

WAGES AND PRICES

AN INQUIRY INTO THE WAGES SYSTEM
AND THE RELATION OF
WAGES AND PRICES

BY

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PREFACE

THE increase in the cost of living which has taken place during recent years is a matter of vital importance to everybody. Economists and financiers differ widely in their views about the causes of the rise of prices. Where authorities differ it would be presumptuous for a layman to be dogmatic. This little book makes no claim to do more than to submit some tentative suggestions which may explain the nature of some of the factors in this problem.

The writer considered that it was desirable, before coming to an examination of the causes of the increase of prices, to make a brief inquiry into the wages system and the laws which regulate the remuneration of labour.

Just as the following pages were completed a special Trade Union Congress was held in London at which this question of the cost of living was considered. The Miners' Federation of Great Britain submitted to that Conference a Memorandum, in which a large number of proposals were made for dealing with the high cost of living. Valuable as many of the proposals made in this Memorandum are, it is the opinion of the writer that too much importance was attached to schemes for the regulation of supplies and prices, and too

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little to fundamental causes. The most important cause of the ruling high prices is undoubtedly the financial and economic condition of this and other countries. The mere control of prices will be ineffective. The problem must be attacked at its roots. Until a drastic reform of currency and credit has been carried through, it is useless to hope for any material reduction in the cost of living. There is no real solution of this problem to be found in successful efforts to raise wages to meet the increase in the cost of living. Wages must be increased as prices rise, but that leaves the workers in their former condition. It would be far better that the efforts of the Trade Unions should be employed in seeking to remove the causes of higher prices than in futile endeavour to keep the wages running after advancing prices.

This book has not been written for the economist and financier, but for the plain working man who is puzzled with the difficulties and complications of this problem. To make the subject clear to those for whom the book is intended a looseness of definition has sometimes been employed which will no doubt shock the economist, should the pages happen to come under his eye. The purpose of the writer has been to make an abstract and complicated subject intelligible to the common workman, and if he has in a measure succeeded in that effort, his purpose will have been achieved.

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CHAPTER I

THE WAGES SYSTEM—HISTORICAL

THE main characteristic of the present industrial system is the fact that the vast majority of the population depend for a living upon a precarious income called wages or salary, paid to them for their services, by an employer. The total number of persons returned as living in England and Wales on April 2nd, 1911, was 36,070,492. Of this population 15,294,399 over the age of ten years were returned as engaged in gainful occupations. These figures give an indication of the importance of the wages problem.

The wages system, as it exists to-day, is a comparatively modern institution, and it has in it no greater element of permanence than the systems of tribal communism, slavery, and serfdom from which it has been evolved. The form of industrial and social organisation has, in the main, been determined in all ages by the extent of man's command over material resources. Through the successive stages of savagery, where existence was maintained by eating wild fruits; of man as a hunter of wild animals, feeding himself upon their flesh and clothing himself with their skins; of

the taming of wild animals and the rearing of flocks; through tribal communism, slavery, serfdom, and feudalism, the present system of wage labour, employed by a few who own land and capital, has slowly evolved.

The industrial history of our own country shows the development of wage labour through the manorial and the feudal systems. Under the manorial system in Saxon times the lord was the absolute owner of large areas of land, and he had rights which were exacted in services, crops, or money over the rest of the land within the manor. The Conquest of England by William the Norman brought about a change in the ownership of the land. This monarch constituted himself the supreme landlord of the country, and the lords of the manor were tenants-in-chief of the Crown. At the time of the Norman Conquest slavery had almost disappeared. The Domesday Survey showed that only 9 per cent. of the population were slaves.

Under the manorial system, the two classes below the lord of the manor were the villeins, who, according to Domesday, formed 38 per cent. of the population, and the cottars, who constituted, according to this record, 32 per cent. of the population. It was from the cottar class, some centuries later, that the system of wage labour arose. Both the villeins and the cottars were required to pay a rent to the lord, but it was given in the form of part-time services, and for

the rest of the time both the villeins and the cottars were free to cultivate their own lands. The dependence of these two classes upon the lord of the manor was established by law rather than by economic necessity. They were bound to the land, and were compelled to render the services mentioned, but when these had been discharged, they enjoyed a large measure of freedom, and had customary rights with which no one could interfere.

But even in these times there were the germs of the wages system. The cottars had but scanty patches of land, and had spare time, which they employed in working for wages for either the villeins or the lord of the manor. In the course of time the position of the villeins gradually improved, and by the middle of the fourteenth century many of them had become the yeoman class, who later played such an important part in our national history, and to whom we owe so much for their struggles for freedom.

The economic and social system of the Middle Ages was based upon two great institutions, the Catholic Church and Feudalism. For some centuries the feudal system had been gradually disintegrating, and its complete collapse took place in the fifteenth century, simultaneously with the overthrow of the Catholic Church and the despoiling of her lands. Though up to this time England had remained mainly an agricultural country, industries and manufacturers had been

slowly developing, and the industries and trades which existed apart from agriculture were organised in trade guilds. These too were destroyed by Henry VIII., and their lands and other properties confiscated.

The breakdown of the feudal system, the downfall of the Catholic Church, and the destruction of the trade guilds created a large class of labourers who had been divorced from the soil and from the ownership of trade implements, and who were unable to obtain a living unless some landlord or master was willing to employ them. The Golden Age of the English labourer which had followed the Black Plague, had continued up to this time. The breakdown of the feudal system altered the conditions of land tenure and land cultivation. The obligations of the feudal lords to provide the fighting forces of the Crown were abolished, and the practice of receiving payment for the use of land in services disappeared. The old feudal retainers and the tenants of the Church lands were driven from the soil; and the modern system of landlordism, exacting an annual rent for the use of the land, was instituted.

The vast increase in the number of unemployed had a disastrous effect on wages, and a rapid deterioration in the condition of both the labourer and the artisan took place. The discovery of America and the opening up of the sea route to India offered opportunities for the development of a foreign trade. Aided by the immigration of

Flemings, who introduced manufactures into this country, the industrial system of Capital and Labour began to grow up, and it continued to develop slowly, until, in the later part of the eighteenth century, the application of steam as a motive power and the wonderful mechanical inventions completed the divorcement between labour and the instruments of production which the downfall of the feudal system and the Catholic Church had begun.

England, for many reasons which need not be stated in detail, was in an exceptional position for taking advantage of the opportunities for trade and commerce which the Industrial Revolution provided. The country had abundant resources of coal and iron, a large population of poor and helpless people unable to resist exploitation, a merchant fleet and a considerable Colonial Empire. The cottage industries which still survived struggled hopelessly for a time against the competition of the factory system; the medieval legislation which was still nominally in existence for the protection of the wage workers, was repealed; combination laws, aimed to prevent association among the workers to protect their standard of living and against political association, were enacted and rigorously enforced. Competition now became deified as the guiding principle of trade. The rapidly-growing manufacturing industries had a practical monopoly of the home and foreign markets. There was no factory legis-

lation, no regulation of the hours of labour, no restriction of the freedom of an employer "to do what he liked with his own." The machinery which the inventive genius of man had devised became an instrument for the enrichment of the few and the degradation of the great mass of the people. The domination of capitalism became complete; the division of society into two distinct and antagonistic classes was now established. Centuries of the slow working of evolution had established the Wages System.

The characteristic of the Wages System, as has been stated, is the dependence of nine-tenths of the people upon some individual who owns land or capital and who is willing to employ labour for his own profit. The helplessness of the working classes in the Industrial Revolution was aggravated by the appropriation of common lands, which, during the Napoleonic wars, had been carried out upon a wholesale scale. During the Middle Ages access to the common land had prevented the worker to some extent from being reduced to a condition of abject dependence upon the landlord and the manufacturer. After the Industrial Revolution the worker, with no rights in the soil of his native country, without the means to command sufficient capital to compete against machinery and the concentration of industry in the hands of great capitalists, had no choice but to submit to the conditions which the owners of the soil and the owners of capital were able to

dictate. In these circumstances the mass of the people sank into a condition of economic dependence upon the landlord and the capitalist. The worker had no political rights or power.

The evils of the new industrial system were aggravated by a system of Protection which enormously increased the cost of food and other commodities. The price of wheat rose from 49s. 3d. in 1793 to 126s. in 1817, and weavers' wages during the same period sank from 13s. to 4s. 3d. per week.

The social and moral results of the Industrial Revolution were no less disastrous. Women and children were taken from their homes and driven into factories and mines to help to augment the family income because the wages of the father were insufficient. These women and children were subjected to a shameful and brutal treatment unparalleled in history, and beside which the conduct of a Legree almost stands out as an example of kindness. Home life with its affections, its joys and its comforts was destroyed; parental control was impossible. Not the least effort at educating or developing the intellectual and moral capacities of the children or at providing leisure and rational recreation for the adults was made. Human beings were by these conditions degraded to the level of brutes. The long hours of labour, the exhausting nature of their work, lowered their physical condition; the miserable dwellings in towns where no attention was paid to sanitation

accelerated the physical degeneracy of the population. Every moral thought and intellectual aspiration seemed to have been banished. Every brutal and selfish passion in every class was let loose; the country became a gambling hell in which the dice were human beings and the stake the possibility of making a fortune of material wealth. Loveliness in art and nature disappeared, and literature, religion, architecture were degraded to the service of the passion for riches. The marvellous progress in mechanical science which had given to the country the wonderful command over production of wealth, the extended control by man over the resources of nature—so full of the possibilities of a higher and better civilisation—were permitted to operate without any moral or social control, with the result that the material enrichment of the few was secured at the cost of the poverty and degradation of the working classes and the demoralisation of all.

This was a condition of things which could not permanently endure. Two generations of such unbridled competition would have destroyed the wage-earning classes. A few noble men like Robert Owen, Richard Oastler, Lord Shaftesbury, and John Fielding, appalled at the wretchedness of the condition of the operatives, agitated for legislative interference, and the outcome of their efforts was the beginning of the factory legislation which has done so much to mitigate the horrors of unbridled capitalism. But a knowledge of what the Wages

System is, when uncontrolled by legislation and influences aimed at mitigating its evils, is necessary for an understanding of its real character. If to-day the condition of the wage-earning classes is better than that of their great-grandfathers, who were the first innocent victims of the Industrial Revolution, the improvement is not due to any virtues which the Wages System itself has been able to develop, but to the efforts which have been made in various directions to eliminate its worst features and to radically change its character. An industrial and social system under which nine-tenths of the population have no security of employment, no prospect of ever rising above the state of a wage servant, no opportunity in their employment for the exercise of their organising or inventive abilities, is one which cannot be defended either as capable of satisfying the economic needs of the individual or of meeting the conditions of moral human relationship.

CHAPTER II

THE WAGES SYSTEM—ECONOMIC

THE changes in the methods of production and the organisation of industry brought about by the use of steam power and of mechanical inventions, briefly described in the preceding chapter, gave birth to Political Economy as a science attempting to explain the laws governing rent, interest, profit, prices, and the relations of capital and labour, or, as Political Economy has been frequently defined, "a science which treats of the production, distribution, and consumption of wealth."

Political Economy is often described as a dismal science, but if the claim of political economists can be established that an understanding of its laws will enable industry to be carried on in the most efficient and economical way, and thereby increase the volume of national wealth and secure its most equitable distribution, it is the primary and one of the most important subjects to which human thought can be devoted.

Political Economy is not like mathematics, an exact science. It is rather a set of theories to explain facts. The human factor enters into industrial and economic questions so largely that

theories are often upset by practical experience. Upon few theories of Political Economy is there complete agreement among writers of repute, and it is doubtful if all the learned works written upon the laws of Political Economy have influenced in any measure the practical working of the industrial and social system.

Landlords, capitalists and workmen know little of the theories and teachings of political economists. They do not regulate their actions by the knowledge of abstract theories about rent, interest, prices and wages; but they have a practical knowledge gained from their experience of the methods by which their particular interests can be promoted. The landlord, for instance, though he has never heard of the Ricardian Theory of Rent, knows that the rental value of his land is determined by certain practical considerations; and that apart from the natural qualities of the soil, there are other factors such as the situation of the land, its proximity to a town, the absence or presence of facilities for transport, which determine the amount of rent he can obtain for its use. The capitalist who carries on his business by rule of thumb and on empirical principles, knows that a scarcity of commodities causes an increase of prices and profits, that an abundance results in a fall of prices, that the scarcity of labour compels him to advance wages, and that a surplus of labour enables him to reduce them. The workman has never heard of the Iron Law of Wages or the

theory of the Wages Fund, but he knows that there is an eternal struggle between wage labour and capital about the respective share to be taken by each.

These observations must not be taken as a disparagement of the claim that Political Economy is an important science, nor a denial that the capitalist system is governed by certain laws which, if observed, will aid the economical production and the efficient distribution of wealth. On the contrary, the practical knowledge by which the landlord, the capitalist and the workman conduct their affairs is the result of experience of the working of economic laws under this system, though they could not explain in scientific language either their nature or the method of their operation.

Political Economy is the science of the capitalist system. It is not ethics. It is not political jurisprudence. It accepts the capitalist system and tries to explain it. At its best it seeks to apportion the respective shares of the landlord, capitalist, the receiver of interest, and of the workman. It treats of the limitations imposed upon each of these recipients of the produce of industry. The earlier political economists were often the champions of the landlords and the capitalists. Their theories led to the conclusion that the existing status and condition of the labourer were irremediable, and that all his efforts to raise his wages and to shorten his hours of labour were flying in the face of inexorable laws.

It is true that in recent years the teaching of political economists has been infused with an ethical conception, and in consequence the morality of certain economic theories has been questioned. When the so-called inexorable laws of Political Economy have been defied because of the injury their operation inflicted upon the industrial classes—as for instance, by the State regulation of the hours of labour, the fixing of a minimum wage—and the consequences prophesied by political economists have not been fulfilled, they have been led to modify their theories and to admit that the so-called law was not quite the inexorable thing they had claimed it to be. There are to-day, indeed, political economists of repute who have courageously indicted the whole capitalist system, and who have not hesitated to maintain that the exactions of rent, interest, and even profit, where it is not a legitimate payment for essential services, are indefensible on economic, social, and moral grounds.

Had there been a science of Political Economy during the systems of slavery, serfdom, and feudalism its theories and laws would have been quite different from those which are put forward to explain and defend the capitalist system. Under these systems there could have been no theory of rent, no theory of wages, no theory of value and prices, such as are expounded in modern Political Economy. “In that original state of things which precedes both the appropriation of land and

the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share with him. Had this state of things continued the wages of labour would have augmented with all those improvements in its productive powers to which the division of labour gives occasion." This is the striking sentence with which Adam Smith opens his chapter on "The Wages of Labour." The appropriation of land gave birth to the system of rent exaction. Similarly in that state of industry where the workman owned the tools of his trade and disposed of his products in a local market there was no capitalist employer with whom he had to share some part of the value of the products. The appropriation of land and the payment of rent had become an established thing before the Industrial Revolution transformed trade and industry.

It is important to have an understanding of the change brought about by the Industrial Revolution in order to comprehend the true character of the Wages System. The fundamental change wrought by this Revolution in the methods of production was from individual production for individual use to social production for social use. Under the hand system of production the workman, generally speaking, employed himself, and he exchanged the products he did not himself use with his neighbours in a local market which was little, if at all, influenced from the outside. He regulated his own conditions of employment ;

he fixed his own hours of labour; he regulated the price of his products; he received himself the whole value of his labour. The factory system made the possession of a large unit of capital necessary for economical production. Both the methods of production and labour itself were divided and sub-divided. The market was transformed from a local to a world-wide market, subject to competition which fixed and regulated prices. An elaborate system of exchange had to be devised, and an intricate and mysterious system of banking established. The product was no longer the property of the worker who made it. The raw material was furnished by the owner of the factory who appropriated the whole product and paid to the workman a wage sufficient to keep him alive that he might continue to produce more wealth for the owner of the machinery to appropriate. There arose therefore a fundamental conflict of interest between the capitalist and the workman. Though they were co-partners in the social work of producing the commodities for social exchange and use there was competition between as to the respective shares they could get of the goods produced by their co-operative efforts in production. This antagonism of interest is the fundamental feature of the Wages System, and in so far as Political Economy deals with this matter, it concerns itself with the so-called laws fixing the wages of the workman and the profits of the employer.

