

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

than would result from a division of the same product between the same parties in different proportions?

I think we have at various points, in our treatment of distribution, caught views of the subject which must have satisfied us that it is possible that the product of industry, in any given time and place, may be so divided among the persons and classes of persons who have contributed to its production, as to impair, in greater or less measure, the productive force up to that time existing; perhaps, even, to generate influences which shall thereafter act with increasing violence in reducing the productive capability of the community. It may be well, however, to stop a moment at this point and to treat distinctly and separately the possible reaction of distribution upon production.

368. The Landlord and the Capitalist have an Economic Advantage.—The consideration nearest at hand, in this connection, would seem to be this, *viz.*: that among the four several main classes of producers, there are wide differences as to the liability, to which these are respectively subject, of being so cut down in their remuneration, in any given time and place, as to suffer a loss of force thereby. Two of the four classes, *viz.*: landlords and capitalists, clearly occupy a position of what may be called economic advantage. They have at their command certain material agencies of production by withholding the use of which they can inflict a relatively greater injury upon others than they would themselves suffer. In the expressive phrase of children, they have their hands on "the upper end of the stick." They are in a position to make bargains for themselves to the best advantage.

It is true that, unless the landlord find a tenant, he can have no rent. Yet a landlord who has five farms to let, may put a great pressure upon each and every one of six would-be tenants. Moreover, the landlord is, in general, much more wealthy than his tenant, and is thus able to stand longer out of his remuneration, in case there comes to be a contest between the two as to the terms on which the land shall be rented. I might add that, if a given farm be not rented at all, for a season, it may not be altogether a loss to the owner.

The orchard will bring forth its crop of fruit without the intervention of a tenant; the grass will grow as thick and high as usual, on the "mowing"; the wood lots will all the time be acquiring value; the arable lands will have a rest which it might possibly have been good policy to give them, even at the sacrifice of rent.

Again it is true that, unless the capitalist lends his accumulations, he can not acquire interest; yet his loss by standing out of his interest, for a given season, may be far less than that sustained by the entrepreneur through losing the use of the capital on which he had relied. The latter person may have become so engaged that the failure to effect a loan, while it cost the capitalist but one and a half per cent. during three months, might require the entrepreneur to sell goods at a great sacrifice, or to give up some contract which promised to be highly advantageous.

Enough, perhaps, has been said to justify the assertion that the capitalist and landlord occupy positions of economic advantage, so far, at least, that they are not likely to suffer injury, except by violence or legal spoliation.

It is another question, whether the economic advantage enjoyed by these two classes is so great as to place it in their power to do an injury to other classes, that is, to cut down the shares going to those other classes, out of the product of industry, to such an extent as to impair their productive force, and, by so doing, to diminish the productive capability of the community.

369. Shall the Capitalist be Hampered?—In remarks on Usury Laws, which will be found in Part VI., I shall express the opinion that, in certain states of industrial society, the lending class have so great an advantage over the borrowing class, which, in such states of society, consists generally of distressed persons, as practically to place an individual borrower completely at the mercy of the usurer, who is able to exact a rate of interest which is not only irrespective of the economic service rendered through the loan, but soon becomes destructive of the borrower's credit and financial integrity, reducing him speedily and certainly to bankruptcy.

and perhaps to prison. Under conditions like these, I shall suggest that laws limiting the rate of interest, in protection of the would-be borrower, may not be as unwise and as unstatesmanlike as they have generally been considered. On the other hand, I shall undertake to show, that in advanced stages of industrial society, where commerce and manufactures are widely extended and are largely carried on by means of borrowed capital; where, therefore, borrowers are no longer distressed persons; but the most active and prosperous members of the community borrow largely, freely and of choice, as a matter of business and with a view to profit—in such stages of society laws limiting the rate of interest merely lay an extra burden upon those who are at a peculiar difficulty in borrowing. In the absence of such laws, those persons will benefit by the greater plentifulness of capital, the greater ease of borrowing and the consequently lower rate of interest, which, in general, result from freedom regarding contracts for loan, in a commercial or manufacturing community. The business classes, active, alert, aggressive in competition, will make rates of interest by which the less fortunate members of society will profit.

