

power of the community, as a whole. At once the consumption of those articles which are least essential to comfort and decency is checked. If we suppose the thousands of articles known to the market to form twenty-six groups, A to Z, their utility to the consumer regularly declining from the top of the list to the bottom, we may assume that the first effect of the calamity will be to reduce the consumption of articles forming groups X, Y and Z. No matter, as we said, where the blow first falls, the laborers affected produce for the time less, and must limit their own consumption accordingly, which they do by restricting their use of articles below W.

The labor and capital employed in groups X, Y and Z, can not easily or soon be transferred to other groups. The laborers, especially, find that the present is no time to seek employment in other avocations. They must stay where they are, and do the best they can there. Hence they find themselves employed on part time, and at reduced wages. The sums they formerly earned were expended in purchasing articles all the way from A to Z. In their sudden poverty they are obliged to cut off their own consumption of all articles except those which are necessary to comfort and decency, say from A to M, inclusive.

But this action of producers X, Y and Z involves a diminished demand for products, N to W. Each group of producers, at this end of the line, are obliged to curtail still further their consumption of articles X, Y and Z, while producers from S to W begin to restrict their use of articles below T. This action, however, becomes at once the cause of new effects. The unfortunate representatives of X, Y and Z are now obliged wholly to deny themselves all products from H downwards; producers T to W, in turn have to give up indulgence in products below N; producers N to S, in consequence, no longer purchase products below R.

The shock next reaches groups I to M, who have to diminish their consumption, to correspond to the reduced demand for their own products; X, Y and Z are now glad to get enough of A, B, C and D to barely subsist upon; while S, T, D, U, V and W carry their retrenchment upwards, till they stop at

M. And so the movement goes forward until the favored producers A to D—favored, in that the articles they produce are of vital importance—experience some diminution of demand, and, producing less in consequence, have less to give in exchange for the products of others. So a stone, thrown into a lake, sets in motion a wave which extends outwards in all directions till it reaches the bank, even in the most retired nook along the shore.

238. Aggravation of Economic Shocks.—It is evident that, were the community perfectly intelligent and self-possessed, the ultimate result of this play of forces would be the distribution of the whole initial shock over the entire producing body. No addition would be made to the shock as the movement proceeded, and the effect upon each successive group of producers reached would be less and less. Those producing articles the most essential to life, health and social decency would suffer to hardly an appreciable extent, as the wave set in motion by the rock thrown into the lake becomes the merest ripple against the shore.

This is all that is necessarily involved in the propagation, through economic media of perfect elasticity, of an original blow like that assumed. In fact, industrial injuries are at times distributed in this way throughout the producing body, without panic, without apprehension, even without observation.

Let, however, the shock be sharp and severe, and communicated in some startling form, and let it occur when the public mind is in an apprehensive mood, or when the commercial body is unstrung by political or social disturbances, and we may see the impulse propagated with increasing force, from subject to subject, till the movement acquires fearful violence.

239. The Industrial Panic.—The commercial panic we are all familiar with, by experience or report. We know how some slight cause, acting on the fears and imaginations of men, will overthrow the financial structure of a nation in a few weeks, perhaps days, prostrating the proudest houses, and spreading ruin far around. There is nothing that can

stand against panic. One man's fear makes another man afraid. One man's fall brings down another, who, but for that, might have stood firm; and thus the mischief proceeds, from bad to worse. So much for the trading body.

The progressive aggravation and acceleration of the forces of mischief throughout the producing body takes place not less surely, though it is here less ostensive.

A manufacturer feels the demand for his goods fall off somewhat. In ordinary times he would receive the fact as an intimation to reduce his production, but only to a corresponding extent. Indeed, in good times he would receive that intimation in a somewhat skeptical spirit. He would not be disposed to believe that any serious check was to be experienced. He would look to see trade start up again, and, in this mood, would reduce his production somewhat less than correspondingly. To that extent, he would speculate: that is, would anticipate events and discount the future. For the moment, then, he would transmit the shock, not aggravated but mitigated.

But let the shock be at first severe, and let it come upon the public mind in a suspicious mood, and the matter will take another turn. The merchant feels the demand for his goods fall off abruptly. He fears there is more to come. He is determined not to be caught with a large stock on his hands, and, in his orders to the manufacturer, he exaggerates the natural and proper effect of the change in the market. The manufacturer, on his part, knows nothing directly of the actual falling off in demand. He only learns it as it comes to him heightened by the apprehensions of the merchant. In his turn, he exaggerates the evil and reduces his production more than proportionally. His anxiety now is, not to make a profit, but to avoid loss. He knows he will be safe if he runs his mill on half or three-quarters time.

And it is here that the cause indicated in par. 231 begins to operate with great and destructive force. The entrepreneur's personal concern in production being derived wholly from his contemplated profit, which may be but a small percentage of the value of the goods produced, his individual

interests may, for the time, become divorced from those of his laborers or of the general community. In his anxiety to save himself, he may act with as much needless cruelty as men do when panic-stricken in a fire or a wreck.

240. But the action of manufacturer Z, whether wisely or unwisely taken, becomes, as we have seen, an element in the conditions of production for all the lower letters of the alphabet. As he pays less wages, his workmen have less to spend for the products of other branches of industry. The merchants in these lines, feeling the falling off in demand, exaggerate it in their orders to manufacturers, especially manufacturers X and Y. These, in turn, apprehensive of worse to come, curtail their operations more than correspondingly, and so the movement proceeds, with increasing violence.