We will now proceed to the statement and examination of the laws regulating wages under the system which has just been described. "Wages," says Professor Walker, "are the reward at stipulated rates of those who are employed in production, with a view to the profit of their employer." There are two aspects from which wages may be considered. There are nominal wages and real wages. The nominal wage is the amount of money paid to the workman, but the real wage consists in the quantity of the necessaries and conveniences of life which the nominal wage will command. Wages may be measured by either the amount of time during which the workman is employed, which is called time rates, or by the volume of the product, which is popularly called piece rate wages. The amount of the nominal wage is, roughly speaking, fixed according to the purchasing power of the money wage, that is to say, the wages of the workman, though paid in money, are regulated by the sum that is necessary to purchase sufficient of the necessaries of life to maintain the worker in a condition of physical comfort which will enable him to keep in health and to rear a family.

It is accepted by political economists that what is called the standard of life or standard of comfort determines the wages of labour. This recognises in the first place that the workman must be paid a nominal wage which will command a sufficiency of food, clothing, and other necessaries

to keep him in health and to enable him to command the comforts and conveniences which custom has recognised as belonging to the station in life in which he is placed. Labour is a commodity purchased in the market like every other commodity, and its price is regulated by supply and demand, modified by the conditions just specified. If supply and demand alone regulated the price of labour, without any restraining influence, there would be a tendency, when the supply exceeded the demand, for wages to fall to a point below that at which it was possible to maintain physical efficiency and the recognised standard of life. As a matter of fact that is what happened in the early days of the Industrial Revolution. This is what always happens where there is a large excess of supply over demand. But eventually this corrects itself because low-paid labour is quickly exhausted, not only because the labour employed is rapidly used up, but because the supply is diminished through the reduction of the birthrate and the high mortality amongst children through the inability of the workmen to maintain a family on the wages he is paid.

This tendency of wages to remain at subsistence point is called the Iron Law of Wages. Briefly stated, the meaning of this law is that the landlords and capitalists, having a monopoly of the instruments of production, can compel the workman to divide with them the products of their labour, yielding to the landlord and the capitalist

the whole product beyond just sufficient to enable the workman to support himself at bare subsistence point. The Iron Law of Wages does not mean that every individual workman is forced by competition to existence on a bare subsistence wage, but that the average wage always remains reduced to the bare sufficiency requisite for subsistence and the propagation of the race.

The most elaborate exposition of the Iron Law of Wages is given in Lassalle's "Open Letter." Fundamentally his interpretation of this law is accurate, but he gives to it a rigidity and universality which is not in accord with our experience during the last fifty years. He maintained that the real wage is continually oscillating about the point of subsistence, never being able long to rise above it or to fall below it. He maintained that under capitalism the real wage cannot permanently rise above this subsistence level, because if it did there would be an increase of marriages and births, an increase of the working-class population, and an increase in the supply of labour, which would bring down wages to the former level. Facts have disproved this theoretical assumption. Prodigality in marriage and families is indulged in to a greater degree amongst the lowest paid sections of the wage-earning classes. The late age at which the better-paid artisans and the middle class marry is indeed one of the most striking social phenomena of the present day.

Experience has shown also that the subsistence point, or in other words the standard of living and comfort of the working classes is not a fixed and stationary thing. The average standard of comfort of the wage-earning classes has risen considerably during the last sixty years. The rigidity of the Iron Law of Wages has been relaxed by the influence of education, trade unionism, labour legislation, the communal supply of social needs such as public health, medical treatment of children, free libraries, public parks, and the like.

Though wages are regulated mainly by competition, even the older political economists recognised that other influences restrained its full force. It is doubtful, however, if they fully appreciated the effect of these other influences in modifying the full force of competition. John Stuart Mill says, "In this country there are few kinds of labour in which the remuneration would not be lower than it is if the employer took full advantage of competition," though he went on to add that custom or individual character, as a modifying circumstance, exercises a comparatively slight influence. But custom and moral considerations undoubtedly modify the full force of competition to-day to a much greater extent than they did sixty years ago when Mill gave expression to this opinion. If the Iron Law of Wages operated without modifying influences there could be no improvement in the condition of the wage-earning

classes under the capitalist system. But a comparison of the condition of that class in the years immediately preceding the outbreak of war in 1914 with the conditions in any decade during the last fifty years shows that there has been a slow progressive improvement in their lot.

To accept the theory of the Iron Law of Wages as operating rigidly, and as keeping wages down to a stationary standard of living, would have led to the conclusion that all agencies for raising the standard of life were futile. Trade Unionism, the Co-operative Movement, Municipal Services, Wages Boards, and Factory Legislation would have been ineffective or useless if the Iron Law of Wages had been the rigid dogma it was claimed to be by some of the earlier economists.

An interesting instance of the change of opinion which has come about during the last twenty-five years upon this question is the attitude of the Socialists to the drink question, free education, and the feeding of school children. Accepting the theory that wages were regulated by the cost of living and a stationary standard of life, it was argued that if workmen became teetotallers their wages would fall by the amount they had previously spent upon drink. Such a position as that can only be maintained by ignoring altogether the influences which modify the operation of the Iron Law of Wages. Such a contention as that misses a very important influence which is always operating to raise the minimum standard of living to a

higher level. Education has created new desires which are always struggling for satisfaction. If, therefore, there be a vacuum created in the expenditure of the working classes there is an immediate rush of a new desire to fill it. Instead of a relief of direct expenditure by the workman resulting in a reduction of wages and of his standard of living, it has the very opposite effect. The workman, for instance, who stops expenditure upon drink, does not suffer a reduction of wages or lessen his total expenditure. On the contrary, he substitutes his former expenditure on drink for expenditure which raises his standard of comfort, and this in its turn stimulates new desires which the workman will struggle to satisfy.

We therefore arrive at the conclusion that the cause which in the main determines the wages of labour is competition between the workmen for employment. In this competition the workmen are at a serious disadvantage in bargaining with the employer. Seldom is there but one unemployed workman for a vacant job. In such circumstances the influence of competition is strong and the tendency is for the employer to take advantage of the necessities of the workmen. But this general law is modified by many influences which restrain the full operation of competition, the most important of which are custom, public opinion, collective bargaining, the growth of human sentiment and the effect of education.

Under these moderating influences the average minimum standard of living, fixed by public opinion, is on the whole continuously rising, though there are frequent oscillations. A period of bad trade may temporarily depress wages. Changes of fashion, the introduction of new methods of production, such as the use of new machinery by which a lower degree of skill may be utilised, throwing the whole class of hitherto skilled workmen out of employment, may cause a temporary, or even a permanent, so far as particular individuals are concerned, reduction of wages, and a consequent lowering of the standard of living. But on the whole the tendency is for real wages on the average to rise.

Up to this point we have been dealing with the wages problem generally, and with the laws and influences which operate over the whole class of wage earners. There remains for consideration the question of the differences which exist between the wages in different kinds of employment. These differences are considerable, and are in the main historic. Adam Smith set forth five reasons for the differences of wages, but these reasons are not adequate to explain the differences as they exist to-day. His illustrations are drawn from a state of things which has largely passed away. The five causes enumerated by Adam Smith are :—

(1) The agreeableness or disagreeableness of the employment ; (2) the cost of entering into different kinds of employment ; (3) the constancy or in-

constancy of employment ; (4) the trust reposed in the workmen ; (5) the probability of success.

The disagreeableness of an occupation does not generally, although it may in very special circumstances, influence favourably the rate of wages. It is a commonplace that the most disagreeable work is performed by the lowest paid labourers ; but it is not the disagreeable nature of the work which determines the rate of pay so much as the character of the workmen who perform it. They usually belong to the least educated section of the working classes, and owing to this cause, which is often accompanied by habits which unfit them for more responsible work, and to their failure to compete with more intelligent and trustworthy workmen, they are driven to accept disagreeable kinds of work. Whether disagreeable or dangerous employment is more highly remunerated than more agreeable and less dangerous work is determined in the main by competition. If employment of a more agreeable nature were open to all workmen, then undoubtedly the disagreeable or dangerous nature of the work would command a rate of remuneration above the average.

The case of the miners is interesting as bearing upon this point. This occupation is healthy but dangerous. It is disagreeable and arduous. It requires no long training. It is not a close occupation. Competition in the mines works in so far as there is no prohibition of immigration into the mining areas, but the outside impression is that

the work is disagreeable and dangerous, and this deters men outside the mining areas from entering into competition to any extent. The mining industry is localised, and there are few other occupations open to youths in these districts. These facts, therefore, that is, the disagreeable and dangerous nature of the occupation, the absence of the constant pressure of competition to enter the occupation would be expected to affect favourably the remuneration of miners. That they have done so to some extent is undoubtedly true, though the combination of the miners in trade unions has been the most important force in raising the wages of the miners above the average for occupations requiring no greater amount of skill.

It is very often the case that the agreeableness of an occupation tempts exceptional competition, with the result that the remuneration for it falls below the general average. Clerical work is a case in point. The general spread of education has given to a very large number of persons the rudimentary qualifications of a clerk. The supposed gentility of the occupation, the comparatively easy nature of the work, have made the clerks in general the cheapest of the proletariat, and the supposed respectability of the occupation has developed a snobbishness which has kept them aloof from the general body of workers who have been able to raise their wages by combination.

The cost of entering an occupation or profession

has undoubtedly an influence in determining the rate of remuneration. But this is not so much because it has been expensive to qualify for the work as to the fact that the expense of training and education limits the number of persons able to qualify. But here it will be found that present-day conditions are tending to take away the advantage in the form of higher remuneration which this class of occupation formerly employed. Closely connected with this influence in determining wages is Adam Smith's fifth point, namely, the probability of success. The growth of the middle classes has increased largely the number of parents who can afford to make the financial sacrifice involved in educating their children for some highly-skilled or professional occupation, such as an engineer, a chemist, a teacher, a doctor, or a lawyer. The agreeableness of the occupation, its respectability, the social position which attaches to it, have outweighed the influence of the probability of success. Taking the normal conditions of the period immediately preceding the war, we find that the average salary or wages of the teaching profession, of law clerks, and qualified chemists' assistants were lower than the wages earned in many classes of employment for which no long and expensive training had been required.

Little need be said about Adam Smith's fourth reason for differences of wages, namely, the amount of trust reposed in the workman. Though cases frequently come to light of men employed in

positions involving considerable trust and responsibility who have been paid a wage little above those of the labourer, generally speaking, it is true that responsibility and trust, owing to the comparative lack of qualified persons, are more highly remunerated.

One more of Adam Smith's five factors which influence wages remains to be considered, namely, the regularity of employment. It is a peculiar feature of modern industrial conditions that those occupations where the wages are lowest are most subject to unemployment. The liability to unemployment does not appear to be taken into consideration in fixing the rate of wages. The explanation of this fact is that the unskilled workman has considerable mobility. Most industries employ a large proportion of unskilled labour which can readily adapt itself to a change of occupation. The uncertainty of employment has a demoralising effect upon the workman, which makes him more content to accept and endure a low standard of living. This factor of the inconstancy of employment does not in practice appear to have the effect of increasing the rate of remuneration.

Two other factors which enter into the regulation of wages ought to be considered, namely, the effect upon adult male wages of the employment of wives and children, and the general remuneration of women's work. The minimum rate of wages paid to an adult man must be upon the

average sufficient to maintain himself and those who are dependent upon him. This minimum rate, under the influence of competition, must be sufficient to provide for the support of the average number of dependants. If, therefore, wives and children are employed to such an extent as to influence the general labour market, it will be found, as a rule, that the family income will fall to the minimum cost of supporting the whole family. The best known illustration of this is the textile trades where, for generations, it has been common practice for the wife and children to work in the same occupation as the father. It is not strictly true, however, to say that the effect of this competition of the wives and children with the father has been to reduce the family income to the average level of other occupations where wives and children are not employed. The reason for this is that the first introduction of additional contributors to the family income raised its total amount, and some part of that has been retained and incorporated into an improved standard of living. But the fact remains that the wages of the adult men in occupations subject to competition of wives and children are lower than the average wage in other occupations where such competition is absent.

There are many reasons which explain the lower wages paid to women. The chief among these is the fact that the average woman does not look upon industrial employment as a life-long occupa-

tion. Even in the case of the industrial married women it is not so regarded. In the cotton trade, for instance, where 60 per cent. of the operatives are women, young female workers look forward to the time when the cares of a family will release them from this employment. The vast majority of married women are not employed in wage service. The figures of the last census returns show 10,026,379 females over the age of ten as unoccupied, but the majority of these are, of course, employed as housewives. This feeling that the work upon which the wage-earning woman is engaged is of a temporary character is detrimental to trade union organisation.

Another reason why the wages of women are lower than those of men is an historic one. Only since the advent of the Industrial Revolution have women entered into the competitive labour market. The idea still prevails, and it is indeed based upon fact, that the wages of the man must take into account the maintenance of dependants. This does not influence the wages of women. A still further reason for the lower wages of women is that only a restricted number of occupations have been open to them, and the competition among women has therefore been considerable.

It is not the case, however, that women are always paid at a lower rate than men. In the cotton trade, where piece-work rates are universal, the women are paid the same as men, and it is no uncommon thing for their earnings to be

higher than those of men. But generally speaking, the reason why the wages of women are not equal to those of men is because the industrial woman is regarded as a unit with no dependants to support, whereas the average man has the responsibility of a family, and his wages must be sufficient to maintain his dependants.

We have now completed our brief examination of the theory of wages and explained the causes which determine the general rate of wages. We have attempted to explain why wages in different occupations and at different times and in different places vary so much. The demand for labour and the cost of living are the two main causes which determine the rate of wages at a particular time and place. The cost of living, which is such an important factor in determining the rate of wages, varies in different parts of the country, and it often happens that there is a temporary surplus or scarcity of labour generally, or of a particular class, which affects wages within a geographical area.

Though facilities for the migration of labour are now very considerable, there are many things which restrain a workman from changing his locality when trade is bad, and these influences induce him to accept a lower rate of wages than he might be able to obtain by removal to another part of the country. If the workman be a married man with a family, he has to consider the cost of removal. He has social ties with the locality

which he is unwilling to break. Very often he has other members of his family settled at school or in occupations. Many of our great industries are localised, and when trade is bad and employment scarce, a workman has no alternative but to remain in the locality and endure temporary hardship as best he can, living in the hope of a revival of trade.

It has been pointed out that what matters to the workman is not so much the nominal as the real value of the wage, that is, the amount of commodities and services which the nominal wage will command. This fact is accepted by the trade unions, and varying rates of wages are recognised as standard rates. For instance, the standard rate of wages in the normal conditions which prevailed before the war varied considerably from locality to locality. The trade union rate of wages of carpenters, for example, in 1912 in Liverpool and district was 10d. per hour. At Nantwich, in the neighbouring county of Cheshire, the trade union rate was 6½d.; whereas at Northwich in the same county it was 8½d. Similar variations are to be found in every trade all over the United Kingdom. The difference in the cost of living cannot altogether explain these variations. The degree of trade union organisation amongst the workmen is in a large measure responsible for variations of wages where the cost of living is approximately the same. The variations between the large towns are much less than the variations

between the towns and country districts, and apart from the degree of trade union organisation, rent largely explains these differences. According to an Inquiry into the Cost of Living of the Working Classes, conducted by the Board of Trade in 1905, broadly speaking, the average rents in the towns included in the Inquiry were from 50 to 60 per cent. of those prevailing in London.