370. Shall the Landlord be Restrained?—In the chapter on rent, the opinion has been expressed that, in a community like the United States, or Canada, or Australia, the landlord may make the utmost out of his economic position without working industrial injury to the tenant, owing to the mobility of the population, their readiness and resourcefulness, their self-reliance and economic aggressiveness. In countries occupied by populations of a lower industrial character, we saw that, unless the constraints of law* or public opinion inter-

*“The land of a country presents conditions which separate it economically from the great mass of the other objects of wealth—conditions which, if they do not absolutely and under all circumstances impose upon the state the obligation of controlling private enterprise in dealing with land, at least explain why this control is, in certain stages of social progress, indispensable; and why, in fact, it has been constantly put in force whenever public opinion or custom has not been strong enough to do without it.” . . . “And not merely does economic science,

vene, the vast economic advantage possessed by the landlord class, as against a peasantry ignorant, inert and perhaps numerically in excess, is likely to operate with increasing severity, to impoverish the tenant class and to ultimately reduce their industrial efficiency, through deprivation of necessary clothing, food and shelter, as well as through the loss of hopefulness and self-respect. We saw that this might go on until almost the last stage of human misery should be reached, as in Ireland, during the period before the great famine.

371. Invidious Treatment of the Landlord and Capitalist.—What might be true in a contrary case: how far laws prohibiting or limiting the payment of rent or interest framed, not with a view to offset certain weaknesses or unfortunate liabilities on the part of the tenant or borrowing class, but drawn in a spirit hostile to the owners of land or of capital, and designed to confiscate, for the benefit of other classes, or of the community as a whole, some part or all of what would otherwise be paid on these accounts: how far such laws might impair the productive capability of the community, we shall have occasion to discuss in Part VI., under the titles, The Unearned Increment of Land, and Usury Laws. I will so far anticipate that discussion as to say, that, while in commercial or manufacturing communities, the normal effect of severe restrictions upon the payment of interest is at once to diminish the accumulation of capital for productive uses, and to prevent the existing body of capital from being applied where it will do the most good, such laws are, in such communities, so easily evaded that their practical influence is not very great.

Secondly, the effects upon the cultivation of the soil of a reduction or confiscation of rent, by legal means, are not so clear as to be beyond dispute. The theory which underlies the land laws of nearly all states that can be called civilized, is, that the private ownership of land, with the incident of the acquisition by the owner of an “unearned increment” due to

as expounded by its ablest teachers, dispose of *à priori* objections to a policy of intervention with regard to land, it even furnishes principles fitted to inform and guide such a policy, in a positive sense.”

—PROF. JOHN E. CAIRNES.

the exertions and sacrifices of the community as a whole, is essential to industrial progress; and that not only those who are so fortunate as to be among the owners of land, but even those who have been born into the world without a title to a foot of soil, are benefited, and largely benefited, by the fact of private ownership. At the same time, it probably would not be claimed by any one that the care and pains of the individual owner, to secure the proper cultivation and preservation of his land, are proportional to his share of the product. I see no reason to believe that a reduction of rent in the case of a given tract of land, through, say, some new economic force, would diminish the care and pains taken by the owner in respect to his property, so long as his interest remained still considerable.

There have of late years appeared certain writers who claim that private ownership is not necessary to the fullest use of the soil which forms the natural endowment of any community. At least, they claim, the incident of an "unearned increment" is not necessary. They assert that all of rent proper (exclusive, that is, of the returns to actual investments of capital, in improvements) can be cut away without impairing the productive uses of the soil, though they admit that so much of the former rent might advantageously be left to the so-called owner as would constitute a reasonable commission to him, as the agent of society, for taking all needed care and pains with respect to the land. I believe this view to be altogether erroneous; but it must be confessed that the error can not be shown as clearly and strongly as in the case of the argument for prohibiting interest. I shall defer to Part VI. whatever I may have to say further on this subject.

372. Distribution as between Employer and Laborer.—So much for the possible action of distribution upon production, through causes operating to affect the shares of the product of industry going, as rent or as interest, to the owner of land or to the owner of capital.

Of much more practical importance, in these modern times, is the influence exerted upon future production by the division of the remaining product between the employing and the

laboring class. I shall undertake to show that greatly to change the proportions existing between these two shares, at any time, may be to set in operation causes which will affect the future productive capability of the community, it may be to a wide extent, it may be through long periods of time.

373. Beating Down Wages.—The economists of ten or fifteen years ago, urged very strongly that a reduction of wages could not prove of ultimate injury to the laboring class. Thus Prof. Cairnes says:

"Supposing a group of employers to have succeeded, as no doubt would be perfectly possible for them, in temporarily forcing down wages, by combination in a particular trade, a portion of their wealth previously invested would now become free. How would it be employed? Unless we are to suppose the character of a large section of the community to be suddenly changed in a leading attribute, the wealth so withdrawn from wages would, in the end, and before long, be restored to wages. The same motives which led to its investment would lead to its re-investment, and, once re-invested, the interests of those concerned would cause it to be distributed amongst the several elements of capital in the same proportion as before. In this way covetousness is held in check by covetousness, and the desire for aggrandizement sets limits to its own gratification." And in a similar vein, Prof. Perry, of our own country, wrote: "If in the division between profits and wages, at the end of any industrial cycle, profits get more than their due share, these very profits will wish to become capital, and will thus become a larger demand for labor, and the next wages fund will be larger than the last."

