequests were determined upon.

Thus, to take the simplest possible case, let us say that the line *ax*

```
            b      c      d
a———————————|——————|——————|————————————————x---------y
```

represents the amount of the production of a given community. Of this total, *ax*, let *ab* represent the share going to the land-holding class as rent; *bc*, the remuneration of the capitalist class, under the name of interest; *dx*, the portion of the produce paid in wages; and, by consequence, *cd*, the part retained by the employing class as profits. Let it now be supposed that an instantaneous improvement takes place in the industrial quality of the laboring class, by which they become so much more careful and painstaking, more adroit and alert, more observant and dexterous, as to effect a saving in the materials used in each and every stage of production, with a resulting increase of 10 per cent in the finished product over what had been accomplished by more wasteful, clumsy, heedless operatives. This assumption is certainly not an unreasonable one, as regards the extent of the possible saving to be effected through even a slight improvement in the industrial quality of a laboring population. The total product will then be represented by the line *ay*.

Our question is, To whom will go that portion of the produce which is represented by the dotted line *xy*, under the normal operation of economic forces?

I answer, If our analysis of the source of business profits is correct, this will go to the laboring class in enhanced wages.

Let us see. To whom else should it go? To the landlord class, in higher rents? No, clearly not, since the materials employed in production have not been increased, but the gain to production results from a better economy of materials, in kind and amount as before. Hence, no greater demand is made upon the productiveness of the soil; hence, cultivation is not driven down to inferior soils; hence, rents cannot be enhanced, rent representing only and always the excess of produce on the better soils above that of the soils of the lowest net productiveness under cultivation. The line *ab*, therefore, remains unchanged.

Shall the line *bc* show any change? Shall all or any part of the gain, *xy*, go to the capitalist class as interest? Again, no. An improvement in the industrial quality of the laboring class does not necessarily increase the amount of tools and supplies required in production. On the contrary, neat, intelligent, careful workmen require even fewer tools than ignorant, slovenly, heedless workmen, to perform the same kind and amount of work, since in the case of the former there will be a smaller proportion at any time broken or dulled, or from any cause awaiting repair. Since, then, there is no greater demand for capital in the case supposed, there can be no increase in the rate or amount of interest; and the line *bc* will therefore not be lengthened.

Will the whole or any part of *xy* go to the employing class, as increased profits? If we have correctly discovered the source of business profits, this will not be the case. An improvement in the industrial quality of a given body of workmen would not necessarily require any increase in the number of employers; hence, would not, could not, enhance the aggregate amount of profits. On the contrary, an improvement in the industrial quality of the laboring class would tend, and would tend strongly, to raise the standard of business ability in the employing class; to drive out the more incompetent, thereby raising the lower limit of production in this respect, and thereby reducing the aggregate amount realized as profits.

We see, therefore, that the line *cd* will not be increased, in the case supposed; and, as we have proved the same respecting *ab* and *bc*, successively, the whole of *xy* must go to lengthen the line *dx*, representing the amount previously received by the laboring class as wages.

We have thus far, for convenience of reasoning and simplicity of illustration, assumed that the economic effects of the improvement in the industrial quality of the body of laborers in view are confined to an increase in the amount of the finished product through a diminution in that element of waste which enters into all production of wealth. The same argument would hold good of an improvement in the industrial quality of the laboring population, which should result in the production of goods of equal bulk and weight, but of a greater value through a higher quality, a more perfect finish, a nicer adaptation to the wants of the community.

Not only is such an increase in the value of the product, which does not increase the amount of materials taken from the soil, and hence has no tendency to enhance rents, possible, but instances of this character are, more than any other, representative of the modes of production in communities of a rapidly advancing civilization.* In all such cases, the increase of value due to the improvement in the industrial quality of the laboring classes would, under the principles laid down in this paper, go, entire, to the laborers themselves, granted only perfect competition.

But such an improvement in industrial quality would probably be followed, sooner or later, by an actual increase in the amount of material employed. In this case, what would be the distribution of the produce ? The increase would no longer go entire to reinforce wages. A larger amount of materials being used, a greater demand would be made thereby upon the productive powers of the soil ; the lower limit of cultivation would be pushed downwards, a longer or a shorter distance, to supply the increased demand ; and

* "Here is a pound of raw cotton, the production of which makes a certain demand, or drain, upon the land. To that cotton may be applied the labor of one operative for half an hour, worth, say, five cents. Successive demands for the production of wealth may lead to the application of, first, a full hour's labor, then of two hours', then of three, four, or five ; finer and finer fabrics being successively produced, until, at last, the pound of cotton has been wrought into the most exquisite articles. . . . Here is the rude furniture of a laborer's cottage, worth, perhaps, $30. The same amount of wood may be made into furniture worth $200 for the home of the clerk, or into furniture worth $2000 for the home of the banker. The steel that would be needed to make a cheap scythe, worth eighty cents, may be rendered into watch-springs or surgical and philosophical apparatus worth $100 or $200. . . . A gentleman of means goes to Delmonico's and pays $2, $3, or $5 for a dinner, which makes no heavier drain upon the productive essences of the soil than a dinner of corned beef and cabbage for which the laborer pays twenty-five cents. . . . Our gentleman, before dining, had perhaps been measured for a pair of boots for which he was to pay $12 or $15, yet containing no more leather and so making no more draught upon the productive essences of the soil, in the way of nourishing the animal from which the leather was cut, than the laborer's $3 pair of 'stogies' ; he had also ordered a suit of clothes for $60 or $75 at his tailor's, no thicker, no warmer, containing no more fibre, than the laborer's $15 tweeds."—Walker, *Land and its Rent*, pp. 170–3.

rent would be enhanced, as in all prosperous and progressive countries it certainly tends to be. But can any one believe * that all the increase in the total product would go to increase rent, or even that rent would be increased more than in the proportion of the increase in the total product? If not, then, the portions reserved as interest and profits, remaining unchanged, the share of the laboring class must be increased.

But suppose, again, that the improvement in the industrial quality of the laboring class is carried to such a degree as to qualify them to use a higher order of tools, more complicated, more delicate, and hence more expensive, than before. Here we should have an increased demand for capital; and, by consequence, supply remaining for the time the same, interest would be increased. But can any one believe that the capitalist class would receive all, or even for any long period the greater part, or, in permanency, even any considerable part, of the resulting gain to production? On the contrary, it seems to me too clear to require formal argument, that the main advantage of such an improvement in the industrial quality of the laboring class will be at once appropriated by

* I ask, Can any one believe this? Mr. Henry George has certainly shown the marvellous capacity, or the capacity for the marvellous, needed for such a belief. His fundamental economic proposition is that "the ultimate effect of labor-saving machinery or improvements is to increase rent without increasing wages or interest." In opposition to this, I have, I think, abundantly shown in my treatise, *Land and its Rent:*

"1. That an increase of production *may* enhance the demand for labor equally with the demand for land;

"2. That, in fact, in those forms of production which especially characterize modern society, the rate of enhancement of the demand for labor tends to far exceed the rate of enhancement of the demand for land;

"3. That an increased demand for the production of wealth may, and in a vast body of instances, does, enhance the demand for labor without enhancing the demand for land in any the slightest degree, the whole effort being expended in the elaboration of the same amount of material;

"4. That, instead of all improvements and inventions increasing the demand for land, as Mr. George declares, some very extensive classes of improvements and inventions [notably, all those which relate to the arts of agriculture and transportation] actually operate powerfully, directly, and exclusively in reducing the demand for land."—p. 174.

that class, in higher wages; and that, in the course of time, the whole of that advantage must be so appropriated, the rate of interest tending, as we know, strongly and swiftly to decline.

In the foregoing illustration, we see the importance of the economic attitude which, if our analysis has been correctly made, the laboring class occupy, as the residual claimants upon the product of industry. It is not for a moment to be supposed that the theory of business profits here presented accounts for all the facts of the case; that the principles adduced govern the remuneration of the employing class without extensive qualification. I only present this as affording a theoretical determination of this share of the product of industry, upon the assumption of perfect industrial competition. I have mentioned some of the causes which prevent profits from being kept down to the limits within which such competition would hold them. The discussion of these and other causes, operating to the same end, might profitably be extended.

I believe that the theory here offered accounts for the actual facts of business profits about as nearly as the Ricardian doctrine accounts for the actual facts of rent. This is all that is claimed for it. If so much be conceded, it must, I think, be seen that we have, for the first time since the wage-fund theory was exploded, a complete and consistent theoretical determination of the several principal shares into which the product of industry is divided.

The bearing of this view of the source of business profits upon the socialist assumption, that profits are but unpaid wages, is too manifest to require exposition. That this view of business profits, if fully understood and accepted by the wages class, would have a truly reconciling influence upon the always strained and often hostile relations between employer and employed, cannot be doubted. This paper is submitted to the economists of the United States, in the hope that it will elicit criticism,—the more active and earnest, the better. If profits are not derived as herein stated, will not some one undertake to show whence they do come, and by what forces they are determined and limited as to amount?

A REPLY TO MR. MACVANE: ON THE SOURCE OF BUSINESS PROFITS

Quarterly Journal of Economics. VOL. 2 (1888), PP. 263-96

A REPLY TO MR. MACVANE: ON THE SOURCE OF BUSINESS PROFITS.

When the article "On the Source of Business Profits," in the *Quarterly Journal of Economics* for April, 1887, was preparing, the author believed that any one who might undertake to refute the views therein presented must join issue on one or two points only. It seemed to him that the question raised, as to the constituents of the employing class and the source of their profits, was a simple one, and that the discussion of the theory he proposed would necessarily be confined within a narrow range. In this opinion, it appears, he was mistaken; for Mr. Macvane has, in his article in the October number of this journal, arrayed against that theory a host of objections, all of which could not be replied to within any limits that could reasonably be allotted for that purpose, while to answer only those on which Mr. Macvane has placed most stress will necessarily require a heavy tax on the reader's patience.

If those objections can be arranged on any system whatever, they may perhaps be grouped under two general heads: first, objections to my theory derived from that view of the source of wages which is known as the doctrine of the wages fund; second, objections which Mr. Macvane brings directly against the views presented, in the April number, concerning the constitution of the employing class and the economic reasons for the very wide range existing among the members of that class as to the gains by them severally realized.

I. (*a*) Perhaps the most grievous thing to me, personally, is the imputation of having grossly misrepresented the wage-fund doctrine.* That charge has been made before; but it

* "I must say that, for my own part, I have never understood the wages-fund theory to assert or to imply any such absurdities. How

has never been supported, so far as I am aware, by a single citation from the writings of any advocate of that doctrine, showing that he held it in any other sense, nor has the complaint been made by one of the persons supposed to be aggrieved. On the other hand, in my article in the *North American Review* for January, 1875, in which the natural and literary history of that doctrine was discussed at length, the statements of a half score of its leading advocates were given in their own words. Moreover, of the only two of these writers by me known to be then surviving, one, Professor Perry, of Williams College, frankly stated, in the preface to the next edition of his *Political Economy,* that his views on the subject had been changed by the arguments I had presented ; the other, Professor Fawcett, failed, through all our oral or written communication down to the time of his death, ever to express the slightest sense of injustice done him. It is possible that, in charging misrepresentation of the wage-fund doctrine, Mr. Macvane has in view the statements of that doctrine made after it had been attacked by Longe, Thornton, and others, between 1866 and 1876 ; but I must decline to accept these patched and revamped statements as giving any true expression of the wage-fund doctrine, as it should be known in economic controversy and economic history. For more than forty years that doctrine held complete sway over English political economy. It was stated and restated, with the utmost precision and with entire unanimity, by the economists of that generation, and the wage fund was freely referred to, in discussion, as an ultimate fact. It is this doctrine, so stated,*

anybody could have so read and interpreted any standard account of the circumstances determining the magnitude of the wages fund, and the rate of wages resulting from it, is to me incomprehensible."—Mr. Macvane, *Quarterly Journal of Economics*, October, 1887, p. 24.

"Of course, no sane person would deny—I think no sane person ever has denied—that there is a relation between the rate of wages and the productiveness of labor."—*Id.*, p. 16.

* "There is supposed to be, at any given instant, a sum of wealth, which is *unconditionally* devoted to the payment of wages of labor. This sum is not regarded as unalterable, for it is augmented by saving, and increases with the progress of wealth ; but it is reasoned upon as,

that is properly referred to as the wage-fund doctrine; and those of us who have attacked it, or who may now, since its general abandonment, have occasion to refer to it historically, are not bound to qualify our expressions by any reference to statements made of it, after it had been challenged and criticised, by writers who sought to recast it, surrendering, because they must, almost the entire ground to its assailants, and, as Professor Marshall has said in the first number of this journal for the current year, depriving it of all significance and all consequence.

(*b*) In attempting to rehabilitate the wage fund, Mr. Macvane finds it essential to destroy the theory, which during the last ten and twenty years has obtained a constantly increasing acceptance, that wages are, in a philosophical sense, paid out of the product of industry. At times, he writes as if he understood the advocates of this view to hold that wages are actually so paid, the laborers awaiting the harvesting of the crops or the marketing of the goods, in order to receive the remuneration of their exertions. While he admits that, in some instances, this is the case, he thinks that the proportion of such instances is small.† Now, so far as the theory he combats is concerned, it does not matter whether the proportion of such instances be larger or smaller. So far as the theory he advocates is concerned, however, any proportion

at any given moment, a predetermined amount. *More than that amount it is assumed that the wages receiving class cannot possibly divide among them; that amount, and no less, they cannot but obtain. So that, the sum to be divided being fixed, the wages of each depend solely on the divisor, the number of participants.*"—John Stuart Mill, *Fortnightly Review*, 1869.

Mr. Macvane declares (page 23–4) that no economist ever taught the doctrine that, "if the laborer does not seek his interest, his interest will seek him and will find him." Is not this instinctly asserted in Mr. Mill's statement above,—"that amount, and no less, they cannot but obtain"?

† "On the whole, I cannot help feeling that Mr. Walker takes a very imperfect view of the extent to which current wages at any moment are the product of previous labor."—*Mr. Macvane*, p. 31. "Wages are, with slight exceptions, paid before production is completed."—*Id.*, p. 21. "Civilized labor does not yield immediately a product good for human use."—*Id.*, p. 27.

whatever of such instances is absolutely fatal,* since it is of the essence of the wage-fund doctrine that wages are paid always and wholly out of capital, the saved and accumulated results of precedent industry.

But, in fact, is the proportion of such instances as small as Mr. Macvane seeks to show? Let us take a few classes of cases. The railroads of the United States receive annually two hundred and ten millions of dollars for transporting passengers. These receipts come in day by day, yet the railroad company habitually pays its employés at the close of the week or at the close of the month. Here we have a very large class of services where the employer receives the price of his product before he pays for the labor concerned in its production. The railroads of the United States also receive anually for freights five hundred and fifty millions. The greater portion of this amount is collected before the train hands, the track hands, and the station hands have received the remuneration for their share of the service. In a still higher degree is it true that express companies receive the price of their service prior to the payment of their employés. The United States government, again, collects its postal revenues day by day, yet postpones the payment of its clerks and carriers to the end of the month. To descend to the other end of the scale of dignity, hotel keepers and, in a less degree, boarding-house keepers, collect their bills before they pay their cooks, chambermaids, and scullions. Nearly all the receipts of theatre, opera, and concert companies are obtained day by day, although their staffs and troupes are borne on monthly or weekly pay-rolls.

