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### THE PRINCIPLE OF POLITICAL ECONOMY

So much of what has been treated as the subject-matter of political economy having been discarded, it is necessary to ascertain how much is left, and to see if this remainder is a sufficient basis for the science. In this matter we receive most help from business men, from the miners, from a study of what is described as labour unrest. In past times it was possible to have wars, to have religious or political controversies, which largely absorbed the interest of the nation. Men died for a religious or patriotic idea. The direction of this enthusiasm has changed. The most exciting subjects in recent years have been budgets and strikes, carrying with them the valuation of land and the valuation of labour. A larger number of people now concern themselves with politics to advance their business, to make more money. This interest may wane, but it has already gone far enough to make political economy a more important thing in national life, and to make its meaning clearer.

The movement is spreading rapidly in every

country, but the British people most of all have been made to realize that they are very intimately connected with each other in matters of business. Different classes find that they cannot make money, if other classes refuse to join in the same pursuit for themselves. The men from whom they buy, the men to whom they sell, must be active, if their own business is to prosper. To get coal for our railways, steamships and factories we not only require rich mineral fields and good machinery, we are compelled also to satisfy certain questions in the minds of miners about the value of their labour. This now turns out to be the most important consideration in the whole process of production. So long as the miners are reasonably acquiescent, coal may be obtained, but when they become sufficiently discontented, the supply is stopped. The problem of getting fuel in this case depends entirely on something in the minds of miners. If we add to the members of this class the members of all other classes, who are co-operating with their fellows in the effort to get those kinds of wealth which they esteem so desirable, and if we consider the working of their minds in these relations with each other, we have the subject-matter of political economy.

This may seem a narrow foundation on which to construct a complete science, but it is wide enough to embrace every economic activity of man, and to show how this activity is related to

others in the material and spiritual worlds. The ambition and power to produce wealth form a large part of each man's being. It seems late to suggest that this principle working in the system of the division of labour is capable of serving as the groundwork of a science by itself, yet this appears to be the only available basis for any science of the kind. For the hermit political economy has no existence. It is enough for him, if he is a chemist and engineer in a rude way; only material obstacles come between him and the fuel, food and clothes which he seeks, since no hitch will arise from objections or scruples in the minds of men through whose labour these things come to members of society. Having perforce committed himself to the division of labour in which different men produce different things and exchange them, each man's financial advantage leads him to take an interest in maintaining and increasing the ambition and power of other men to make money. This explains the attitude of business men towards every measure which affects the producers of wealth.

The controversy, for the most part the result of misunderstanding, between the economists and politicians of the *laissez-faire* school and their opponents, fixes this principle as the basis of political economy, and this principle is mental or psychological. One school is anxious that there should be no waste of initiative through interference with individual liberty, through a

policy of coddling ; the other is equally anxious that the same waste should not take place for lack of encouragement and facilities. One section argues that, if complete economic freedom were secured, men would educate themselves, and keep their producing power at the highest point ; the other argues that, if men were properly educated, they would remove every obstacle to freedom. The common-sense world goes on doing both things simultaneously, enlarging freedom and extending education, and it is justified by results. This policy has done much to lessen the differences between the opponents. To impartial observers, the phenomenon of an ambitious and well-educated man, confronted with opportunities closed by social laws against the application of his labour, and the phenomenon of an unawakened and uninstructed savage with access to a territory full of resources, are both unprofitable incongruities.

We are on safe ground following the direction and aim of the practical politician's appeal ; for these are determined by the experience and criticism of business men. In its ultimate form the question which the latter always ask with reference to legislation is : " What effect will it have upon men as producers ? " And the final aim of this question is to discover the effect of legislation on the minds of men. Will it strengthen and draw out their ambition and power to produce, or will it lead to the stagnation and decay

of these qualities? This is the test applied more or less consciously, more or less intelligently, by all practical men to factory acts, compulsory education, compulsory insurance, old-age pensions, a minimum wage, an eight-hours' day, security of tenure, protective taxes and other schemes. They ask if these measures separately, or if the policy of which they are the constituent parts, are calculated to develop the full powers of men as producers.

Business men, constantly carrying on this process of determining their attitude to laws and customs by referring to their effect on the active principle of the mind, have cleared away superficial coverings, and have got down to a firm foundation for a science. Economists have been reluctant to follow them, and to place their science on this single basis. Most of them have retained land in its physical or chemical form to explain some problems. Dr. J. N. Keynes, however, has abandoned this position. In a clear and suggestive analysis, he eliminates the physical element, and he does the same with the psychological element, although he admits that economic laws "rest ultimately upon a psychological basis." Apparently he would prefer to regard the social relations of men as the basis of the science, but his definition, as is necessary, gives more than these. He defines political economy "as the science which treats of the phenomena arising out of the economic activities of mankind in

society.”<sup>1</sup> But while the phenomena which form the subject-matter of this science spring from “the economic activities of mankind,” from labour, these activities, it would be generally admitted, have their origin in the mind, in the desire to obtain wealth.

