

tered, impregnable, amid all the controversy that has raged around it.

403. Prof. Senior's Statement.—I can not forbear again to quote this eminently wise economist, to whose criticisms, indeed, Mr. Malthus owed the correction of some of the faults of his original statement of the principles of population. Prof. Senior says:

"Although we believe that, as civilization advances, the pressure of population upon subsistence is a decreasing evil, we are far from denying the prevalence of this pressure in all long settled countries: indeed, in all countries except those which are the seats of colonies applying the knowledge of an old country to an unoccupied territory.

"We believe that there are few portions of Europe the inhabitants of which would not be richer if their numbers were fewer, and would not be richer hereafter if they were now to retard the rate at which their population is increasing."

CHAPTER III.

CONSUMPTION: THE DYNAMICS OF WEALTH.

404. The Potato Philosophy of Wages.—We have, thus far, spoken of economic wants, mainly in their effects as retarding the increase of numbers. Until an adequate check, of a sufficiently persistent character, has been secured here, the economist who fully appreciates the consequences of over-population can hardly fail to recognize almost every economic want, whatever its origin or its object, and however little either may be approved by the moralist or physiologist, as being better than none.

It has been from this point of view, that the English writers have insisted so strongly that cheap food is a thing to be deprecated.

Thus Mr. J. R. McCulloch says:—"When the standard of natural or necessary wages is high—when wheat and beef, for

example, form the principal part of the food of the laborer, and porter and beer the principal part of his drink, he can bear to retrench in a season of scarcity. Such a man has room to fall; he can resort to cheaper sorts of food—to barley, oats, rice and potatoes. But he who is habitually fed on the cheapest food has nothing to resort to, when deprived of it. Laborers placed in this situation are absolutely cut off from every resource. You can take from an Englishman; but you can not take from an Irishman. The latter is already so low, he can fall no lower; he is placed on the very verge of existence; his wages, being regulated by the price of potatoes,* will not buy wheat, or barley, or oats; and whenever, therefore, the supply of potatoes fails, it is next to impossible that he should escape falling a sacrifice to famine."

And Prof. Thorold Rogers says: "A community which subsists habitually on dear food is in a position of peculiar advantage, when compared with another which lives on cheap food, one for instance, which lives on wheat, as contrasted with another which lives on rice or potatoes; and this, quite apart from the prudence or incautiousness of the people."

405. Better Things Than Dear Food.—Clearly, the basis of this reasoning is the Malthusian doctrine. These economists recognize the strong probability, the almost certainty, that a people will carry their increase closely up to the limits of subsistence according to the kind of food they use, whatever that may be. If it be the lowest and cheapest, like rice in India and potatoes in Ireland, the failure of the crop means starvation, no adequate reserve being expected to be provided, on a sufficient scale, by the population of any country. If the kind of food be higher and dearer, the masses may, in the event of a failure of the crop or crops concerned, fall back for the time upon the lower and the cheaper.

* Dr. Travers Twiss states that it was calculated prior to the famine, that two-thirds of the population of Ireland lived wholly on potatoes. Sir Arch. Alison says: "Three times the number of persons can be fed on an acre of potatoes who can be maintained on an acre of wheat in ordinary seasons."

But suppose this danger of an increase of numbers, fast following up subsistence, crowding all the time upon the limits of food, to be once for all passed. Suppose we have a community which will accept the opportunity of living upon cheap food and apply the saving to the permanent enlargement of their capital, or to other forms of enjoyment, to dress, to better lodgings, to luxuries, perhaps to expenditures upon education and culture. What harm, then, would Mr. McCulloch or Prof. Rogers find in cheap food, be it potatoes, or rice, or the Indian corn of America? Surely none. The more is saved from the cost of food, the more can be spent upon making homes ample and comfortable, healthful and decent, the more can be spent upon school-houses and churches, upon books and periodicals, upon literature and music and art. The wife may be let to stay at home and keep the house; the children be given their time, to acquire an education and to secure for themselves a thorough preparation for their work in life.

