

CHAPTER VII.

TWO OTHER SHARES IN DISTRIBUTION.

357. We have discussed the distribution of the product, under the entrepreneur organization of industry. We have seen that this product is divided into four principal shares, rent, interest, profits and wages, corresponding to four classes of claimants. We have now to inquire what becomes of certain portions of the product, which do not appear to go into either of the four shares enumerated. And first of the amount taken by government.

358. *Taxation.*—There has long been a difference of opinion among economists, whether taxation should be a title in distribution or in consumption. Prof. Senior held to the latter treatment; Prof. Jevons favored the former.

The difference is just this: Shall we regard government as a fifth original claimant upon the product of industry, taking its share under the name of taxes, as the land-owner takes rent, the capitalist interest, the employer profits, and the laborer wages; or shall we regard the product as divided into four shares, out of each of which is paid, as one form of the owner's consumption of his income, a sum, greater or less, for the sustentation of government, just as out of each such share are paid sums, greater or less, for shelter, food, fuel, etc.?

The question is not a very important one in a general treatise on Political Economy, and neither decision solves all the difficulties of the case, since the functions of government are so various and so widely diverse.

On the one hand, it is said that government is a great producer and should be regarded as a claimant in distribution, taking its share under the name of taxes. Government builds and keeps in repair roads and bridges and breakwaters and perhaps, also, canals and railways, for the purposes of trade and industry. Government maintains a constabulary and court-houses and jails, that the honest and industrious may work without hindrance or even fear of molestation. Govern-

ment does a great many other things which minister directly to the creation of values, vastly increasing the amount of the product over what it would have been without the intervention of this agency.

On the other hand, it is said that a great part of what government does has not the production of wealth as its primary object, and that much does not even contribute indirectly to that end, as in the case of the vast military and naval expenditures of the nations of Europe, which have for their purpose, not the preservation of civil peace, but to maintain the existence or extend the power of nationalities or of dynasties. Secondly, whatever the objects of expenditure, government does not obtain its revenue through the agencies of exchange, but by forcible collection, men contributing, not because government has made it worth their while to do so, not because government is prepared to render an equivalent, but simply because government demands the contribution and will have it. For these reasons, it is urged, the revenue of the State should not be treated as a share in distribution, but as a form of consumption.

359. As has been said, the question is not free from difficulties whatever course be taken. A thoroughly consistent treatment of the subject of taxation would require the appearance of this title in more than one department of political economy.

(a.) The function of government in the creation of values is extensive and important, under the modern organization of industrial society. The building and maintenance of roads and bridges, of breakwaters and lighthouses, the opening of harbors, and the improvement of rivers, all directed towards a larger production of wealth, form a notable part of the industrial agencies of all progressive communities. These things, if done on the initiative and at the expense of individuals, who looked to tolls, fees, and dues for their reimbursement, would be by all deemed productive, in the fullest sense. They are not less so when done by government, with funds raised by taxation.

(b.) The methods of taxation, the subjects of imposition,

the agencies of collection, so far as they affect the ultimate incidence of taxation, that is, so far as they determine that the pressure of taxation shall finally rest here and not there, on this class and not on that, fall within the department of Distribution. The questions, *e. g.*, whether a tax on wages results in a reduction of the comforts, luxuries, and necessities enjoyed by the laborer, or is, in the end, paid by the employer; whether a tax on rent rests upon the landlord, or is by him shifted upon the consumer of agricultural produce: these and the like are questions in Distribution.

(c.) The effects of the expenditure by government of a certain amount of wealth, as contrasted with the effects of the expenditure of the same amount by the classes who paid the taxes that put the treasury in funds, belong to the department of Consumption.

(d.) The questions, how the largest amount of revenue can be secured with the smallest cost of collection; how the needed revenue can be procured with the least irritation of the public mind; how the highest assurance can be obtained as to the proper custody and disbursement of funds; these and the like are questions in fiscal or "Cameralistic" science, and not in economics strictly considered.

(e.) In addition to the question (b), what is the ultimate incidence of any existing or projected body of taxes: who, in the last resort pays them; whose sum of enjoyment is actually diminished by the imposition, we have a question, to which writers on taxation devote a large part of their space, *viz.*, who ought to pay the taxes of any given community: what classes should contribute to the support of the government, and in what proportions? This is purely a question in political equity.