It is not necessary longer to pursue this subject, since, as was said, it does not matter, so far as the theory of wages which Mr. Macvane combats is concerned, how large or how small is the proportion of instances in which the employer sells his goods or his services before paying for the labor engaged in their production.

(*c*) In regard to that part, let us say at once, by far the

* "La théorie exclusive du fonds des salaires ne pouvait tenir en présence de tels faits."—M. Levasseur, *Journal des Économistes*, January, 1888.

greater part, of the aggregate volume of wages, which is paid before the employer has housed his crops or marketed his goods, Mr. Macvane finds something absurd in the proposition that these wages are, indeed, advanced out of capital, but are, in economic theory, paid out of product:

"I have endeavored to get a clear idea of Mr. Walker's precise view on this point, but without entire success. At times, he seems to admit that wages are in the nature of an advance to the laborers; at times, he seems to throw a doubt on the reality of the advance. In one breath, he says, 'Wages are, to a very considerable degree in all communities, *advanced* out of capital, and this from the very necessity of the case'; in the next breath he tells us that 'wages are, in a philosophical view of the subject, paid out of the product of present industry.' He heads a chapter with the statement that 'The Wages of the Laborer are paid out of the Product of his Industry,' and yet, in the course of the chapter, states that, 'in those countries which have accumulated large stores of wealth, wages are in fact very generally, if not universally, advanced' to the laborers. While his statements are thus somewhat wavering, etc." (p. 30.)

From the above, a reader could but gather that the "wavering" statements of the work cited were due to inadvertent self-contradiction: whereas, the two statements, that wages may be and often are advanced out of capital, but are, in a philosophical view, paid out of product, are purposely made parts of the same sentence. It is not in two breaths, but in one, that these statements are uttered; and the two together constitute, as I esteem it, a perfectly self-consistent theory of the origin and measure of wages. Whether that theory is consistent with the facts of industrial society will be considered further on. Assuming, for the moment, that wages are, in the economic sense, paid out of product, what is there illogical or absurd in the statement that they are, nevertheless, often, and indeed generally, advanced out of capital? When Mr. Irving gives a series of theatrical entertainments, he doubtless pays, in advance,* out of the profits of previous pro-

* Of course, the employer or manager should have, and generally, though not always, does have, enough to *insure* the payment of the wages promised, against a possible falling off in the anticipated receipts. This has been abundantly covered in all my statements.

fessional service, a considerable proportion of the necessary expenses. Is there in this aught inconsistent with the statement that, from the manager's point of view, those expenses are chargeable to the entertainments themselves, and are, philosophically considered, paid out of the receipts? When a manufacturer undertakes the production of a body of goods, or a farmer the raising of a crop, a portion, larger or smaller, of the expenses, including the whole or a part, as the case may be, of the wages of the laborers employed, is paid out of previous accumulations. Is there anything in this inconsistent with the statement that, from the employer's point of view, those expenses are properly chargeable to the product, and are, in the economic sense, paid out of the proceeds?

(*d*) Coming now to the main question, What is the source, and wherein is found the limit, of wages possibly to be paid? Mr. Macvane strenuously asserts, according to the old wage-fund doctrine, that wages are paid out of capital; but he adduces no consideration which seems to me in the slightest degree to affect the validity of the argument by which the proposition that wages are, in a philosophical sense, paid out of the product, has been established to the general acceptance of living economists.

The difference is just this: the advocates of the wage-fund doctrine assert that the sufficient reason for the payment of wages is found in the existence of capital; and that it is the amount of that capital, thus pre-existing, which determines absolutely the amount of wages which can be and will be paid in any given situation. Those of us who oppose the wage-fund doctrine maintain that, while the pre-existence of capital is an important and, indeed, essential condition of production, the only sufficient reason for the employment of labor is found in the motives which lead to production; and that it is the anticipated value of the product, under the given efficiency of land, labor, and capital, in the situation existing, which determines the amount of wages which can be and will be paid. The advocate of the wage-fund doctrine holds that only one of the three factors of production, viz., capital, has to do with the problem of wages. We hold that all three factors enter into that problem. The wage-fund advocate virtually declares that the possessor of capital is under an economic necessity to employ labor. We hold that the mere fact that a man is the possessor of capital no more constitutes a reason why he should pay wages, than the fact that another man has legs and arms constitutes a reason why he should work when he can get no wages. We hold that those who own or control capital pay wages, not that they may disburse a fund of which they are in possession, but that they may purchase labor; that they purchase labor, not that they may keep the laborers employed, but that they may produce wealth by means of that labor; that, therefore, it is the expectation of the product, and not the possession of capital, which constitutes the motive for the payment of wages; and that it is the anticipated value of that product, and not the amount of capital they have at command, which determines the amount they can afford to pay in wages, in addition to necessary payments on account of interest and rent.

(*e*) But, aside from the direct argument in favor of his proposition that wages are paid out of and limited by capital, Mr. Macvane thinks he finds an insuperable objection to the view that wages are, economically speaking, paid out of the product, in what he regards as the financial impossibility of anticipating, for such a purpose, the avails of production. How, he asks, can wages be paid out of the product when the product is not in existence, at least in marketable shape, when the wages are actually paid ? Even on the assumption that the efficiency of labor were at once increased to an extent which would, economically, justify an addition of 15 per cent to their wages, he declares that increased wages could not possibly be paid, because the commodities necessary for paying the increase would not yet have been produced. (p. 27.) He declares that such an anticipation of the avails of production would be "a miracle." (p. 26.) "The wages of the present," he says, "must still depend on the present resources for paying wages." (pp. 17, 18.) In the very spirit of the old wage-fund doctrine, he declares that an increase of production resulting from an enhanced efficiency of labor must, of necessity,* first go, entire, as extra profits to the employer or as extra interest to the capitalist; and that it is only as these may afterwards decide to employ their greater wealth in the purchase of more labor, that wages can be enhanced.

Now, manifestly, this objection does not lie at all against an increase of wages due to an enhanced productiveness in those classes of cases where the employer realizes the avails of the service before he is expected to pay the wages of his own employés. But, really, does this objection apply to any class of cases? I think I have shown in *The Wages Question*, both by reason and by abundant instances, that it does not. The fact is, Mr. Macvane's whole reasoning on this subject unconsciously embodies an *équivoque*. It is true that, in a certain industrial and financial situation, the body of employers might not be able to pay—that is, to pay down—more than a certain amount in wages. But it does not follow that they might not engage to pay more, possibly much more, in wages, if their expectations of the product should be such as to justify increased expenditure on this account. Now, it is precisely in that way that we perform Mr. Macvane's "miracle." Introduce the element of credit between the employer and the laborer, and, presto, change! that which was declared to be physically impossible becomes an accomplished fact. The miracle is wrought. The employer *engages to pay* such wages as the anticipated value of the product will justify. He *pays down* as much as his means will allow or as the necessities of the laborers require.† He

* "These influences can act on wages only by first acting on savings." (p. 17.) "The increase of product goes, in the first instance, by the very nature of the case, to swell the revenues of those who employ laborers." (p. 25.)

† "There is nothing in the need the laborer has of provisional maintenance which defeats his claim to a payment, over and above the mere cost of subsistence, out of the product when completed. It may be that poor Piers must depend daily, pending harvest, upon the Squire for bread, out of the crop of the last year; but that constitutes no reason why Piers should not receive some sheaves, at harvest, as his own."—F. A. Walker, "The Wage-Fund Theory," *North American Review*, January, 1875.

pays the balance of wages out of the harvested crop or marketed goods.

The arrangement which has been described is that upon which the payment of wages largely rests in all communities of comparatively limited capital. Perhaps I may be permitted to quote somewhat at length from my work, *The Wages Question*, upon this point:

"In new countries, by which we mean those to which men have gone with the industrial ideas and ambitions of older communities, but with an amount of capital which, from the necessity of the case, is more or less inadequate to the undertakings for which their skill and labor qualify them, the wages of labor are paid only partially out of capital. The history of our own country so amply illustrates this statement that we need not go elsewhere for examples. From the first settlement of the colonies down to the discovery of gold in California, laborers, whether in agriculture or in manufactures, were, as a rule, hired by the year, and paid at the end of the year. Bare subsistence might be furnished by the employer meanwhile, small amounts of money might be advanced 'for accommodation,' the laborer's tax bill or doctor's bill might be settled by the employer; but these payments were not to such an extent (except in the case of protracted sickness or sudden misfortune) but that the employer was always in debt to his laborer.

"I have before me a considerable collection of accounts taken from the books of farmers in different sections as late as 1851. These show the hands charged with advances of the most miscellaneous character. . . . In general, the amount of such advances does not exceed one third, and it rarely reaches one half of the stipulated wages of the year. It is idle to speak of wages thus paid as coming out of capital. At the time these contracts were made, the wealth which was to pay these wages was not in existence. It came into existence only as the result of those contracts and the rendering of those services.

"Not less distinctly did this system of paying wages prevail in the department of manufacturing industry during the same period. Extensive inquiries have satisfied me that manufacturers in New England did not generally leave off paying their workmen by the year until after 1854 or 1855. . . . Such an arrangement was the very condition alone on which the industry could be prosecuted, on which alone employment could be given. Capital was scarce, because the country was comparatively new; and, if wages had been measured by capital, wages must have been low. But at the same time production was large, because natural agents were copious and efficient, and labor was intelligent and skilful; and as it is production, not capital, which affords the measure of wages, wages were high; but the workman had to wait for them till the crop was harvested or the goods sold. And this they gladly did, and never for an instant suspected that they were being paid out of capital; indeed, they knew better, for they had seen growing under their hands that in which they were finally paid. . .

"But whether wages are advanced out of capital in whole, or in part, or not at all, it still remains true that it is the product to which the employer looks to ascertain the amount which he can afford to pay. *When* the employer shall pay is a financial question; what he shall pay is the true industrial question with which we have to do in treating wages. This is determined by the efficiency of labor under the conditions existing at the time and place." (pp. 135–137.)

II. (*f*) The objections which Mr. Macvane brings directly against my theory of the Source of Business Profits are not easily classified, and I see very little preference for one order of dealing with them as compared with any other. Perhaps the objection which it may be well to dispose of first is that which Mr. Macvane educes from the practical inconvenience to political economists which would be attendant on the acceptance of a second descending scale of productiveness. Mr. Macvane says :

"We should have, according to this new doctrine, two descending scales of productiveness, one due to differences in the natural agents, the other due to the varying capacity of employers. Both of these (the foot of the scale in each case) are supposed to be operative in determining the price. The cost of production of that part of the supply which is produced at the greatest disadvantage settles the price of the whole. But what part, on this theory, is produced at the greatest disadvantage? Unless, by happy chance, the lower end of the one scale coincides with the lower end of the other, unless the least efficient employers have the least productive lands, we lose our regulator of price and our base for reckoning rent. If the least efficient employers should happen to have farms and mines somewhat above the poorest, the consequences would be extremely awkward. The poverty of the poorest lands might be counterbalanced, to an indefinite extent, by the superior business capacity of those tilling them; and the inferior business capacity of the least capable farmers would be offset by the natural advantages of their land. If each of these is to operate in fixing the price, how are they to combine their effects? The produce that comes under the influence of the one escapes the effects of the other. Where shall we look, on this theory, for 'that portion of the supply which is produced under the greatest disadvantage'?" (pp. 4, 5.)

Now, this practical objection actually exists; and, if the convenience of political economists, merely, had been consulted in the formation of the soil and the constitution of human society, one descending scale of productiveness, only, would have been allowed. Indeed, we may further say, if the convenience of political economists alone had been consulted, mankind would have been created strictly according to the pattern of that economic man whose actions the writers of the Ricardian school delight to describe; and all those annoying "sympathies, apathies, and antipathies," which perplex the student of wealth, would have been entirely eliminated from society.

The question, however, is not whether the existence of "two descending scales of productiveness" suits the convenience of economic reasoning, but rather whether two such scales, in fact, coexist; and Mr. Macvane's highly humorous description of the embarrassments of political economists on this account cannot be taken as constituting even a *prima facie* objection to the theory of business profits which he combats, unless he is able to adduce at least one department of human activity within which two (or more) descending scales do not coexist. I have been able to think of none. If we speak of war, we have good generals with good armies and good generals with bad armies, bad generals with good armies (sometimes, by the accidents of succession) and bad generals with bad armies. Moreover, some of the good armies and some of the bad armies may have good weapons, and some of the good armies and some of the bad armies may have bad weapons. Of course, this makes it terribly confusing to the military critic, who naturally wishes that all generals had been good (or bad), that all armies had been good (or bad), and that all weapons had been good (or bad), in order that his "science" might be as simple as possible and susceptible of purely mathematical treatment throughout. But the convenience of military critics has been as little consulted as that of economists in the constitution of the world; and those who will write of war are therefore sometimes obliged to weigh a good army under a bad commander, but with good weapons, against a bad army under a good commander, but with bad weapons,—and so on through all the permutations of which the given elements are susceptible.

If we speak of sport, we find fishermen, who may themselves be good, indifferent, or bad, using fishing-rods and lines and hooks and flies which may be either good, indifferent, or bad; and the writer on angling may be confronted with the delicate problem whether an indifferent fisherman with good tackle will catch more trout in a day than a good fisherman with indifferent tackle. When we add that the streams on which a number of fishermen are engaged may, in turn, be either good, indifferent, or bad, the problem, it will be seen, becomes one of great difficulty. It would be easy to show that the same complexity exists in industry, which has been shown to exist in war and in sport. But it is, probably, not necessary to pursue the matter further, until Mr. Macvane has cited one instance, among all the forms of human activity, where two, or more, "descending scales of productiveness" do not coexist.

(*g*) As to the special case of the cultivation of the soil, which Mr. Macvane brings forward,* as showing the abso-

* "In discussing the law of rent in his general treatise, he [Mr. Walker] dwells only on differences of soil and situation, as causing one farmer to have larger returns than another. Incidentally, indeed, in connection with another subject, he makes a remark, which if taken literally, can only mean that, in his theory, all farmers are to be regarded as of the same grade of ability, and all of the 'no profits' class! Comparing the special gains of the successful business man with the rent of land, he says: 'just as the cultivator of soils of the better class has a surplus left in his hands after paying wages for labor and interest for capital employed, which surplus, called rent, goes to the owner of the soil' If it is assumed that the whole surplus above wages paid for labor and interest for capital goes to the landlord, of course that would obviate the difficulties I have mentioned: all farmers are then of the 'no-

lutely destructive effects upon systematic political economy which would be produced by the recognition of two descending scales of productiveness, I think there will be no difficulty in showing the entire compatibility of my theory of the Source of Business Profits with the accepted economic doctrine of rent. That this point was not dwelt upon in the April article, as Mr. Macvane complains, was due to the fact that I was there, primarily, writing on profits, and not on rent; and gave my readers credit for the intelligence required to qualify, for themselves, the familiar statement of the law of rent, to correspond to any deviation from the assumption which underlies that law. What is that assumption? Why, that the several tracts of land taken for the purposes of the discussion are treated with "equal applications of labor and capital." This assumption is expressed in all statements of the Ricardian doctrine of rent, usually in the very words given above. Now, the phrase, "equal applications of labor and capital," fairly implies both that the amounts of labor and capital applied to the several tracts shall be equal, and that these amounts shall be equally well applied,—applied, *i.e.*, with the same intelligence, energy, economy, and skill in each and every case.

