

fixed tolerably near the ordinary market rate, so that the temptation to evade the law is not overwhelming. On the other hand, it is equally clear that such provisions of law may be evaded by the various means recited, and probably will be evaded whenever the inducement offered is very great; and that, so far as borrowers are driven to shifts to disguise excess of usury, they are likely to find themselves worse off than they would be in an open market.

Just where the balance would be, in such a community as has been described, so far as the interests of the ordinary agricultural borrower, or small country trader or mechanic, are concerned, I confess I do not feel confident; and I doubt if any man knows enough to say rightly even to which side the balance might incline in a community composed of men of different race, or of different traditions and social habits, from those whom he has been accustomed personally to observe.

425. Usury Laws in Highly Commercial Communities.—But in any modern commercial community of large and varied and complicated industrial concerns, the case is a simple one.

In an advanced state of industrial society, where borrowing is no longer the resort of the embarrassed and distressed, alone, or mainly, but, on the contrary, the most flourishing trade and manufactures are carried on chiefly by means of borrowed capital; where, in the usual course of prosperous business, notes are made and are paid by the thousands, every day, usury laws become purely mischievous.

First, because the vastly greater interests of trade and industry would properly outweigh, were society called to choose between them, the interests of distressed and embarrassed individuals; and,

Secondly, because such persons will, in fact, 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. The business classes, active, alert, aggressive in competition, make rates of interest by which the less fortunate profit.

II.

INDUSTRIAL CO-OPERATION.

427. The Objects of Co-operation.—In Part IV. we have shown the place in the scheme of distribution that is to be occupied by what is termed co-operation, should that project be, in any appreciable degree, realized. We said that the object of co-operation, in the technical sense in which that word has been used by economic writers, and even popularly used, since the Revolution of 1848, is to get rid of the "entrepreneur," or employer, as an industrial agent.

It is evident that if the parties to production, other than the landlord, are to be thus reduced to two, that function may be performed either by the capitalist class or by the laboring class. The capitalists may, as such, become employers of labor: that is, each capitalist may become an employer because he is a capitalist, and in the degree in which he possesses capital. Whereas, now, only a small fraction of the owners of capital are also employers of labor. In this case, interest and profits would be united. In the other case, the laborers may become self-employed, taking all the responsibilities of production, borrowing capital according to their occasions for its productive use, and paying a remuneration therefor on the principles heretofore determined. In this case, wages and profits would be united.

The latter is the change in industrial organization which is in contemplation when co-operation is urged. It is in the interest of the laboring classes, not of the owners of capital, that the employer is to be extruded from the industrial system and his profits brought to re-enforce wages. The whole significance of co-operation, as a scheme of industrial reform, lies in this: that the laboring classes expect to divide among themselves the large amount of wealth which they now see going, day by day, into the possession of their employers, as profits.

427. Mistaken Conception of the Economists.—But, although the laboring classes fully understand this, and know

precisely what co-operation, if effected, would mean to them, the political economists, unfortunately, by reason of that incomplete analysis of the productive agencies to which we have before adverted (par. 304), are unable to give an intelligible, or even self-consistent account of co-operation. Not more than two or three English or American economists* have given a definition of co-operation which will bear examination. Why is this? Because, having persistently refused to regard the function of the employer, they can not, consistently with their own analysis of production, give account of a scheme whose whole object is the elimination of that "functionary," as Prof. Rogers calls him. Yet, seeing, as they must, that co-operation really attempts something, and would, if effected, essentially change the existing organization of industry, they hit upon the utterly erroneous explanation that co-operation is to get rid of the capitalist! Hardly an economist but blunders at this point.

428. Prof. Cairnes's Statement.—Take a writer so justly celebrated for clearness of thinking as the late Prof. Cairnes. The frequency with which he has been quoted in these pages is evidence of the high respect in which his work is held by the writer. Yet Prof. Cairnes stumbles at the very threshold of the subject. "The characteristic feature of co-operation," he says, "looked at from the economic point of view, is that *it combines in the same persons the two capacities of laborer and capitalist.*"

Now, it is not at all of the essence of co-operation that the laborers should be capitalists; that they should furnish any portion of the capital required for conducting the operations to be undertaken under this system. It is, of course, probable that some, perhaps most, of the co-operators would, in fact (though, as we have said, this is not of the essence of the

* Prof. Thorold Rogers defines co-operation justly, as "a scheme . . . by which the laborer can unite the functions and earn the wages of laborer and employer, by superseding the necessity of using the services of the latter functionary."