CHAPTER III

WHERE WAGES COME FROM

WAGES is the remuneration of labour after the rent of the landlord and the profits of the capitalists have been appropriated. It has long been a delusion of labour that capital is the most important of the three factors in production—land, capital, and labour—and this has given to the workman an exaggerated idea of his dependence upon capital. It is natural that the uninformed workman should entertain this notion when he realises that he must beg permission of a capitalist to work on machinery and raw material which is owned by capitalists. The further notion has been encouraged that capital is an extremely sensitive thing, and that any unreasonable demand by the workmen would cause capital to take to itself wings and flee away. The early economists elaborated a theory, known as the Wages Fund Theory, which taught that there was a fixed and limited amount of fluid capital available for the employment and payment of labour. It was maintained that the average wage depends on the proportion of this Fund to the number of people, and the amount of the Fund is determined by the

amount of general wealth applied to the direct purchase of labour.

The Wages Fund Theory is elaborately expounded by John Stuart Mill in Book II. Chapter XI. of his "Principles of Political Economy." This writer, however, in his later years abandoned the theory, and it is not now accepted by political economists. It has been superseded by what is known as the Product Theory of Wages. The difference between these two theories is important, because if the Wages Fund Theory were sound, any attempt of one section of wage earners to increase their earnings would have the effect of lowering the earnings of other sections. The Wages Fund Theory was used as an argument against trade unionism. It was pointed out, seeing that the amount available for wages depended upon capital and not product, that if one section of the wage earners succeeded in increasing their wages, this would be at the expense of that portion of capital designed for the purchase of machinery and raw material, and there would therefore be a reduction in the volume of employment.

The Product Theory of Wages assumes that wages are paid, not from capital but from the net aggregate revenue of the community. This point is put by Professor Marshall in this form. He says:—

"The labour and capital of a country, acting on its natural resources, produce only a certain net aggregate of commodities, material and im-

material, including services of all kinds. This is the net annual income or revenue of the country, or the national dividend. . . . It is divided up into earnings, of labour, interest on capital, and, lastly, the producers' surplus or rent of land or all other deferential advantages for production. It constitutes the whole of them, and the whole is distributed among them. The larger it is the larger (other things being equal) will be the share of each agent of production."

According to this theory, then, wages depend upon not a proportion of capital employed in industry which has been designed for the payment of wages, but upon the net aggregate of commodities available for distribution in the form of rent, interest and profit, and wages. The Wages Fund Theory derived its plausibility from the fact that the employer hands over to the workman the use of capital embodied in machinery or raw material to be worked up into commodities, and because the workman's wages are paid before the capitalist receives payment for the commodities which the workman has produced. This seems to justify the assumption that wages are advances made from capital to labour. But this is not the case generally. It is true in exceptional cases, as, for instance, in the early stages of a business, before a constant revenue is being received by the sale of commodities; but later it is from the general revenue of the business derived from sales that wages are paid.

If, therefore, the fund from which wages are paid is not capital but the revenue represented by commodities and services, it follows that the amount which may be assigned to the payment of wages is determined by the net aggregate of the national income, subject to the power of the respective parties—landlord, capitalist, and workman—to secure their respective shares. Neither the capitalists nor the workmen can, however, exert their full power without serious consequences. As Professor Marshall says, “The theory of wages has much bearing on the general policy of the relation of capital to labour; for it indicates what policies do and what do not carry in themselves the seeds of their own ultimate defeat; what policies can be maintained, aided by suitable organisation, and what policies will ultimately render either side weal, however well organised.”

Accepting the Product Theory as explaining the source from which wages are paid, it does not necessarily follow that an increase in the net aggregate income, or, to put it in a more vulgar form, an increase of production, will result in an increase of the real wages of labour, though this appears to have been assumed by many modern economists. The facts and experiences of the industrial era do not support this conclusion. A few illustrations will confirm the contention that the increase of the national income is shared in a larger degree by rent, interest, and profit than by labour. The total annual value of incomes

assessed under Schedule D, that is, from "gains arising from any profession or trade, railways, canals, mines, gasworks, waterworks, etc.," in 1854 was £88,401,860. In 1908 this figure had risen to £565,601,821.

There are no official figures dealing with wages except in agriculture and in the textile trades, dating earlier than 1874, but in 1854 the average cash wage per week of an agricultural labourer was 10s. 8d., and in 1908 was 14s. 7½d. In the cotton trade, the piece rate wages in 1908 were precisely the same as in 1854, though the earnings were no doubt higher owing to improvements in machinery and methods of production. Taking all the principal industries of the country—coal-mining, textiles, building trade, and engineering—the mean rate of wages in 1908 was 10 per cent. only above that of 1874. The profits of trade, as shown by the figures given above, had risen in the fifty-four years from 1854 to 1908 by over 500 per cent., whereas the wages of agricultural labourers had increased by a little over 80 per cent. The wage rates of cotton weavers had remained stationary, and the average increase over all stable industries had risen by 10 per cent.

The general course of wages between 1900 and 1916 showed a general decline. There was an increase of 4 per cent. in 1907, followed by a slight decline in the succeeding years until 1918 and 1914, when in the latter year the mean of the principal industries was 6·5 per cent. above the

rate of 1900. Between 1900 and 1913 the profits assessed to income tax under Schedule D rose from £436,000,000 to £670,000,000. Not only has the increased national income gone largely to the capitalists, but the landlords have shared, too, in the increase of national wealth. In 1854 the total assessment under Schedule A amounted to £111,000,000. In 1914 the corresponding figure reached £285,000,000. These facts and figures conclusively prove that of the increased national income by far the larger part has gone to increase the profits of the capitalists and the rents of the landlords.

The comparatively small increase in the nominal wages of labour does not, it is true, represent the increase in the real value of their wages. There has been a reduction during the last sixty years in the cost of living, increasing the real value of nominal wages which may have remained stationary. In addition to this improvement of the money value of wages, there have been many indirect additions to wages in the form of municipal and State provision of services, paid for out of rates and taxes, which have added to the real value of wages, and have raised the general standard of comfort.

CHAPTER IV

THE STATE AND THE WAGE WORKER

ECONOMIC laws have never been permitted to operate freely, except perhaps for a brief period in the early days of the Industrial Revolution. Under the manorial and feudal systems law and custom restrained the freedom of the worker to offer his labour to the best advantage. At the time of the Black Death in the fourteenth century the status of all kinds of labour was fixed. The loss of population caused by the ravages of this plague is estimated at not less than one-third of the total inhabitants. This reduction of the population made labour scarce, and competition arose among the landlords for the inadequate supply. It was impossible to maintain the manorial and feudal customs. Labourers left the soil to which they had been attached, and they were eagerly welcomed by landowners only too anxious to obtain labour. Wages rose to an unprecedented figure. The rise in agricultural wages generally was 50 per cent., and in the case of artisans an even greater increase took place. The employers of labour naturally objected to paying these high wages, though necessity compelled them to do so.

This state of things brought about the first regulation of wages by law. In 1349, without waiting for the assembling of Parliament, which was unable to meet owing to the Plague, King Edward III. issued a Proclamation that all able-bodied workmen should serve their lords, or if not required by their own lords, any one so requiring them at the same rate of wages as before the Plague. It is interesting to note that the clergy of that day shared with the labourers the desire to take advantage of the economic situation to improve their lot. Bishops issued admonitions to the chaplains and vicars to be content with their salaries.

The Proclamation of Edward III. was later confirmed by Parliament in the celebrated Statute of Labourers in 1351, which imposed penalties upon employers who paid higher wages, and imprisonment upon labourers who accepted them. Profiteering appears to have existed in those days, for one clause of the Statute of Labourers orders that provisions should be sold at reasonable rates.

The demand for labour, however, was so great that these Proclamations and Statutes were generally ignored. A later Statute of 1360 was enacted, which increased the penalties for paying and receiving wages above the pre-Plague rate, and ordering that fugitives who had left their lords, tempted by the prospect of freedom and high wages, should be branded with hot irons. The difficulty of securing the enforcement of legislation

aimed at preventing the natural effect of economic laws is well illustrated by the failure of the Statute of Labourers so long as the scarcity of labour existed. Professor Thorold Rogers, writing upon this subject, says, "But the labourers . . . could extort what terms they liked from the necessities of their employers. This attitude was met by the Statute of Labourers, and the attempt to restrain wages to the rates which prevailed in 1347. The attempt failed. Year after year, almost century after century, the Parliament complained that the Statute of Labourers was not kept, re-enacted it, strove to make it effective, were baffled, adopted new and harsher expedients, and were disappointed."

To meet these attempts on the part of the State to prevent the natural rise in wages, the peasants formed combinations, and supported each other by the provision of money for the defence of persons charged with violation of the law, and for the payment of fines. After a protracted struggle wages became stabilised at the advanced rates, until economic changes took place, due to the policy of Henry VIII. in dissolving the monasteries, confiscating the guild lands, and debasing the currency. This was followed by a serious deterioration in the condition of the labourers. Pauperism became prevalent, and again legislation made an attempt to interfere with the free operation of economic laws. In the reign of Queen Elizabeth the great Statute of

Apprentices was passed, under which the Justices of the Peace could fix all rates of wages, and were in fact constituted the industrial autocrats of their areas. Historians differ as to the motive which prompted the framers of this celebrated Statute of Apprentices. This statute, in the opinion of some historians, was intended to give legislative effect to the principles of the Craft Guilds, but it differed in practice and effect from the regulations of the Trade Guilds by being applied to every class of workman and imposing severe penalties for the non-observance of the ordinances of the Justices. Under this statute every labourer or artificer was compelled to work in the trade to which he had been brought up. Any workman leaving employment without the testimonial of his previous master was liable to imprisonment and to be whipped and treated as a vagabond.

We have in this statute the first legal enactment relating to hours of labour; but its provisions differ from modern legislation inasmuch as it fixed a minimum number of hours which must be worked. The Act applied to women between the age of 12 and 40, if unmarried. The Justices had the power to appoint any such woman to such service as they thought fit, and if any such woman refused to serve the Justices might commit her until she was willing to obey their order. The Statute of Apprentices was so called because it contained stringent regulations about apprenticeship, the length of its term, and the number of

apprentices to be taken by each employer. During the two centuries following the passing of this important measure, combinations of workmen were being slowly formed, and this movement had made such progress towards the end of the eighteenth century that in 1779 the General Combination Act was passed. The earlier statutes for regulating wages and conditions of labour were now utilised only in so far as their provisions were repressive, and whatever protection the workmen might enjoy from them became a dead letter. In 1825 an Act for the repeal of the Combination Laws was passed, and by this the right of collective bargaining, involving the power to withhold labour from the market by concerted action, was for the first time in English history expressly conceded. The liberty of combination, however, was still restricted by many shackles, and it was not until 1875 that the relics of the Statute of Apprentices were finally and completely removed by the Conspiracy and Protection Act.

The purpose of all State interference with wages and conditions up to the early part of the nineteenth century was undoubtedly based upon the idea that the lower orders must be prevented from taking advantage of favourable economic conditions which might raise them above the prevailing standard of life. Adam Smith's view of this legislation is that it was part of a general system of oppression of the poor by the rich. Arnold Toynbee, however, takes a different view.

“Combinations of labourers,” he says, “were forbidden by law because it was felt to be the wrong way of obtaining the object in view, and not from any desire to keep down wages. The Justices often ordained a rise in wages, and the workmen themselves were in favour of this method of fixing them.” Brentano and Stanley Jevons take the opposite view. A very striking sentence in Jevons’ “The State in Relation to Labour” is worth quoting. He says: “But the great lesson which we have learned, and it is an impressive one, is that legislation with regard to labour has almost always been class legislation. It is the effort of some dominant body to keep down a lower class which had begun to show inconvenient aspirations. Such is clearly the nature of the celebrated Statute of Labourers, which was simply a futile attempt to prevent labour from getting its proper price.”

Factory and mines legislation, which began in 1802, and which has been followed by innumerable statutes fixing the hours of labour for children and adults, laying down minimum conditions of sanitation, fixing the form in which wages should be paid, establishing minimum rates of wages, compensation for accidents, unemployment insurance, and the like, differs from the older State interference in this respect, that it is the outcome of the moral appeal, of the recognition of the economy of reasonable industrial conditions, and of the political and trade union pressure of labour.

In modern times the State has shown consider-

able reluctance to interfere by law with the regulations of wages. The first modern legislative enactment giving a legal force to the payment of standard rates of wages is contained in the Trade Boards Act of 1909. This Act was considered necessary to deal with the sweated conditions in certain trades, where through weak organisation and the helpless character of the workpeople, wages had been reduced to the bare minimum of existence. It was followed three years later by the Coal Mines Minimum Wage Act, which fixed a minimum wage for the best organised industry in the country. This legislation is flying in the face of the theories expounded by early political economists. There is this difference between a standard rate fixed by law and by trade union effort. In the first case the standard rate remains unaffected by temporary variations in the state of the labour market and the condition of trade. In the second case the arrangement entered into between the employer and the trade union is always limited by time and is subject to alterations according to the condition of trade.

Trade unionism amongst workmen arose from the recognition of the obvious fact that the individual workman is helpless before the skill and power of the employer. To overcome the weakness of individual bargaining, the trade unions have been established on the principle of collective bargaining. Collective bargaining means that there is an agreement among the members of a trade

that no member will accept employment at wages lower than those which have been fixed. Instead of the individual workman bargaining with the employer at a disadvantage, the bargaining is conducted by the workmen's representatives, who in effect offer the sale of labour in bulk.

Collective bargaining has undoubtedly raised the standard of wages, and has secured for the workman a larger share of the product which constitutes the national income from which wages are paid. This statement does not conflict with the other fact that the incomes of the capitalists and the landlords have also increased. The increase in national wealth would have continued had there been no trade unionism, and in those circumstances the proportions taken in rent, interest, and profit would have been larger than is the case.

Half a century's experience of trade unionism has disproved the theory that an improvement of wages, forced by artificial conditions such as combination, would dislocate the economic system and bring disastrous consequences upon the workmen. The general idea in the early days of the Industrial Revolution was that low wages were not only necessary but economically sound. They were considered to be necessary because it was held that high wages, instead of encouraging industry, would encourage idleness and dissipation. This idea is not yet wholly eradicated. It has been revived recently in connection with the

miners' demand for an advance of wages, it being asserted that at the present rate of wages, the miners were able, by working three or four days a week, to earn quite sufficient to satisfy their needs and desires. But the theory of the economy of low wages is not now held by any intelligent person. The facts of practical experience have made it impossible for such a theory to be seriously maintained. Low paid labour is inefficient labour. It creates a class of labourers who have no ambitions, who are satisfied with a low purchasing power, and who are unintelligent at their work. On the other hand, high wages make labour more productive, they stimulate new desires, they enable workmen to maintain a higher degree of physical efficiency.

The cost of production is almost invariably lower where wages are high and the hours of labour reasonable. In the normal conditions of pre-war times it was the relatively higher wages and shorter hours in the staple trades of Great Britain, with the aid of our fiscal policy, which maintained our vast export of manufactured goods. Our most serious competitors were not the countries where wages were low and hours long, but the United States of America, where wages were higher, and Germany, where they approximated to the conditions in this country. The efforts of trade unionism, therefore, in raising wages have rendered a distinct service, not only to the workmen as a class, but to the general industry of the country.

From the efforts of trade unionism the employers themselves have benefited. If the employer has to face an increase of wages he is driven to devise improvements in his equipment and in his organisation. The payment of high wages necessitates highly efficient machinery, perfect organisation and the elimination of all avoidable waste.