Let me not be understood as quarreling with this potato philosophy of wages so far as the assumption which underlies it, *viz.*, that population will inevitably keep close up to the limits of subsistence on the kind of food, whatever that may be, which forms the popular diet, is justified by the facts of society, as it very widely is. I only claim that, in any country whose people had shown the capability of setting bounds to the increase of population by the exercise of their own judgment and will, cheap food would become a means of increasing the comforts and luxuries enjoyed by that people in other directions of expenditure, or of enlarging the capital and improving the productive agencies at their command.

406. The Dynamics of Wealth.—As a means of checking the increase of numbers, which otherwise would surely carry population to the point of misery, famine and pestilence, the appearance of almost any economic want must be greeted as a good, without much respect to the origin or object of that want. But the moment the capability of the self-limitation of population is assured, the economist discovers wide differences between the various demands for the consumption of

the existing body of wealth, made by the differing appetites and desires of different communities, or of different classes in the same community, as regards the influence of those various forms of consuming wealth upon the power and the disposition to create values in the future.*

It is here we find the body of economic literature most deficient. We need a new Adam Smith, or another Hume, to write the economics of consumption in which would be found the real Dynamics of Wealth; to trace to their effects upon production the forces which are set in motion by the uses made of wealth; to show how certain forms of consumption clear the mind, strengthen the hand and elevate the aims of the individual economic agent, while promoting that social order and mutual confidence which are favorable conditions for the complete development and harmonious action of the industrial system; how other forms of consumption debase and debase man as an economic agent, and introduce disorder and waste into the complicated mechanism of the productive agencies. Here is the opportunity for some great moral philosopher, strictly confining himself to the study of the economic effects of these causes, denying himself all regard to purely ethical, political or theological considerations, to write what shall be the most important chapter of political economy, now, alas, almost a blank.

407. Two Popular Fallacies Concerning Consumption.—In a preceding chapter, we discussed the question, how it is that there can be, at any time, with abounding natural resources, unemployed labor power, unemployed capital power, no lack of disposition on the part of the owners of capital to secure a return from the productive use of their property, no lack of dis-

* When we remember that the expenditure of the people of Great Britain, annually, for alcoholic beverages, reaches the enormous sum of £180,000,000, or \$900,000,000, four-fifths, at least, of which is spent in a way that is not only without any beneficial effect, but is positively injurious, a large part of it going to the destruction of moral, intellectual and physical power, we get a rude measure of the force which a wiser consumption of wealth might introduce into the economic life of that country.

position on the part of laborers to earn wages by work, and yet an enforced idleness, with resulting poverty and squalor. Two popular explanations of this condition of things are always sure to be offered during the continuance of "hard times," one of which finds its expression in the sounding phrase, "over-production," while the other emphasizes its supposed antagonism to the theory of the over-productionists, by the use of the term "under-consumption."

A brief reference to the conditions under which wealth is produced, will suffice to show that, like all condensed phrases, each of these large words signifies more than one thing; that, in certain senses, each phrase embodies a great deal of arrant nonsense; that, taken otherwise, each embodies a vital truth; and, finally, that, so far as either means any thing at all, that meaning is exactly identical with what is expressed by the other.

408. Over-production.—All producers are also consumers. Men produce only because they desire to consume. They produce only so much as they desire to consume. Any given producer may, however, desire to realize his enjoyment either now, or at a future time; either in satisfying his own personal wants and appetites, or in satisfying those of friends, children or beneficiaries.

The idea of over-production, therefore, involves the absurdity of supposing that men will labor to produce that which they have not the desire to consume.

But passing over this initial absurdity, we observe in the use of this phrase, a vague notion that the amount of necessities, comforts, and luxuries, which a community, at any given stage of its progress, is prepared to consume is a definite amount; and that, if the amount produced is somewhat rapidly increased, the capacity for consumption will be outrun, and men will stand, without appetite, before a mass of good things, for which they know no uses and with which they are, for the time, utterly at a loss to deal.