Since, however, Mr. Macvane expresses a desire to have it formally shown how the accepted theory of rent can be made to work in conjunction with the newly offered theory of profits, the following illustration may be given: Let it be supposed that all the land cultivated for the supply of a certain market is divided into three tracts, which would, under the application of equal amounts of labor and capital, all well, and equally well, administered, yield, severally, sixty, forty, and twenty bushels of Indian corn. According to the Ricardian formula, the rent of the best land will then be forty bushels; the rent of the second grade will be twenty bushels; the third tract will bring no rent, the crop simply repaying the cost of cultivation. Now, let it be further supposed that, instead of equal intelligence, energy, economy, and skill directing the application of labor and capital to the

profits' grade. But, if that be assumed, what shall we say of the assumption?" (pp. 5, 6.)

land in this community, the cultivators of each grade of soil are themselves of three different grades of efficiency, those of the lowest grade not being capable of deriving from the soil, through the application of the given amounts of labor and capital, so much by two bushels as do the producers of the highest grade, while the cultivators of the intermediate grade fall short of the best result by one bushel. It is clear that there would then be required a readjustment of the scale of rents, according to the new elements introduced into the problem. The actual produce of the three grades of soil would be, under the hands of the three grades of cultivators, as follows :

	First-grade Cultivation.	Second-grade Cultivation.	Third-grade Cultivation.
First-grade soils	60	59	58
Second-grade soils..........	40	39	38
Third-grade soils...........	20	19	18

What, then, has been the effect of the introduction of cultivators of lower industrial grades, in the case just now given? It has been practically equivalent to lowering the limit of cultivation to lands producing, under the given application of labor and capital, no longer twenty, but only eighteen, bushels per acre, with all which such a lowering of the limit of cultivation implies.

(*h*) The point which we have now reached is that which, perhaps, is most convenient for dealing with the argument that the occupation of the soil or the control of the agencies of transportation, trade, and manufacture by incompetent employers is powerless to enhance the price of products or to diminish the remuneration of labor.

"Why not also caution the community against allowing the poorer grades of land to be cultivated? There would seem, on his [Mr. Walker's] theory, to be as good reason for the caution in the one case as in the other. If the least competent employers regulate prices, then prices would be made higher and not lower by driving them out of business, just as the price of food would be made higher and not lower by punishing men for cultivating poor grades of land. Mr. Walker is thoroughly aware that it is not open to anybody to force up the price of food and the rent of land by needlessly bringing into cultivation land poorer than any hitherto in use. Why should he argue as if the corresponding feat were possible, when incompetent employers 'force themselves into the control of business and maintain themselves there at the expense of the community'?" (pp. 7, 8.)

It is true that, if, in the community taken above for the foregoing illustration (*g*), one incompetent cultivator, or twenty or a hundred, were to move out upon land producing, with the given application of labor and capital, only ten bushels to the acre, their doing so would have no effect upon the price of corn. They would simply starve themselves; and the price of corn would remain unchanged, because, as we assumed, the whole required supply of the community can be produced upon the sixty, the forty, and the twenty bushel tracts, taken together. But we saw above that, if incompetent cultivators come into possession of the better tracts, they do so to the injury, not of themselves only, but also of the community. What Mr. Macvane, in effect, says, is that the control, by incompetent persons, of productive machinery which is *not* required for the supply of the community can have no effect upon the price of produce. This is true enough, but has no relevancy to the question. What I referred to was the possession and control, by incompetent persons, of a portion of the productive machinery which *is* required for the supply of the community.

(*i*) But Mr. Macvane (page 6) brings still another objection to the view that the control of business by incompetent employers is at the cost of the community, and is, therefore, something to be deprecated. He admits, in the case of agriculture, that, "as poorer sources of supply have to be resorted to, in the industries subject to the law of diminishing returns, the value of the product rises." But, he argues, "this is because, and only because, other industries are free from the law of diminishing returns. If all industries were subject to that law, neither value nor price would be affected by it." Now, Mr. Macvane continues, "the differing efficiency of employers is a fact common to all industries, and, by Mr. Walker's own assumption, tapers off to the same precise vanishing-point of 'no profits' in all. How then, I ask, shall it affect the value or the price of any commodity? If the presence of the 'no-profits' employer tends to raise the value of any one product, it must have a precisely similar effect on the value of every other product." That is, since the range of efficiency in the employing class affects all industries, and presumably affects them all alike, it is as if it affected none. This cause can have no possible influence upon value.* Thus does Mr. Macvane dispose of the "no-profits" employer as the regulator of prices; and he adds, "Probably Mr. Walker would admit that his proposition as to the source of the earnings of successful business men must stand or fall with his theory as to the price-regulating function of the 'no-profits' business man." (p. 8.)

This is one of the stinging points which abound in the October article, and which produce the impression upon the mind of the casual reader that Mr. Macvane has exposed a grave blunder. The fact is, there is not the slightest validity in the objection. Mr. Macvane's argument is, to use an Hibernicism, built upon an hiatus. It is true that the prices of the products of all industries cannot (the volume of the currency remaining unaltered) rise simultaneously, *provided the same quantities are concerned.* With a diminution, however, in the amounts of the several commodities in the mar-

* As if to shut me off from the last possible avenue of escape, Mr. Macvane adds, "Neither can it affect prices (*i.e.*, the exchanging proportions of gold and other things), since in the production of gold the 'no-profits' employer is present, and must be as potent in affecting the value of the product as he is in every other case." (pp. 6, 7.) Mr. Macvane here falls into a familiar error, in the theory of money, by assuming that the present cost of production of gold necessarily governs the "exchanging proportions of gold and other things." It does not do this necessarily; it does not do this habitually; it seldom does this. It is fairly a question whether, in the history of the world, it has ever done this. For hundreds of years after the downfall of the Western Empire, gold and silver continued to purchase only a small fraction of the labor or commodities which would then have been required to produce gold or silver, in any considerable quantities. For generations after the discovery of the silver mines of Mexico and Peru, silver retained a purchasing power largely in excess of the cost at which silver was then being produced in vast amounts. It was many years after the simultaneous discovery of gold in California and Australia before gold fell to near its own cost of production.

ket, there is no reason why each commodity should not bear a higher price. On the contrary, prices must rise.

Now, the introduction of employers of less than full efficiency does, by the very statement of the case, diminish the amounts of the products resulting from the application of labor and capital.

(*j*) Still further pursuing his objection to my proposition, that the earnings of the successful men of business stand in a necessary relation to the cost of production of that portion of the required supply which is produced at the greatest disadvantage (embracing, in the latter conception, the effects of incompetent direction), Mr. Macvane, leaving the lower end of the scale of management and proceeding to the upper end of that scale, asserts, as something indisputably true, that, "if a good manager can create as much wealth as one hundred men when good managers are few, he can do the same when good managers are numerous." (p. 9.)

We have here another slip over the distinction between utilities and values. It is true that the energy, intelligence, economy, and skill of an able manufacturer would be not less efficient in creating *utilities*, were all other employers equally competent with himself; but what *values* should reside in those utilities would depend upon the supply. And, inasmuch as the supply could not fail to be increased by the more general introduction of energy, intelligence, economy, and skill into business, it would seem that the amount of wealth,—*i.e.*, values, not utilities—resulting from the efforts of the first-indicated employer would necessarily be reduced.

The objections with which we have thus far dealt may be considered rather as objections to the consideration of my theory of business profits than as objections to the theory itself. I regret that the extended space which has been necessarily occupied in replying to these criticisms, most of which should not have been made at all, has left little room for the discussion of those parts of Mr. Macvane's article which stand properly related to the theory in question.

(*k*) Referring to the hypothetical case with which the article in the April number opened, of a small and exclusive class of business managers, "each the precise economic equivalent of every other," Mr. Macvane (page 10) says that I have "no suggestion to offer as to the amount of their earnings apart from the needless and highly uneconomic assumption of a combination to 'fix a standard for their own remuneration.'" To this characterization it is enough to reply that no writer can make a full and conclusive exposition of the law of rent without stating the hypothetical case of a limited extent of lands, all of equal quality, under private ownership, and possibly subject to a combination to fix the price of the produce. Inasmuch as my argument closely assimilated profits to rent, the assumption referred to was neither needless nor uneconomic.

(*l*) Mr. Macvane declares (page 10) that my theory is, "in reality, not a theory of manager's earnings * at all, but a theory of the differences of managers' earnings." It is true that the theory in question treats of differences of profits. But it is also true that, by that theory, differences of profits make up the whole sum of profits; and, therefore, to treat of "differences of managers' earnings" is to treat of "manager's earnings" themselves, just as to explain differences of rents is to account for the whole of rent. By the theory in question, the earnings of managers of the lowest industrial grade, being not in excess of wages,—that is, not in excess of what the same persons might reasonably look to obtain, if employed by others,—are treated as not profits at all, being on the same scale (making allowance for friction on coming into or going out of business) and governed by the same law as wages. It is of course legitimate to take exception to the propriety of this definition; but, clearly, if we start with this definition, as was done in the April number, any theory which accounts for all the differences of managers' earnings, above this "no-profits" line, accounts for all the profits there are, and is therefore a full and proper theory of profits.

(*m*) Over and over again, in the course of his article, Mr. Macvane exhibits a misconception of the remark of Professor Marshall, quoted and adopted by myself, to the effect that a

*** Again, "Mr. Walker treats rather of differences of profits than of profits as such." (p. 9.)**

manager's earnings represent his own creation of wealth. That remark had reference, as was abundantly shown by the context, to the existing industrial situation, where employers of various industrial grades are engaged in production.* Yet Mr. Macvane insists upon holding Professor Marshall and myself responsible for the correctness of this statement in application to an unreal industrial situation, where all employers should be of the same industrial grade,—a situation with respect to which neither Professor Marshall nor myself would think of making such a statement.

(*n*) Taking up "the residue theory of wages" advanced in the April article, Mr. Macvane says: "When the whole work is done, it seems to me to be little more than a somewhat elaborate statement of the fact that what does not go to the other participants goes to the laborers. By simply transposing terms, the same method would yield an equally valid law of rent, or of interest, or of earnings of management." (p. 14.) These sentences repeat the objection which was uttered by others, in reviews and in private correspondence, when this theory of the source of business profits was brought out in my *Political Economy* in 1883. Why, these persons asked, is wages the residual share of the product, any more than rent, interest, or profits? If it be true that wages is what is left of the product after those three shares have been taken out, why is it not equally true that rent or interest or profits is what is left after deduction is made of the other three shares in each successive case? I confess the persistency with which this question is asked has been very discouraging; but let me try once more to show what is meant by the term "residual" in this connection.

What we are inquiring about is the distribution of the product of industry. Now, at any given time, the volume of articles, having utility to men and yet requiring the exertions and sacrifices of economic agents, is divided, speaking broadly, into four great shares,—interest, rent, wages, profits;

* "This surplus, in the case of any employer, represents that which he is able to produce *over and above what an employer of the lowest industrial grade can produce with equal amounts of labor and capital.*"—*Quarterly Journal of Economics*, April, 1887.

and a person contemplating the industrial situation, without going below the surface to find the forces which had determined the division of that product, might say of each share in turn that it equals the product minus the three other shares. But it is always possible that the volume of what we call wealth, produced annually or within a stated period, may be increased. Indeed, we have to contemplate the probability that (1) through the discovery of larger resources in nature, or (2) through the introduction of new arts,* or (3) through the industrial improvement of the laboring class, the volume of wealth will always be on the increase, though at varying rates. Now, whatever may have been said of the previous division of the product, it is clear that, equilibrium having been destroyed by change of conditions, the reapportionment of the product must be effected by *forces*, economic in their character. If, then, it can be shown that, in the distribution of the new product, three of the shares are naturally limited, so that not one of them need increase, or, under perfect competition, will increase merely because the product has increased, we are entitled to call the remaining share, which receives the whole gain, residual. It is still true that each claimant in turn will receive what the others do not; but this is only a shallow and unphilosophical way of regarding the matter. In the fact that one of the parties to distribution has the power to engross the entire increase is found a sufficient reason for distinguishing that share by some term which will express that peculiar virtue. Now, in the April article, it was, I think, abundantly shown that, in a great variety of cases, the product of industry might, through a great variety of causes, be largely increased, (1) without making any heavier draught upon the soil, and thus without enhancing rent; (2) without requiring the use of additional capital, and thus without enhancing interest; (3) without introducing a lower grade of employers, and thus without en-

* The following discussion assumes that these new arts are not protected by patents or other forms of monopoly. So far as monopoly enters, competition fails; and the increased value of the product will, in whole or in part, go to the inventor, so long as the patent continues in force.

hancing profits. What has been said about rent is fully borne out by the accepted economic doctrine. It was the object of the article in question to show that the same was equally true of profits. As to my treatment of the share of the product going to the capital as interest, Mr. Macvane makes a complaint, which will next be noticed.

(*o*) It is, he says, "no unfair criticism of Mr. Walker's theory at this point to say that it takes the rate of interest for granted." * (p. 13.) In one sense, this is hardly correct, since it was stated in the April article that the amount going to capital, as interest, is determined "by the relation of supply and demand,"—a formula which the economists of Mr. Macvane's school have deemed sufficient to account for anything and everything in the economic world. But it is true that no original determination of interest, as a share of the product, was attempted. The formula quoted was considered adequate for the purposes of that discussion. All that was there required—in the progress of the argument as to the residual character of wages—was to show that interest, as a share of the product of industry, is fixed and limited by a competent cause, and would, therefore, not be enhanced merely because of an increase of the product, an enlarged demand for capital not being, as we have seen, necessarily involved in such an increase.

Since, however, Mr. Macvane insists upon regarding the failure to discuss the question of interest as constituting an hiatus in my argument, I would say that the rate of interest is determined by the supply of, and the demand for, capital, taken in conjunction with the principle of final utility, as stated by Professor Jevons. When we speak of the demand for capital, we mean, broadly, the occasions for its productive uses,—not literally, since those occasions may be misconceived, and real opportunities for the profitable application of capital may exist without giving rise to an actual demand. But, broadly speaking, that demand is determined by those occasions. Now, while the rate † of interest is, say,

* In contradistinction, he says of the authors of the *Economics of Industry*, "*They* do not take the rate of interest for granted." (p. 19.)

† Mr. Sidney Webb, in his article on the "Rate of Interest and the

at 5 per cent, men will be borrowing at that rate who could better afford to pay 10 per cent than not to have the use of capital. There will be other men who could better afford to pay 9 per cent, or 8 or 7 or 6, than not to have the capital; but these, nevertheless, borrow at 5. Why? Because the supply of capital is so large that the demand for it, coming from all those who could afford to pay 10 per cent, or 9 or 8 or 7 or 6, or even 5½, is not sufficient to take it wholly up; and it is only as we come down to those who can pay 5 per cent, and get the amount so paid back again in the price of their product, but could not, or think they could not, pay more and make themselves "good," that we attain that total demand for capital which, in the situation given, is necessary to take up the supply. Notwithstanding that the utility of the successive increments of capital applied to production has varied within a wide range, all the loans made would, in a money market where perfect competition * existed, be made at the same rate,—the rate, namely, which the last borrower can afford to pay.