The insistence of the trade unions on an improvement in the conditions of labour has contributed in no small degree to the commercial progress of this country. Higher wages have proved that what is morally right is economically sound. Higher wages have increased not decreased the volume of employment. Higher wages, as has been pointed out, increase the demand for goods, and every staple trade of the country is stimulated by the increased purchasing power of the working classes. With an increase of wages new industries are developed, and the working classes become in a larger measure the patrons of reasonable enjoyments by which further employment is provided. Increased wages do not mean lessened profits, and that established fact justifies the trade unions in pursuing the policy of demanding a progressive advance of wages.

CHAPTER V

WAGES, VALUE AND PRICES

WAGES are usually paid in money. In the absence of any written or verbal agreement wages must be paid in the current coin of the realm. There are a few exceptions permitted by law to this general stipulation. The coal miners receive coal for their own domestic use at a price much below the market price. The agricultural labourers are often provided with houses, either rent free or at a nominal rent. Domestic servants receive a part of their wages in board and lodging. These things are taken into consideration in fixing the nominal wages of the workmen. The abuses arising from the payment of wages in kind became so grave that legislation has been invoked to regulate this system of remuneration. Cases in which wages are paid partly in current coin and partly in kind are now the rare exception.

The market value of a workman's services are generally fixed at a nominal sum paid, in normal times in gold or silver, and in these days in paper notes or silver. A workman receives as his wages, say a sovereign in gold or two one pound paper notes. This payment represents the selling price

of the man's weekly labour. Neither the sovereign nor the paper notes have a utility value, unless it would gratify the workman's desire to make the sovereign into a pendant for his watch chain, or to use the Bradburys for lighting his pipe at the fire. But for that purpose the notes would have no higher value than an ordinary piece of paper. The value of the sovereign or the paper notes to the workman lies in the fact that they have an exchange value. They can be used to purchase commodities which the workman needs for his sustenance. The nominal value of the wages, therefore, represented by the sovereign or the Bradbury, represents the relative value of commodities for which they can be exchanged. When the tokens in which his wages have been paid are transformed into commodities he is possessed of something which has both a utility value and an exchange value.

Value means the quantity or measure of utility. It means the amount of utility attached to articles or services. Utility in this connection means the capacity to satisfy the human needs or desires. There are therefore two kinds of value. Value represented by utility in use, and value in exchange. An article may have very considerable utility value but little or no value in exchange. Fresh air and water, for example, are things of very great utility value, but they are so common, so freely accessible, that they have not in ordinary circumstances any exchange value. There are

conditions in which both fresh air and water might be given a very high exchange value. A man who was being suffocated for lack of fresh air would give all that he possessed to get a supply, if it could only be secured by the payment of an exchange value. Though water as a commodity has no exchange value, the supply of water is given an exchange value when it is conveniently supplied to the consumer. The payment for a household or factory supply of water represents the exchange value of the time and inconvenience saved to the consumer by the provision of the supply in a form always ready and convenient.

Utility value means the price which a person is prepared to pay for a service or commodity which will satisfy either a need or a desire. Utility value is not confined to articles or services which have a social value, or which serve a useful purpose in the popular sense of that word. A rope of pearls has a very high exchange value. A few days ago a pearl necklace was withdrawn at an auction sale at a figure of £67,000. The sum of £67,000 which some person was willing to pay for an article which could serve no other purpose than to gratify a passion represents the exchange value of a personal whim on the part of a person with sufficient means to gratify it. An article or a service may have a utility value in this sense though it may have no exchange value. An article may be treasured by the possessor because of associations connected with it, though its

utility value is confined to the person to whom these associations are dear. An old servant may be retained and paid wages far beyond his exchange value. In the latter case there is both a utility and an exchange value, though the two values are not equal. Exchange value is attached to any service or commodity which some other person will pay for or buy.

Value is a relative term. It expresses the price of a commodity in money terms in relation to other commodities. It follows therefore that there can be no general rise or fall of values. For instance, a ton of coal may exchange for a pair of boots, but if the supply of coal is above the demand and the supply of boots is below the demand, the price of a pair of boots may exchange for two tons of coal. There has been no rise or fall of values. What the boots have gained in value the coal has lost in value.

Though there can be no general rise or fall of values, there can be a general rise or a general fall of prices. Price is value expressed in terms of money. A general fall in prices means an increase in the value of money, and a general rise in prices means a fall in the value of money. The value of a ton of coal may at a particular time and place be expressed in price as two pounds. But if the price falls to one pound it means that the value of money in relation to coal has doubled. If the price of a pair of boots rises from two pounds to four pounds it means that money has fallen in

value in relation to boots by one half. There may be variations in prices over the whole range of commodities. Particular commodities may double or treble in price, others may fall, and the general level of prices may be approximately maintained. In such circumstances the general value of money is not altered, though its value in relation to particular commodities may be increased or reduced.

Prices, therefore, are a very important matter to the workman, whose wages are paid in current coin (including in this phrase the present issue of paper money to take the place of gold coin). The workman's wages are fixed at so much money per week. In reality this wage, when fixed, is supposed to express in money the exchange value of the money in relation to the value of the commodities for which the money will have to be exchanged. The workman has no control over the manipulation of the market which affects prices. The trade unions may succeed in securing an increase in the nominal amount of wages, that is in the amount of current money. But it is within the power of the capitalists when market conditions are favourable to raise the price of commodities for which he must exchange his wages, and thereby depreciate the purchasing power or the exchange value of his wages. The wages contract is in reality an obligation on the part of the employer to pay the workmen every week as much money as will exchange for commodities at the prices ruling at the time the contract is made. A rise

of prices, therefore, is a real reduction of the workman's wages. It is in fact a breach of the contract. When prices have risen and the workman's wages have not been raised, he is being deprived of a part of the real wages for which he had contracted. On the other hand, of course, if prices fall the value of his money is increased and he thereby gains an advantage.

Prices, like wages, are influenced by the law of supply and demand. Demand is the desire for possession accompanied by the power to purchase. The lack of organisation to try to keep supply approximately equal to the demand (owing to the fact that there are thousands or tens of thousands of persons, scattered all over the world, engaged in production without any knowledge of what their competitors are doing), renders it difficult for supply to approximate to the demand. The supply of many important commodities, like food and raw cotton, is so much dependent upon causes beyond the complete control of man that fluctuation of supply is bound to occur. An abundant harvest may throw upon the world market an exceptional quantity of wheat; natural causes may affect a year's cotton crop in the direction of a reduced or increased supply. The world demand for food is fairly stable. An abundant harvest, that is an increase of supply, does not materially affect the demand. The consequence is that as every person holding wheat must sell within a limited time, the excess of supply over

demand causes a fall of prices. The extent to which the excess of supply over demand affects prices is largely determined by the nature of the commodity. To take an extreme case, that of fish—an extremely perishable commodity. If there be an abundance of fish, if the supply greatly exceeds the normal demand, there will be a sudden and considerable fall of prices. This fact is so well appreciated that it is not an uncommon practice for fish to be thrown back into the sea, because a larger total profit could be made at a higher price than by the sale of a larger quantity at a lower price. But when an abundant supply of fish is placed upon the market, resulting in very low prices, there is an increase in demand for fish. A further result is the withdrawal of purchasing power from other articles of food, like meat. The meat retailers, not being aware of the advent of the competition of a cheap supply of fish, have prepared their usual supplies. The diversion of purchasing power from meat to fish lessens the demand for meat, and the supply of meat, being in excess of the demand, causes a fall in the prices of meat also.

Supply and demand does not affect prices to the same extent in commodities of a non-perishable character. The supply of manufactured articles can be better regulated than the supply of commodities dependent upon the vagaries of the seasons or the luck of the fishermen. If from any cause the supply of a manufactured commodity

has become a glut upon the market the manufacturer or merchant can withdraw supplies from sale and hold them until more favourable market conditions have been restored. This power, however, is exercised only to moderate the effect of an excess of supply over demand in non-perishable commodities. The relation of demand and supply affects the price more or less of every marketable article. The variation of prices tends to restore an equilibrium between supply and demand, which cannot be established or maintained by the manufacturers and merchants, owing to their inability to survey and forecast the exact requirements of the market over a definite future period.

The free operation of the law of supply and demand is interfered with by a great many influences and deliberate acts. Neither labour, nor capital, nor prices are regulated by the unrestricted operation of demand and supply. Customs, fashions, laws, trade unions and monopolies, all affect supply and demand. A change of fashion may render unsaleable at previous prices large stocks of clothing. These stocks must be cleared at slaughter prices. The existence of a rich class with a large spending power has a considerable influence upon demand and supply. The expenditure of this class upon necessary commodities is stable. Only a small proportion of their expenditure is devoted to the purchase of commodities of this kind. The greater part of their expenditure is variable. One year a rich person

may spend £5000 on a luxurious motor car, the next year a similar sum upon diamonds or pearls, the following year upon paintings or furnishings, and the year after on the purchase and equipment of a shooting box. It is only the expenditure upon commodities which are necessary, or supply reasonable conditions and conveniences, which contributes to the general well-being and helps to maintain a fair equilibrium between supply and demand.

Monopolies exercise a very important influence upon the supply of commodities and consequently upon prices. But this is a matter of such grave and increasing importance that its consideration must be left to a later stage of our inquiry. It may be sufficient to say at this point that deliberate attempts to prevent the free operation of supply and demand have been made through all the ages. It was part of the aim of the Statute of Apprentices in the Middle Ages to regulate prices in harmony with the statutory rate of wages. There were severe penalties in those days against profiteering, that is, against attempts to force up prices by the withholding of supplies or by combination amongst sellers. The Church took a laudable part in trying to regulate prices by ideas of fairness. Excommunication was often pronounced as a penalty upon those who were found guilty of violating the fair prices regulations.

CHAPTER VI

THE THEORY OF PRICES

BEYOND the simple and obvious fact that supply and demand, when left free to operate, influence the movement of prices (an excess of supply over demand causing a fall of prices and the excess of demand over supply causing a rise of prices), the theory of the variation of prices is still in the controversial stage. The subject, however, has been raised into one of first-class importance by the enormous increase in prices which has taken place during the last five years. This is a subject which affects everybody, for workers and non-workers alike are consumers, and from whatever source an income is derived, its purchasing power is a matter of great importance to its possessor. It would be a very shortsighted view of this problem to assume that the rise of prices in recent years is wholly due to causes arising out of the war. The problem of rising prices had been receiving the consideration of economic students for years before the outbreak of war.

The general course of prices from 1820 to 1905 was downward. The calculation of prices, based on the average wholesale cost of a large number

of principal articles in common use, shows that they were lower by 11·7 per cent. at the end of the century than in 1850. There was a phenomenal rise in 1871 due to the Franco-Prussian War, and it was not until thirteen years later that a marked decline set in, which continued with slight variations up to 1906. Rising prices ruled almost without interruption up to the outbreak of war. Taking the year 1900 as the standard year, the average prices of forty-seven separate articles, weighted in accordance with their estimated consumption, were 26·2 per cent. below the average of 1871, and in 1913, 16·5 per cent. above the average of 1900. It is important to note as bearing upon the causes of increased prices that the advance between 1906 and 1913 was mainly in food, drink, tobacco, oils, rubber hides, wood, bricks, the raw materials of the textile manufactures, coal and metals. There had been violent fluctuations during these years in the prices of the raw materials of the textile trades. But the price of coal and metals were $7\frac{1}{2}$ per cent. lower in 1913 than in 1900. The textile raw materials were 35 per cent. higher; food, drink, and tobacco, 17·7 per cent. higher, and miscellaneous articles, 6·2 per cent. higher. These figures represent the variation of wholesale prices.

The rise of prices from 1906 to 1913 has sometimes been connected with the South African War, but this explanation will not suffice. The South African War came to an end in 1902, and for three

years after that time prices were below the general level of 1900. Some other explanations will have to be sought, and if they can be discovered they will help to elucidate the complexity of the grave problem as it confronts the world to-day. The increase of prices which had taken place in the United Kingdom between 1906 and 1913 had been a world phenomenon, and the cause should be sought in some other influences which were world-wide in their operation.

The movement of wages must be considered in connection with the variations of prices. The official figures show that between 1850 and the end of the nineteenth century wages advanced on the average by 77 per cent. From 1900 to 1914 there were alternating periods of rising wages and falling wages. The net effect of all the changes of wages between 1900 and 1914 was an increase of the weekly wages of the workpeople in the occupations dealt with by the Board of Trade returns. In the fourteen years before the outbreak of war the cost of living had increased by 16·5 per cent. There was no corresponding increase in wages. The gross amount of income assessed under Schedule D, rose from £487,000,000 in 1901 to £670,000,000 in 1913. It is interesting to note that in this period between 1900 and the beginning of 1914, during which the real value of wages had considerably declined, the membership of the trade unions had increased from two millions to four millions.

It is well to cite the above facts dealing with the

fluctuation of prices, wages, and incomes in the period before 1914, because the conditions have been so abnormal during the war that there is a disposition to attribute the great advances of prices wholly to causes connected with the war.

For some time before August 1914 there had been great unrest in the Labour world. The remarkable growth of trade unionism, which has been mentioned, was due to the increasing pinch felt by the working classes owing to rising prices and practically stationary wages. The slight general advance of wages which began in 1910 and reached its culminating point in the first half of 1912, was followed by a decline of wages in the metal and mining industries, and by a slackening in the advances in other industries. In the first seven months of 1914 the net effect of all the changes recorded was a decrease of wages of nearly £13,000 per week.

At the outbreak of war the trade unions agreed not to press for wages advances during the war, in happy ignorance of what was in store for them in the form of an increase in the cost of living. After the outbreak of war, through the enlistments and the demand for war material, employment became very good. By the beginning of 1915 a strong movement had started to raise wages. The Annual Report of the Labour Department for 1915 dealing with this point says:—

“This movement for wages advances in most cases took the form of bonuses or of increases in

rates of wages limited to the duration of the war. It first became evident in the trades more directly concerned with the output of munitions and the transport of troops and supplies. From March 1915 onwards, however, it spread to nearly all the principal industries, and its effects have been far greater than those of any other upward movement of wages previously recorded. It is estimated that during the first twelve months of the war about four and a half million workpeople had their wages increased by over £750,000 per week."

This aggregate sum, though apparently large, represented an average increase of wages of about 3s. 6d. per head. It is pointed out in this Report that apart from the advances in the rates of wages many workpeople received substantial increases in weekly earnings owing to the large amount of overtime worked, to the speeding up of piece-work, and to greater regularity of employment.

Up to October 1915 the wages advances had been about 3s. 6d. per week, and at this time the price of food had risen by 37 per cent. The cost of living continued to advance, and further advances of wages were conceded. For 1916 the number of workpeople who were reported to the Labour Department as having received increases in rates of wages or bonuses was 3,593,000, the net increase in the weekly wages of those affected, as compared with the previous year, being £637,000. At the end of 1915 the general level of wholesale prices was 86·5 per cent. above that of 1900, and 58 per

cent. above that ruling at the outbreak of war. In 1917 the wages advances were more considerable; 5,029,000 workpeople received increases in their weekly wages as compared with 1916—amounting to £2,307,000. These advances were spread fairly evenly over the principal industries. At the end of 1917 the general level of wholesale prices was 109 per cent. above the figures of 1913. Up to this point the wages had lagged behind the increase in the cost of living. In the year 1918 the increase of wages was greater than that recorded for 1917, and it exceeded the total of any previous year. In this year (1918) 5,654,000 workpeople obtained advances of wages, showing a total of net increase in weekly wages as compared with the previous year of £2,783,000. As in the previous year the advances were spread fairly evenly over the whole of industry.