Prof. Amasa Walker had previously given expression to the same conception of co-operation.

scheme), own small amounts of capital; and the aggregate sum so held would be put into the co-operative business, and, by that amount, the sum to be borrowed of outsiders would be reduced. Yet, in order to secure justice between those co-operators who had and those who had not capital to put in the business, between those who had much and those who had little, it would be necessary that each associate who put capital into the business should be remunerated for his abstinence and for the risk of his principal, by a payment over and above what an associate contributing only through his labor would receive.

In other words, the co-operative company would pay interest to its own members for the use of whatever capital they could command, and would borrow, on interest, the remaining capital required, just as the employer now does. The co-operative workmen who were so fortunate as to possess capital would lend it to their own company, instead of lending it, as now, through the agency of the bank or the savings institution, to employers of labor, perhaps to their own employers.

Just so far as a laboring man joining a co-operative association had the courage and faith and self-control to save out of his earnings, he would become a capitalist, exactly as if he were not a co-operator. If, however, he chose to indulge himself by eating and drinking up all he earned, he would remain no capitalist, in spite of co-operation. Co-operation can not make a man a capitalist. Nothing can do that but saving, and while co-operation might, and doubtless would, encourage frugality, no scheme of man's devising is going to radically change man's nature so that a large proportion of the community will not consume all their incomes—be those incomes large or small.

We see, thus, how erroneous is Prof. Cairnes's definition. The aim of co-operation is to get rid of the employer, and divide his profits among his former workmen, who are to become, for the future, self-employed: to organize themselves, in their own way, for industrial purposes, and carry forward production on their own account and at their own risk.

429. The Benefits Aimed at by Co-operation.—Such being

the nature of co-operation, let us inquire what advantages might reasonably be looked for from it, provided it were found practicable.

Let us begin by taking the laborer's point of view :

First. To secure for the laboring class that large amount of wealth, which, as we have seen, goes annually in profits to the employer.

Second. To secure for the laborer the opportunity to produce independently of the will of an employer. Under the existing industrial system, it remains with the entrepreneur to decide, not only what shall be produced, and how and when and in what amounts, but also whether any production at all shall take place.

It is true that the employer may, out of compassion, carry on production for a while where no profit to himself appears, rather than leave his working people to suffer. It is also true that his selfish interests may induce him to carry on production for a while, under similar conditions, in order to keep his customers from going to others. But neither of these considerations can be relied upon to any great extent or for any long period, nor can both together be relied upon at all as against the apprehension of considerable loss on the part of the employer. In a state of the market which causes the employer to doubt whether, after paying out large sums for materials and labor, he will get his money back in the price of the products, a suspension of production to the extent of a third or a half is the most natural course for him to adopt.

But while a body of laborers can not reasonably complain that their employer curtails production on the first intimation of commercial disorder or of diminishing demand, co-operation would place it within their power to keep up production on their own responsibility, remaining at work and selling their product for what it would bring. It would no longer be the interest of the one employer, but that of the many workmen, which should decide whether production were to proceed or not.

430. Co-operation from the Point of View of the General Economic Interest.—The foregoing are the two chief benefits

which the laboring class have looked to co-operation to secure for them. In addition to these, the political economist beholds in co-operation three sources of advantage. First : Co-operation would, by the very terms of the case, do away with strikes. The employer disappearing, the workman becoming self-employed, these destructive contests would disappear also. Second : The workman would be incited to greater industry and to greater carefulness in dealing with materials and with machinery. Third : In no small degree frugality would be encouraged. It can not be doubted that a co-operative laborer having the opportunity to invest his savings at once in his own business would feel a much stronger inducement to frugality than does the wage laborer.

431. Co-operation, from a Still Higher Point of View.

—We may leave to the moralist or the statesman the additional consideration that co-operation would clearly tend to improve the moral, social and political character of the workman, by giving him a larger stake in society, making his remuneration directly dependent on his own exertions, and admitting him to a participation in the deliberations and decisions of industry.

432. The Difficulties of Co-operation.—The advantages which would attend the successful establishment of co-operation being so many and so great, it may be asked why has this scheme, proposed so long ago, sanctioned by the highest economic authority, appealing directly to the self-interest of the laboring classes, advertised extensively in discussions relating to labor and wages, not been immediately successful, on a large scale? How is it, that, on the contrary, co-operation can hardly be said to have escaped failure, when one considers the great number of enterprises of this character which have been started and the few that have survived?

Co-operative enterprises may be divided into two classes—one attempting what we may call Productive co-operation ; the other what we may call Consumptive * co-operation. In enterprises of the former class, the laborer seeks to make for himself an income ; in the latter he seeks to expend or consume

* By many called Distributive.

that income to the best advantage : to make each dollar of his daily or weekly earnings go as far as possible in providing subsistence for himself and family. Of course, all the agencies of transportation and exchange are, as we have stated, productive ; yet in the difference of aim which has been shown to exist between the two classes of co-operative establishments, is found the justification of the distinction indicated.