This principle, active in itself, and susceptible to influences from outside, determines everything in political economy. It is found in each member of society as it is found in every hermit, but in society it has to make its way to its object through a vast number of relationships, and its effectiveness depends on the proper adjustment of these. Inherent in men everywhere, this principle is the ground or substance in which all economic relations terminate. It is directly affected by them for good or evil, according as they are in harmony, or at variance, with what it requires for its development. While this theory recognizes the aim and significance of the habitual criticism of legislation by business men, it is consistent with Mill’s and Keynes’ definitions of political economy. It also makes a more explicit definition possible to meet the latter’s necessary plea for regarding it as being essentially, if not exclusively, concerned with social relations. From this point of view we might define political economy as the science of social laws with reference to their influence on man’s ambition and power to produce wealth.

<sup>1</sup> *Scope and Method of Political Economy*, p. 97.

The ambition to obtain wealth varies with different classes, and almost with every individual. It leads men to embark on enterprises of varying risks, which demand different acquirements of knowledge and experience ; it is subject in different men to influences under which it is strengthened or weakened, and thus, by what it does as well as by what and how it suffers, it determines their earnings. Under sound economic conditions it grows strong, under other conditions it decays even so far as to die ; for it is always open to over-rented and over-taxed producers to suffer and inflict injury in this way. The majority of men turn readily to manual work which can be performed with easily acquired skill, and the majority are apt to be discouraged by adverse circumstances. Every man has an ambition which makes him set a standard for his attainment in the matter of enriching himself. If he is prevented by social laws from advancing towards this standard, if he is thrust away from the approach to it time and again, his ambitious spirit will be broken. This is a violation of the principle of political economy, a cause of economic or financial loss to every one.

Thirty years ago it was a standing charge against the Irish farmers, and the crofters of the Scottish Highlands, that they were lazy, that they did not farm their land well. There was an economic reason for this. Some philosopher has said that " blows suspended over the head fall

upon the soul," and blows falling upon the soul paralyse the brain and hands. As often as the economic principle endeavoured to assert itself in these cases, it was attacked by an increase of rent ; it was repressed or distorted by the land system. These farmers acted as men will always act. They would not work hard, if they were deprived of the full fruit of their additional labour. Why should they farm themselves into rents which left them poorer than before ? As soon as the menace which hung over them was removed, their ambition and energies revived, and as capitalists and labourers they now play a part much more satisfactory from the economic point of view and from all others. These two policies had different effects on the minds of the farmers with respect to their efficiency as producers, and it is only by these effects that their economic soundness can be tested. If one more reference to ancient history is pardonable, we may illustrate our meaning by a sentence from Finlay. "The institutions of Imperial Rome," he says, "long thwarted the great law of man's existence which impels him to better his condition."<sup>1</sup>

With this single and consistent basis the scope of the economist's study, and of a large part of the politician's task, becomes clearer. By referring economic phenomena to this principle we can tell with scientific accuracy what will happen

<sup>1</sup> *History of the Byzantine Empire*, ch. i.



in given circumstances. According to it the definition of site value includes all rates and taxes. Whatever sets free the ambition and power to produce, whatever makes their expansion possible, increases wealth to the advantage of every one, and sends up the value of land in exact proportion to the measure of freedom conferred.

This principle of political economy is subject to two methods of treatment, which have emerged in forms clear and distinct enough to be regarded as antagonistic, but which are really complementary. We can keep the ambition and power of men to produce at the highest point, (1) by education of every kind, by insurance against the casual attack of poverty, by a valuation of what they produce which satisfies their reason and by similar means, (2) by giving this ambition and power full and unlimited scope for their exercise. These two methods are one in their effect on the mind.

Such a basis seems too narrow for most writers, and the temptation to step from the economic to the chemical or physical world is not the only one with which economists and politicians are beset. In matters of taxation the latter frequently pass to the moral world for a principle on which to levy taxes. They introduce the test of fairness, and this misapplication of a moral standard to an economic subject leads to arbitrary impositions which conform with no principle. They make

taxation an instrument to discourage certain indulgences. It is true that the moral world is related to the economic world, that moral evils retard economic progress ; it is also true that economic evils affect moral progress, that, when a man is thrown out of work, a heavy and injurious strain is placed on the relations existing between him and his wife and children. But this is no reason why the practice of political economy and of morals should be confused, or an economic solution applied to a moral problem, or a moral solution to an economic problem. Taxation according to moral laws is like chemical experiments according to moral laws, and the justification of science is that it makes such confusion impossible.

This desire to obtain wealth is worthy of separate and full recognition. We are in its power. If we treat it according to the demands of its nature, it will serve us well ; if we thwart it, we shall lose. It will respond generously to the removal of disabilities which affect it. The fears entertained with reference to the fuller powers and higher rewards now demanded by labour are groundless. During recent years there have been active and sustained efforts to increase both, and these efforts should be redoubled ; for the more widespread, constant and successful they are, the more reasonable they become, and the more secure basis they provide for prosperous industry.