The most noteworthy feature of the wage movement of 1918 was the widely extended application of the bonus of $12\frac{1}{2}$ per cent. on earnings which towards the end of 1917 had been granted to men engaged on plain time rates in munition works, in engineering and shipbuilding establishments. During 1918 this bonus was extended to men on munitions work in various other industries, and in a large number of cases all the men employed, whether engaged on munitions work or private work, eventually received the bonus. During this year an advance of 1s. 6d. a day was given to colliery workers, and the cotton operatives obtained

an advance of 25 per cent. on standard list prices in June, and a further advance of 25 per cent. in December. From the beginning of the war up to the end of 1917 the total increases obtained by the cotton workers had been only 35 per cent., although the advance in the cost of living had been 109 per cent. For railway servants engaged in the manipulation of traffic war wages were increased in April 1918 by 4s. per week in the case of men and 2s. per week for boys under 18 years of age. At the same time the war wage of females of 18 and over was fixed at 2s. 6d. per week, with a minimum increase of 2s. per week; those under 18 years of age were to receive half the amount given to adults. At later dates further increases were granted, amounting to 8s. for men and women and 4s. to youths and girls, making the total war wage for men 33s. a week.¹

During 1919 wages continued to advance, and in November of that year there were reported to the Labour Department changes in rates of wages as having come into operation in October, amounting to an increase of nearly £100,000 in the weekly wages of about 500,000 workpeople. During 1919 the cost of living continued to rise, and on the 1st of November, taking into account food, house rent, clothing, fuel, light, etc., the average increase over July 1914 was 125 per cent., as compared with 120 per cent. a month earlier. No authentic

¹ While these pages were going through the press the railway workers obtained a further advance of 5s. a week.

figures are available showing the average advance of wages from the outbreak of war up to the end of 1919, but it is assumed that the average is somewhere about 110 per cent. Accepting this figure as fairly accurate, it will be observed that the advances of wages during this war time have not kept pace with the increase in the cost of living. It is important to point out also that advances of wages have lagged behind the increasing cost of commodities, so that there has always been a shorter or longer period during which the difference between increased wages and increased cost of living has been considerably to the detriment of the wage workers.

It is necessary to offer some criticism of the figures of the Board of Trade relating to the increases in the prices of commodities. The items included in their estimates are not sufficiently comprehensive, and many articles which necessarily enter into the working class expenditure, and which have increased very considerably in price, are excluded. The range of increases shown by the articles included in the Board of Trade Returns is very wide, varying from *nil* in the case of workmen's tickets on the railways to 300 per cent. or more in matches, eggs, some articles of clothing, and ironmongery. A return was recently made to the writer by the manager of a large general store who had complete records of retail prices ruling in July 1914. This return gives the comparative price of 110 articles in general use, and

the average advance in the period mentioned was 154 per cent.

During 1919 arrangements were made in a number of industries for the periodical adjustment of wages in correspondence with the variations in the cost of living. One of the most interesting of these agreements covers the woollen and worsted spinning and manufacture, wool sorting, wool combing, mohair and alpaca sorting, and the warehouse sections in the industry in the West Riding of Yorkshire, and flannel weaving in the Rochdale district. It is provided in all these agreements that as from the pay day in the month following the issue of the *Labour Gazette* in which the ascertained change in the cost of living reaches the figure stated below, the cost of living to time workers should be increased or decreased to the number of parts shown below, and so on in proportion up or down as compared with the basic wage of a hundred parts in some sections and 110 parts in others.

Cost of Living. Increase per [Centage.	Cost of Living. Wage.	Maximum Weekly Cost of Living. Wage.
125	125	37s. 6d.
115	115	34s. 6d.
105	105	31s. 6d.
95	95	28s. 6d.
85	85	25s. 6d.

In other industries where some similar arrangements have been made the method of adjusting

wages is less complicated. The calico printers have an agreement by which it is provided that the wages of calico printers shall be increased by $2\frac{1}{2}$ d. per week for every 1 per cent. in the cost of living over that previously prevailing in July 1914, with, however, the following modifications. The $2\frac{1}{2}$ d. is fixed when the cost of living stands at 115 per cent. above that of 1914, and if the cost of living falls below this figure the decrease in wages shall be at the rate of $1\frac{1}{2}$ d. per week for each fall of 1 per cent. In the asbestos manufacturing industry a minimum rate of wages of 9d. per hour is fixed for men, and an additional $\frac{1}{2}$ d. per hour for each 10 per cent., by which the cost of living exceeds the 1914 level.

The State regulation of wages, forced by the consideration of the cost of living, has made considerable progress during the war. Under the Munitions Act the Minister had power to give directions as to the rate of wages, as to the hours of labour or conditions of employment of the female workers and of semi-skilled and unskilled labour in controlled establishments. Under the Corn Production Act a statutory minimum wage of 25s. a week for agricultural workers was laid down, and District Boards were created with power to fix the district rate, and their awards have secured an average minimum wage for this class of labour of 37s. 6d. a week. The wages of railwaymen, and those of the miners, have been fixed by the Government, as these two great enter-

prises have been under Government control. In November 1918 the Regulation of Wages Act was passed by which the existing war wages and bonuses were stabilised for twelve months.

One of the most recent, and in some respects the most important instances of State regulation of wages, is that afforded by the decision of the Interim Court of Arbitration, given in November 1919. Twelve months before the Committee on Production (which preceded the Interim Court of Arbitration) had given an advance of 5s. a week to the forty-seven trade unions connected with the engineering trades, this award being based upon the admission that the cost of living was 120 per cent. over the pre-war figure. When, twelve months later, the workmen made an application for the advance of wages, the figure of 120 per cent. exactly represented the then average increase of prices. On this fact alone it might have been assumed that the Court would have been justified in dismissing the application for an advance of wages, but it awarded an advance of 5s. a week to become operative on the 1st December. The grounds upon which the Court made this award are very interesting. They stated that there was a general expectation, based on what appeared to the Court to be substantial grounds, that considerable increases in the prices of various important articles of food and commodities in common use would take place in the immediate future. This is the first, and so far the only instance where an

advance of wages has been granted to meet a prospective increase in the cost of living.

The wages advances which have taken place during the war have not been adopted on any consistent and uniform plan. The workmen who have had a powerful trade union, or who have been employed in occupations which were essential for the production of war materials, have been able to wring advances of wages where other classes of workmen, less able to exert pressure, have been unable to do so. The effect of this haphazard policy of dealing with wages has been to create curious anomalies. A good instance of this is afforded by the case of the agricultural labourers and the railway platelayers. The pre-war wage of agricultural labourers averaged about 18s. 9d. per week. The average to-day is 37s. 6d. The pre-war wage of platelayers varied from 18s. to 21s. per week. The present wages of railway platelayers are the pre-war wage plus a bonus of 33s., that is from 51s. to 54s. per week.¹ In the one case it will be seen the advance of wages is about 18s. 6d., and in the other case 33s., whereas both classes of workmen are equally affected by the advance in the cost of living. Some very curious anomalies, too, have arisen in the engineering and shipbuilding trades, where unskilled and semi-skilled workmen, and even women, employed on piece rates, have earned more than the wages of the skilled engineer who was paid at

¹ The bonus is now 38s.

time rates. The effect of these anomalies has been to create constant unrest and demands for the equalisation of wages for proportionately similar work. The employers who, during the war, were largely employed upon war work, and who were able to charge the wages advance to the Government were less unwilling than usual to grant wages advances.

A survey of the changes of wages and the advances of prices during the last five years leads to the conclusion that wages on the average have not advanced quite as much as the increase in the cost of living. The Rent Restrictions Act has prevented an increase of the rents of working class houses which, in the absence of such legal restriction, and in view of the scarcity of housing accommodation, would probably have soared to unheard-of heights. Though wages have not kept pace with the cost of living, it is undoubtedly the fact that the aggregate income of working-class families has increased much beyond what is indicated by the advance of wages in individual cases. In a vast number of cases women members of a family have become wage earners, and their earnings have considerably augmented the family income without a proportionate increase of expenditure.

The people who have been most hardly hit by the war are those earning salaries as distinct from wages, and people with fixed incomes, derived from annuities and pensions.

The increase of prices during the last five years

has been world-wide. At the end of October 1919 the retail prices of food in Paris were 183 per cent. above those of July 1914 ; in Brussels the increase was 249 per cent. as compared with April 1914 ; in Italy an increase of 114 per cent. as compared with the first half of 1914 ; in Norway the cost of food, fuel, lighting, clothing, rent, taxation, and so on showed an advance of 180 per cent. over July 1914 ; in Switzerland the advance has been 141 per cent. ; in Holland 103 per cent. ; in Canada 91·5 per cent. ; in New Zealand 50·1 per cent., and in United States 84 per cent.

CHAPTER VII

WAR-TIME PRICES AND PROFITS

THE increase in the cost of living which began immediately after the outbreak of war soon became a pressing problem, and proposals were put forward for dealing with it. Taking the year 1900 as the base year, the changes of wholesale prices since that year in the index number of the forty-seven articles comprised in the Board of Trade tables show that in July 1914 prices were 13·6 per cent. above those of 1900, in December of that year 22·6 per cent., in 1915 43·9 per cent., in 1916 86·5 per cent., in 1917 143·0 per cent., in 1918 169·9 per cent. For a long time the Government refused to take any steps to deal with the advance of prices. In February 1915, six months after the outbreak of war, in the course of a debate upon food prices in the House of Commons, Mr Asquith, then Prime Minister, deprecated taking a serious view of the increase of prices, maintaining that "the rise, stated in its most extreme terms which the facts permitted, was substantially below the level at which the most sober-minded and best informed judges in the country would have apprehended or anticipated if they had been told that

a war upon this scale had been continued for so long a time as six months," "and serious," he added, "as is the rise in the prices of food, the level they have obtained or are at all likely to obtain, so far as one can form any forecast at all, does not exceed, and in many cases falls short of the level which those of us who are now living, and still more those who went before, have experienced and been accustomed to in times of profound peace."

He then went on to explain what, in the view of the Government, were the causes responsible for the increase which had taken place up to that time, which was 27 per cent. above the prices of 1914. The increase in the price of wheat he attributed to the diminished supply owing to the shortage of labour due to the employment of men on military service, and to increased demand. Shipping was to some extent responsible, through the withdrawal of vessels from carrying food for the transport of troops and war materials. Mr Asquith's speech on that occasion is interesting because it shows how little even persons who ought to have been well informed upon the subject realised what was likely to happen from a prolongation of the war. It is important, too, to note, in view of the action the Government was compelled at later dates to take, that he condemned the fixing of maximum prices and purchases of food stocks by the Government. The President of the Board of Trade, who followed

Mr Asquith, had but one proposal to make for dealing with the increased cost of living, namely, that it should be compensated for by higher wages.

From this time onward the advance of prices continued, and the Government were ultimately compelled to take steps, not only to regulate the supply but to fix maximum prices of food. An Act of Parliament was passed to set up a Ministry of Food under the direction of a Food Controller, whose duty was to regulate the supply and consumption of food in such a manner as he considered best for maintaining a proper supply of food, and to take steps for encouraging the production of food. The powers of the Food Controller were not laid down by the Act of Parliament, but were conferred upon him by Orders in Council. The Food Controller has from time to time fixed maximum wholesale or retail prices of practically all articles of food ; he has also acted as a wholesale buyer and distributor of certain food stuffs.

At the time the Ministry of Food was established a Shipping Controller was appointed, whose duty was to control and regulate any ships available for the needs of the country, and to take steps for providing and maintaining an efficient supply of ships. Shipping rates had risen to an enormous height, and this was undoubtedly one of the factors responsible for the increased prices of imported commodities.

It is impossible to say what the effect upon prices has been of the control exercised by the

Minister of Food, and the Minister of Shipping. It may be urged that had this control not been adopted prices would have been higher than they are, but it is certain that the control exercised by these two departments has not had the effect of bringing down prices. Prices have continued to advance either in spite of, or with the assistance of Government control, and in the summer of 1919 the public outcry against high prices became so loud and insistent that the Government were compelled to do something more in the matter. There was a popular impression that high prices were in the main due to profiteering, and to meet this complaint the Profiteering Act was passed. This Act conferred upon the Board of Trade power to investigate prices, costs, and profits at all stages, and for that purpose by Order to require any person to appear before them, and to furnish such information and produce such documents as they might require; and on any such investigation the Board may, by order, fix maximum prices; and further, to receive and investigate complaints that a profit is being, or has been since the passing of this Act, made or sought by the sale of the article (whether wholesale or retail) which is, in view of all the circumstances, unreasonable; and on any such complaint the Board of Trade may, after giving the parties an opportunity of being heard, either dismiss the complaint or declare the price which would yield a reasonable profit, and require the seller to repay to the complainant any such

amount paid by the complainant in excess of such price.

The Board acts, in regard to retail trade, through local tribunals. The Act empowers the Board of Trade to take proceedings against the seller before a Court of Summary Jurisdiction, and if in such proceedings it is found that the price charged, or the price discovered by investigation to have been charged, was such as to yield a profit which is, in view of all the circumstances, unreasonable, the seller should be liable on summary conviction to a fine not exceeding £200, or to imprisonment for a term not exceeding three months, or both imprisonment and fine. It provided that a rate of profit which does not exceed the fair average rate earned by persons in the same way of business as the seller upon a sale of similar articles in pre-war days should not be deemed to be unreasonable.

The provisions of this Act, as has been stated, were intended to put down excessive profit taking. The operation of the Act during the first few months has achieved practically nothing. Here and there a retail trader has been convicted by a local tribunal of charging a small sum in excess of what the tribunal considered to be a reasonable profit. The Act has had no apparent effect in reducing prices. The Board of Trade alone can deal with the manufacturer or wholesaler, where it is believed that so much of increased prices as is due to excess profits are believed to have originated. That profiteering has been rampant during the war both in the manu-

facturing, wholesale and retail trades admits of no doubt, but there has prevailed an exaggerated idea in the public mind of the importance of profiteering as a cause of high prices. This observation must not be interpreted to mean that profiteering has not had a considerable influence in raising prices to the consumer, but it is made to call attention to the undoubted truth that there are other causes which, taken together, have had a greater effect.

Especially in the early days of the war colossal fortunes have been made by sheer profiteering, that is, by the exploitation of the necessities of the nation. When practically every trade has shared in this exploitation, it is difficult to cite particular instances as exceptional. A few facts as to the increased profits made by certain companies, whose opportunities have arisen out of war conditions, may be quoted.

Early in the war the profits of shipping concerns became notorious. Mr Bonar Law, then Chancellor of the Exchequer, made a sensation in the House of Commons in 1917 by confessing the facts in regard to the dividends he had received upon certain investments in shipping. He said that the sum of money he had invested in shipping was spread over fifteen companies, and amounted to £8110, which, at 5 per cent., would yield £405. For the year 1915 he received in dividends £3624, and for 1916, £3847. That was after paying Excess Profits. One of these steamers was sunk, and on his £200, after the handsome dividends he

had received, he was given a cheque for a little over £1000 on liquidation.

The Cardiff Shipping Companies have made enormous profits. The Tempus Shipping Company (a seven-year-old undertaking), during ten months of 1915, made a profit of £54,000 on a share capital of £100,000. The Red Croft Company has a capital of £100,000, and made £118,000 profit that year. These are moderate instances. One of the oldest Cardiff shipowners in the autumn of 1914 offered to sell a nine-year-old steamer of 8000 tons for £36,000, without finding a purchaser, and was pleased in February 1915 when he secured £44,000. In November of that year, however, he regretted the bargain when he learned that this vessel had been sold again for £72,000. The Lord Mayor of Cardiff stated recently in a public speech that there were at least twenty men in Cardiff who could to-day sign a cheque for half-a-million pounds without missing the amount from their banking accounts.