Laws of Distribution," in the *Quarterly Journal of Economics*, January, 1888, rightly says that this term is often erroneously used, or used with the result of producing misconception, being understood to apply to the current rate paid on loans in the "money market," or to the current rate paid on more permanent loans on security, or to the normal rate to which the variations in current rates of loan interest tend to conform, through a long period, for any community. Not the less is the term Rate of Interest one proper to be applied to what Mr. Webb designates (p. 192-3) as Economic Interest. If there be a body of capital applied to production, and if a portion of the product becomes the remuneration, or reward, for the use of that capital, there must be a ratio between the two quantities, which may, properly enough, be called the Rate of Interest.

* I really cannot bring myself to answer the questions which Mr. Macvane propounds to me, on this subject, on pages 13 and 14 of his article: "Further, when 'interest is to be deducted,' it would be necessary to know whether this means interest on perfect security or on ordinary mercantile security or on such security as the individul employer in each case happens to be able to offer, for interest varies in the same loan market with the character of the security. Also, we should need to know whether, in times of temporarily high interest, the laborers are to be charged at the high rate on the whole capital of the country or only on the portion actually borrowed at the high rate."

It is at this point that I am compelled to part company with Mr. Webb, who, in his article in the last number of this journal, announces the principle that it is "inequality of return which is the cause alike of rent, interest, and rent of ability" (p. 193), and whose analysis of the practical distribution of capital among the several industries and among the individuals of each industry leads him to disregard that "trifle of interest" which would theoretically be the remuneration for the "minimum of capital" of "the worker using the minimum of skill and capital, engaged in wealth production under the most unfavorable circumstances." (p. 197.) On the contrary, I hold that, while inequality of return is the cause alike of rent and of profits, equality of return is the law of capital; that there is not, in economic theory, any "no-interest" capital, although there is "no-rent" land and there are "no-profits" employers; and, finally, that all portions of capital do, in proper economic theory, bear an equal rate of interest, differences of actual returns being due either to the element of risk, requiring the insurance of the principal sum, or to the effects of ignorance and inertia in the money market. Instead, therefore, of holding with Mr. Webb, that the "trifle of interest" paid (to others or to himself) by the least-favored producer for his "minimum of capital" may properly be disregarded "as merely equivalent to that 'gratuitous capital,'—such as roads, pavements, and policemen, elsewhere provided free of charge to other producers,"—it appears to me that the interest paid under such conditions must be taken, theoretically, as equal in rate to that paid elsewhere; while, in fact, that charge is likely to be heavier, per unit of capital, than in the case of production taking place under more favorable circumstances.

(*p*) Coming now to the analysis of the constituents of the employing class offered in the April article, Mr. Macvane expresses his strong dissent from my views. He holds that the differences of profits actually realized by employers are due far more to differences of opportunities than to those of abilities. Indeed, he seems, at points, disposed to hold the latter rather a hinderance than otherwise, expressing the opinion that "to work hard and save hard," until they can command capital of their own, is "an ordeal that natural ability for management on the large scale does not help men to face successfully. It demands, rather, plodding patience and severe self-denial." (p. 3.) The possession of capital is, in Mr. Macvane's sight, a far more efficient cause in enabling men to carry on production on a large scale than high industrial quality. The "captain of industry" he considers "a rather mythical personage." Moreover, while thus assigning a decided preference to opportunities over abilities as the cause of business success, Mr. Macvane assigns an extraordinary degree of importance to still other elements. "Mere lucky trading," he says "skilful speculation, taking advantage of the ignorance, or the fears, or the necessities, of other men, corners, craftiness, or even knavery, are often much shorter roads to riches than actual production is." (p. 12.) Incidentally to the expression of these views, he ridicules my characterization of the employing class, speaking as if I had attributed to every successful employer high intellectual qualifications, and charging upon me the absurd notion that "the born manager, on coming of age, had only to whistle the proper note, in order to have all the requisites of production laid at his feet." (p. 2.)

1st. I know of nothing whatever in any writings of mine which would justify such a statement as that above,—nothing which disparages the importance to any man of natural ability, however gifted, of long experience and thorough training. Mr. Macvane appears to consider the need of "plodding patience and severe self-denial" to be an ordeal through which men of smaller parts and lower natures pass most successfully. But, surely, that is a poor, paltry, and peevish genius which, for the sake of ultimate mastery, does not submit itself bravely and cheerfully to any trial, however long and severe, which may lie in its path. Such might be the genius of a brilliant rhetorician or dialectician, but not of a really great man of affairs. Had not Stewart and Vanderbilt "natural ability for management on the large scale"? Yet their youth and early manhood were passed amid severe privations, and the first efforts of their powers were spent in the operations of a petty commerce. The same is true of ninety-five, if not ninety-nine, out of every hundred of conspicuously successful careers. The trials and hardships which Mr. Macvane considers as a mere senseless obstruction to the passage of men forward to their work in life, and as, indeed, holding back those of better parts, while admitting more readily the men of commonplace character and mind,—these trials and hardships are, in truth, among the conditions of the highest success; and I must consider the opposite doctrine a poor sort of history and a poorer sort of moral philosophy to be taught to American youth.

2d. Instead of idealizing the employer and treating all profits as due to remarkable intellectual and moral endowments, as Mr. Macvane intimates I have done,* I have sought to exhibit a very wide range of industrial ability, from the lowest all the way up to the highest.

3d. Mr. Macvane appears to think that it would be conclusive against my theory of the Source of Business Profits, that it should be shown (as to which he confidently expresses his individual opinion) that the successful conduct of business is, in the larger proportion, due to exceptional opportunities, rather than to exceptional abilities. Yet, in fact, that theory would be equally well established, were it proved that business success depends wholly upon exceptional opportunities, and not at all upon exceptional abilities. The difference to social philosophy would indeed be great, but to economics the question is altogether indifferent.†

* "I have no wish to idealize the successful employer of labor. He may easily be found to be a very unamiable and a very uninteresting person. For the perfect temper of business something, doubtless, of hardness is needed, just as it is the alloy of baser metal which fits the gold for circulating in the hands of men. A little too much sensibility or a little too much imagination is often a sufficient cause of failure in the stern competitions of business. The successful entrepreneur need not even understand the theory of trade, or be a financier in the larger sense of the word."—*The Wages Question*, p. 251.

† "The successful conduct of business under free and active competition is due to exceptional abilities or to exceptional opportunities. Whether due to exceptional abilities or to exceptional opportunities, my proposition could be equally well established, just as it makes no difference, in the theory of rent, whether a piece of land owes its superior advantages, for the purposes of cultivation, to higher natural fertility

4th. But I take issue with Mr. Macvane on the opinion that business success is mainly due to privilege and opportunity rather than to individual character and power, and I appeal with the utmost assurance to my countrymen whether I am not right in saying that the latter are far more efficient than the former in securing profits. Have not a vast majority of all the business houses with us, which have achieved notable success, been founded by men who owed almost nothing to opportunity, who struggled up to their high places in the industrial order, not only without adventitious helps, but against poverty or actual misfortune? On the other hand, what social phenomenon is more familiar than that of great houses, deeply founded, which have enjoyed great prestige, wide connections, and large accumulated capital, dwindling little by little, if not brought actually to their downfall, simply because the management, which had been strong and brave and wise, became commonplace, purposeless, timid, and weak? * For one, I do not believe that the American mind will readily accept Mr. Macvane's views of the causes which in general govern success in business.

In older countries, where prescription is more powerful, where industry is largely pursued within traditional lines, where capital is more conservative, *status* and structure do, in no inconsiderable degree, constrain the movements of trade and production. All this was sufficiently covered by my qualification as to "full and free competition." Yet even in the most stable and conservative industrial nation of the Old World we find Professor Marshall saying: "Many employers of labor—in some parts of England, more than half—have risen from the ranks of labor. Every artisan who has exceptional natural abilities has a chance of raising himself to a post of command."

5th. Mr. Macvane would only touch my theory of the

or to closer proximity to the market to be supplied. Yet it cannot be a matter of indifference to social philosophy whether the power to command profits be due to exceptional abilities or to exceptional opportunities."—F. A. Walker, *Political Economy*, 1883, pp. 248, 249.

* The recent history of the Baltimore & Ohio Railroad exhibits a striking example in point.

Source of Business Profits by alleging that accidents and pure chance, or else fraud, force, and chicanery, are the real predominant reasons for success or failure in business life. Were this indeed so, that theory would fall to the ground, and the socialists would be right in denouncing the capitalist-employer as the robber of the working man and the enemy of society.

(*q*) The next of Mr. Macvane's objections to my theory of profits is that which arises from the formal attitude of the laborer in production, as hired by the employer and working at stipulated wages. Mr. Macvane finds this fact to be dead against my theory; "so dead against it that one finds some call for self-restraint in soberly arguing the matter." If it be true that the laborer works for wages stipulated in advance, how can he have any such interest in the product as is implied in my use of the word "residuary"? Mr. Macvane declares that the laborer is, indeed, "precisely the claimant against whose right to the position there is a strong *prima facie* case." (p. 14.) Again, he says (p. 21) that it is of the very essence of wage paying that wages should not be contemporaneous with rent and profits. "The wages that correspond, as an economic share, to the rent * and profits of any given time, have been paid and consumed before the profits appeared. They are, in reference to the rent and profits, wages of the past."

Now, there is a *prima facie* case against the laborer occupying the economic place I have assigned him; but it is sometimes the duty of students of science to investigate *prima facie* cases: to go below the surface, and ascertain if something more or other exists than has appeared. This was precisely what was attempted in the April article. Fully recognizing that, in any given instance, the laborer is, by force of contract, debarred from claiming more than a certain

* Yet rent is generally, by force of contract, determined, not only before wages are paid, but even before the laborers are hired, and is thus not only not contemporaneous with profits, but even antecedent to wages. Mr. Macvane can understand how rent can be advanced out of capital, but paid out of the product, though he cannot understand how this should be true of wages.

amount,—the amount, namely, which was stipulated as his wages,—I ventured to inquire, *What is it that fixes the terms of such contracts?* why is it the employer promises to pay and the laborer agrees to receive such an amount, no more and no less? There must be some reason for this. Otherwise, the employer might have promised to give twice as much in wages, or the laborer might have consented to accept only one half as much. The force of contract is a sufficient reason for the laborer claiming no more in the given instance, but the force of contract has no power over the demand he may make as to to-morrow's or next week's labor. What is it, then, which is to govern the terms of the next contract which the laborer and the employer are between them to make?

The answer to this question I find in the anticipated value of the product, after deduction of the amounts necessarily to be paid on account of rent and interest. These latter amounts are determined by competent causes, which have already been sufficiently indicated. They are, as we have shown, not necessarily increased by an increase in the productiveness of industry, nor do they depend on the desires of those who are to receive them. Landlords have nothing to do with determining the value of their land * for rental purposes. The owners of capital have, broadly speaking, nothing to do with fixing the rate of interest beyond supplying the condition of perfect competition, which has been assumed throughout the argument.

If the holders of land and the owners of capital can exert no influence upon rent and interest beyond supplying the condition of perfect competition, have the employers of labor anything more to say as to the amount which should be deducted as profits from the product? I answer, No, perfect competition being conceded. The anticipated value of the product being what it is, employers will compete among themselves for the profits of production down to the point where profits vanish. No matter how much the anticipated value of the product may be increased, no economic cause can be invoked which will require them to pay more in rent,

* We are here speaking of economic rent, which excludes improvements made through investments of capital.

unless more land is to be used, or to pay more in interest, unless more capital is to be used; but, provided the laborers, on their part, are alert, active, and aggressive in the pursuit of their own welfare, the employers will be obliged to increase wages, *pari passu*, with every increase of production. If the current rates of wages are such as to leave any excess of produce, after the payment of wages, interest, and rent, the competition of employers among themselves for a share of such excess * must go forward until that excess disappears.

(*r*) I said until "profits vanish." By this is, of course, meant profits in case of the employers of the lowest industrial grade who remain solvent. Mr. Macvane, indeed, denies my right, upon my own grounds, to take the solvent employers alone into account with reference to the cost of production.

* Mr. Macvane complains that I have given "no clew for tracing this increase [of product] beyond the hands of the employing class and into the possession of the laborers." (p. 26.) Again, "Mr. Walker gives no explanation of the process by which, in his view, the increase of product is carried at once to the wages of labor: he only finds no economic reason why it should go anywhere else." (p. 25.) I confess the latter seems to me a very good reason why it should go there: otherwise, all our geometries would have to be rewritten.

Mr. Macvane continues: "All competition can do is to remove or prevent inequalities in wages. It can bring all laborers of the same grade to the same level of wages. But it has itself nothing to do with setting the level. Competition of laborers is powerless to raise all wages, and our present question relates to a general rise. If the competition to which he [Mr. Walker] refers be that of employer with employer to get control of laborers, I can only say that here again all competition of itself can accomplish is to prevent or remove inequalities, to prevent one employer from getting laborers of a given grade for lower wages than another employer pays. Competition simply enforces the level on everybody." (p. 25.) It is needless to spend time in pointing out the inadequacy of this view of competition. If the competition of employers among themselves for the profits of employment has nothing to do with fixing the general level of wages, why is that level, at any time, where we find it to be? Why is it not lower by one-quarter, one-third, or one half? Mr. Macvane alleges that I have adduced no force to bring about the result which I have indicated as economically reasonable. I answer, Competition is the force which, when full and free, brings all things in the realm of industry to their respective positions, according to the economic reasons prevailing in the given situation.

"One naturally asks [he says] why the 'no-profits' employer should have this function, seeing that there are always in every business, as Mr. Walker himself tells us, some employers who are not only making no profits, but are making losses. The products of these losing employers are continually in the market. Why should they not regulate the price rather than the products of employers who are doing indefinitely better? . . . What should we think of Ricardo, if, in developing his theory of rent, he had 'thrown out of account' several of the poorest grades of land in constant use,* in order to find the basis for prices and rent?" (p. 4.)

To this, I reply that "losses" represent failure of competition. Were competition perfect, with all which that implies, an employer who carried on production without getting back, through the sale of his products, the wages paid, the cost of materials, etc., plus his own subsistence, would be instantly thrown out. In the actual world of business, especially with the credit system highly developed, and under the accidents of the inheritance or the previous acquisition of wealth, an employer may go on for a while producing at a loss, either sinking his capital or subsisting himself at the expense of his creditors. It was with reference to this condition that practical advice was offered in the April article concerning the causes—*e.g.*, bad money, protection, ineffective laws concerning insolvency—which tend to bring incompetent men into the conduct of business, and keep them there against the natural effort of trade and industry to throw them out.