360. The foregoing would be the true logical treatment of taxation. In an elementary treatise, however, I do not deem it worth while to deal so elaborately with this subject, and will postpone to Part VI. whatever I have to say regarding taxation, except so far as it may be desirable to speak of the influence of government expenditures when we reach the department of Consumption.

361. **The Speculating Class.**—Incidental to all the processes of production and exchange is the chance of gain or loss through the rise or fall of prices during the interval between buying and selling; between making and selling. This gain or loss may be slight, in any given case, or it may be considerable. There were many manufacturers in the United States who made fifty or a hundred thousand dollars, clear, by the rise of cotton, on their hands, in 1861 and 1862, and this without intentionally speculating at all, but simply through holding a large stock for the purposes of legitimate manufacturing. At other times, the daily, weekly, monthly fluctuations of prices will be very slight, now all on one side, for a long time; now, all on the other side; then, oscillating backwards and forwards across what we may call the average price.

To a certain extent, these fluctuations of price may be trusted in time to offset each other, as regards any individual merchant or manufacturer. Yet after all the effect of this is exhausted, there will still be a chance of gain or of loss, which may be so considerable as to become an important element in determining the fact of profits, or even in deciding the solvency of the merchant or manufacturer, in spite of the strictest observance of the rules of prudence, and in spite of the greatest energy and industry.

Within this field, so far as the great body of business men are concerned, fortune holds undisputed sway. They lack the faculty to discern the signs of the future. They do the best they can to produce good articles cheap, to meet the demands of the public as to fashions and styles, to keep expenses down, and to avoid losses by bad debts. When they have done this, they have done all they can for themselves; and whatever gains or losses come to them through the fluctuations of the market, come as if wholly by chance. There are other men who have a rare power to apprehend in advance the movements of the market. It is always found that when materials begin to rise, these men have a large stock on hand. Let a disastrous fall occur, these men are never caught by it. Whichever way the market turns, it seems as though the sole object were to enrich these fortunate beings.

Of course, this is speculation ; yet when it is carried on only incidentally to a legitimate manufacturing or trading business, we do not call these men speculators.

362.—In every progressive commercial community, however, is found a large and increasing number of persons who, either possessing this faculty of discerning the signs of the market, or flattering themselves they possess it, make a business of buying or selling according to their anticipations of a rise or a fall. These persons are not manufacturers ; they are not merchants, in any proper sense ; they do not buy from producers or sell to consumers ; they are neither importers, jobbers, wholesalers or retailers ; they have perhaps no stores or warehouses or stocks of goods ; possibly, would not know by sight a sample of the commodities they deal in. They simply bet upon the market, having a well or ill-founded opinion of their own shrewdness and coolness in doing so. They may lose a fortune, or make a fortune.

The difference between the two kinds of speculation may be illustrated as follows : A miller who grinds two hundred thousand bushels of grain a year, may, if he have this peculiar kind of insight, by carefully watching the market, buy his wheat at two cents a bushel less than he would have had to pay for it had he bought it from time to time as he needed it for grinding. This is speculating. Moreover, after grinding, he may hold the flour weeks, or months, until he sees his chance, and then, by going into the market at the right moment, he may sell it at ten cents a barrel more than if he had sold it as it was made. This again is speculating. Now here is a saving in materials of \$4,000, and a gain on the price of the product of, say, \$4,000. After making allowance for interest on the extra capital required to "carry" the wheat and the flour, and for the cost of storage, the addition made hereby to the miller's profits for the year would be a tidy sum. On the other hand, a corn-broker may buy and sell twenty thousand bushels a week, buying and selling on all sorts of time, ten days, twenty days, sixty days, six months, every transaction being a bet upon the price of corn at a future date. When the broker buys, he bets that the price will rise ; when he sells,

he bets that it will fall. The men from whom he buys have as little corn as he has ; the men to whom he sells would know as little as he what to do with actual corn, were any of it to come in their way.