The following table of prices of the Prince Shipping Line shares indicates plainly how values have been augmented simply and solely by the war: 1914, 22s. 9d.; 1917, 122s. 6d.; 1918, 120s. A shareholder of this line in 1916 held 300,000 shares of the total capital of £600,000, in £1 shares. A proportion of his holding had been acquired at 12s. per share. Other shares were subsequently obtained at prices ranging up to £4 per share. In September 1916 he disposed of

his total holding in the Prince Line to Furness, Withy & Co., at £10 per share, and received a total payment of three million pounds. The profits of this company in 1913-14 were £115,413. In 1915-16 they rose to £495,328. One more instance of shipping profits during the war may be quoted. The China Mutual Steam Navigation Company made a profit in 1915 of £591,005 as against £294,000 in 1914.

Similar facts to these in regard to shipping profits may be quoted by the score. These profits have of course been made out of increased freight rates, and the increased rates have been added to the selling prices of the commodities transported. A few instances of freight rates for grain imported into the United Kingdom, prevailing in the first quarter of 1914 and in 1916 may be given to illustrate the enormous advance which took place. The freight from New York in 1914 was 6s. per ton, in the first quarter of 1916 it was 69s. From the Argentine in 1914, 15s. 6d., and in the first quarter of 1916 it was 144s.; from Bombay in 1914, 18s. 6d., and in 1916, 130s. Since 1916 under Government control rates were reduced, but they still remain very much higher than in pre-war times. In October 1919 the shipping rate from Newcastle to Rouen for coal was 40s, as against 4s. 6d. before the war, and to Genoa 65s. as against 10s.

The iron trades have shared to a great extent in the war boom of profits. The Consett Iron

Company for the three years ending June 30th, 1919, paid dividends respectively of 35 per cent., 35 per cent., and 40 per cent. The well-known firm of John Brown & Co. increased their profits from £271,902 in the year before the war to £521,007 in the first complete year of war. A firm of leather merchants in Liverpool issued a prospectus in 1915, in which the fact was disclosed that the average yearly profit before the war was £24,000. During the first five months of the war, according to this prospectus, the profits were at the rate of £180,000 a year. The £10 shares of Messrs Levinstein, the dye manufacturers, were quoted before the war at 50s. They rose during the war to £190; and their annual balance-sheet, dated October 31st, 1918, showed that working with a capital of £90,000, they were liable that year to excess profits duty of no less than £641,333.

The profits in the textile trades have been notorious. A correspondent in the *Yorkshire Observer*, dated March 31st, 1919, gives an example of a well-known local firm of spinners and manufacturers whose profit during the year before the war was £1621. In the first year of the war it was £24,502, in the second year of the war £30,717, in the third year £32,337, in the fourth year £39,620. These profits do not include Excess Profits Tax, which it is estimated would amount to £80,000 a year, making a total profit of £112,000 a year during the war, against an average of £2000 before the war.

The profits made by J. & P. Coats, Limited, the linen thread manufacturers, were in 1913-14 £2,634,388, and in 1918-19 £4,000,000. In a pamphlet written by Mr Titus Binns, who is himself connected with the worsted trade, some very remarkable figures are given of the war profits in that industry. In July 1914 the estimated net profit per pound for the spinners who turned the wool tops into thread or yarn ready for the manufacturer was 1d. In January 1916 the estimated profit was 10d. per pound. In July 1917 it was 19d. per pound, and in January 1918 42d. per pound, and in July 1918 51d. per pound. For English wools, therefore, the spinner has increased his profit from 1d. to 4s. 3d. per pound, or 5000 per cent. The spinner of cross-bred wools, and the spinner of Botany wool has increased his profits still more. The estimated net profit per pound of the spinner of Botany wool in July 1914 was 1d., and in July 1918 78d. per pound, which was an increase of 7,700 per cent.

Profits in the cotton industry have been phenomenal, far exceeding those made in the early days of the Industrial Revolution. The figures of 180 companies in Lancashire which published their dividends show that on a share capital of £7,404,990 a total of £2,868,290 was distributed or added to capital amount, being equivalent to 38·73 per cent. The capital employed by the 24 companies which published the amounts of their profits was £1,153,675, and they earned £355,550, equal to

30·81 per cent., distributing £219,561 in dividends, or 19·03 per cent. The remaining 156 companies had a share capital of £6,215,315, and paid in dividends and bonus calls £2,648,729, equal to 42·37 per cent. It is estimated that the reserve funds and credit balances of these companies total between £4,000,000 and £5,000,000.

The present profitable character of the cotton trade has led to gigantic speculation in the shares of cotton spinning companies, and these are changing hands in the market daily at three, four, five, and even seven times the amount of the paid-up capital.

The jute trade has been equally profitable. The figures of three Dundee jute factories show that the average profit for the three years before the war was £283,188, while in 1916 the profit was £1,327,857, in 1918 it was £2,584,916.

Profiteering has not been confined to the shipping and manufacturing trades. Before maximum prices were fixed for articles of food there was scandalous profiteering. In the case of potatoes this became especially notorious. In ordinary times the price of good potatoes ranged from 60s. to 70s. a ton. In the first years of the war prices rose up to £10 and £16 per ton.

The profits of retail traders are not easily accessible, as there are comparatively few firms engaged in this trade which are public companies. A few instances may be given which are probably typical of the industry as a whole. Taking fifteen of

the biggest concerns carrying on business in all parts of the country as retail drapers, the figures show that their profits in the aggregate amounted in 1918 to £235,727 as compared with £136,164 in 1914. One firm at Reading raised its profit from £2312 in 1914 to £10,710 in 1918, and a well-known firm at Hastings improved their profits from £19,208 in 1914 to £56,927 in 1918. The balance-sheets of some of the largest London drapery houses were recently analysed, and it was found that the aggregate profit for 1918 was £3,466,979 as against £1,200,576 in 1914. The firm of A. & S. Henry, stuff merchants, made a profit in 1913-14 of £104,098, and in 1915-16 of £404,440. The provision trades have done equally well. The profits of Liptons rose from £80,797 in 1914-15 to £410,366 in 1918-19.

These profits have of course in all cases been made out of prices charged to the consumer. It is little wonder, in view of these facts, that a loud outcry was made against profiteering. Not one of the countries has been free from the profiteer. The scandal has become so great that almost every country has been compelled to take action to deal with profiteering. In 1917 Sweden made a law against unreasonable prices in extraordinary circumstances resulting from the war, and in the latter part of 1919 Canada, Italy, Germany, and France all found it to be necessary to strengthen their laws and regulations against the profiteers.

CHAPTER VIII

TRUSTS AND PRICES

PROFITEERING, though by no means the only or even the most important cause of high prices, is undoubtedly responsible to some extent for the present high cost of living. Profiteering on a huge scale has been made possible during the war by the absence of internal and external trade competition. The shortage of shipping accommodation compelled the restriction of imports and gave to manufacturers and traders in this country a virtual monopoly of the home markets. The country has been living, during the war, under a system of Protection, not made by customs tariffs, but established by war conditions.

Profiteering has been rendered more easy by the extent to which amalgamations have taken place in recent years in the manufacturing and wholesale trades of firms formerly in competition with each other. Though the movement towards Trusts in British industry had made considerable progress before the war, the special conditions of war time have greatly accelerated its progress. The Report of the Committee on Trusts, which was issued in April 1919, states that many of the

organisations which have been brought to the notice of the Committee have been created in the last few years, and by far the greater part of them appear to have come into existence since the end of the nineteenth century, and there has been a great increase in the creation of trade associations during the war. No inquiry into the causes of high prices can be complete which does not deal with this modern movement towards the aggregation of capital and the elimination of competition.

The extent to which Trusts control nearly every commodity in common use is little appreciated by the general public. The movement has reached a higher stage of development in the iron and steel industry than perhaps in any other trade. The Report already referred to gives a list of Associations connected with this industry, which does not claim to be at all exhaustive. There are 35 Associations enumerated, with which 345 firms are connected. But it is important to note that the firms within these Associations control a vast proportion of the whole trade in iron and steel. Combinations sufficiently powerful and large to control production and prices exist in the textile trades, the chemical industry, the tobacco trade, the soap trade, the pill trade, banking, building materials, the mill trade, shipping, glass, cocoa, margarine, thread, machines, whisky, furniture, and linoleum, and indeed in practically every large industry.

The simplest form of trade combination is that

in which traders associate together for the purpose of discussing and arranging prices. The purpose of price Associations is to secure agreement among all members of trades to sell goods at the same price. It was admitted by three of the most important Associations in a joint memorandum of evidence presented to the Committee on Trusts that the elimination of competition results in a higher level of prices and the provision of additional profits whereby the manufacturers are encouraged and enabled to improve their processes, and by scrapping old plant and installing new machinery, and improved methods of production, to reduce appreciably the cost of manufacture. The members of these Associations naturally will not readily admit that the result of combination is to raise prices. This might apply to a Trust which had a practical monopoly of the markets, but it certainly is not the case in regard to Associations which have come into being primarily and solely for the purpose of maintaining prices. The opinion of the distributors who are dependent for their supplies upon members of these Associations is pretty universal that prices are raised by their operations. An important distributing agency furnished to the Committee on Trusts the following opinion with regard to one of the Associations which has already been referred to:—

“The combination in question,” it was said,

“has not been of any advantage to the retailer or to the public. They hold a very strong position in the trade and one of the great resulting evils is that competition in the goods referred to is greatly curtailed. As a rule when this happens the consumer suffers.”

The distributing agencies complain that the Associations have been starving the distributors, that their heavy profits are a toll on the wages of the poor and the public necessity becomes their opportunity. This opinion is one which can hardly be questioned.

Beyond the simple form of combinations where traders join together for the purpose of discussing and arranging prices there is the close combination where the businesses are completely amalgamated, the capital combined, and the management consolidated. Between these two, as the Report of the Committee on Trusts points out, are many more or less loosely organised Associations, usually known as Federations. These Federations retain their separate identity, but arrange among themselves what the total output of a commodity shall be, and assign to each firm its respective share. The most complete type of combination is that known as the Trust or Combine. The separate firms engaged in one line of business enter into an arrangement by which the businesses are merged into one, combined with a consolidated capital. In some cases such a Combine has close relation

with other firms in the same line of business which still retain their separate identity, the Trust having considerable holdings in the outside firms.

We are concerned in this chapter with Associations and Trusts only in so far as they are able to raise prices and are inimical to the interests of the community. That there are great economic advantages inherent in Trusts and Combinations cannot be denied. There is no reason why a Trust which is soundly capitalised and efficiently managed should not make the maximum profit in normal times by charging a reasonable price. But though this is so in theory, it does not work out like this in practice, and especially in the abnormal conditions which prevail to-day.

One of the safeguards against a Trust abusing its power which existed in normal times was foreign competition. This restraint [does not operate to-day, and indeed, before the war this influence was getting weaker because of the growing extent to which international agreements were made for the regulation of prices, the allocation of markets, and the control of the sources of the raw materials. Some Associations and Trusts in pre-war days endeavoured to overcome foreign competition by compelling distributors and wholesale merchants not to import foreign goods in competition with those of the Trust, the distributors and wholesale merchants receiving in exchange a guarantee of a larger profit than was previously current in the trade. The effect of this is that

high prices are maintained, and the consumer pays.

Powerful Trusts and Combinations exercise great political influence. They are able to determine the fiscal policy of a country. Instances of this were afforded by the policy of the Board of Trade in prohibiting certain imports and granting licences arbitrarily for the import of other goods. This policy had all the baneful effects of the ordinary methods of Protection, but in addition lent itself to favouritism and corruption. It gave complete protection to the home manufacturer and trader who were fortunate enough to be engaged in a business which was wholly relieved from foreign competition by the embargo on imports issued by the Board of Trade. Instances might be quoted to show that when the Board of Trade embargoes were removed and foreign imports were permitted to come more or less freely into the country there was an immediate slump in prices in the home market.

The price of meat in the British market is very largely determined by the American Meat Trust, which is a combination of the five principal meat packing corporations in the United States. This Trust controls the American meat industry, and has also secured control over the principal substitutes for meat, such as eggs, cheese, and vegetables, and it is stated that the Trust is rapidly extending its power to cover fish, and nearly every kind of foodstuff. The explanation of the anxiety

of the Trust to obtain control of all the articles of food which might be used as substitutes for meat is quite obvious. As was pointed out in a previous chapter, if the price of one article of food is raised a consumer turns to some substitute which is cheaper. When the substitutes for meat are controlled by those who control the meat also, this monopoly will eliminate competition and enable the Trust to fix a non-competitive price for all the commodities. In 1918 a Federal Trade Commission reported upon the activities of this Meat Packing Trust, and it charged the Trust with using its power to manipulate live stock markets, to restrict national supplies of food, to control the prices of dressed meats and other foods, to defraud both producer and consumer, to crush effective competition, to secure special privileges from railroads, stockyard companies, and municipalities to profiteer. The Packers' profits in 1917 were more than four times as great as the average year before the war, although their sales in dollars and cents at even the inflated prices, had barely doubled. In the first three years of the war four or five packers made profits of \$178,000,000. The charges which were made by the Federal Trade Commission against the Meat Trust may with little modification be made against all trading monopolies which have operated during the war.

The increase in the cost of house building during the last five years has made the solution of the

housing problem extremely difficult, if not impossible. There have, of course, been causes which have contributed to this increase, apart from the operation of Trusts and deliberate profiteering, but these two causes undoubtedly are responsible for the increased cost to a very considerable extent. Speaking in the House of Commons on December 5th, 1919, Sir J. Tudor Walters, who has an unrivalled experience of the business side of the housing question, said :—

“Get the houses. The cry that the Government subsidy would assist private builders to profiteer had been raised. Profiteering! There was never more profiteering in this island than is going on under the local authorities' housing scheme. Look at the prices being asked for the erection of five- and six-room houses—£800, £900, even £1000. The thing is monstrous, ridiculous, and absurd. How are these prices arrived at? By the grossest form of profiteering.

“Three classes of people are profiteering—the people who supply the materials, the contractors, and the men who lay the bricks. Yes, every one of them. The old-fashioned builder was content with a profit of £20, £30, or £35 on a house. The contractor under these Government schemes wants £200, £250, or £300.

“I think there is gross profiteering going on, and I believe that any builder who sets to work in the ordinary way, and knowing that the money

will come out of his own pocket, will be able to build these houses for at least £300 apiece less than they are being built for now."

The Memorandum on Housing in England and Wales issued by the Reconstruction Committee, dated May 1917, contains the following references to the subject of trade combinations. "From information confidentially given it appears urgent difficulties may arise owing to the tight control of certain building materials by combinations of manufacturers." The Committee on Trusts reported that they analysed the building costs of a number of groups of typical cottages and found that on the average 42·07 per cent. of the materials used were uncontrolled, 33·25 per cent. partially controlled, and 24·68 per cent. controlled. The purposes of the combinations in the building trade are to regulate selling prices by severe restrictions of competition, to secure a monopoly of raw materials or means of production by limitation of output, and maintenance or inflation of prices, and by a system of boycotting or undercutting, or otherwise intimidating competitors in order to compass the suppression of a non-associated employer. One of the most powerful Associations, whose members manufacture goods needed in the construction of workmen's cottages, had until recently, at the head of its rules, these words: "The object of the Association is, that of raising and keeping up the price to the buyer of goods

and articles made or supplied by its members. This should be done by means of pooling arrangements so controlling production that prices will rise naturally and inevitably as they always must do when supply is brought into equilibrium with or is ever so little below demand." This Association has within its membership over 90 per cent. of the manufacturers and the classes of goods so controlled in output and price.