And, let us repeat, however unnecessary Z's action in reducing his production below a certain point, yet, if he actually does so, that action makes a corresponding reduction in X and Y's operations a necessity of their situation: just as truly so as if Z had a good reason for what he did. And if, in turn, X and Y become alarmed, and overdo the thing, that of itself constitutes an obligation upon manufacturers higher in the alphabet to cut down work and wages.

241. *How Far may this be Carried?*—Two questions arise upon this view of the power of apprehension and suspicion to aggravate the force of any industrial or financial shock. The first: how far may it be carried? the second, how long may it last?

May the movement to check production proceed until all industry is locked fast in "a vicious circle": no one producing, because others will not consume, while no one is able to consume the products of others because he himself produces nothing with which to buy them?

I answer, no. The staple industries, especially those yielding the necessities of life, will never be suspended. The demand for their products is so constant and certain that panic has little power over them. Groups A to D will, therefore, continue to produce nearly as much as before; not,

indeed, quite so much, because there will be individuals, thrown out by the revolution at the foot of the alphabet, who are unable to find a new place where they can produce enough to purchase even the barest subsistence. Groups E to H, or K, moreover, having to do with articles essential to comfort and social decency, will withstand the shock communicated to them sufficiently to maintain a production not very far below that of good times.

Now, so long as A to D produce liberally, and E to H or K, still produce considerably, all persons employed within those groups will have the means of purchasing the products of groups further down the list; and so industry will be kept alive, though but just alive, in those groups which produce articles not essential to life, or health, or decency.

242. How Long may such a Condition Last?—I answer: in theory, it may last indefinitely. Practically, it is liable to be terminated, after a longer or shorter period of suspense, by reviving courage and enterprise on the part of men of affairs, or through the stimulus to production administered from some quarter. It may be so slowly as to be almost imperceptible; it may be so rapidly as to outrun calculation, that the expansion takes place. This will depend much on the natural temper of the community; much on the immediate cause provoking renewed enterprise; much on accident.

The one essential condition is that speculation be initiated, that is, that men begin to look ahead, to anticipate demand, and to discount the future.

One man begins to produce, no longer on orders, no longer cautiously and fearfully, as if it were too much to believe that his goods will be taken off his hands, but in a sanguine spirit, assuming the initiative in production, and boldly encountering its risks. Producing more largely, his workmen have more to offer for the products of other industries, which is of itself a reason for a larger production in these branches, whose managers and proprietors respond in the same spirit. Finding the demand increasing, they act as if they believed it were about to increase still further. They produce somewhat

in anticipation, and thus give their hands more to offer in exchange for the products of still other industries. From day to day the movement proceeds, gathering force as it goes, and production swells continually under the contagious influence of hope and courage, just as before it shrank and shriveled under the breath of fear and panic.

I have said that peculiarities of national character have much to do with the speedy or tardy revival of production. Nowhere ought recovery to be more rapid than in the United States. Among no people is there more of elasticity, greater alertness of action, more readiness to assume responsibilities and to run risks. Nowhere, too, does nature afford an ampler margin for subsistence, or more abundant material for the repair of mistakes and misadventures.

243. Two Examples.—The history of the panic of 1857 offers a capital illustration of the facility with which the American people recover from the sharpest contraction of productive industry, where nothing withstands the revival of trade, and where no second shock remains to be experienced. The country was in a generally sound condition, both as to capital and credit, when the blow fell. As the result, industry had scarcely shrunk to its minimum, under the influence of panic, when the enterprise and courage of merchants and manufacturers began to cause expansion. Within a few months production was again at the limits of our capital power and labor power.

When the panic of 1837 came, the country was in a wretched condition, through the misapplication of capital and the wide extension of credit.

The buoyancy of the national temper led, even at this time, to a speedy revival; but the succeeding shock of 1839 threw the country back again, and the fear and distrust thereby engendered kept the energies of the nation in a state of partial repression through a long period. Such may be the influence of a single instance of hard fortune upon reviving industry.

Quite as prejudicial to expanding production is the continual apprehension of hostile or meddlesome legislation. When the whole body of business men are sore from disasters; when

much of the industrial and commercial structure still lies in ruins, it takes but little to check the disposition again to adventure capital. That little is abundantly supplied by the popular apprehension of legislation unfavorably affecting money and credit. It need not be a great thing under a man's arms which will so increase his margin of buoyancy as to enable him to float for hours. It is a very small thing around a man's neck which will so diminish his margin of buoyancy—narrow at the best—as to drag him to the bottom.

PART IV.

DISTRIBUTION.

CHAPTER I.

THE PARTIES TO THE DISTRIBUTION OF WEALTH.

244. Distribution as a Department of Political Economy.

—Under the title, Distribution, we inquire, what are the forces which divide wealth among the several persons, or classes of persons, who have taken part in its production?

In a primitive condition of society, the problem of distribution is a simple one. Three hunters join in an expedition, and at the conclusion of the chase, divide their game into three equal parts. If boys, or cripples, or men of less than ordinary force or skill, are taken into the partnership, it is easily determined what portion of a full man's share each such person shall receive.

In a highly organized community, however, the division of the product of industry into shares corresponding to the number of persons who have taken part in production, is a complicated problem.

245. *The Division of the Web of Cloth.*—For example, let us take the case of a cotton factory, at Lawrence, which produces in a given time a million yards of cloth. We may suppose that this is all woven in one piece, and that each person who has, in any way, contributed to making this giant web, advances in a certain order to receive his share.

The agent for the water company first appears, and cuts off some thousands of yards, inasmuch as his company furnished the power that drove the wheels below, that turned the spindles above. Then comes the owner of the land on which the