Of speculating as a business, two things may be said. First, it is surprising what an enormous aggregate of transactions a man of little capital and no brains to speak of, may conduct in the course of his life, and yet neither lose nor gain much if only he confines himself to small individual operations. Secondly, not less surprising are the gains of speculation when conducted by a real master. Every year an appreciable portion of the product of industry passes into the possession of the men of this class. In every highly commercial country, the largest fortunes are those made by speculation. The fortunes so made, however, are not nearly so numerous as those made by trade and industry.

363. Speculation is not wholly without its advantages to the community. If corn is likely to be scarce and, by consequence, high, four months hence, the man who now begins to buy does, in so far, call attention to that probability. By raising the price he, so to speak, advertises for an increased supply to be brought in from the outside, and for greater carefulness in husbanding the existing stock. If beef is likely to fall in price, sixty days hence, the man who now sells does what lies in him to give notice of an excess of supply, and thus affords duller-witted holders opportunity to get rid gradually of their stock, instead of encountering an utter breaking down of the market a little later. In a word, speculation while confined within moderate limits is the agent for equalizing supply and demand and rendering the fluctuations of price less sudden and abrupt than they would otherwise be.

There are causes, however, which go to render speculation extravagant, carrying it beyond all reasonable bounds, multiplying the numbers of the speculating class and vastly increasing their gains, at the expense of the sober, productive industries of a country. Foremost among these is a vicious money system. The extent to which this cause engenders

speculation may be seen in the history of the "Continental" money of the American revolution, of the "Assignats" of the French revolutionary period, and of the "Greenbacks" of the war of Secession. With prices fluctuating violently and rapidly, the opportunities for acquiring large wealth by speculation are increased ten-fold, it may be a hundred-fold. This is too much for human nature: too much for honesty, too much for prudence. A subtle poison runs through the veins of the community, turning the heart to crime and the brain to folly. The face of society changes, under such an evil passion, as suddenly and as fearfully as does the face of a man stricken with a deadly fever. On every hand breaches of trust testify to the weakness of the principles of virtue under such a strain, while honest and discreet modes of obtaining a livelihood are disparaged and abandoned for those which promise quicker and larger, even if illicit, gains.

364. Loaded Dice.—Of much speculation, it must be said that it is wholly beyond economic as well as moral sympathy. If all speculation is gambling, this is gambling with the dice loaded. By means of combinations and corners, the markets are often profoundly influenced in order to produce the very fluctuations on which the grain or petroleum or stock gamblers have made their bets. The mischiefs suffered by trade and industry, originating in this source, are monstrous, even incalculable. Whether they can in any degree be repressed by law, is a grave political question, with which we are not called to deal.

CHAPTER VIII.

THE REACTION OF DISTRIBUTION UPON PRODUCTION.

365. Actual Production Compared with Productive Capability.—In a previous chapter (Chapter IV., Part 2), we considered the elements which enter into the productive capability of a community, and indicated, as the one most important question with which political economy has to deal, the

inquiry, why it is that the actual production of any community falls so far short of what its land power, its labor power, and its capital power are jointly competent to effect.

It was there stated that only when we should have passed through all the departments of political economy should we be in a position fully to answer this question.

366. Even under the title, Production, however, we saw that grave liability to loss of force inheres in the industrial structure of society especially under the entrepreneur system, by which the labor power and the capital power of the community become committed to numerous highly technical employments, from which they can not readily release themselves, and, within those employments, become subjected to the direction of a comparatively small number of individuals, whose peculiarities of character, of habit, of station, seriously modify the application of capital and labor to production; whose mistaken aims, whose erroneous impulses, may divert these forces from that object; whose accidents of fortune may impair the energy of the industrial movement or paralyze it altogether.

Again, under the title, Exchange, we saw (Chapter VII., Part 3) that still further and even more grave liabilities to loss of industrial force inhere in that commercial system which, by separating producer and consumer, often by wide intervals, sometimes by half the circumference of the globe, introduces the opportunity for serious misunderstandings between these two classes; misunderstandings which, when intensified by panic, may at times result in a wide and long-continued suspension of productive activity.

367. We are now to inquire respecting the reaction of Distribution upon Production. Is here a liability to a still further loss of productive force? Discarding the terms *just* and *unjust*, or *equitable* and *inequitable*, as applied to the distribution of wealth, let us ask whether there is found, in a division of the product of industry according to certain proportions, between the several parties who have united in production, a sufficient cause for a smaller production of wealth in the future