The fallacy of this will sufficiently appear if we ask, not who are the men able and willing to make away with a vastly greater body of wealth than they find themselves in possession

of, but who are the men who would not be found willing and able to do this? Is there any mechanic or laborer, receiving wages to the amount of \$300 or \$500 a year, who could not, and would not gladly, spend \$600 or \$1,000? Is there any merchant or professional man or man of leisure, with an income of \$3,000 or \$5,000, or \$10,000, who could not easily give account of an income of \$6,000, or \$10,000, or \$20,000? It is absurd to suppose that the limit of consumption can be reached. What with houses and horses, clothes, equipage, and travel, costly viands and drinks, any civilized community could instantly double, quadruple, or decuple its consumption of wealth were the wealth provided.

409. Under-consumption.—In like manner, the phrase, under-consumption, involves an initial absurdity, when applied in explanation of so-called "hard times." Thus, during the period of 1876-9, it was said that the people of the United States were suffering from under-consumption; yet, not for a long period, if ever, had consumption followed so quickly upon production; had the food earned been so quickly eaten; had the margin of saving been so small, as during the years referred to. A strange term, truly, to apply to such a condition: this under-consumption!

But passing by this initial absurdity, we find that beneath the phrase, under-consumption, lurks the notion that, somehow or other, wealth when once produced is in danger of getting in the way, so that other wealth can not be produced until this be first eaten or drunk or burned up, or by some means gotten rid of. As a matter of fact, there has never been any accumulation of wealth on the earth's surface so great as to impede the further production of wealth, and there is not likely to be. Were men willing to produce wealth without consuming it, they could go on forever. Of course, men will not, in general, produce more than they desire, sooner or later, to consume.

410. Over-production and under-consumption mean the same thing, and that is under-production. This is, of course, a mere jangle of words, until the phrases are qualified, as they should be. Over-production, as alleged by those who would explain

hard times, is *partial over-production*, production, that is, which has gone on in certain lines, generally under speculative impulses, until it has exceeded the normal, or even, possibly, a highly stimulated demand. This excess of supply in certain lines leads to the accumulation of vast stocks of unsalable goods,* which involves *partial under-consumption*, these stocks melting slowly away through a period extending over months, it may be, years. Meanwhile, *general under-production* is the result. The bodies of labor and capital which have been called into the over-done branches of industry, can not readily, if at all, be transferred to other branches; they remain where they are, half employed, waiting for the renewal of demand. In the dreary interval, producing little, they have little with which to purchase the products of others, who are consequently compelled to restrict their production proportionally, as was shown in pars. 237-40.

In this way it is we vindicate our paradox that over-production means nothing more or less than under-production, or, for that matter, than under-consumption. There is no over-production possible, except a partial over-production, an over-production in certain lines, which inevitably involves a lowering of the scale of production as a whole: that is, partial over-production involves general under-production.

It is under-production which makes hard times. Over-production, general over-production, is impossible, and, were it to occur, were the creation of wealth to outrun men's capacity to consume, no one would be injured thereby. But under-production is an unmistakable evil. It means less wealth produced, and consequently fewer of the comforts and necessities of life, on the average, to each member of the community. To large classes it means hunger, cold and squalor; debility, sickness and premature death.

411. The Destruction of Wealth.—We have already adverted to the fact of the extensive destruction of wealth, by

*The result is the same if the distorted production of the past has taken the form of an excess of machinery and plant in some lines or in many lines of manufacture, or an excess of the means of transportation.

accident or by natural causes, as affording an explanation, in part, of the comparatively slow progress of accumulation, even in the states whose land power, labor power and capital power are greatest. We have now to deal with the same fact, in our theory of consumption.

A most stubborn belief appears among the non-agricultural masses of every community where wages or labor or wealth is a topic of familiar discussion, to the effect that the destruction of wealth in some way increases production. Laboring people generally hold to this; our servants believe it religiously, and justify themselves, secretly or openly, for all their breakage and wastage by the plea that it "makes trade good." Even cultivated persons are not free from an instinctive feeling that the abrupt removal of the existing body of wealth quickens industrial activity and promotes the general welfare, though it may be at the cost, for the time, of individuals.

Frederic Bastiat, in one of his capital little essays, has dealt with this notion so cleverly that there can be no excuse for any writer using his own phrases on this theme.