The cases of men who actually do not get back the price of materials, the wages of labor, the cost of their own subsistence, etc., are exceptional. There cannot be an indefinite number of such employers, and these cannot carry on business through an indefinite period; and, since the demands of the market require goods to be produced (the proof of which

* In the same connection, Mr. Macvane says, "In the case of land, we take the poorest *in steady use* as the regulator of price." This qualification destroys the whole force of the objection. The losing employers come into and go out of production, like lands along the lower limit of productiveness, which are now cultivated and now thrown out of cultivation.

demand is that goods are produced) by men who can and do get back the cost of production, plus their own necessary subsistence, in the price of their product, those whom we may call the "bankrupt employers" do not fix the price of goods.* The normal price of any species of commodity is determined by the cost of production of that portion of the necessary supply which is produced at the greatest disadvantage. Now, if the necessities of production, upon the scale suited to meet the demands of the market, require the services of a great number of employers, and if these employers differ among themselves in the matter of industrial efficiency, then the "greatest disadvantage," *quoad hoc,* exists in the case of that portion of the necessary supply which is produced by the employers of the lowest grade of business ability who do earn a scanty living, conduct business, and remain solvent. The fact that these men do remain solvent, after paying wages, the cost of materials, etc., and also subsisting themselves, proves that they sell their goods at prices to meet these conditions. That the goods are not sold lower under competition is because production cannot be carried on to the extent required by the demands of the market without meeting these conditions. Production by bankrupt employers does not fix the (normal) price of goods; but such production is highly prejudicial to the general interests of the community, causing industrial disturbances, unnecessary fluctuations in trade, and at times breaking down the market and creating industrial panics and distress.

* Any more than would a limited number of employers who should choose to give away their goods, without the attempt to get back any part of the cost of production.

THE DOCTRINE OF RENT AND THE RESIDUAL-CLAIMANT THEORY OF WAGES

Quarterly Journal of Economics, VOL. 5 (1891), PP. 417–37

THE DOCTRINE OF RENT, AND THE RESIDUAL-CLAIMANT THEORY OF WAGES.

It is now more than three years since I troubled the readers of the *Quarterly Journal of Economics* with an article on the distribution of wealth; and the editor of the *Journal* is kind enough to think that it is not too early for me again to be heard regarding these peculiar views, which have come to be known as the "Residual-claimant Theory." The discussion of the problem of distribution has proceeded very actively in the interval; and the theory in question has been made the subject of many remarks and criticisms, some of them just, some of them appearing to the present writer to embody certain misapprehensions of what was intended, or to result from a failure to observe the conditions upon which alone the theory would ever have been advanced. References to these latter, and some additional explanations of the suggested view of the relation of wages to the other shares in distribution, will, it is hoped, not exhibit the present writer as unduly sensitive to the criticism which he certainly should have anticipated. It is to be noted that the point of most active discussion has moved considerably during the past three years, and that it is not against the doctrine of business profits as analogous to the rent of land, but against the "residual-claimant" doctrine of wages, that the most recent attacks have been directed.

I. In this *Journal* for January of the present year, Mr. Bonar has an article on "The Value of Labor in Relation to Economic Theory," which seems to me to do some injustice to the doctrine in question.

(*a*) Regarding the suggested correspondence between increased productiveness of labor and increased wages, Mr.

Bonar says, "By Walker's principles, the correspondence should be automatic" (p. 153, note). I am wholly at a loss to see how a writer so candid and so careful as Mr. Bonar could make such a statement. Not only was *The Wages Question* (1876) written largely on the theme that, if the laborer would realize his highest economic advantage, he must struggle for it without ceasing, the statement being again and again repeated that, if the laborer does not seek his interest, he will, in greater or less degree, lose his interest; not only has every subsequent work of mine insisted upon this theme, but in the first presentation of the residual-claimant theory, in the *Political Economy* of 1883, the acquisition by the laborer of the possible gain resulting from the increased productiveness of labor was made conditional * upon his being alert, active, and, so far as should be consistent with industrial peace, aggressive in the pursuit of his own economic advantage. After stating the position which the laborer appeared to me to occupy in the distribution of wealth, I followed this with the highly emphasized question, "WHAT WILL HE DO WITH IT?" and proceeded to argue that, in order to make good this ground of vantage, the laborer must follow the employer sharply up with a close and unrelenting competition; and, at every stage of that and of each subsequent statement of this view, "full and free competition" was made the essential condition under which alone the results shown to be possible would or could be realized.

It seems strange, therefore, to read in Mr. Bonar's article (p. 154) that "President Walker's theory has sufficient presumptions against it to prevent any one using it (as thè theory of a wages fund was once used) to deter workmen from taking action for themselves." I cannot forbear smiling at

* "In determining how much, in the shape of rent, interest, and profits, shall be taken out of the product before it is turned over to the laboring class to have and to enjoy, I hold that the only security which the laboring classes can have that no more will be taken than is required by the economical principles governing those shares, respectively, is to be found in full and free competition, each man seeking and finding his own best market, unhindered by any cause, whether objective or subjective in its origin. If the laborer does not seek his interest, he loses it in greater or smaller measure." Page 285.

the suggestion that anything coming from me should be supposed to have a tendency to deter workmen from taking action for themselves. If the reader will recall the prevailing economic theories regarding wages prior to 1876, in which it was held that, if the laborer did not seek his interest, his interest would seek him and would find him; in which it was held that excessive profits infallibly "tend to become wages," covetousness being thus kept in check by covetousness, and the desire for aggrandizement setting limits to its own gratification (*Cairnes*, 1874); if the reader will recall the unanimity with which it was agreed among English and American economists that the active self-assertion of the laboring class was neither necessary nor desirable in industry; and if the reader will thereupon be pleased to remember the general purport of all I have written regarding the laborer's part in distribution, including my discussions of strikes and trades-unions, and especially the frequency with which in those discussions it has been repeated that in economics there are gains which no man loses and losses which no man gains,—he will hardly deem Mr. Bonar's references to me appropriate or just.

(*b*) "The special difficulty of Walker's theory," however, Mr. Bonar finds in "its apparent inversion of the relationship of employer and employed, and the contention that wages are the leavings of profits, in face of the fact that wages are stipulated and advanced, and are, like interest on borrowed capital, set down among the expenses to be met before any profits are made" (p. 154). The phrase "apparent inversion" might create the impression that Mr. Bonar held it to be an open question whether such an inversion really took place; but, as he dismisses that theory with this remark, it must be understood that he regards this "special difficulty" as insurmountable.

It is true that this apparent inversion of relationship has proved a very serious obstacle to the acceptance of the view of the residual nature of wages, alike by the public mind and by many economists; but is the fault with the theory or with those who regard it? The rent of land is, by force of contract, taken out of the produce before it is even ascertained that the cost of production will be met. But what controls the contract of rent? Is it not the estimated productiveness of the soil? And, if the experience of the cultivator during the continuance of the lease shows that this productiveness has been wrongly estimated, will not the new contract of rent be made with reference to a better knowledge of the capabilities of the land? So, in the case of labor and wages, while, in any individual transaction, the laborer does, by the force of contract, receive only stipulated wages,* yet in the new contract of labor, whether the next month or the next day, he is at liberty to make, and, if I am not mistaken in what I have undertaken to show regarding his relation to the product of industry, he is in a position to enforce,† a demand for wages which shall take up any gain in productive power, not involving a resort to poorer soils or to an inferior grade of employers or requiring any larger use of capital. That such an increase of production may take place (as, for instance, through the laborer's quickened intelligence, his higher skill, his greater carefulness in the use of tools and materials, his augmented energy due to the hope of larger returns) has been abundantly proved. In a word, what this alleged contradiction in terms, inconsistency, inversion of relationship, or however it may be characterized, amounts to is simply this: I hold that *the laborer's wages* are stipulated in advance, and, indeed, that this is of the very essence of wages. On the other hand, I hold that *the laborer's position* in the industrial order is such that, if he vigorously as-

* This was clearly expressed in the foregoing terms in my *Political Economy* of 1883 (p. 265). Yet Mr. Gunton in his latest work writes as if I had completely overlooked this apparent inversion of relationship, and attributes to me "an astonishing amount of inconsistency" in that I speak of the laborer as the residual claimant upon the product of industry, having previously exhibited him as receiving wages stipulated in advance.—*Principles of Social Economics*, p. 179.

Mr. Gunton thought better of my work when, in his reply to Karl Marx, he adopted entire, though without acknowledgment, my statement of the origin and source of profits. See *Political Science Quarterly*, vol. iv., pp. 577–581.

† "It is the competition of employers that, under the free working of natural law, gives to the marginal man *the full amount of his product.*" —Professor J. B. Clark, *Quarterly Journal of Economics*, vol. v., p. 309.

serts his interests, he can continuously raise his stipulated wages to the full height of his increased efficiency in production.

(*c*) Another misapprehension which has appeared regarding the "residual" theory of wages relates to an assumed intention to exhibit this as an universal condition. It may be that this has been the fault of the author in not distinctly disavowing such an intention, which, indeed, never existed. The author at no time thought of applying such a rule to communities like China or India, or even to many of the more degraded laboring populations of Europe; and he deemed this sufficiently shown by his frequent assertions that the laboring class could only make good their claim to all the "residue" of the product through the exercise of the highest intelligence, energy, and acquisitiveness, and also and especially by refraining from doing themselves an injury through excessive reproduction, leading to over-population. (*Political Economy*, 1883, p. 268.)

It has been objected to the theory in question that, conceding the views presented regarding the source of rent and of profits, there is no more reason for attributing the character of a residual claimant to labor than to capital; and this is perfectly true, provided the laboring class are placed at a disadvantage, economically, by excess of numbers over the opportunities of employment, or by a painfully slow increase of capital, due either to the severity of natural conditions or to social violence and disorder. In the latter case, it would be the capitalist, not the laborer, who would have "the upper hand on the stick." In fact, however, in all well-ordered communities, enjoying large natural resources, the accumulation of capital tends to outrun the increase of population; while the ability of capitalists (not of employers) to combine so as to prevent the rate of interest from falling, under the pressure of a rapidly increasing supply, is conspicuously less than the ability of laborers so to combine as to hold up the rate of wages. It was simply and solely on account of this general economic advantage in such communities that the mastery of the situation was attributed to the laboring class, who would thus be enabled, in the unceasing strain over the product of industry, to take up all the rope that might be paid out through any amelioration of the conditions of production. Does not the economic history of England and the United States during the past thirty or fifty years show that precisely this has been done ?

II. In the April number of this *Journal*, Mr. Hobson, of London, presents his "Law of the Three Rents," the first effect of which he declares to be that "it completely destroys what may be termed the 'residuary legatee' treatment of distribution" (p. 279). Mr. Hobson does not antagonize the view of the source of business profits presented in the April number of this *Journal* for 1887. On the contrary, he appears in a general way to accept it as valid.* The way in which Mr. Hobson would "upset entirely the position of wages as a residual claimant" (p. 264) is by establishing the proposition that capital and wages are also subject to the law of rent, leaving thus all the claimants upon the product of industry equally subject to economic strain, the economic advantage or disadvantage of each in any given situation being determined purely by supply and demand. The significance of Mr. Hobson's contribution to the philosophy of distribution depends entirely upon his success in establishing this proposition. He calls his article "The Law of the Three Rents," and it is only as he shall prove that the returns to labor and to capital obey the same rule as the returns to land, that the residual-claimant theory will be affected.

Mr. Hobson's method is as follows. He assumes the existence of a body of laborers who, by their nature and industrial qualifications, are only enabled to exact a minimum wage, which, having reference to English conditions, he takes for illustration at 15 shillings a week. He then asserts the

* "It has been recognized that rent of land is not an element in the price of agricultural produce. So General Walker has proved that 'profits do not form a part of the price of manufactured products'; for, as he says, 'the profits are drawn from a body of wealth which is created by the exceptional abilities (or opportunities) of those employers who receive profits, measured from the level of those employers who receive no profits.' "—*Quarterly Journal of Economics*, vol. v., p. 272.

existence of bodies of superior labor, the compensation of which rises, grade on grade, from 15 shillings upward through a wide range. The minimum wage he declares to be, for all economic purposes, equivalent to the no-rent stage in land; and all above that line he holds to be "the rent of ability." In the same way, he assumes the existence of a body of capital which, by its nature and industrial adaptations, is only fitted to earn a minimum interest, which, again having reference to English conditions, he fixes at three per cent per annum. He then asserts the existence of bodies of superior capital, the compensation of which rises, grade on grade, from three per cent upward through a wide range. The minimum interest he declares to be, for all economic purposes, equivalent to the no-rent stage in land and to the 15-shilling stage in labor; and all above that line he holds to be "the rent of capital."

Now, if it were conceded that Mr. Hobson's exposition of the facts of industry in these respects is correct, what would it prove? The essential fact in regard to rent is that it does not enter into the cost of production.* By Mr. Hobson's own view, the wages of labor, at least up to the 15-shilling limit, and the interest of capital, at least up to the three-per-cent limit, do enter into the cost of production. Here is all the difference in the world. Mr. Hobson, indeed, gives excellent reasons why a minimum wage and a minimum rate of interest *must* be paid, and thinks that these reasons, which are good enough to justify wages and interest, if they needed any justification, are sufficient to abolish the economic distinction between elements that do enter into the cost of production and elements that do not. He shows, what nobody disputes, that the land keeps itself, and that, therefore, the poorest land need not be paid for, while the poorest labor will not exist without a certain wage, or the least efficient body of capital without a certain rate of interest. But all this simply emphasizes the fact that interest and wages enter into the cost of production and rent does not. Giving good rea-

* Except, of course, monopoly rent, the influence of which upon price, whether the price of hops or of anything else, has always been conceded by the Ricardians.

sons why interest and wages must be paid, does not change their relations to the cost of production,* which is the thing we are talking about.

But how about Mr. Hobson's exhibition of grade on grade of labor and grade on grade of capital, corresponding to grade on grade of soils ?

What Mr. Hobson says about the rising wages of labor being due to rising productive efficiency is true enough, and would be appropriate to a discussion of Particular Wages. I fail to see that it has anything to do with the question of General Wages, under which we inquire what part of the product of industry shall go to labor as a whole. The problem of Particular Wages—*e.g.*, the question why, when a common day-laborer receives only 15 shillings (to adopt Mr. Hobson's minimum), a cotton spinner receives 25 shillings, and an iron puddler 45—is a perfectly simple one. The principles are all open to view on the first glance. So simple is it that economists generally do not even give space to the discussion of the question. There is, in fact, little to be added to what Adam Smith said on the subject a hundred and fifteen years ago.

As to the assumption regarding bodies of capital having objective differences among themselves † which create differing rates of remuneration, rising from, say, three per cent upwards, one may well dissent. That different bodies of capital do, in fact, yield different rates of interest is too evident to require proof ; but this is due to many causes which are irrespective of the nature of the capital itself. The foremost of these are the following :

(*a*) *Differences in risk.*—Much of what appears to be interest is nothing but insurance of the principal. For example, it was for a long time as easy to place capital at

* Professor Clark, as we shall see, in seeking to establish the proposition that the law of rent applies to wages and to interest, takes for his minimum, labor so inefficient that it realizes no wages at all—*i.e.*, is not worth employing—and capital so ineffective that it receives no interest.

† Mr. Hobson speaks of pieces of capital as superior or inferior, of different pieces of capital as " graded in quality," etc.

12 per cent in Iowa as at 8 per cent in Chicago, or 6 per cent in New York. These differences of interest were not due to objective differences in the bodies of capital so invested. The New York capitalist drew checks upon the same bank deposit in making these successive investments. Which part of his deposit would go to Chicago, which should go to Iowa, which should stay at home, he neither knew nor cared: that would depend on which check arrived first at the bank. Nay, with the amount which he retained for use in New York he might put some into "governments" at 5 per cent, some into first-class mortgages at 6, some into second-rate mortgages at 8, while "shaving notes" on the Street at all the way from 6 to 20. The bodies of capital so used were indistinguishable.