374. Had we already discussed the principles which govern the consumption of wealth, it would be easy to show that Professors Cairnes and Perry are mistaken in their view of the necessary effects of an enlargement of profits at the expense of wages, inasmuch as a portion of such enhanced profits, instead of becoming capital (that is, wealth devoted to reproduction), might become fine horses and houses, fine clothes and opera boxes; while another portion might take the form

of coming to the office one hour later in the morning and going home one hour earlier in the afternoon.

But, passing by this point, the entire argument by which the English and American economists generally have sought to establish what we may call "the economic indifference of the rate of profits," is still further defective, in that it neglects those very important considerations which relate to the possible degradation of labor: that is, the reduction of the laborer from a higher to a lower industrial grade.

375. The Degradation of Labor.—The constant imminence of this change, the smallness of the causes—often accidental in origin and temporary in duration—which may produce it, and the almost irreparable consequences of such a catastrophe, can hardly be set forth too strongly.

The assumption which underlies the statements I have quoted is that the laboring classes, while suffering economic injury from any source, will themselves remain firm in their industrial quality, and await the operation of the restorative and reparative forces which shall, in time, set them right.

The human fact, so often to be distinguished from the economic assumption, unmistakably is that there is, on the part of the working classes, unless protected in an unusual degree by political franchises, by the influence of public education, and by self-respect and social ambition, a fatal facility in submitting to industrial injuries, which too often does not allow time for the operation of the beneficent principles of relief and restoration. The industrial opportunity comes around again, it may be, but it does not find the same man it left: he is no longer capable of rendering the same service; perhaps the wages he now receives are quite as much as he earns.

376. Let us consider the possible effects of a considerable reduction of wages. If the amount previously received had allowed comforts and luxuries, and left a margin for saving, the reduction would probably be resented, in the sense that population would be reduced by migration or by abstinence from propagation, until the former wages should be, if possible, restored. But if the previous wages had been barely sufficient to furnish the necessities of life, and especially if the

body of laborers were ignorant and unambitious, the falling off in the quantity and quality of food and clothing and in the convenience and healthfulness of the shelter enjoyed would at once affect the efficiency of the individual laborer.

With less food, which is the fuel of the human machine, less force would be generated; with less clothing, more force would be wasted by cold; with scantier and meaner quarters, fouler air and diminished access to the light would prevent the food from being fully digested in the stomach and the blood from being duly oxydized in the lungs, would lower the general tone of the system and expose the subject increasingly to the ravages of disease. In all these ways the laborer would become less efficient, simply through the reduction of his wages.

377. The economists assert that whatever is taken from wages will increase capital, and hence quicken employment, and that this, in turn, will heighten wages. But we see that it is possible that what is taken from wages no man shall gain: it may be lost to the laborer and to the world. Now, so far as strictly economic forces are concerned, where enters the restorative principle? The employer is not getting excessive profits, to be expended subsequently in wages; the laborer is not under-paid; he earns now what he gets no better than he formerly did his higher wages.

This image of the degraded laborer is not a fanciful one. There are in Europe great bodies of population which have come in just this way to be pauperized and brutalized, weakened and diseased by under-feeding and foul air, hopeless and lost to all self-respect, so that they can scarcely be said to desire any better condition, and still bringing children into the world to fill their miserable places in garrets and cellars, and in time in the wards of the workhouse.

If such an injury as has been indicated may be suffered in respect to the physical powers of the laborer through the reduction of wages, quite as speedily may his usefulness be impaired through the moral effects of such a calamity. Just as the greatest possibilities of industrial efficiency lie in the creation of hopefulness, self-respect and social ambition, so

the greatest possibilities of loss lie in the discouragement or destruction of these qualities. We have seen through what a scale the laborer may rise in his progress to productive power. By looking back, we see through what spaces he may fall under the force of purely industrial disasters.

378. The Argument from Self-Interest.—But we may at this point be called upon to meet an objection, founded upon the assumed sufficiency of the principle of self-interest. How, it may be asked, is it possible that employers shall fail to pay wages which will allow their laborers a liberal sustenance, if, indeed, it be for their own advantage to do so; if, by that means, the economic efficiency of the laborers will be thereby increased?

I answer, first, that the assumption of the sufficiency of self-interest to secure wise action is grotesquely wide of the miserable truth regarding human nature, to whatever department of activity we have reference. Mankind, always less than wise and too often foolish to the point of stupidity, on the one hand, or of fanaticism on the other, whether in politics or in domestic life, in hygiene or in religion, do not all at once become wise when industrial concerns are in question.