412. The Broken Pane.—"Have you ever had occasion to witness the fury of the honest burgess, Jacques Bonhomme, when his scapegrace son has broken a pane of glass? If you have, you can not fail to have observed that all the bystanders, were there thirty of them, lay their heads together to offer the unfortunate proprietor this never-failing consolation, that there is good in every misfortune, and that such accidents give a fillip to trade. Every body must live. If no windows were broken, what would become of the glaziers? Now, this formula of condolence contains a theory which it is proper to lay hold of in this very simple case, because it is exactly the same theory which unfortunately governs the greater part of our economic institutions.

"Assuming that it becomes necessary to expend six francs in repairing the damage, if you mean to say that the accident brings in six francs to the glazier, and to that extent encourages his trade, I grant it fairly and frankly, and admit that you reason justly.

"The glazier arrives, does his work, pockets his money, rubs

his hands, and blesses the scapegrace son. *That is what we see.*

"But if, by way of deduction, you come to conclude, as is too often done, that it is a good thing to break windows—that it makes money circulate—and that encouragement to trade in general is the result, I am obliged to cry, halt! Your theory stops at what we see, and takes no account of *what we don't see.*

"*We don't see* that since our burgess has been obliged to spend his six francs on one thing, he can no longer spend them on another.

"*We don't see* that if he had not this pane to replace, he would have replaced, for example, his shoes, which are down at the heels; or have placed a new book on his shelf. In short, he would have employed his six francs in a way in which he can not now employ them. Let us see, then, how the account stands with trade in general. The pane being broken, the glazier's trade is benefited to the extent of six francs. *That is what we see.*

"If the pane had not been broken, the shoemaker's or some other trade would have been encouraged to the extent of six francs. *That is what we don't see.* And if we take into account what we don't see, which is a negative fact, as well as what we do see, which is a positive fact, we shall discover that trade in general, or the aggregate of national industry, has no interest, one way or other, whether windows are broken or not.

"Let us see, again, how the account stands with Jacques Bonhomme. On the last hypothesis, that of the pane being broken, he spends six francs, and gets neither more nor less than he had before, namely, the use and enjoyment of a pane of glass. On the other hypothesis, namely, that the accident had not happened, he would have expended six francs on shoes, and would have had the enjoyment both of the shoes and of the pane of glass.

"Now as the good burgess, Jacques Bonhomme, constitutes a fraction of society at large, we are forced to conclude that society, taken in the aggregate, and after all accounts of labor

and enjoyment have been squared, has lost the value of the pane which has been broken."

413. Destruction sometimes the Removal of Obstruction.

—It is, of course, possible to conceive a situation where the destruction of wealth may have the direct effect to secure a larger production of wealth. Thus, a man may occupy a certain water privilege with an antiquated mill, which he can not make up his mind to tear down. To destroy the mill seems to him like waste, or, even if he appreciates the fact that the erection of a new and more commodious structure, with modern appliances, would be true economy, he can not bring himself to incur the initial expense just at this time; he procrastinates in the matter, and so perhaps goes on, year after year, cramped in his operations, perhaps unable even to undertake production in certain lines, for which there is an advantageous opening. Now, in such a case, it might happen that the burning down of the old mill would lead to the immediate erection of a new one which would pay for itself in a short time, and the net result, thereafter, be the substitution of a powerful and efficient agent of production for one that was inadequate and outworn.

Undoubtedly, too, the destruction by fire of the old and crooked parts of certain cities, filled with rookeries and tumble-down houses, almost impassable to traffic and repulsive of aspect, has led to an actual increase of wealth within a short time thereafter. The quarter destroyed may have been long a nuisance and an obstruction to the growth of the city and the development of its trade; but the inertia of property owners, their blindness to their large, their permanent interests, their reluctance to make great capital expenditures, and especially the fact that it was of no use for a single property owner to try to improve the quarter by tearing down his rookeries, so long as the general character of the neighborhood remained what it had been, these causes might have long withstood the needed improvements. The fire comes, resolves all doubts, burns up the accumulated foulness of generations, leaves the ground open to building, and, six months or a year thereafter, a new and elegant quarter has arisen from the ashes. Not all,

not by any means the larger part, of this represents the production of wealth in the interval. The greater share represents the transplanting of wealth previously existing. Yet, in addition, there may, as we said, conceivably have been a large creation of values due to the improvement of commercial sites and commercial avenues heretofore neglected.