433. Consumptive Co-operation has had no inconsiderable degree of success in England, in the way of shops for the sale of flour, meats, groceries and other articles of domestic consumption, at which subscribers or members of the associations establishing such shops buy goods at, perhaps, the usual prices of retail trade, generally for cash, the profits of the year or the season, after deducting the expenses of supervision and management, being divided among the members, either equally or in the proportion of their purchases.

In the United States, the indifference of the people, even of the poorer classes, towards small savings and that same unwillingness to take pains to secure a sound administration of trusts which has permitted municipal and State governments to fall so largely into the hands of unworthy persons, have combined to limit very narrowly the application of the scheme of consumptive co-operation. Here and there, "union" stores (the word store being used very generally in the United States in the sense in which the English use the word shop), "Granger" stores, or "Sovereigns of Industry" stores, fill a small place, generally for a brief period, in the general system of exchange ; but these have never become highly important agencies in our public economy.

434. Productive Co-operation.—But while consumptive co-operation has had a degree of success which at least proves it to be a practicable scheme, given only a reasonable degree of popular interest in its maintenance, the history of productive co-operation alike in France, where it may be said to have originated, in England, and in the United States, has been of the most discouraging character. Of numberless enterprises undertaken within the last forty years by associations of laborers, with the encouragement and often the active assist-

ance of philanthropists and political economists, and enjoying the benefit of a vast amount of gratuitous advertisement,* scarcely any remain. Mr. Frederick Harrison, reviewing the history of co-operative enterprises in England, indicates the co-operative cotton mills as the only true instances of the application of this principle on any important scale. "Some of the mills," he says, "never got to work at all ; some took the simple form of joint-stock companies in few hands ; others passed into the hands of small capitalists, or the shares were concentrated among the promoters. In fact, there is now, I believe, no co-operative cotton mill, owned by working men, in active operation, on any scale, with the notable exception of Rochdale."

"Here and there," Mr. Harrison continues, "an association of bootmakers, hatters, painters or gilders, is carried on, upon a small scale, with varying success. But small bodies of handicraftsmen (or, rather, artists), working in common, with moderate capital, plant and premises, obviously establish nothing."

435. The Difficulties of Productive Co-operation.—With such a statement, from a distinguished labor champion, we repeat our inquiry, Why is it that co-operation, in the view of the many and great advantages which it offers, has had such partial and doubtful success? The answer is at hand. The difficulties of productive co-operation are directly as its advantages. The arbitrary powers wielded and the vast profits enjoyed by the employing class make the working classes desire, naturally enough, to bring about an industrial order in which they shall no longer be subject to such exercise of authority, and in which they shall themselves reap the large sums of wealth which they see passing into the hands of their employers. Yet when a body of laborers set up for themselves,

* Within the last three or four years, a fresh crop of co-operative enterprises has sprung up, especially in the United States. Time has not yet served to determine the question of success or failure. The fullest accounts of these enterprises will be found in the publications of the American Economic Association.

the result very soon shows that the reason why the employer wields such despotic power and enjoys such large revenues, is that he performs a part in modern industrial society which is of supreme importance, in which any thing less than the highest abilities of organization and administration involve comparative, if not absolute, failure.

The time may come, when a body of laborers, joined together for the purpose of co-operative production, will give as intelligent a direction, as close a supervision, as rigid a discipline, as energetic an impulse, as the present successful man of business gives to the enterprises on which his fortunes and his reputation are staked; but, for one, though believing thoroughly so far as politics are concerned, in a government of the people, by the people, for the people, I see nothing which indicates that, within any near future, industry is to become less despotic than it now is. The power of the master in production, "the captain of industry," has steadily increased throughout the present century, with the increasing complexity of commercial relations, with the greater concentration of capital, with improvements in apparatus and machinery, with the multiplication of styles and fashions, with the localization and specialization of manufactures.

436. I shall be heartily glad to see the working classes rise to the height of the occasion, and vindicate their right to rule in industry by showing their power to do it. But meanwhile it must be distinctly understood, that nothing costs the working classes so much as the bad or commonplace conduct of business; that industry must be energetically, economically, and wisely managed, no matter who is to do it; and that co-operation will be successful only as it results in the production of equally good articles, at equally low prices, as those produced under entrepreneur management.

If we have made our analysis of profits correctly, it appears (par. 312) that the gains of the employer are not taken from the earnings of the laboring class, but measure the difference in production between the commonplace or bad, and the able, and shrewd, and strong management of business. When associated laborers are able to manage business as ably, strongly

and shrewdly as private employers, they can dismiss the entrepreneur, and keep his gains themselves.