The argument for feeding a hired laborer liberally, that he may work efficiently, applies with equal force to the maintenance of a slave; yet we know too well that everywhere the lust of immediate gain has always despoiled the slave of a part, often a large part, of the food and clothing necessary to his highest efficiency. The same argument would apply to the case of live-stock. Yet it is almost impossible, by any amount of preaching and teaching, by any number of fairs and premiums, to keep a body of farmers up to the point of feeding cattle well and treating them well. The world over, the rule regarding the care of live-stock is niggardliness of expenditure, working deep and lasting prejudice to production.

The foregoing would be a sufficient answer to the objection I have anticipated. On every hand we see true self-interest sacrificed to greed: why should it not be so in the case of the wages of hired labor?

But another and additional reason appears. It is that the

employer has none of that security which the owner of stock or the master of a slave possesses, that what goes in food shall come back in work. A man buying an underfed slave or ox knows that when he shall have brought his property into good condition the advantage will all be his; but the free laborer may at any time carry to another employer whatever of bone and sinew and nervous energy he may have gained through liberal subsistence. There is, as yet, no law which gives the employer compensation for "unexhausted improvements" in the person of his hired man.

379. Beating Down Profits.—The foregoing comprises all I should three or four years ago have deemed it necessary to say, regarding the division of the product of industry between employers and employed, as affecting the future productive capability of a community. The normal position of the employer is so clearly one of advantage, in competition with the employed, that it would have seemed scarcely worth while to inquire into the industrial effects of a pressure put upon the employing class so severe as to reduce the profits of business below the point required to secure the fullest employment of the land power, labor power and capital power of the community.* Even the introduction of Trade Unions into the field of industry can scarcely be said to have done more than offset

* Oddly enough, many economists who have been serenely confident that any possible reduction of wages, under pressure from the employing class, would not injure the body of laborers, holding that whatever might thus for the time be taken from wages must infallibly, and before long, be restored to wages, [see remarks of Profs. Cairnes and Perry above], have manifested the greatest anxiety lest profits should be unduly reduced through the encroachments of wages. Not a few of these writers have formally warned the laboring class against demanding higher wages, lest they should so reduce the profits of business as to impair or destroy the employer's interest in production. It is difficult to see the consistency of these two opinions. If what is unduly taken from wages, by pressure from the employing class, is certain to be restored to wages, why may it not be that whatever is unduly taken from profits, by pressure from the laboring class, shall, in the end, be restored to profits? If the economic harmonies exist, they surely must "work both ways."

the naturally great advantage enjoyed by the employing class, in competition for the product of industry.

Within the last few years, however, attempts have been made, among us in the United States, to establish confederations of labor, more far-reaching, more thoroughly organized, more authoritatively controlled, than the now familiar Trade Unions. Should the avowed purposes of those most conspicuously engaged in these efforts be accomplished, in whole or in any considerable degree, it would appear that the economic advantage might not only be shifted from the employing to the laboring class, but might there be so much enhanced as to require us to contemplate an extensive reduction of profits as a possible cause of impairment to the productive capability of the community. The further consideration of this topic will be postponed to Part VI., where we shall speak of the Knights of Labor.

380. The Doctrine of Laissez Faire.—If such liabilities to an impairment of the productive capability of the community lie in the distribution of wealth, what becomes of the characteristic doctrine of the so-called Manchester School, *laissez faire*: hands off: leave economic forces to work, alike unaided and unhindered, in the assurance that the interests of individuals will be found to harmonize so far with the interests of the community as to secure the highest welfare of each and of all?

On this point my views can not be expressed so well by phrases of my own devising, as in the language of an eminent English economist.

"There is no evidence," says Prof. Cairnes, "either in what we know of the conduct of men, in the present stage of their development, or yet in the large experience we have had of the working of *laissez faire*, to warrant the assumption that lies at the root of this doctrine.

"Human beings know and follow their interests according to their lights and dispositions; but not necessarily, nor in practice always, in that sense in which the interest of the individual is co-incident with that of others and of the whole. It follows that there is no security that the economic phenom-

ena of society, as at present constituted, will arrange themselves spontaneously in the way which is most for the common good.

"In other words, *laissez faire* falls to the ground as a scientific doctrine. I say as a scientific doctrine; for let us be careful not to overstep the limits of our argument. It is one thing to repudiate the scientific authority of *laissez faire*, freedom of contract, and so forth; it is a totally different thing to set up the opposite principle of state control, the doctrine of paternal government. For my part, I accept neither one doctrine nor the other; and, as a practical rule, I hold *laissez faire* to be incomparably the safer guide. Only let us remember that it is a practical rule, and not a doctrine of science; a rule 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 social or industrial reform."