(*b*) *Miscalculation, on the one hand, or fortunate speculation, on the other.*—In buying commodities to be sold again or to be used in personal consumption, a wide range is given to the shrewdness of the purchaser and to the influence of fortune. So, where one buys stock with a view to securing a regular income from it, or builds a mill for purposes of manufacture, miscalculation, on the one hand, or fortunate speculation, on the other, may enter to an enormous extent to create differences in the returns to investors, which do not arise at all from original differences in the bodies of capital engaged, but are due solely to the better or worse judgment with which the function of investment has been exercised or to the kindness or unkindness of fortune; possibly, also, to the effects of force or fraud.

In this matter, the usages of business men correspond to the view of the economist. If a manufacturing corporation has invested $100,000 in a factory which, by reason of miscalculation or misadventure, proves to have the capacity of earning but $3,000 a year net, the shares of that corporation sink to one half their par value, so that, while the nominal capital on its books remains $100,000, its capital, as known to the market, is but $50,000; that is, the whole of it can be bought for that sum. If, on the other hand, by reason of exceptional natural advantages shrewdly taken advantage of, or by superior management, another factory, near at hand, of the same size and capacity, built perhaps in the same year, with bricks drawn from the same yard, shows that it can earn $12,000 a year net, the shares rise to $200, and the real capital of the corporation becomes $200,000; that is, its capital stock will bring that sum in the market, and upon this amount this factory earns but 6 per cent, the same as the other.

We get an even clearer view of the case in contemplating those additions of capital which are required yearly to keep the two factories in good condition, or which may occasionally be called for to enlarge their capacity. The factory which is earning but 3 per cent on the original investment is obliged to pay 6 for all the additional capital it obtains. The factory which is earning 12 per cent on the original investment likewise borrows at 6. In regard to all that vast amount of fresh capital yearly available for investment, whether to keep up existing industrial and commercial enterprises or to extend them, or to create new ones in the same or in newly opened lines, the rule is that interest tends constantly and strongly to a uniform rate,* except for differences caused by the differing risks of different kinds of investment, as estimated, rightly or wrongly, by the lender.

(*c*) *Disguised rent, disguised profits, or commercial "good will."*—The instances most relied on to show the wide range of interest generally contain some other element than interest, even after making allowance for the insurance of the principal, and even after admitting the effects of business miscalculation, on the one hand, and of fortunate speculation, on the other. Take the case of a factory placed forty years ago upon a New England river. At that time the possible mill-sites of the region were in small demand, and the corporation in question obtained its title to an inexhaustible water-power and to an extensive tract of land along the bank, at a very low price. To-day the factory pays its owners

* "In the industrial field as a whole there is a current rate of interest; and, by making now more of one thing and now more of another, society causes each to earn, in the long run, about the prevailing percentage."—Professor J. B. Clark in the *Quarterly Journal of Economics*, vol. v., p. 292.

double and treble dividends, which are largely rent, as would quickly be made to appear if the corporation held its water-power, its factory-site, and the land on which stands its village, by a lease about to expire. Even more interesting is the instance of the breweries mentioned by Mr. Bonar as declaring enormously high dividends. Here we have, in addition to the elements previously mentioned, the rent of springs or streams of water of a quality peculiarly adapted to making good beer; while commercial "good will," the reputation of the product arising from generations of use, enters to create almost fabulous gains. Disguised profits also enter into the dividends of many companies or corporations which have had the good fortune, good sense, and good feeling to retain, as managers, men of the highest business ability, born captains of industry, who yet, by considerate treatment and high salaries (the force of habit and perhaps pride in the works concurring), are induced to remain long after they have reached the pitch of reputation which would give them command of the situation if they chose to set up as manufacturers for themselves.

It might seem as though,—having expressed my reasons for holding, first, that, were Mr. Hobson's exposition of the facts of industry admitted to be correct, these would not justify the extension of the law of rent to wages and interest; and, secondly, that the exposition itself is erroneous, especially in regard to the allegation of objective differences among the bodies of capital applied to production, creating corresponding differences in the returns to these bodies of capital, respectively,—I need not further occupy the space of the *Journal* with comments upon Mr. Hobson's article. But there are certain things brought out incidentally to his argument, or introduced in illustration of his successive points, which seem to require a brief reference.

(1) Mr. Hobson does a grave injustice to the familiar economic argument by which it is established that the rent of land does not enter into the price of produce. He represents the economist as showing that, if "a landlord" were to remit his rents, the tenant, or, if not he, then the miller or the baker, would be enriched thereby, while the price of wheat,

or, if not of wheat, then of flour or of bread, would remain as high as before. He then assumes an agricultural laborer refusing wages, and shows that the price of the produce, *in the particular case* (p. 265), would be unaffected thereby, thus apparently putting land and labor in the same relation to the cost of production. But this is unfair; for, when the economist says "a landlord," in this connection, he means every landlord and all landlords. Were all landlords to remit rents, the price of produce would not be affected, and all the foreborne payments would go to enrich the tenants. But, if all agricultural laborers were to refuse wages, the cost of production would at once be reduced one half, two thirds, three quarters, or nine tenths, according to the state of the art of agriculture in the district concerned.

(2) Mr. Hobson asserts (with reference to my view of the source of business profits) that there are some businesses "which no employer will consent to carry on without a definite rate of remuneration as earnings of management" (p. 273). It would be interesting to hear which these businesses are; to learn what are the departments of industry in which many employers do not, first or last, fail; in which many others do not, after much labor and anxiety, have to be content with merely saving their capital; in which "a definite rate of remuneration" is secured to all who enter them. Especially should we here like to know if any one of these businesses has ever been set up in the United States. Is it banking, or hotel-keeping, or liquor-selling, or the grocery business, or tailoring, or the iron manufacture?

(3) In his closing paragraph (pp. 287, 288) Mr. Hobson charges those who present the "residual claimant" theory with catering to a popular passion for an easy, cheap, simple, "rule-of-thumb" mode of accounting for the distribution of wealth. This charge might perhaps have been brought, with some show of reason, against that theory of distribution which ruled American and English political economy before the residual-claimant theory was advanced,—the theory, namely, of the wages fund. There, indeed, distribution was made easy, and the matter of wages was reduced to a mere "sum" in long division. But the

partition of the product of industry by the theory which Mr. Hobson attacks is no mere sum in division, no result of rule-of-thumb measurement, no play of clockwork. That theory recognizes the whole industrial body as continually in strain over the division of the product. It takes the fullest account of the moral and intellectual elements of supply and of demand. It puts each class that presents a claim to the product upon its mettle to make good that claim by strenuous, unfailing effort, declaring that whoever fails to pursue his interest must lose his interest. It reaches out to comprehend immense possibilities of good and evil by establishing the proposition, in bold defiance of the orthodox economy, that in industry there are gains which no man loses, as well as losses which no man gains. It introduces a dynamic element of the highest importance when it announces, as an economic law, that to him who hath shall be given, and from him that hath not shall be taken away even the little he seemeth to have.

(4) After so much that must seem ungracious criticism of Mr. Hobson's paper, I desire most heartily to express my sense of the value of his discussion (pp. 280–287) of the influence exerted upon distribution, in the case of an increase of production, by the comparative ease or difficulty of calling in additional quantities of one or another or of all of the several factors of production.

III. In the same number of the *Journal* which contains Mr. Hobson's article on "The Law of the Three Rents" appears a paper on "Distribution as Determined by a Law of Rent," from the pen of Prof. J. B. Clark, of Smith College, on which my present purpose requires me to comment. Inasmuch as I shall have to dissent widely from the views of this most scholarly, candid, and laborious economist, I desire to say here that there is much in the article which is of high value,—much, especially, bearing upon the questions of production and consumption (according to the old divisions of political economy) which needs to be said, and could not be better said, than it has been by Professor Clark. Yet, as to the law of distribution laid down, I must take exception.

In his note on these two articles, the editor of the *Journal* speaks of them as reaching "substantial identity of conclusion." Is not this a mistake? Is not an impression to this effect—natural enough on first scanning the two articles—due to the common use of certain terms, which, however, the two writers use in widely different senses? Mr. Hobson, indeed, speaks of the law of rent as applying to labor and to capital as well as to land, and so does Professor Clark. But the former by wages means payments above the minimum received by common day-labor (say 15 shillings a week), and by interest payments above the minimum rate, say 3 per cent per annum. On the other hand, Professor Clark seeks to extend the law of rent to all employed labor and to all capital in use. He does, indeed (pp. 314, 315), refer to differences in the productive power of laborers and in the productive efficiency of different bodies of capital; but it is only after he has fully reached "the law which fixes the rate of wages and the aggregate amount of interest" (p. 311). Those differences are not at all of the essence of his theory, while Mr. Hobson's whole theory is built upon them. Indeed, Professor Clark, throughout his discussion of capital, asserts its strong tendency towards a uniform rate of interest. All which he urges for the identification of wages and interest with rent would hold good, were all laborers uniformly efficient, and were all separate bodies of capital intrinsically of equal productive force. Under such a condition, Mr. Hobson's argument would be entirely without significance.

Professor Clark's method of proving that "interest as a whole is rent, and even wages as a whole are so," both of these incomes being "differential gains," and both being "gauged in amount by the Ricardian formula" (p. 289), is to assume "a fixed fund of pure social capital" ("invested partly in land and partly in made instruments") and to consider the application thereto of an increasing labor force (pp. 304–311); secondly, to assume a labor force fixed in amount and to view the effects of increasing the fund of capital which it uses (p. 311). In the former case, he finds that "the pure capital is like the field [that is, like any field], in that it is subject to a law of diminishing returns. A few men using a large fund create a large product per man: new men joining the force add less to the output, and the last man who comes adds least of all. Each earlier worker creates a surplus over and above the amount created by the last one, and the sum of all these surpluses is the rent of the fund" (p. 305). In the second case, "it is the successive increments of capital that are now subject to the law of diminishing returns. . . . Of a succession of units of pure capital brought into use in connection with a fixed labor force, each one adds less to the output of industry than does any of its predecessors. . . . All the earlier units now create surpluses over and above the standard set by the product of the final unit, and the sum total of these surpluses is the rent of the labor force. It is the aggregate of the differential gains resulting from the application, in connection with the fixed labor force, of the earlier increments of capital" (pp. 311, 312).

Can we concede the correctness of Professor Clark's view of the processes of industry ? Can we admit the legitimacy of his method of demonstration ?

(*a*) In the first place, Professor Clark seems to be in error in assuming that the principle of diminishing returns begins to operate from the very start in the movement towards increasing production. Thus he says: "Put one man only on a square mile of prairie,* and he will get a rich return. Two laborers on the same ground will get less per man; and, if you enlarge the force to ten, the last man will perhaps get wages only" (p. 304). Can there be any doubt that here is at least a technical mistake ? Will not two men upon a square mile of good land produce more than twice as much as one man, owing to the opportunities for combination and to the virtue of the division of labor ? Will not four men produce more than twice as much as two, owing to the further extension of these principles ? Up to ten men to the square mile, and possibly even beyond this limit, will not an increase in the cultivating force steadily enhance not merely the total product, but the product per man ?

It may be said that this is merely a technical error; that, had Professor Clark taken for his unit, *e.g.*, a "quarter-sec-

* Mr. Hobson uses this word in a sense not familiar to us. He says, "Land below the margin of employment is waste or prairie" (p. 267).

tion," or eighty or sixty acres, his description of the effects of increasing the amount of labor engaged upon the land would hold good. But is there in this matter merely a technical mistake ? To assume a smaller unit of land would, indeed, avoid the contradiction to Professor Clark's theory found in the fact that *returns do not diminish* prior to such an occupation of the soil as gives each man a body of land just large enough for him to cultivate; but how, upon Professor Clark's theory, can we explain the fact that, up to that point, *the per capita returns actually increase?* That theory, so far as I can see, does not recognize the stage of increasing returns at all; yet that stage is as real as the subsequent stage of diminishing returns. Throughout most of the agricultural history of our own country it is the former, and not the latter, force which we have seen in action.

(*b*) But, disregarding the earlier stages of the progress towards absolutely enlarged production, in which, it would appear, no one can question that there is a period of increasing per capita returns, how about the correctness of the view that capital and labor are, in their general course, subject to a law of diminishing returns ? Professor Clark deems this proved by his illustration of the application, first, of an increasing body of capital to a fixed labor force; and, afterwards, of an increasing body of labor to a fixed fund of capital. But is this method of demonstration legitimate ? It is, of course, easy to show that two men with one spade cannot cultivate twice as much land as one man with one spade; that three men with the same spade will cultivate far less than three times as much land as one; and that, when the fourth, the fifth, and the sixth man are successively brought in to use that much-wronged implement, the product per man will be about that of the average city laborer on the streets. But why not let each man have a spade to himself, and then inquire whether the per capita product diminishes as the number of laborers increases ? In discussing rent, it is true, we assume a fixed quantity of land, for the good reason that the quantity of land *is* fixed by nature, and cannot be increased; while, in most countries, population has actually pressed upon the means of subsistence sufficiently to require cultivation to descend to lower grades of soil, often to very low grades of soil indeed. But, aside from the limit imposed upon human expansion by the chemical capabilities of the soil, there is no reason why capital should not go on increasing indefinitely.

If, then, we are inquiring into the forces which distribute the product of industry, why should we not assume an increase of capital corresponding to any increase of labor which we may take for the purposes of discussion ? In all well-ordered communities, enjoying natural conditions which are reasonably favorable, capital actually does increase as fast as this. If it be so, why should we not hope to discover a great deal more of the truth of the matter by assigning to each laborer a spade, an axe, a hammer, a loom, or a fishing-rod, according to his vocation, and then ask whether, aside from the effects of diminishing returns in agriculture, due to the chemical limitations of the soil, an increase of labor (properly distributed over all the vocations * practised in the community) will result in a diminishing, or in a stationary, or in an increasing per capita product ?

Now if it be true that capital and labor, increasing together and in due proportion, do strongly tend towards an increasing return to each unit of labor and capital employed in production, what must we think of the method of demonstration by which it is made to appear concerning each of those, separately, that, as it increases in amount, it does, by its very nature, come under a law of diminishing returns ? How can it be that two forces, each of which, by the very nature of

* Here is seen the fallacy of Mr. Hobson's illustration (p. 270) of a shopkeeper whose business has profitably employed two men, but who might have to take on a third man at a comparative disadvantage. Very well. But suppose an increase throughout the community of labor and capital to the extent of fifty per cent,—three to two,—all other shops and all factories and farms and other industries sharing in the expansion, might not the shopkeeper in question find his business so enlarged as to make the services of the third man not less profitable to him than the services of either of his predecessors? And would not a shop employing three men under a competent master be better organized and relatively more efficient than a shop with two assistants only?

things, acts, as it progresses, at a diminishing rate, shall yet, by being compounded, produce results which not only do not diminish, but actually increase from term to term ?

On the point of the tendency of capital and labor, when increasing together, in due proportion,—as, in the natural course of things, they do,—to produce continually larger and larger bodies of wealth, I entertain the strongest conviction, which nothing in these two papers has in any degree shaken. To that progress, I believe, *nothing in the nature of these agents themselves sets any limits.* Mr. Henry George seems to me perfectly in the right in strongly insisting that, aside from the effects of driving cultivation down to inferior soils, increase of labor does, through the differentiation of functions, the localization of industry, the opportunities offered for the use of specialized tools and machines, and the naturally resulting increase of capital, bring increase of productive power.