Such instances of the destruction of wealth leading to a larger production are comparatively rare. In the vast majority of cases, that destruction, however rejoiced over by shallow persons who are influenced only by "what they see," or by selfish persons who secure an immediate individual advantage from the loss of others, is a public misfortune.

414. Government Expenditure.—On the part of many, perhaps most, persons who favor large government expenditures, the actuating motive is found in the opinion we have already dealt with, that wasteful and even destructive consumption "makes trade good," "encourages industry," "raises wages," etc. To this shallow notion we need pay no further attention. Something which is at least less obviously false is intended in the proposition laid down by more than one economist of reputation, that government expenditures, within moderate limits, are industrially beneficial.

This view may be stated in the language of Mr. McCulloch, one of the most careful of the English economists of the last generation :—

"A moderate increase of taxation has the same effect on the habits and industry of a nation that an increase of his family or of his necessary and unavoidable expenses has upon a private individual. . . .

"But we must be on our guard against an abuse of this doctrine. To render an increase of taxation productive of greater exertions, economy and invention, it should be slowly and gradually brought about, and it should never be carried to such a height as to incapacitate individuals from making the sacrifices it imposes by such an increase of industry and economy as it may be in their power to make, without requiring any very violent change in their habits. The increase of taxation must not be such as to make it impracticable to overcome its influ-

ence, or to induce the belief that it is impracticable. Difficulties that are seen to be surmountable sharpen the inventive power and are readily grappled with ; but an apparently insurmountable difficulty, or such an excessive weight of taxation as it was deemed impossible to meet, would not stimulate, but destroy exertion. Instead of producing new efforts of ingenuity and economy, it would produce only despair. Whenever taxation becomes so heavy* that the produce it takes from individuals can no longer be replaced by fresh efforts, they uniformly cease to be made ; the population becomes dispirited, industry is paralyzed and the country rapidly declines."

And to the same effect Jeremy Bentham writes : "By raising money as other money is raised, by taxes (the amount of which is taken by individuals out of their expenditure on the score of maintenance), government has it in its power to accelerate to an unexampled degree the augmentation of the mass of real wealth."

415. Such is the claim in behalf of government expenditure. What is to be said of it? Let us proceed by way of an example. Let us take a large population spread over a vast extent of country, like India, which possesses almost illimitable facilities for the improvement of the soil through irrigation, and whose broad spaces demand numerous and extensive lines of artificial communication, by canal or railway. Let it be supposed that the people occupying this country are what the people of India now are, in numbers, in character, in habits of living and of working. Alike under the influence of sexual passion and of religious superstition,† they continually tend to increase up to the limits of subsistence, even to the verge of

* I can not forbear to quote the words of Bacon : "The blessing of Judah and Issachar will never meet : that the same people should be both the lion's whelp and the ass between burdens ; neither will it be that a people overlaid with taxes should ever become valiant and martial."

† The early marriages of India are attributed to the religious beliefs of the people, as they hold that the welfare of the soul after death depends greatly on the performance of the burial rites by male offspring of the deceased.

famine ; not only accumulating no capital, but laying by no store for future wants ; having neither the genius for organization nor the capacity of self-denial which would be required to initiate the simplest local improvements.

Now, we may imagine such a population ruled by a benevolent, disinterested despot of the highest order of intelligence, a Napoleon devoted to the arts of peace. We may imagine this ruler, by a system of taxation that shall be as just between individuals and as judicious in its seasons and methods as human wisdom can make it, first, drawing from the crops of good years a store against the occurrence of bad harvests ; then, by a gradually increasing stringency of exaction, adding to the cost of living in such a way as to discourage the growth of population, while applying the proceeds to great public improvements which enable the food supply of the empire to be readily equalized in the event of local scarcity ; which guard the crops against the effects of periodical drought ; which afford rapid and cheap passage to the products of inland districts.