437. **A Possible Field for Industrial Co-operation.**—I have spoken thus strongly of the difficulties of productive co-operation, because I believe that only harm will come to the interests of the working classes from slurring over those difficulties, as is so often, with the best intentions, done by writers on economics. In speaking thus, however, of the evil liabilities which beset such enterprises, I have reference to industry as a whole, and especially to its larger branches, which supply general markets, and which are subject to competition at once far-reaching and searching. In the last sentence quoted from Mr. Frederick Harrison, we find indicated the outlines of a possible field of co-operation, within which most of the difficulties which attend such enterprises on a larger scale, are not encountered, or are encountered in greatly diminished force. Where (1) a branch of industry is of such a nature that it can best be carried on by a small group of workmen; where (2) the workmen so engaged are substantially on a level as regards strength and skill; where (3) the initial expenditure for tools and materials is small, and, especially, where (4) the goods are to be produced mainly or wholly for the local market, the difficulties of the co-operative system sink to a minimum and the advantages rise to a maximum. It is in such branches of industry, therefore, that the experiment of productive co-operation should first be tried. Success can be achieved here, if anywhere. Should success be here achieved, advantage may be taken of the experience thus accumulated and of the training thus acquired, to undertake progressively larger enterprises. On the other hand, should the difficulties of productive co-operation prevent a decided success within the nearer and easier field, it would be worse than futile to attempt to inaugurate that system on a more ambitious scale.

438. **Profit-Sharing.**—The obstacles which beset productive co-operation are not those which are encountered by the scheme of Profit-Sharing, which has been highly recommended by many writers and which has been undertaken of late years,

not, indeed, on a large scale, but in numerous instances. The advantages of this scheme, illustrated by many examples of at least partial and temporary success, will be found stated in the work under the title, *Profit-Sharing*, by Mr. Sedley Taylor. Fresh literature on the subject is now almost daily appearing in newspapers, magazines, pamphlets and official reports. The matter is one of economic and administrative detail, too minute to be treated in an elementary work of this character.

The object sought is to interest workmen in increasing production and in reducing waste and breakage, through a payment to them of a portion of the employer's profits. It is, also, held that this system would have the effect to promote good feeling between master and man, and to diminish the resort to strikes and labor contests, although, in fact, it has not always served, when tried, to prevent the workmen concerned from joining others of the same trade when such contests have once begun.

The difficulties of profit-sharing are found (1) in the smallness of the amount which can thus be distributed among the workmen, without unduly diminishing the employer's interest in production; (2) in the suspicions likely to arise regarding the employer's good faith in declaring the amount thus subject to distribution, unless the workmen, or a committee of them, are to be allowed such access to the employer's books and accounts as few business men would willingly concede, and (3) in the perplexing question, what shall be done, under such a system, in the not infrequent cases where the employer realizes, not a profit, but a loss.

The last of these difficulties is, perhaps, the greatest. The employer is, not unnaturally, disposed to hold that, if the workmen share in his gains, they should also share in his losses; or, at least, that his gains and losses, through a considerable period of time, should be set off against each other, and that only the balance of gain for such a period should be subject to the rule of distribution. Such a postponement of the dividend, however, taken in connection with the smallness of the amount which, at the most, could thus be divided,

would reduce the interest of the workmen in the system, to such an extent as to practically deprive the arrangement of nearly all influence over their actions, if it did not lead to its early abandonment.

III.

POLITICAL MONEY.

439. Inconvertible Paper Money is, by Distinction, Political Money.—In all modern societies, money is at once an economic agent and a political institution. The selection by the State of a money metal, the adoption of denominations and devices for its coinage, the establishment of a standard of purity in the coin, and the conferring of the legal-tender property upon the money pieces so formed, are acts of legislation or administration which give to all forms of money with which we are familiar something of a political character.

But there is one kind of money which owes its existence and acceptance as the common medium of exchange so completely to legislation or to the act of the ruler, that it may be called, by eminence, political money. This is the inconvertible paper money of which we wrote in Chapter 5, Part III. In comparison herewith, the other forms of money known to modern commerce may be regarded as having so little of a political character as to justify their being called economic money.

The essential difference between what we here call economic and what we call political money, is that the supply of the former, under free coinage, is limited by natural conditions of production, while the supply of the latter is released from all such conditions, and is made to depend upon law or the will of the ruler. It requires more labor, in general twice as much labor, to raise two thousand ounces of gold or silver from the mine as to raise one thousand ounces, to be coined into money; but it costs no more labor to print two million dollars of paper money, or ten millions, or fifty, than to print one million. To multiply the amount of such money, it is only necessary to print the word fifty, or ten, or two, instead of the word one.