I cannot regard the illustration offered by Mr. Hobson of the diminished fruitfulness of the work of a single laborer, protracted beyond certain limits which are fixed by his physiological aptitudes, as having the slightest effect to prove the proposition that "labor" is necessarily subject to a law of diminishing returns. It cannot be said that "labor" meets a diminishing return, unless it is true that a larger amount of labor *performed by a corresponding number of laborers* is subject to that condition.

It seems to me that what has defeated Professor Clark's effort to reach a new law of distribution in the article under consideration is his uniting under a single title things which are essentially different, not only in popular estimation, but in their very nature. He starts out by declaring that wages and interest together constitute the entire product of industry.* In order to achieve such "fierce abridgment" of the problem of distribution, he is obliged to group together both land and "made instruments" of production, the former of which is naturally limited in amount and quality, while the latter are

* Except that which he terms "pure profit"; *i.e.*, the product of unbalanced industrial forces, which come into existence and continue in existence "only while society is changing" (p. 289).

susceptible of practically illimitable multiplication and diversification. In the same way, he includes in "labor" both the services of the employed and the services of the employer, and in "wages" the reward of both those classes of services indiscriminately. Now, if the view of the "Origin of Business Profits," presented in this *Journal* for October, 1887, contains any degree of economic truth, we have in Professor Clark's labor and wages two classes of services having different industrial natures and two kinds of remuneration subject to different laws. The amount of effective business ability is not, indeed, like the amount of land, fixed by nature for all time; but at any given time, in any given community, not only is it then and there determined in amount, but that amount is distinctly below the industrial needs of that community, if raised far above the savage state. Consequently, the fortunate possessors of that power of organizing and conducting with success considerable business enterprises, whether in agriculture, in manufacture, in commerce, or in transportation, are able to reap for themselves gains which popular usage denominates profits,—gains too large to be treated by the economist as not worthy of separate account; gains so large as to constitute the real *gravamen* of the discontent and anger of the working classes; gains which are not of the same nature as wages, and which cannot, without loss at once of public interest and scientific accuracy, be merged in the mass of wages.

Dropping now all further allusions to business profits, let me say that the perusal of the articles of Mr. Hobson and Professor Clark has only strengthened my conviction that the doctrine of rent, the old-fashioned doctrine of the rent of land, is the corner-stone of the theory of distribution. Therefore, the extension of the term "rent" to include wages and interest, and its use in such connections as "consumer's rent" and "producer's subjective rent," seem to me only calculated to confuse the public mind and to lessen the popular interest in political economy.

DR. BÖHM-BAWERK'S THEORY OF INTEREST

Quarterly Journal of Economics, VOL. 6 (1892), PP. 399–416

DR. BÖHM-BAWERK'S THEORY OF INTEREST.*

In undertaking to write of the new theory of interest presented by Dr. Böhm-Bawerk, of Austria, I desire to say in advance that I have never made a special study of capital and interest, and must therefore speak with diffidence regarding it; and, secondly, that I am not sure I understand all that Dr. Böhm-Bawerk says, and cannot feel confident that my criticisms may not be misdirected. Whatever ability I may have as an economist does not lie on the side to which this subject takes me. Certainly, I have no desire to misrepresent Dr. Böhm-Bawerk; nor have I any self-love concerned in the issue, inasmuch as my peculiar views of the distribution of wealth are not at all involved.

I. Turning now to Dr. Böhm-Bawerk's critical history of interest theories, I feel moved to say that it does not seem to me that the author is justified in his very elaborate treatment of the economists, from Adam Smith down, as dealing with the matter of interest; in his multiplication of formal distinctions; in his classification of interest theories. The whole book appears to me badly conceived, though every one must admit that the plan has been executed with wonderful acuteness, wit, and felicity of illustration.

Dr. Böhm-Bawerk finds in the economists of England, France, and Germany, a great number of differing theories of interest. The literature of interest, he declares, is equalled by the literature of no other department of political economy "in the variety of opinion it presents. Not one, two, or three, but a round dozen, of interest theories testify to the zeal," etc. He speaks of the "numerous views advanced as to the nature and origin of interest," of a "motley collection of

* *Capital and Interest,* **by Eugen v. Böhm-Bawerk; translated by William Smart, London, 1890.**

the most conflicting opinions," and the like. Even after combining these views according as they have more or less in common, he makes out three considerable groups of interest theories, not counting Turgot's fructification theory, or those which he calls the colorless theories, or the socialist exploitation theory.

I am not disposed to deny that, of the many scores of writers whose works Dr. Böhm-Bawerk has searched for this purpose, enough have expressed themselves with sufficient looseness on the subject of the economic function of capital and the origin of interest, to enable Dr. Böhm-Bawerk to construct this elaborate classification and to justify it by an abundant display of quotations. But is this good criticism? Is it good history? We all know that the temptation is strong in controversy, especially in dealing with a book coming fresh from the press and challenging the attention of a contemporaneous audience, to hold authors strictly to account for what they say. In this way we force them to correct their statements, if in any degree inaccurate, to the advantage of later editions and later works. In this way, too, we, perhaps somewhat rudely and unkindly, help them to see for themselves a little more clearly what they do mean,—possibly, show them that they do not mean anything at all. But this is not criticism, in any high sense. Certainly, it is a particularly poor kind of history. A critical history of opinion should seek to interpret men's utterances, not to catch them up on their deficiencies of statement or blunders of expression. It should seek to set forth, tolerantly and sympathetically, what they really meant and tried to say. It does not seem to me that Dr. Böhm-Bawerk has performed his work in this spirit.

Let me at once offer an illustration of the objection I take to Dr. Böhm-Bawerk's entire procedure, in the single case of Lord Lauderdale. Lord Lauderdale's view was, in general, that interest is paid out of the wages of the laborers whose services are dispensed with by the use of capital. The illustration he offers is that of a knitting-machine, newly brought into use, which does the work formerly done by six hand laborers. One laborer is required to tend the machine. The interest paid for the use of the capital so invested may, Lord Lauderdale thinks, be regarded as paid out of what would otherwise have been the wages of the five men whose services are thus dispensed with. I say the interest is paid out of the sum thus put at disposal; for Lord Lauderdale recognized the fact that, except in the case of monopolies and patents, the return to capital will not amount to the whole of this sum. Under the normal operation of economic forces, the multiplication of the new machines will go forward until the profits of their use will be reduced to a point which corresponds to the general profit derived from the application of capital in that community.

Upon this how does Dr. Böhm-Bawerk treat Lord Lauderdale? Quoting the illustration given, he admits that there is in the machine what he calls a physical productivity; that is, a power of producing a greater number of goods. He is willing, also, to concede that the greater number of goods will represent a greater value. But, he asks, has Lord Lauderdale shown that this resulting value will be greater by so much as the cost of the machine (to replace the capital invested), and by something more (to yield interest)? If, he says, the machine lasts only one year, may it not be that the sum which would have otherwise been paid to the workmen displaced (and thus available, in Lord Lauderdale's view, for possible interest) will be found to be less than the cost of building the machine? And, since Lord Lauderdale has not expressly covered this point, has not taken the trouble to say that the machine would last twelve or twenty years, and would replace an amount of wages which would be twenty or fifty times its own cost, Dr. Böhm-Bawerk proceeds thereupon to assign Lord Lauderdale to the class holding what he calls the Naïve Productivity theory of interest, consisting of those who "simply state that capital is productive; adding, perhaps, a very superficial description of its productive efficiency, and hastily conclude by placing surplus value to the account of the asserted productive power." Had Lord Lauderdale gone on with his illustration, to state the terms under which the machine would not only have produced a greater quantity of goods, of a greater aggregate value, but would, during its life, have repaid its own cost of construction, with something more, he would then have had the honor of figuring in Dr. Böhm-Bawerk's classification as belonging to the group of Indirect Productivists, to whom the critic assigns a higher place, and to whom he accords a far more respectful treatment.

Now, I ask, is this criticism? Is this critical history? Does any one doubt that Lord Lauderdale had in view a case where the value of the machine was fully repaid by the sum of its uses, and far more? Lord Lauderdale was a statesman and man of affairs, writing for men of affairs. He was speaking to a constituency which was familiar with the wonders of the power-loom and the spinning-jenny. He no more thought it necessary to guard himself against a possible critic by distinctly stating that the knitting-machine in question repaid its cost of construction, than one would, after describing a man as struck in the breast by a shell from a one-hundred-and-ten-ton gun, deem it necessary to go on to state that the unfortunate subject of the impact did not long survive the shock. Dr. Böhm-Bawerk himself says in this connection: "I grant that experience goes to show that machines and real capital in general, be their monopoly price forced up ever so high, never cost quite as much as they turn out. But this is only shown by experience, not by Lauderdale." But, if such a result is shown by universal experience, what need for Lauderdale to show it? Why might he not fairly assume it? If in a critical history of opinion men are to be judged and ranked according to what they thought and had in mind, and not according to their deficiencies of statement and blunders of expression, I think we cannot but hold Dr. Böhm-Bawerk's discussion of Lord Lauderdale's view of interest to be bad criticism. And what is complained of in this case seems to be characteristic of at least a large part of this work.

For one, I do not believe that a single writer of any one of the three classes brought by Dr. Böhm-Bawerk into his Productivity group of interest theories held any other opinion than that to which Dr. Böhm-Bawerk accords the highest degree of respect; that is, the Indirect Productivity view of interest. For instance, among the Naïve Productivists Dr. Böhm-Bawerk makes out a body of writers as holding the opinion that capital has a direct value-producing power. These writers constitute one of his formulated classes; and it is to be admitted that those very terms are used by many. Yet, for myself, I do not believe that a single one of them meant anything more, or anything less, than that the use of capital in production contributes to the creation of a larger amount of goods of a larger aggregate value. If Dr. Böhm-Bawerk's object was to show how badly or loosely a great many writers have expressed themselves (though whether that would be worth doing might still be in question), he has done his work well. If his object was criticism and history, I cannot think he has done it well. So much for the Productivists.

There is, in Dr. Böhm-Bawerk's treatment, another large group (divisible, like the Productivists, into classes) which he characterizes as holding the Abstinence theory of interest. To these economists he attributes the opinion that abstinence from immediate consumption directly creates interest; and it is to be admitted that there is enough in their writings to justify such an assertion, if that is the sort of thing you are trying to do. Yet I do not believe that a single one of these writers ever held such an opinion in any other sense than that the saving up of wealth enables the capital to be accumulated which, through its application to production, causes the creation of a greater quantity of goods, of a higher aggregate value. The simple fact is that the writers whom Dr. Böhm-Bawerk thus characterizes were engaged in defending interest on moral, political, and economic grounds, vindicating it both as an institution beneficial to society and as an arrangement consistent with political justice. Approaching the subject from this point of view, and writing for a present constituency concerned with these questions, it not unnaturally resulted that they dwelt upon the moral and economic virtue involved in abstaining from the immediate consumption of costly and pleasant things for the sake of a future good and to the manifest benefit of the community. They thus reached a social justification of interest, which no one of them probably ever mistook for a scientific ascertainment of the cause of interest. So much for the Abstinence group. As to the third great group, the Use group of theories as to the origin of interest, even Dr. Böhm-Bawerk's translator, editor, and hearty admirer, revolts. "I confess," says Mr. William Smart, "I find some difficulty in stating the economic argument of what our author has called the Use theory of interest; and I am almost inclined to think that he has done too much honor to some economists in ascribing to them this theory." (p. xii.) I cannot say about the honor; but I agree with Mr. Smart so far as to believe that no economist of rank, who had given more than a passing thought to interest, ever held any of the ingenious Use theories stated by Dr. Böhm-Bawerk in any other sense than that the use of capital is productive, as the Productivists employ that term. So much for our author's treatment of the economists and his classification of their opinions regarding interest.

II. Let us now pass to what he has to say regarding the economic function of capital and the relation of capital to other elements in production. In opening the path to his demonstration of the origin of interest, Dr. Böhm-Bawerk deems it necessary to give a very disparaging expression to the part which capital takes in production. It is usual to speak of it as one of three equal and independent agents in production, having a corresponding share assigned to it in distribution; *i.e.*,

land,	receiving	rent.
labor,	"	wages.
capital,	"	interest.

(The reader may be aware that, in my theory, I adduce a fourth agent of production; namely, business ability, receiving profits. But this is not important to the present discussion; and I will not obtrude that feature here.)

Now, Dr. Böhm-Bawerk says that the framing of the left-hand list embodies an error, due to the natural feeling that there must be a distinct agent in production corresponding to that undoubted share in distribution known as interest. You have interest: *ergo*, capital must be placed against it, to account for it. But Dr. Böhm-Bawerk declares that there is no such original and independent agent of production. Production has only two technical elements,—the powers of nature and human labor. Capital is wholly derivative and secondary,—the product of man working upon nature. Thus, while there is such a share in distribution as interest, there is no corresponding factor in production. I confess I do not see the importance of this. Whether capital, as an element of production, be derivative and secondary or original and independent, does not affect the inquiry how interest on capital is generated, out of what fund it is paid, from what source it springs. But Dr. Böhm-Bawerk evidently considers this a fundamental matter in his great argument. He has to do away with a prejudice, as he conceives it, in favor of capital, which predisposes the mind easily to accept a false view of interest. He has to remove the notion that, just as land produces its own rent, just as labor produces its own wages, so capital produces its own interest. To remove this preconception, he seeks to overthrow capital as a technical element, or factor, in production, of the same grade or rank as land and labor. So, he repeats, we have only two original and independent agents of production; namely, nature's powers and man's powers.

But what about horse powers, and mule powers, and ox powers? In almost all communities there is as much of muscular power belonging to brute animals available for production (and often very much more) as of muscular power belonging to man. Where does Dr. Böhm-Bawerk place these powers in relation to nature's powers and man's powers? Of course, the reader deems my question idle, and the answer easy. The powers of cattle and horses are derived from nature, with or without the care and labor of man. The muscular powers of the horse, *e.g.*, represent so much of vegetable material gathered by the animal himself or provided by man. Grasses or nutritious roots have been transmuted, by nature's wonderful alchemy, into bone and muscle. That is true enough. The answer to my idle question has been easy and conclusive. The answer to my next question will not be so easy. If Dr. Böhm-Bawerk treats the laboring powers of horses and cattle as derived from the powers of nature, why does he not refer the laboring powers of man himself to the same source? What is man's bone and muscle but vegetable and animal matter wrought upon by nature's wonderful alchemy? There is not the faintest shadow of a reason for referring the laboring powers of brutes to nature, and not referring those of man also. Nay, not only must man's powers be deemed to be derivative and secondary if the powers of the useful animals are to be so treated, but, as a matter of fact, the brutes were the first to be created; and hence man's powers are derivative and secondary in an even higher degree than the powers of the ox and the ass. Whether you follow Moses or Monboddo or Darwin, you come to the same conclusion. It was the brute animals that were first created. They were on the earth when man appeared upon it; and it was their milk, their meat, their muscular help, which kept man alive in the early stages of his helplessness and ignorance. So much for Dr. Böhm-Bawerk's effort to set capital beneath nature and man as agents of production. It only results in showing some forms of capital as older than man himself, and as playing an important part in nursing man and keeping him alive through the infancy of the race.