And as the productive power of the country increased under such an administration, we can imagine the high-minded ruler, intent on his benevolent purpose, still drawing away from the people, by taxation, all the surplus above the necessary cost of subsistence for the present population, which might otherwise be applied to the increase of population, and, with the means thus acquired, providing capital in its various forms for the use of the frugal and the temperate, perfecting communications, protecting the health and lives of his subjects by sanitary arrangements, and, at last, undertaking the elementary education of the whole body of the people.

All this, it is clear, an absolute ruler of the character indicated might do for his people ;* and not a little of this many

* This is, in fact, involved in the theory of the British administration of India. The reasons are well stated in the following paragraph from the *Times* of 1879 :

"In England the remission of taxation is urged with great force, because it is said that taxes remitted will fructify in the pockets of the people. No result of this kind can be expected in India. If the condi-

a benevolent and able ruler has done for his people. The "forced frugality," to use Bentham's phrase, which his taxes have imposed, has at once repressed population and stimulated industry among the existing body of laborers. His wise expenditures upon public works and in public education has sown the seed from which has sprung many a golden harvest.

416. But while we see, thus, what an ideal monarch might do for a people indolent, unambitious, sensual, by applying a portion of the wealth they created to ends more useful, elevating and satisfying than their individual tastes and appetites would have selected, we are forced also to remember how large a part of the wealth raised by taxation has, in all ages, been spent in war, pomp and folly ; how strong is the temptation to extravagance and even to corruption in government expenditure ; how much of what the people pay the treasury does not receive ; how much of what the treasury disburses does not reach its intended object. These considerations are strong enough to justify, in a large degree if not wholly, that unwillingness to intrust to government the consumption of the wealth of the community, much beyond what is necessary to secure domestic tranquillity and the administration of justice between man and man, which is so peculiarly American.

Yet it is possible that this feeling may be carried too far. When one contrasts the highways, the bridges, the streets, the harbors, the breakwaters, the lighthouses, and other aids to transportation and commerce, which government provides, with the best that could reasonably be looked for from individual or associated effort, without the taxing power ; when one contrasts our system of public education with the best

tions of living are made easier there, as they would be by a remission of taxes, the consequences would not be an improvement in the well-being of the people, but an increase of their numbers. Our duty, therefore, as guardians and governors of the people, charged with the responsibility of keeping alive in times of famine a vast population with no reserved resources of its own, is to save for those who do not save for themselves, to keep a margin of income over expenditure so that we may have in hand a fund upon which to draw in the recurrent periods of distress. This is a leading principle in Indian finance. Whoever forgets this neglects the primary duty of an Indian administrator."

that voluntary contributions or private munificence ever supplied ; when one contrasts the sanitary arrangements for supplying pure air and pure water to our crowded cities with the condition of things which exists where these matters are left to unofficial action ; he will find occasion to qualify in no small degree his assent to the proposition that, under a well-ordered constitution, government is only a policeman, to keep people from breaking each other's heads or picking each other's pockets.

PART VI.—SOME APPLICATIONS OF ECONOMIC PRINCIPLES.

It has seemed best to reserve to this portion of our work the discussion of some topics which involve the application of economic principles to questions of law or governmental policy, into which considerations of political equity or political expediency will intrude themselves so that they can hardly be shut out ; and also to place here some matters of economic detail which might have unduly interrupted the course of our argument, had they been dealt with at the points with which they are logically connected.

Throughout this part, therefore, I may be found to adduce considerations not strictly economic, with a freedom I have not allowed myself heretofore.

The topics to be treated under this title are :

1. Usury Laws.
2. Industrial Co-operation.
3. Political Money.
4. Pauperism.
5. The Doctrine of the Wage-Fund.
6. The Multiple or Tabular Standard.
7. Trade Unions and Strikes.
8. The Knights of Labor.
9. Attacks on the Doctrine of Rent.
10. Nationalization of the Land.
11. The Banking Functions.
12. The National Banking System of the United States.
13. Foreign Exchanges.
14. Bi-Metallism.