The war necessitated the spending of thousands of millions of pounds upon materials. This was the opportunity of the private contractor. There was no competition, and profiteering upon a colossal scale became rampant. A good illustration was afforded of the way in which the private contractors fleeced the Government in a statement made in the House of Commons on August 18th, 1919, by the Prime Minister. He said :—

“ National factories were set up, which checked the prices, and a shell for which the War Office at the time the Ministry was formed was paying 22s. 6d. was reduced to 12s., and when you had 85,000,000 shells that saved £35,000,000. When we took the Lewis guns in hand they cost £165, and we reduced them to £35. There was a saving of £14,000,000 there, and through the costing system and the checking of the national factories we set up before the end of the war there was a saving of £440,000,000.”

The purpose of Associations and Trusts is to

prevent the operation of the law of supply and demand, and this they manage to do very effectively. Two facts taken from an official report will give some indication of the extent to which profits have risen during the war. The yield of the Excess Profits Duty discloses profits liable to this tax, that is, profits in excess of pre-war profits of £400,000,000 a year. In December 1919 a comparative statement was issued by the Treasury of the gross amounts of income brought under the review of the Inland Revenue Department for each of the last four years. In 1913-14 the amount was £1,167,184,229 and in 1918-19 (estimated) it was £2,290,000,000. This latter sum shows an increase of £323,000,000 over the previous year, although there had been no new class of taxpayers brought under review. It is, of course, not the fact that this increase wholly represents trading profits, but the vast bulk of it undoubtedly does.

The facts given in this chapter in regard to profiteering and the operation of Trusts prove that these are a very important cause of high prices. Competition has largely ceased to operate in affecting prices. Traders have discovered that the public can be exploited to a far greater extent than was formerly believed to be possible. There are, of course, still restraints which prevent Associations and Combinations and wholesale and retail traders from charging prices beyond certain limits, the principal one being the limitation of the spending power of the community.

CHAPTER IX

CURRENCY, CREDIT AND PRICES

WE will now proceed to the consideration of other causes of the advance of prices. It will be remembered that prices had been advancing all over the world for seven years before the outbreak of war. The orthodox explanation of these advances was the increased output of gold. As this explanation is still widely entertained, it may be well to deal with it at some little length. The theory of the influence of gold output on prices is based upon the unquestioned fact that an increase in the amount of money without a corresponding increase of goods changes their relative values, depressing the price of money and increasing the price of goods. An increase in the output of gold which is used as money would therefore raise prices, unless there were a corresponding increase in the volume of goods. But the effect of the increase of the output of gold on prices has been exaggerated. From 1851 to about 1890 the output of gold remained practically stationary. From 1891 with scarcely a variation the output continued to rise, up to 1916. During the whole of this period from 1890, with the exception of the

years immediately preceding the war, prices had fallen concurrently with a progressive increase in the output of gold. It might, of course, be argued that the output of commodities had through the same period increased at a much greater rate than the increased output of gold. It is true, of course, that the world output of commodities did increase very greatly during these years, but so it did during the period of rising prices from 1906 to 1915. It is important to note, too, that the increase in the output of gold was very much slower between 1906 and 1913 than in the previous years of stationary prices. The annual output of gold rose from £53,629,000 in 1901 to £82,707,000 in 1906, and for the year 1913 it was £94,700,000. These material facts do not appear to give much support to the theory that the increased output of gold was responsible for the advance of prices which took place in the seven years preceding the outbreak of war.

The quantity of gold in circulation before the war which was used as money was very small in comparison with the total quantity of money used for the payment of goods. By money in this connection we mean all the instruments for the purchase of goods, such as coin, cheques, and credit. Between 1906 and 1913 the average annual increase in the output of gold was not more than £2,000,000. The total amount of gold used as money is an insignificant proportion of the total money used for trading purposes. The

amount of gold in use in 1913 in the United Kingdom, including bank reserves, was £180,000,000. The total quantity of money circulating in the world during a year in pre-war times, on a very moderate estimate, would be a hundred thousand million pounds. The addition of £90,000,000 of gold to this sum would influence prices in the proportion it bore to the total quantity of money. The normal effect of an increase of the quantity of money used is an exactly proportionate increase in the general level of prices. The effect of gold output, therefore, would be less than one-tenth per cent.¹

The indirect effect of the output of gold on prices is greater than its direct influence. The passing of gold into bank reserves tends to cheapen money, to increase borrowing, to stimulate trade, to increase the volume of goods and to lower prices. The theory that the increased output of gold explains the rise of prices in normal times is not substantiated. That it has some slight influence in this direction is no doubt true, but the complete explanation of the advance of prices must be sought elsewhere.

The main cause of the increase of prices which took place between 1906 and 1913 was the expansion of credit. The increased quantity of gold has strengthened bank credits, especially in countries where the basis of credit is not strong, but it is not gold but goods which is the main

¹ See "Gold, Prices, and Wages," by J. A. Hobson, chapter iii.

basis of credit. This fact is made obvious when it is remembered that bank credit is given on security which represents wealth. With the vast increase in recent years of securities representing shares in joint stock companies and public loans the basis of credit has been greatly extended. Credit advances on such security increase the amount of money available for the purchase of commodities, thus increasing the amount of money without an equivalent increase of commodities. This changes the relative value of money and commodities, lowering the value of money and raising the value of commodities, or, in other words, causing an increase of prices.

The increase of prices which took place in the years before the war was in the main due to the increase of credit or the floating of loans for the development of backward countries. If this movement had been temporary the advance of prices would ultimately have been checked when the capital invested in these development schemes had become productive and an increase in the volume of commodities had taken place, assuming of course that the employment of credit for this purpose had lessened. The purpose for which an increase of money is employed is important. If a larger quantity of money be devoted to the production of goods which do not figure in the markets of the world, that is, which are not produced for the purpose of exchange, such as war material and armaments, or upon services of a

luxurious nature, a disproportion will be created between the volume of money and the volume of marketable goods, with the result that prices will rise. An increase of luxurious expenditure was one of the causes of advancing prices in pre-war times. This form of expenditure withdraws labour from the production of staple commodities. In the same way expenditure by the State on unproductive purposes lessens the volume of production, increases relatively the proportion of money to goods, and raises the prices. Though the actual volume of goods produced might not fall, or indeed might rise, unless this increase keeps pace with the increase of population, with the effective demand for goods and with the increase in the quantity of money, an advance of prices must take place.

The increase of prices which was taking place in the years before the war is to be explained to a very slight extent only by the increase in the output of gold, but materially by the increase of other forms of money, stimulated by the demand for foreign investments which were employed in developments which did not for some time become remunerative by increasing the world's volume of goods.

We have already dealt with some of the contributory causes of the enormous increases of prices during the war. The causes of the advance of prices between 1906 and 1913 which have just been examined, but which exercised a slight

influence by comparison with the effect they have had during the war, are the main causes of war-time increase of prices, namely, the retardation of the supply of goods, the expenditure of vast sums upon the production of articles which did not enter into world exchange, the vast expansion of credit, and the increase of currency without a corresponding increase of marketable goods. The first of these reasons for the rise in the cost of living is a reduction of production, or, in other words, a scarcity of supply. The war drew from ordinary productive work probably not less than five million men and women. It turned probably two million more from former occupations to war work. The demand for food and clothing was greater than in pre-war times, for it was necessary to feed and clothe the army better than the soldiers had been fed and clothed as civilians. Nearly the whole world was engaged in the war and all the belligerent countries were demanding goods. The withdrawal of labour from the production of staple commodities was compensated to some extent by the greater intensity of production among those workers who remained in such occupations, and to a very small extent by the retardation of the production of luxuries, and the employment of people in unproductive services. A White Paper was issued by the Government in November 1919, giving particulars of production, prices movement, currency expansion in the principal countries. According to this report, the

production of wheat in the countries for which particulars are available, was in 1919 91·5 per cent. of the production in 1918, and 99·3 per cent. of the average of the years 1910 to 1914. Rye, barley, and maize were produced in larger quantities in 1919 than the average of 1910 to 1914. The output of coal in the United Kingdom, the United States, France, Belgium, the Netherlands, and Germany for the first half of 1919 was 80·6 per cent. of the figures for 1913. The output of pig-iron in the United Kingdom, the United States, and Germany in the first half of 1919 was 85·2 per cent. of the output in 1913. The corresponding figures for steel was 80·2 per cent. The world's production of wool in 1919 was 91·8 per cent. of the output in 1913. The quantity of ginned cotton in 1919 was 73·6 per cent. of the average of 1910 to 1914.

These figures do not perhaps show so much of a decline in the world production of staple commodities as is popularly supposed, but they are quite sufficient to have a very material influence upon prices, especially when there is increased demand for the lessened output. It is an established economic law that a very small excess of demand over supply raises prices quite disproportionately, and in normal times such a falling off of the supply of essential commodities, apart from other considerations, would have led to a considerable advance in prices. The scarcity of goods must therefore be set down as one of the

causes of the present ruling high prices. The lessening of world output would alone have caused a rise in the level of prices, but we should have expected, had there been no other complications, that the increase of prices would have affected all countries very much the same. This has not been the case, for the rise of wholesale prices in the principal countries varied from 106 per cent. in the United States to 230 per cent. in Italy and France, 239 per cent. in Sweden, and 157 per cent. in the United Kingdom.

CHAPTER X

INFLATION AND PRICES

THE main cause of the advance of prices during the war is the increase of currency and credit. The opinions of economists and financial experts differ widely as to the effect which the issue of currency notes, which are practically inconvertible, has had upon prices. The Select Committee on National Expenditure came to the conclusion that the increase of paper money has played a somewhat subordinate part in raising prices. The Chairman of this Committee, Mr Herbert Samuel, speaking in the House of Commons on January 29th, 1918, said : " This problem is an exceedingly difficult one, and different views are held by various students of the subject. Most of us, however, were disposed to the conclusion, with some diffidence, that in the case of this country at the present time the printing of currency notes has not played by any means the leading part in the great rise in prices which has taken place. . . . Notes are never printed for the purpose of making Government payments. Notes are printed only for issue by the banks to meet the needs of their customers, and the banks have to pay for these

notes in exchange by presenting valid securities, or in other ways. That being so, the currency note issue of this country stands on quite a different footing from that in which it stands in some other countries."

This contention was, however, severely criticised in the course of the debate by Mr D. M. Mason, a banker of repute, who has not only a practical but a theoretical knowledge of financial operations. Mr Mason pointed out that the method adopted by the Government in issuing Treasury Notes did not differ in its effects from the practice of other countries of using the printing press to make payments of Government debts. The valid securities on which the Select Committee claimed the Treasury Note issue was based were in effect fictitious credits created by the banks. "The Government issues large orders for various munitions and other necessaries which it requires for the carrying on of the war, and for its credit which is created the Government give Treasury Bills and other pieces of paper to these banks. Those proceeds being used for expansion of industry, as they are bound to do when fresh credit is created, that money flows into the banks and swells their deposits. The banks have the right under the Treasury Currency Act to get Treasury Notes from the Treasury up to 20 per cent. of their current deposit liabilities, and as the deposits are swelled by this creation of credit they are qualified to get the Treasury Notes from the Treasury, and

so this inflation is created and stimulated. There is, therefore, very little difference in a sense between the Government using their printing press and by inflation of credits increasing the rights of the bank to draw out notes and thereby increase circulation. The result is shown by the adverse exchanges and the stimulation of imports."

The enormous increase in bank deposits during the war supports Mr Mason's contention. These increased deposits represent in the main the inflation of credit. The thing works in a vicious circle. Every inflation of credit encourages still further inflation. An increase of currency is required to meet the increase of financial transactions. This increase of currency causes a further increase of credit, and so the process continues.

Another financial authority, Mr A. M. Samuel, M.P., speaking in the House of Commons in December 1919, on the Second Report of the Cunliffe Currency Committee, strongly supported the view that the issue of currency notes had had little effect upon prices. He pointed out that the increase of currency in this country had risen from £180,000,000 before the war to £320,000,000, an increase of £140,000,000, and this, he maintained, could have had little effect upon prices. He agreed that the increase of credit was in the main responsible for high prices, but it was not the increase of currency notes, but of other forms of currency, such as cheques, which was responsible. Mr Bonar Law, a former Chancellor of the Ex-

chequer, appears to hold this opinion. Speaking in Glasgow on December 4th, 1919, he said : " One of the greatest evils of this moment is the high cost of living, and this is due partly, I am not sure it is not due mainly, to the inflation. That does not mean to an increase in the number of currency notes. Inflation goes far deeper than that. The currency notes are the symbol. The real basis of inflation is the borrowed money, and the credit which that borrowed money creates."

A considerable volume of opinion on the other side can be cited. Dr Edwin Cannan, the distinguished Oxford economist, recently laid a complaint before the Oxford Profiteering Committee against the issue of Treasury Notes, which he maintained was in the main responsible for the increase of prices. " The more plentiful a currency is," he said, " the higher will prices and the cost of living be. The supply of paper money is devastating Europe and threatening the whole mundane civilisation."

The orthodox political economists agree with the view expressed by Dr Cannan as to the effect of an inconvertible paper currency. Professor Walker says, " We have suffered more from this cause (that is paper currency) than from any other cause or calamity. It has killed more men, perverted and corrupted the choicest of the interests of our country, and done more injustice than even the arms and artifices of the enemy." A very important contribution to the discussion of the

effect of an inflated currency on prices was made in the House of Lords on November 26th, 1919, by Lord D'Abernon, who is a great authority on international finance. He takes the extreme view that the increase of world prices is wholly due to the inflation of currency. He appears, however, to unduly minimise the influence of other contributory causes. At his request the Government produced a White Paper showing the aggregate of production in 1918 compared with that of 1913; the amount of paper money in the principal countries of the world in December 1918 compared with 1913; and the total indebtedness of the principal countries. This Paper had admittedly been very hurriedly prepared, and from insufficient data; but the figures dealing with the increase of paper currency appear to confirm the view that this factor is mainly responsible for the increase of prices. Prices have risen in each country very closely in accordance with the excessive issue of paper currency. In France and Italy, where they have a currency of 365 as compared with 100 in 1913, prices have risen the most; whereas in the United States, where currency had increased by only about 73 per cent. compared with 1913 the rise both in wholesale and retail prices has been considerably less than in the other belligerent countries. Russia, Austria, and Turkey are excluded from this return, and if reliable facts could be obtained in regard to these countries it is probable that they would strongly enforce the

conclusion that the unrestricted use of paper currency has largely contributed to the enormous rise of prices.

The increase of currency has affected international exchange. The rates of exchange on London have fallen most in those countries which have increased their currency, and the adverse exchanges of course increase prices. At the present time the value of the English sovereign in New York is about 25 per cent. below par value, and this means a corresponding increase of prices of goods imported from the United States. In countries like Russia, Germany, and Austria the unit of currency has diminished in value almost to vanishing point. In France it has declined to nearly one-fourth of its pre-war value, and in England to between one-half and one-third.

When experts differ so widely and fundamentally about the effect of currency, it is risky for a mere layman to venture an opinion. It may be noted, however, that experts differ only in the degree of importance they attach to the influence of an inflated currency upon prices. Even the Cunliffe Currency Committee, though minimising the extent of its influence, admitted that the increase of paper currency has had some effect on prices; and their recommendation, which has been accepted by the Chancellor of the Exchequer, that the issue of Treasury Notes beyond the limit of £320,000,000 should be stopped, is an admission of the case against excessive inflation.

The layman, unversed in economics and finance, is naturally bewildered by the difficulties and intricacies of this problem. But he may be helped to an understanding of the subject if the meaning and purpose of currency or money can be made plain to him. Money, whatever form it takes, whether it be notes, sovereigns, or cheques, has no intrinsic value of its own, but is merely a convenient medium for expressing the relative value of goods. It is a token to express the relative value of goods exchanged, for all trade is really barter. When a person buys a pair of boots he pays two one-pound notes, but he has in reality exchanged for the boots some other article which he himself has produced or possesses. The person who gets the notes in exchange for the boots buys with them some other commodity, and in effect there has been an exchange of boots and this other commodity, the notes being merely the convenient medium for expressing the relative values of the articles exchanged.