But what, after all, does it matter, for the problem of distribution, whether capital be derivative or original? At any given time, in any given place, there are three great agents of production ready to be set to work (according to my view, four; but never mind that now),—nature's powers (land), capital, man's powers (labor). In the situation then and there existing, these powers, whether all original or not, are independent and equal. They must be brought together, if at all, by consent and contract. Each will contribute an all-important part to production. Each will claim and receive a share of the product. And for none of the purposes of that partition does it matter a pin whether one of these powers was, in its source, different from the others. It is the origin of interest, not the origin of capital, with which we are concerned.

III. Let us now pass to consider Dr. Böhm-Bawerk's positive theory of capital-interest. And here I must repeat that

I shall speak under the constant feeling that I may be wrong; that perhaps I do not clearly comprehend the author's meaning, or in my own reply may be beyond my depth. What, substantially, is Dr. Böhm-Bawerk's theory of interest? It is that interest is wholly due to an undervaluation of future goods. "The loan," he says, "is a real exchange of present goods against future goods. For this purpose "present means of production are, in effect, future goods." In Mr. Smart's phrase, "the essence of interest is discount." The following is the fuller statement:

"Whether from the difference of men's resources in present and in future, respectively, or from their tendency to undervalue future joys and sorrows, or else from regard to the technical superiority of present goods over future, in any case the overwhelming majority of human beings set a higher subjective value on present than on future goods otherwise identical. From such subjective valuations arise, in the general market, a higher objective value in exchange, and higher price for present goods. The said higher objective value and price react upon subjective valuations; and thus give to present goods a higher subjective value in exchange, even with those persons for whom (through their personal circumstances) such higher subjective value would not otherwise have existed. Finally, the levelling tendencies of the market make the depreciation of future goods bear a regular proportion to their degree of futurity. Accordingly, in the economy of nations, future goods are depressed, both in subjective and in objective value, more or less deeply in proportion as they are more or less remote from the present." *

In a word, the reason why a man who loans $100 is to receive back $106 at the end of the year is not because the capital loaned will produce $6 worth or more during the year, besides keeping itself up, but solely because men think as much of $100 now as $106 available a year hence. What shall we say of this? That there is a strong tendency in human nature to undervalue the future, in comparison with the present, is clear. The Productivists recognize this, and give it a place in their theory. They use the fact as affecting the sup-

* Bonar's translation of *Kapital und Kapitalzins*, vol. 2, p. 299; in *Quarterly Journal of Economics*, vol. 3, p. 341.

ply of capital, through controlling the disposition to save and accumulate. Dr. Böhm-Bawerk seems to make it the main cause of the demand for capital.

The first criticism upon the new Austrian theory is that if, in truth, men are, in dealing with this matter of the use of capital, habitually giving way to a moral and intellectual weakness, like that of undervaluing the future in comparison with the present, communities thus constituted ought to be growing continually weaker and poorer, like the spendthrift who pays high usury that he may the sooner eat up and drink up and smoke up his ancestral estate. If, on the contrary, the Productivists' view is correct,—namely, that capital bears an interest because its use becomes productive of wealth,—then we have at once an explanation of the origin of interest and of the almost universal phenomenon of the growing wealth and industrial power of communities. But what argument does Dr. Böhm-Bawerk adopt to prove that capital does not, in this sense, produce its own interest ?

I answer, first, he seems to think that the burden of proof in this matter is upon those who hold the familiar notion. He says that the Productivists must prove:

(*a*) That the employment of capital causes a greater amount of goods to be produced: this he calls physical productivity. So much, however, he is willing to concede. This point, then, is not in dispute.

(*b*) That the greater amounts of goods, so produced, have a greater value. While Dr. Böhm-Bawerk severely criticises many writers who have taken for granted the higher value of the larger quantity of goods, he admits that the fact of such superior value is fairly shown. Some of his disciples, however, have chosen to make more of this point than their master, and have written as if the presumption was that the larger amounts would result in no higher, if not, indeed, in a lower aggregate value. Mr. Bonar, in commenting upon this subject, says, "Great quantity and great value are, indeed, almost inconsistent with each other."

(*c*) The last thing which Dr. Böhm-Bawerk declares the Productivists are bound to prove is, not only that the value of the larger amounts of goods produced by the accession of additional amounts of capital will be higher than before, but that this value will be higher by the cost of the capital itself, and by something over, which something over must be the interest. For example, having granted that "the greater amount of goods produced by the help of capital has more value than the smaller amount produced without its help," he adds, "There is not one single feature in the whole circumstances to indicate that this greater amount of goods must be worth more than the capital consumed in its production; and it is this phenomenon of surplus value we have to explain." Please to observe that the larger values produced must at least repay the cost of the capital itself, or there will be no gain, but a loss, through the employment of the capital. If, in addition to repaying the cost of the capital, those larger values do not also produce a surplus, there can be no interest. In a word, what Dr. Böhm-Bawerk says the Productivists have to show is "the remainder of a net return in the gross return." The fact of a gross return is not questioned. Moreover, Dr. Böhm-Bawerk does not deny that habitually and normally the returns to capital are greater than the cost of capital, which excess is by him, as by us, called Interest. This he admits: There is a surplus value, after paying for the machine or other form of capital used. There is "a net return in the gross return." What he asserts is that this surplus, this net return, cannot be accounted for on the ground of the productiveness of the capital, but must be explained upon his own ground of the undervaluation of future goods, the higher estimation of present goods. Here the issue is joined between Dr. Böhm-Bawerk and the Productivists. By what line of reasoning, then, does the Austrian economist undertake to prove that the admitted surplus value, net return, or interest, is not due to the productiveness of the capital, as its sufficient cause?

Dr. Böhm-Bawerk's argument, if I rightly understand it, is this. Whatever be the total "gross uses" of, say, a machine during its life, competition would, on the Productivity theory alone, make this to be the value of the machine at the very beginning of its term of usefulness. If so, there could be no surplus value at the end of that term of use. Therefore, the Productivist theory cannot be true. For example, if a machine had been built at the cost of $50, and the gross uses of the machine through its life, say one year, were to be the value of $53, then there would seemingly be a surplus value of $3. And this, or something like this, the author admits, will normally be the case whenever such a machine is built. Habitually, machines and implements are constructed whose present price is less than is to be the sum of their gross uses. The difference, the surplus value, the net return, is interest. And this result, of a net return, a surplus value, an interest, is, he says, perfectly explicable on his own theory, because men value, say $53, a year hence, at only $50 to-day. But, aside from the operation of this principle of the normal undervaluation of future goods, the phenomenon of the $3 surplus cannot, he declares, be explained. Remove the operation of that principle, and the present value of that machine would at once necessarily rise to $53, that being the sum of its gross uses, no matter over how long a period protracted. If the machine is going to produce $53 worth sooner or later, it will be worth that sum now.* Therefore, it is the disposition to undervalue future goods which is the cause of interest. But for the productiveness of capital, indeed, interest could not be paid; yet, notwithstanding the productiveness of capital, interest would not be paid,—that is, the present value of the machine would rise to the sum of its gross uses,—were it not for the law of human nature thus invoked.

"Interest," says Dr. Böhm-Bawerk, "is a surplus, a remainder left when product of capital is the minuend and value of consumed capital is the subtrahend. The productive

* "Every good is nothing but the sum of its uses; and the value of a good is the value of all the uses contained in it." (*p. xiv.*)

"The productiveness of concrete capital is already discounted in its price." (*p. xi.*)

"To ascribe interest to the productive power of capital is to make a double charge for natural forces, in the price and in the interest." (*p. xi.*)

"The means of production do not account for nor measure the value of products. On the contrary, the value of products determines and measures the value of means of production." (*p. xii.*)—*Smart.*

power of capital may find its result in increasing the minuend. But, so far as that goes, it cannot increase the minuend without at the same time increasing the subtrahend in the same proportion. For the productive power is undeniably the ground and measure of the value of the capital in which it resides. If, with a particular form of capital, one can produce nothing, that form of capital is worth nothing. If one can produce little with it, it is worth little; if one can produce much with it, it is worth much; and so on;—always increasing in value as the value that can be produced by its help increases,—*i.e.*, as the value of the product increases." * And he quotes Menger's proposition, that the value of the means of production (goods of higher rank) is determined,† always and without exception, by the value of their products.

This is Dr. Böhm-Bawerk's proposition, as I understand it. It is to be met by a blunt denial of the assertion that, upon his assumptions, there would be the tendency supposed for the price of the machine to rise to the sum of its gross uses. Why, he asks, should not the machine sell for $53, since it is capable of producing that amount sooner or later? Why, I rejoin, should it do so? There is the best reason in the world why it should not, in that its cost is only $50, and it can be duplicated for that sum. But why, then, asks our author, should not the multiplication of machines bring down the value of the gross uses of each machine from $53 to $50? Because, I answer, men will not buy these machines beyond the point where they can get back the $50 which represents their cost, and also the $3 which represents the productive power of that $50 for one year, which, in other words, is the proper interest on the capital cost of the machine for the term during which it is to be used.

"Why is it," asks Dr. Böhm-Bawerk, "that there is not so great a quantity of any particular form of capital produced and employed that its employment returns just enough to replace the capital, and no more?" I answer, there might be, by misadventure and miscalculation, in the case of "any

* *Capital and Interest*, p. 179.

† "Determined by": yes, unquestionably. But is it necessarily *equal to* the value of the products?

particular form of capital." But, in regard to capital in general, this can never happen, because the supply of capital, owing to the urgency of human wants for immediate subsistence, can only be slowly and painfully increased; while the demand for it for industrial employment, owing to its productiveness, will always be such as to render it necessary to make provision for a payment to the owner, in the nature of interest, for its use.

It is true that production must take place in time; and, therefore, time is, in that sense, a condition, or, if you please, a cause, of interest. But it is only because time determines how often the productive process can be repeated—how often capital can be "turned over"—that time has to do with interest. Dr. Böhm-Bawerk himself, although he frequently represents the idea of means of production "ripening" into consumption goods, admits that it is not enough for interest that time should merely elapse. "This is not, of course, to say that, to make present goods out of future goods, it is sufficient that time should elapse and the future become the present. The goods themselves must not remain stationary. On their part, they must bridge over the gap which divides them from the present; and this they do through the production which changes them from goods of remote rank into finished and final products. If there is no productive process, if the capital is left dead, the means of production always remain undervalued future goods."

I confess that it begins to appear to me as if the whole difference were one of phrases only. We say that it is production which creates interest; but we add that the production must of course take place in time. Dr. Böhm-Bawerk declares that time creates the surplus value which becomes interest. But he adds that the lapse of time merely will not do this,—there must be production in that time. It seems, then, that the question is, whether we shall attribute the origin of interest to production in time or to time for production. Inasmuch as the production is the essential thing and the passage of time merely a condition, I confess I prefer the former mode of statement.

IV. But one thing more requires to be said. Dr. Böhm-

Bawerk is continually making the point against the productivity theory that value does not come from the side of production, but from the side of consumption. "Value," he says, "is not produced, and cannot be produced. What is produced is never anything but forms, shapes of material, combinations of material: therefore, things, goods. These goods can, of course, be goods of value; but they do not bring value with them ready made, as something inherent that accompanies production. They always receive it first from outside,—from the wants and satisfactions of the economic world. Value grows, not out of the past of goods, but out of their future. It comes not out of the workshop where goods come into existence, but out of the wants which those goods will satisfy. . . . What production can do is never anything more than to create goods, in the hope that, according to the anticipated relations of demand and supply, they will obtain value." *

If it be true that value does not come from the side of production, equally it is true that value does not come from the side of consumption. It comes from neither, but from both. Value arises from the relations of demand and supply. The desires of the community give rise to economic demand, but it is production which controls supply. Mere desire, or demand, will create no value, any more than will the expenditure of labor upon an object without reference to such desire or demand. Within the past fifteen or twenty years economists have been trying to make up for their previous neglect of consumption, as a department of political economy, by talking about consumption, and little else. A vast deal has been written of late on the theme,—good, bad, and indifferent; but of all the bad things that have been written there is nothing worse than that value comes from the side of consumption alone.

But there is more than this. I am not sure that, after all, it may not be said that, in a certain wide sense, wealth comes from the side of production, consumption—*i.e.*, demand—being assumed as of course. While it is true that in any

* *Capital and Interest,* pp. 124–5.

given case industry may expend itself upon the production of articles which will have no value, yet the desires of men for one kind of article or another are simply illimitable. Possible consumption is always indefinitely beyond the limit of the possibilities of production. Hence, in speaking of the production of wealth in general, not of specific articles, we have the right to take consumption for granted. But capital, except in the case of a few highly specialized instruments, contains a general productive capability, a power importantly to assist in the production of any and every article for which a preference, in the anticipated relations of demand and supply, may exist. Hence we have, it seems to me, the right to say that production, not in every possible case, but in the vast preponderance of all probable cases, will create value,—in the vast preponderance of all actual cases, does create value; and that natural interest represents the capability inhering in capital to assist in such production.

Two Masterpieces on Education

JAMES'S TALKS TO TEACHERS ON PSYCHOLOGY

AND TO STUDENTS ON SOME OF LIFE'S IDEALS. By WILLIAM JAMES, Professor in Harvard University. Author of "The Principles of Psychology," etc. xi + 301 pp., 12mo, gilt top. $1.50, *net.*

In writing these "Talks" out, the author has gradually weeded out as much as possible of the analytical technicalities of the science, while preserving all of the concrete practical applications. In their present form, they contain a minimum of what is deemed "scientific" in psychology and are practical and popular in the extreme. In the last two articles the author trenches upon ethical grounds and speaks for the rights of individualism in a way which readers of his *Will to Believe* will recognize.

Contents: Psychology and the Teaching Art; The Stream of Consciousness; The Child as a Behaving Organism; Education and Behavior; The Necessity of Reactions; Native and Acquired Reactions; What the Native Reactions Are; The Laws of Habit; The Association of Ideas; Interest; Attention; Memory; The Acquisition of Ideas; Apperception; The Will; The Gospel of Relaxation; On a Certain Blindness in Human Beings; What Makes Life Significant.

WALKER'S DISCUSSIONS IN EDUCATION

By the late FRANCIS A. WALKER, President of the Massachusetts Institute of Technology. Edited by JAMES PHINNEY MUNROE. 342 pp., 8vo. $3.00, *net.*

The author had hoped himself to collect these papers in a volume.

The Dial: "A fitting memorial to its author. . . . The breadth of his experience, as well as the natural range of his mind, are here reflected. The subjects dealt with are all live and practical. . . . He never deals with them in a narrow or so-called 'practical' way."

Literature: "The distinguishing traits of these papers are open-mindedness, breadth, and sanity. . . . No capable student of education will overlook General Walker's book; no serious collection of books on education will be without it. The distinguished author's honesty, sagacity, and courage shine on every page."

The Boston Transcript: "Two of his conspicuous merits characterize these papers, the peculiar power he possessed of enlisting and retaining the attention for what are commonly supposed to be dry and difficult subjects, and the capacity he had for controversy, sharp and incisive, but so candid and generous that it left no festering wound."

HENRY HOLT & CO. **29 West 23d St., New York**
378 Wabash Ave., Chicago

Author Walker, Francis Amasa
61064
Ec
W179d
Title Discussions in economics and statistics. Vol.1.

UNIVERSITY OF TORONTO
LIBRARY

Do not remove the card from this Pocket.

Acme Library Card Pocket
Under Pat. "Ref. Index File."
Made by LIBRARY BUREAU