Inflation means an increase in currency beyond an increase in the production of goods. If the amount of currency in the hands of the general public at a particular time and place is equal to the value of the commodities in the market then prices will not be affected. But during the war there have been at the same time an increase of currency and a reduction in the volume of commodities in the market. Before the war the amount of currency in circulation in the United

Kingdom was about £180,000,000. This represented the value of commodities and services in the market at a particular time. At the end of 1919 the total amount of paper currency in circulation had risen to £450,379,417 (including Bank of England Notes), and the volume of commodities was less. This means that the currency in the hands of the public is in excess of the value of commodities available for exchange, and therefore a larger amount of money is required to express the exchange value of the goods. The same nominal amount of currency represents a reduced amount of commodity; or, in other words, the former volume of commodities can only be purchased by a larger amount of currency. To take a simple illustration. Suppose the amount of trade done between six persons in pre-war time was a thousand pounds a year. This represented the value of the commodities or services exchanged. It required, say, a hundred pounds of currency to facilitate the exchange. But if the amount of currency to transact the same amount of trade, that is, to exchange the same volume of commodities, is increased to the nominal amount of two hundred pounds by using the printing press to make notes, then the nominal value of the goods or services exchanged in the year, calculated in currency, is two thousand pounds. This means that prices have nominally doubled, the sum of two thousand pounds being required to express the value of the same amount of goods.

In other words, prices have nominally risen 100 per cent. and the value of money has decreased by 50 per cent. The total amount of money in circulation to-day is in excess of the goods, the exchange of which this money is intended to facilitate.

This undoubted fact is sufficient of itself to explain the increase of prices. But at this point we are faced with a difficulty which no economist or financier has yet clearly explained. On this theory a doubling of the currency without a corresponding increase of goods should double prices. If that were accepted to the exclusion of all other considerations it would explain the rise of prices, but as a matter of fact the increase of currency is only a small part of the inflation which has taken place during the war. Currency notes are used almost exclusively to facilitate retail trade and to pay for services. The currency by which the manufacturing and wholesale trades are carried on is cheques and credit. Where cheques are drawn against actual bank balances there is no inflation of currency. But a vast and increasing amount of trade is conducted on bank credits and to a greater extent still in these days on credit based upon Government Bonds.

The Government have, during the war, added to the National Debt a sum of about £7,000,000,000, including the unfunded Debt. If the subscriptions to the War Loans had been contributions out of actual savings there would have been no increase

in effective currency. Individuals would have transferred their real savings to the Government, who would have become possessed of the power to use this additional wealth which previously was possessed by private individuals. But this is not all that has taken place. Instead of lending their existing savings or bank balances to the Government, many individuals have borrowed from their bankers to invest in War Loans. This plan has worked out as follows. A man had a thousand pounds standing to his credit in his bank pass-book. Out of this he subscribed £950 to the War Loan. By this transaction he becomes possessed of script nominally worth £1000. The Government is put in a position to spend £950. The lender can take his script to his bankers and obtain upon it a loan of say £900 which he can use either for further investment in the War Loan, thus adding another £900 to the spending power of the Government, or he can use this sum for business purposes. This operation may be repeated several times, and out of the original £950 investment secured by a real bank credit, £2000 or £3000 of additional credit may be created, for which there is no security in real wealth. This practice increases the effective currency of the country.

But the evil does not stop there. A similar thing has taken place, but probably on a much larger scale, in connection with loans subscribed by the banks themselves. The banks originally

invested in the War Loans out of their deposits, that is, out of their customers' money. The banks have then deposited the War Loan script at the Bank of England. This has been regarded as valid security for credit, and on the strength of these bonds the banks have made further advances to their customers, either for investment in the War Loans or for trading purposes. The extent to which this inflation of credit has been carried on by the banks is not known, but it is believed to amount to many hundreds of millions. By this manipulation of credits, by giving to an original £100 a purchasing power of £300 the effectiveness of currency has been increased without any corresponding increase of marketable goods.

The financial policy of successive Governments during the war has been to raise money by loans instead of by the sound policy of financing the war out of the current savings of individuals. The effects of this policy are now being felt in the high cost of living and the serious position of the foreign exchanges. Government borrowing can only be justified when the purpose of the loan is to carry out some scheme which will ultimately become remunerative, that is for an undertaking which will, in the end, repay the loans. In so far as War Loans have been subscribed out of actual savings they have been taken from wealth which otherwise would have been devoted to the development of trade and commerce. Government borrowing in this country has reached a point which

threatens national bankruptcy. National bankruptcy means that the National Debt has increased to such an extent that further taxation cannot be imposed to supply the necessary interest and the necessary sums for paying off the Debt. It means, in other words, that a Government has gone on mortgaging and re-mortgaging its resources until its security has no longer any unexhausted value.

The taxation necessary to meet the interest of the War Debt has undoubtedly had an effect upon prices. It withdraws money from the pockets of the tax-payers which otherwise would be employed in encouragement and development of trade. Many forms of taxation indirectly increase the prices of commodities, as, for instance, the duties upon tea, sugar, coffee, dried fruits, alcohol, and manufactured articles. It is a debatable point as to whether the incidence of the Income Tax on trade profits can be shifted on to the consumer; but there can be little doubt that the Excess Profits Duty, though so admirable in its aim, has had the effect of increasing prices and has been in reality an indirect tax upon the general public. An interesting letter from the Chairman of the Associated Chambers of Commerce dealing with this matter appeared in the *Times* on July 8th, 1919. The writer maintained that the increased cost of production is primarily caused by two factors, namely, the greatly increased cost of labour and heavy taxation, and only to a minim-

ised extent by increased earnings of capital. He supported his statement by figures as to a business with which he was familiar, and his conclusions were that of the extra amounts paid out to (a) labour, (b) for taxation, and (c) as extra dividends on capital, labour received just over 57 per cent., taxation 40 per cent., and capital 3 per cent. extra. The writer pointed out that under an 80 per cent. Excess Profits Tax it was impossible for anybody to make £1 profit without charging £5 to the consumer, because the Government took £4 of it. This has a cumulative effect in forcing up prices. Every manufactured article passes through the hands of a number of firms before it reaches the consumer. In order to make the extra pound each firm finds it necessary to charge £5 extra to the consumer, and where a commodity passes through five hands before it reaches the consumer, which is quite common, a charge of £35 is made to the consumer, out of which the Government takes £28 and the traders £5. That there is a substantial amount of truth in this statement cannot be denied. It is, however, not an argument against the appropriation by the State of war profits, but rather an argument against this method of appropriation of them. It is within the knowledge of the writer that one very profitable trade in this country, the products of which are heavily taxed for national revenue, was incited by the Government to charge high prices in order that Excess Profits might be made, and the

Government relieved from the unpopularity of imposing additional taxation upon the trade.

The conclusion to be drawn from the facts and arguments set forth in this chapter is that the inflation of currency and credit is the main cause of the present ruling high prices. Inflation is the result of the unsound financial policy followed by successive Governments during the war. Other incidental factors, though not to be ignored, are relatively unimportant.

CHAPTER XI

THE VICIOUS CIRCLE OF WAGES AND PRICES

DURING the war the workman has sought to maintain his previous standard of living by seeking an advance of wages commensurate with the increased cost of commodities. The workman is a consumer. He works that he may obtain the wherewithal to consume. Roughly speaking, wages have advanced with rising prices, though as the increase of prices had the start, wages advances have followed behind. There is a connection between wages advances and increased prices, though wages advances are an effect rather than a cause of increased prices.

An increase of wages in normal times does not necessarily justify an increase of prices. On the contrary, a moderate advance of wages may have the effect of lowering the cost of production. During the last fifty years of the nineteenth century wages advanced considerably and prices fell during the same period. An increase of wages in normal times give the workman a higher standard of living, and his productivity ought therefore to be increased. The economy of high wages has long been recognised by shrewd American capitalists. When competition operates in the home and

foreign markets profits are reduced to a minimum on the edge of the economic pool. If an advance of wages increases cost of production one of two results will follow. The employers, working on the outside margin, will be eliminated. The other employers will seek by improvements in machinery and methods, and by eliminating waste, to obtain compensation for the higher wages bill. But in manufacturing trades a moderate increase of wages in ordinary times ought not to increase the cost of production or to reduce profits. Wages in the United States are higher than in any other country, but the cost of labour is lower than elsewhere because of its greater output. The payment of higher wages puts increased purchasing power into the hands of the working classes, who, after all, are the main supporters of our staple trades.

These observations apply to productive undertakings, but they cannot be used to the same extent to support the argument for higher wages in distributive trades. There is, however, another set of arguments, not less powerful, in favour of high wages in the latter class of occupations; but it is clear that in such services as the railways, tramways, work of distribution—occupations in short where the amount of work done is in proportion to the number of hours worked—an increase of wages must increase the cost of the service. War-time advances of wages have proved this to be true. The increases which have been given to teachers, policemen, railway servants, tramway

workers, and a host of other people who are employed on non-productive work, have compelled an increase of rates or charges for the service. The war-time increases of wages have been abnormal, and have not been subject to the laws which operate in ordinary times and under ordinary conditions. The workmen have been compelled to demand wages advances to meet the increased cost of living. They have never attacked the cause of high prices. They have seemed to have had no other idea of meeting the increased cost of living than to demand compensating advances of wages ; but at the end of five years all their efforts have left them practically in the same position as they were before wages advances were given. These increases of wages and prices work in a vicious circle. The workers get an advance of wages ; the capitalists raise prices ; the workers demand a further advance to meet the increased cost of living ; then the capitalists again raise prices. Wages advances are again demanded, and so the process continues. To those bodies of workmen who are able to secure wages advances to meet to some extent the increase in the cost of living, all this perhaps matters very little ; but there is a very large proportion of the community to whom the increase of prices is a very serious matter indeed, because upon them falls the whole burden, for they are unable to compensate themselves by an increase of income.

The wages advances which have taken place

during the war are not in reality wages increases at all. They are the adjustment of nominal and real wages to maintain the pre-war standard of living. When an increase of prices has taken place, and this is followed by an advance of wages, the relation between wages and prices remains unchanged, and profits are not affected. An increase of 100 per cent. in wages in the conditions existing before the war would undoubtedly have caused an enormous increase of prices, or more probably an almost complete breakdown of commercialism. Indeed, this has happened during the war in the railway service, financial bankruptcy having been averted by the intervention of the Government, who, out of the public taxes, have paid the interest upon the railway stock.¹

A mere increase of wages under existing conditions cannot improve the lot of the working classes on the average, and where an increase of wages, as in the case of the railways and mines and public services, necessitates an increase of prices or rates, it has a disastrous effect upon the large body of consumers who are living on fixed incomes which cannot be adjusted to the depreciated value of money.

If, then, the workers, in seeking an advance of wages, are following a will-of-the-wisp, what are the realities they ought to pursue? Real

¹ It has just been announced that railway rates are to be increased to yield an additional £50,000,000 a year to meet the deficit.

wages, and not nominal wages, is the thing after which they should strive. Their efforts, therefore, should be directed to a reduction of the cost of living. It is a much more difficult thing to force a reduction of wages than to secure an advance. Unless a fall of prices is accompanied by severe bad trade and widespread unemployment, wages will not decline as prices fall. The workers will fight tenaciously to keep their nominal wages, and as the value of the nominal wage is increased by the fall of prices, a real advance in the standard of living will be effected. High prices mean high profits. And a fall of prices will reduce profits. We may expect, therefore, that when effective steps have been taken to reduce prices there will be strong efforts made to reduce wages. But the power of the trade unions is now so strong, and the recognition of Labour's right to a higher standard of living is now so general, that in this struggle Labour is bound to retain a considerable part of the nominal wages advances secured during the war.

Just as the causes of the high cost of living are many, so the remedies to be applied to reduce it must be varied. The first step should be to withdraw the Treasury Notes, and to return to a sound currency based upon adequate reserves. At the same time steps should be taken to fund the Floating Debt, and to adopt measures for reducing the national indebtedness by drastic taxation. The annual burden of £400,000,000 a year for interest

upon the Debt is one that cannot be carried without serious injury to industry. A capital levy, which in normal times would have been a very doubtful expedient, has now become a necessity through the nation's financial embarrassments. The practical difficulties of applying a capital levy have been minimised almost to vanishing point by the fact that practically every person who would be subject to a capital levy is a holder of war stock, which could be surrendered in payment of the levy.

The nation must relieve itself from the tyranny of the Money Trust. The amalgamation of banking has proceeded at such a rate in recent years that now five banking concerns control practically the whole of the banking business of the country. The increase in the bank rate made during the autumn of 1919, for which no financial authority has ever been able to offer a reason, and which laid an additional tribute of £17,000,000 a year upon the tax-payers, apart from what it took from the private borrower, proves the necessity of the control of money being taken out of the hands of profit-making institutions. These are the main steps which should be taken to reduce prices.

There are others of less though still of considerable importance. The operations of the trusts should be regulated. It is not desirable that the movement towards the unification of capital should be arrested; but during the transition stage, and up to the time when these amalgamations have assumed a form suitable for public acqui-

tion, their operations should be controlled so as to prevent them from unduly raising prices. Associations which exist solely for the purpose of raising prices ought to be made illegal, and combination for the purpose of restricting output, regulating imports, and fixing prices should be rigorously suppressed. It should not be difficult to maintain for peace time use the system of "costing" which was practised in controlled establishments during the war. By this means the cost of production can be ascertained, and a fair price for an article can be fixed.

Demands have been made by Labour for the fixing of the prices of the principal necessities below the cost. In a time of emergency something may be said in defence of such a policy, but as a permanent practice it cannot be defended. In its operation it has all the evils of indirect taxation, and it benefits one section of the community at the expense of the rest. Moreover, if steps were taken to prevent profiteering and speculation, and if artificial restraints upon industry were removed, and if the reform of the currency were carried out and the manufacturing of credit were stopped, prices would fall to a reasonable level, and no State subsidy would be necessary to put a sufficiency of the necessities of life within the command of every household.

In addition to all these reforms there is the urgent need for increased production. The war proved that in pre-war times the productive power

of the nation had not been utilised to anything approaching its full capacity. It has been repeatedly pointed out that the main cause of high prices is the disproportion between the amount of currency and credit and the volume of commodities. Every increase in the output of goods, if not accompanied by a disproportionate increase of currency, will cause a reduction of prices.

To secure this necessary increase of output a new spirit will have to prevail in industry. Generations of experience have taught the workmen the futility, from the point of view of their interest, of increased production. The workmen cannot reasonably be expected to increase production for the profit of the employing classes. If the workmen could be assured that every ounce of increased energy they put into their work would return to them in the form of increased consuming power, their objection to increased output would be removed. To achieve this desirable object a new conception of the place of the workmen in industry will have to be put into practice. He must no longer be regarded in the same light as the machinery of the workshop or the capital of the business. He must be treated as a partner in industry, and as the partner who has the first claim on the distribution of the product.

Bound up with this question of increased production is the whole problem of the reorganisation of industry and the Social Order. The waste of competition is notorious. The solution of the

social problem has been well defined as the elimination of waste. Economy of production means increased output. Taxation, equitably levied and wisely employed, can be a potent instrument for lessening useless employment and expenditure on luxuries. The problem of transport must be taken in hand and dealt with in a thorough way. Cheap and efficient transport is essential for economical and intensive production.

The problem of wages and prices is in reality the problem of the production and distribution of wealth. The aim of the social reformer must be to eliminate as parties sharing in the distribution of wealth all who do not labour by hand or brain and thus contribute to the production of wealth. We must get back to "that original state of things where the whole produce of labour belongs to the labourer, where he has neither idle landlord nor useless master, to share with him, where the wages of labour will be augmented with all those improvements in its productive powers to which a division of labour gives occasion."

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